

The Economics of Land Use



Final Report

Park City UT Housing Review

Prepared for:

City of Park City, Utah

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March 29, 2016

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1.0 EXECUTIVE SUMMARY

1.1 Summary of Findings

The following are the major findings from EPS's work. Each frames the context in which the recommendations are structured.

1. The gap between market rate housing and prices affordable to the City's workforce continues to widen.

- Single-family housing prices have escalated an average of 6.7 percent per year since 2000, even factoring in the recessions. From 2010 to 2015, prices have escalated at 10.7 percent annually from approximately \$990,000 to nearly \$1.5 million for a single-family home. Furthermore, since 2000 condo prices have increased at 5.5 percent per year from approximately \$365,000 to more than \$684,000, although most of this increase is attributable to the escalation of prices before the housing market bubble.
- Median incomes have increased just 1.7 percent annually since 2000, and qualifying income limits have increased 1.9 percent annually since 2000.
- The "affordability gap" has widened more than two-fold from approximately \$375,000 to \$949,000. That is, in 2000 a household earning Park City's median household income (\$65,800) could afford a house at \$180,400 and the average-priced single-family house sold for approximately \$555,000. By 2014, a household earning Park City's median household income (according to the U.S. Census' 5-year estimate of \$89,886) could afford a house at \$365,900 and the average-priced single-family house sold for approximately \$1.3 million.

2. There is dwindling inventory of housing affordable to the community workforce.

- Other studies and needs assessments have also sounded the alarm. There is a dwindling stock of housing affordable to those who work and would live in Park City if they could afford it.
- In 2000, 26 percent of the City's for-sale inventory was valued at less than \$300,000. By 2014, that portion had dropped to 12 percent. Over a shorter period of time, between 2011 and 2014, the portion of for-sale inventory affordable to a household earning median income dropped from 21 percent to 17 percent.

3. The existing housing resolution (13-15) applies to less than 50 percent of all residential development activity.

- Approximately 78 affordable units were built between 2005 and 2011 under the current housing resolution. As these were the units to meet the 15 percent inclusionary zoning requirement, it is estimated that they were based on projects totaling 520 total units. During those 6 years, however, there were 1,100 residential units permitted, indicating that the inclusionary zoning requirement applied to approximately 50 percent of all residential construction.

- 4. Had the intent of a previous version of the housing resolution (version 6-94) been followed, nearly double the number affordable units might have been built.**
 - Among other things it established, resolution 6-94 expressed the City Council's intent to consider whether the future version of the resolution's housing requirements should apply to residential development of more than two units.

- 5. Moving forward, the development pipeline would suggest that there are fewer applications that will apply to the existing housing resolution.**
 - According to staff, there are few if any opportunities for future annexation, and only three master-planned developments (MPD) are known. Development is increasingly infill and single-site demolition/rebuild.

- 6. Revisions to the housing resolution have focused increasingly on the community's workforce.**
 - In a revision to the housing resolution in 1999, the City Council listed that the beneficiaries of such policy should include police, teachers, firemen, service workers, and longtime community residents. By 2006, that had been expanded to include: those who live and work in Park City, "essential" public and private sector service workers (schools, fire, municipal corporation, sewer district), full-time employees of businesses located within city limits, residents of Park City for the past 24 months, owner or owner's representative of a business within city limits, senior citizens, and the physically or mentally challenged. In a subsequent revision, the word "essential" was removed from the public and private sector service workers category.

- 7. Moreover, while improvements have been made to the housing resolution, these changes have had decreasing returns given the changing market.**
 - Over time, improvements, clarifications, and modifications have been made to the housing resolution, although some of its elements have not; e.g., the per-unit incentive of \$5,000 has not been updated since 1991. MPDs and annexations were more common in the early 1990s than they are now, and they do not provide the same vehicle for affordable housing production they once did.

- 8. There are conflicting policy objectives regarding height, view-shed, historic preservation, and open space.**
 - As has been pointed out in previous studies, these desirable planning objectives conflict with the objective of achieving greater housing affordability. They all serve to exacerbate affordability conditions and increase prices by generally decreasing the supply of housing.

- 9. EPS employee generation survey data for Park City are generally in line with the current factors in the existing housing resolution.**
 - The commercial mitigation portion of the current housing resolution bases its mitigation requirement on 20 percent of the 4.4 full-time equivalents (FTEs) generated per 1,000 square feet of commercial space. Based on analysis and vetting of 132 survey responses from Park City employers, the overall rate is currently estimated at 3.9 FTEs per 1,000 square feet for the City.

- The information collected provides sufficient detail to replace the existing types of rates with City-relevant numbers as well as differentiate between, for example, a full-service restaurant (8.1 FTEs per 1,000 square feet) and a quick-casual or fast food restaurant (6.9 FTEs per 1,000 square feet).
- Many categories were within approximately 20 percent of the current generation rate, such as lodging (0.5 FTEs per room versus the existing 0.6 FTEs); medical profession/health care (2.7 FTEs per 1,000 square feet versus the existing 2.9); finance/banking (2.8 FTEs per 1,000 square feet versus the existing 3.3); education (2.2 versus the existing 2.3 FTEs); and real estate and property management resulted in the same generation rate (5.9 FTEs).
- One category was different by more than 20 percent of the existing generation rates, such as "other professional services" (2.7 FTEs versus the existing 3.7 FTEs).

1.2 Recommendations

EPS and its legal consultant, White & Smith, LLC, have worked with City staff and the City Attorney in the development of the findings and recommendations presented here.

Unfortunately, neither the Utah Statutes nor the Utah courts have provided direct guidance with respect to inclusionary zoning or fee-in-lieu programs for cities in Utah. Please be advised that although other courts around the country have taken up issues related to inclusionary housing programs, and while their holdings are somewhat instructive, the current status of known Utah interpretations and standards reflect a more rigorous judicial review and/or legislative reaction may be expected if the program is expanded to otherwise permitted uses.

In addition, Utah's statutory and case law have been consulted, as well as other state sources, including an important advisory opinion from the state's Office of the Property Rights Ombudsman (Advisory Opinion #96, February 28, 2011) for guidance. These have been used as a general reference, but, of course, how a Utah court would interpret the City's current approach or those recommended here is unknown and the City Attorney's input should inform the City's consideration of the recommendations included in this report.

1. From a development-based approach, Park City should consider providing additional financial or economic incentives.

- The City should consider deferring, abating, or granting back some portion of local property taxes to property owners/managers for keeping units in long-term affordability. Financial modeling provided in this report illustrates how this tool would provide value to rental developments as a way to "fund" additional housing without committing new public financial resources.
- The City could decide what level of affordability (e.g., a percent of the affordable workforce wage) and what term (e.g., units remain affordable at specified income level for 15 to 30 years) to require. This technique could be applied to new and rehabilitated rental properties, as well as new developments. (This recommendation needs to be considered within the City's legal authority and Utah statutory limitations.)
- Analysis described in the report indicates that under some conditions, this incentive could be accretive to a project's return on cost. While it is risky to assume that this would be the case for every project, the reality does remain that decreased expenses means

- greater debt service coverage ratio for a project and better operating performance. In other words, the impact of a property tax abatement (or a mechanism designed to achieve similar results) could make a development project either more feasible or encourage a project to move forward that otherwise would not have.
- As it concerns for-sale housing, the City should consider whether the per-unit fee waiver, currently a part of the existing housing resolution, is worth maintaining. Because the gap between market rate and affordable units is so great (currently estimated at nearly \$950,000), the \$5,000 per unit waiver of fees is not enough to motivate a developer; it is therefore, largely symbolic. At a minimum, the City should consider having a discussion about waiving either 100 percent or some substantial portion of permit and impact fees. (In context, the fee waiver was set at \$5,000 in 1991. In today's dollars, it would need to be approximately \$8,600 to have at least the same value.)
 - It should be noted that the Municipal Land Use, Development, and Management Act (Title 10, Chapter 9a, Utah Code Ann.) includes certain requirements related to cities planning for and providing moderate income housing. For example, cities—required to adopt a comprehensive plan—are authorized to address “the protection or promotion of moderate income housing” in their plans (Utah Code Ann. §10-9a-401) and must include a land use element that includes an estimate of its needs with respect to moderate income housing and a plan to reasonably meet those needs (Utah Code Ann. § 10-9a-403(2)). Cities with moderate income housing plan elements must review them biennially to detail actions, efforts, and progress made to meet city’s housing objectives (Utah Code Ann. §10-9a-408). Certainly, Park City’s longstanding inclusionary housing requirements fall within this planning context, as would reasonable incentives described here and in Recommendation #2.

2. The City should expand the applicability of the density bonus for affordable housing and consider raising the density bonus.

- Applicability: The density bonus is granted only to MPDs in the City’s Land Management Code. Using additional entitlements to motivate a developer to provide affordable housing can be a strong incentive in markets where additional density is particularly valuable. As a matter of policy coverage, EPS believes that the density bonus should be made available to any development that would look for ways to include affordable housing, including commercial and infill developments.
- 10 percent density bonus: The density bonus is frequently the strongest incentive an inclusionary zoning ordinance can offer in any setting where development pressures exceed entitlement. In EPS’s experience, an increase in density, while greater efficiencies of land are usually realized (lowering the per-unit costs of land), is still associated with more construction costs. There are two challenges for most communities utilizing this incentive.
- On one hand is calibrating the amount of density, recognizing the marginal costs of construction, so that it has sufficient residual value to motivate a developer to pursue it. On the other hand is calibrating the amount of the “requirement” so that it doesn’t eliminate the positive residual value of the density bonus itself. That is, there is value in the density bonus that can be leveraged for additional community benefit (i.e., affordable housing), but it needs to be of sufficient scale so as not to make the density bonus worth pursuing at all.

- Currently, Section 15-6-5(A)(1)(b) allows the Planning Commission to grant a maximum of 10 percent density bonus if a developer proposes an MPD where more than 30 percent of the equivalent units are affordable (or employee) housing. Therefore a developer of a residential MPD in Park City would have two basic choices: comply with the standard 15 percent set-aside requirement, or provide an additional 15 percent affordable housing for 10 percent additional density. It is very unlikely that these two elements have been calibrated such that a developer would be economically indifferent to the two choices – i.e., they would both yield the same financial return, or even ideally that the financial return of the project with the density bonus is actually higher.
- EPS recommends that the City re-evaluate its motivation for the two factors and discuss to what extent they can be brought into closer economic alignment. For example, a density bonus of 20 to 40 percent may be necessary (depending on the scale of the development and its construction type – wood frame, steel, or concrete) to offset the increased requirement for affordable housing.

3. The City should modify the commercial component of the housing resolution.

- Policy Context: From the perspective of a policy modification, it is always possible to convert this commercial mitigation strategy into an actual commercial linkage program— i.e., using a nexus study to establish fees that are assessed to new non-residential developments on a per-square foot basis by land use categories. EPS believes that the current version of a “commercial mitigation strategy” generally achieves the same outcomes as a commercial linkage program might, and that the magnitude of units built or in-lieu fees collected would be roughly equivalent. Like the survey data collected in this study, a nexus study also collects data to identify the number of FTEs generated by different non-residential land uses. It quantifies the distribution of jobs by occupational category and assigns them to wage levels. The workers (and their households) are distributed by median income categories, from which it can be estimated what portion of all jobs created by the new non-residential development require housing assistance. The fee is calculated as the affordability gap, or the difference between the market rate and price of an affordable housing unit to particular households by median income level. The total affordability gap for the lower-income households is estimated and divided by the total square feet of a development to determine a per-square foot fee.
- Generation Rates: The City should discuss the merits of incorporating the new survey-based employment generation rates. It should be acknowledged that this type of basis for calculating employment generation rates is always subject to a margin of error. On one hand, asking employers the number of their full-time and part-time staff relies on the accuracy of the information the person surveyed has available. On the other hand, it relies on the respondent’s knowledge of the total floor area of their space, and in the absence of that (which is very common), the accuracy of this part of the information is reliant on either the respondent’s or the data-gather’s ability to accurately gauge the size of the space. EPS made every attempt to fully vet the numbers given to all data-gathers in the survey work. We cross-checked the square-footage numbers against Summit County Assessor data.

- **Mitigation Rate:** Aside from the 15 percent residential set-aside requirement, there are a couple other factors that seem to be associated with mitigation of affordable housing need. On one hand is the 20 percent mitigation factor applied to the commercial component; on the other hand is the 34 percent “location substitution” factor identified and both require the mitigation of some portion of the housing demand generated by those uses. In the case of the City’s current resolution, 20 percent appears to have been chosen as a number reflective of the portion of FTE-based households in need of housing assistance, though no documentation is available to confirm this.
- In the case of the 34 percent location substitution factor, it appears through research that this number originated from an analysis of 2005 commuting data that identified 34 percent of the City’s jobs were held by City residents. It was held that this was an optimal number to maintain and has been applied to estimates of affordable housing demand since then. In the context of other resort communities, this number is often a policy-driven factor. Telluride (CO), for example, chooses to require a 40 percent commercial mitigation rate; San Miguel County (CO) requires 15 percent; Vail (CO) requires 20 percent; Jackson Hole (WY) requires 35 percent; and Aspen (CO) requires 60 percent. These rates are not necessarily based on any specific analysis of in- and out-commuting patterns; they are based on community priorities. As such, Park City should engage in a discussion with elected officials about an appropriate “goal” for housing local workers. By way of comparison, if Park City did embark on a nexus study to quantify the jobs-housing linkage for commercial development, this mitigation rate would be a factor developed in the analysis, which then becomes, for communities with such policy, the subject of policy debate and community goals.
- In the end, no matter which direction the City takes on this issues, it needs to have a discussion about what percent of its workforce it believes should live locally and start to frame the analysis of other production goals around it.
- In 2015, the California Supreme Court decided an important case arising from the City of San Jose’s inclusionary zoning ordinance (which is similar to, though not identical to Park City’s housing resolution), and held that the San Jose ordinance was a defensible land use regulatory device and was not an exaction. See California Building Industry Ass’n v. City of San Jose, 351 P. 3d 974 (2015). It is not clear, of course, whether a Utah court would concur with the California Supreme Court’s San Jose case in the event of a challenge here (see e.g., Property Rights Ombudsman Advisory Opinion #96, February 28, 2011), but in any case, should the City elect to implement Recommendation #3, appropriate nexus, and potentially developer feasibility/benefit, studies should be considered in consultation with the City Attorney.

4. The City should establish a housing goal.

- At this time, establishing an actual housing goal – i.e. a concrete numeric target, should be the City’s highest priority. The evolution of the City’s current housing resolution, as outlined in Chapter 2, illustrates clearly the City’s intent to prioritize affordable housing, but also illustrates how the City’s statements did not identify actual goals. Also outlined in the report, the closest the City has come to identifying a numeric housing target has been the informally-adopted “location substitution” rate of 34 percent. Research into the root of this factor shows that it may have been based unintentionally on the incorrect

ratio of “job-holding residents” to total Park City jobs. Historic in- and out-commuting trends indicate that in 2005, when the location substitution factor was developed, that the ratio of Park City residents working in Park City was actually 15 percent (not 34 percent).

- As a point of comparison, both Jackson Hole and Aspen have adopted housing goals. Aspen has a stated target of housing 60 percent of its workforce locally, and as such, holds its commercial mitigation rate at 60 percent. Jackson Hole also has a stated policy target of housing 65 percent of its workforce locally, although it requires just 35 percent commercial mitigation. EPS recommends that Park City not only engage in a discussion of what it would like the target to be, but whether or not it believes that a modified commercial mitigation rate should or needs to be the only manifestation of that policy goal. That is, even if the City chooses to adopt a high locally-housed workforce target, the City will likely never achieve its goals with future commercial development alone. And if Park City did embark on a nexus study to quantify the jobs-housing linkage for commercial development, this mitigation rate would be a factor developed in the analysis, which then becomes, for communities with such policy, the subject of policy debate and community goals.
- But, as a point of departure, EPS recommends that the City entertain two basic possible housing targets: housing 20 or 25 percent of the city’s workforce locally. While this proportion seems lower than the unofficial 34 percent location substitution factor, this is a reasonable, if not optimistic goal for the City to set. Based on projections detailed later in the report, EPS estimates that to achieve 20 percent of the city’s workforce living locally would require the production of approximately 860 more housing units specifically for the local workforce. Achieving 25 percent of the city’s workforce living locally would require the production of approximately 1210 more housing units specifically for the local workforce. These would be double and triple increases, respectively, in the rate of housing production for local residents (i.e. occupied housing units) and would, therefore, challenging from a variety of perspectives, including among other things, the capacity of the development community.
- As discussed previously, the Utah courts have not been presented an opportunity to consider the constitutional or statutory standing of an inclusionary housing ordinance in this state, as the California courts recently have. To the extent the same would be considered an exaction in the Utah context, the goals recommended here should reflect the estimated impact of development subject to an amended Park City housing requirement. Nonetheless, establishing a housing goal is important, at the very least, for purposes of meeting the moderate income housing requirements for cities under the Municipal Land Use, Development, and Management Act.

5. The City should modify its in-lieu fee structure.

- The current housing resolution establishes a structure based on three pieces of information: 1) the median market value per square-foot of 600 to 1,600 square foot units sold in the prior year; 2) multiplied by 900 square feet; and 3) the affordable home sale price for a household earning Park City’s workforce wage subtracted from the result. There are a variety of approaches available to governments in structuring an in-lieu fee: 1) the difference between a market rate unit and a deed-restricted affordable unit; 2) a percent of the construction cost; 3) a percent of the maximum affordable sales price; 4) a percent of the land value to construct units elsewhere; and 5) nexus-based fee, which is described in recommendation above.

- Given considerations for complexity versus simplicity of the in-lieu fee's design, considerations for the magnitude of revenues generated, and considerations for the ease in making annual updates, EPS recommends that the City adopt a construction cost methodology for its in-lieu fee structure. This method would rely on only one piece of information for the actual in-lieu fee (construction cost per unit), rather than the current three.
- This per-unit factor could be developed using the City's own development projects of a relevant prototype, such as single-family homes, townhomes, or condos. The methodology would also involve making annual updates, using either the BLS producer price index (PPI) for all residential construction (i.e., for Material and Supply Inputs to Construction Industries, which is published annually on a 1½ year lag), or the consumer price index (CPI), which is published by the BLS monthly and without a lag. Either way, the methodology does not rely on collection of magnitudes of MLS or Assessor data each year for updates.
- EPS also recommends that the City consider applying a percentage to this factor, such as 75 percent of the total cost of construction, so as to remove a portion often attributable to land costs.
- As noted previously, consideration of whether or in what manner to restructure the City's in-lieu fee provisions, should include input from the City Attorney and, in particular, the assumed approach being an exaction or land use regulation under the Utah framework.

6. The City should consider modifying the residential portion of the housing resolution to apply to all residential development.

- The City should consider applying this portion of the resolution to all residential development. This is based on the review of the intent of the original housing resolution and the focus of subsequent iterations on annexations and MPDs, as well as analysis of historic building permit data, and an understanding of development in the pipeline. That is, it is unlikely that annexations or MPDs will be a majority or even a substantial component of development moving forward, such that the housing resolution as written will continue to be effective.
- For either of the previous options, EPS would recommend that an exemption be structured for projects that are contributing to the City's affordable housing inventory. As such, the exemption could be drawn at units that are priced below a certain affordability mark. For example, in 2014 the maximum affordable purchase price for a household earning 100 percent of median income (\$89,886) was \$359,600. Alternatively, the maximum affordable purchase price for a household earning 150 percent of the Park City workforce wage (\$73,253 for a household of two persons) was \$282,700. Whatever the threshold, EPS recommends that it serve equally as a proxy for the size of units being constructed.
- The implication of this is that all new residential development, large and small-scale projects of all structure sizes would apply. Given that the City has been concerned about recent increases in the number of larger single-family homes (i.e., second homes) that have not been subject to the resolution, it would be in the interest of the City to adopt a mechanism by which these are either subject to a higher mitigation, or that units priced more affordably (or of a smaller size) would be exempt.

- One option available is that the City could consider establishing a residential linkage program, which would establish the nexus between the level of affordable housing demand generated by units at various price points (i.e., proxy for size). There are two methodologies that such an analysis could employ: 1) other resort economies who have traditional residential linkage programs have conducted door-to-door surveys of the actual employment generated by their household (i.e., gardeners, housekeepers, other staff, etc.); and 2) there are a few larger, urban markets that have adopted residential linkage programs that rely on a nexus established on the basis of overall employment (i.e., jobs vis-à-vis household spending patterns). The first method requires primary data collection, and the second relies on input-output modeling factors.
- The other option is that the City keep its existing mitigation structure, but apply it to all new construction or demo-rebuild projects (i.e., no threshold). The fee in-lieu structure would be kept the same, but its outcome would require that smaller projects would be a fraction of a per-unit fee.
- As discussed in Recommendation #3, Recommendation #6 also implicates the City's existing resolution-based approach, which is based on a "Housing Mitigation Plan" proposed by an applicant mostly for annexations and master planned developments. This approach, though untested, generally is regarded as a fair and equitable means of addressing the housing challenges facing Park City. Expanding the inclusionary requirements to all residential development, though clearly advancing the "moderate income housing" directives in the Municipal Land Use, Development, and Management Act, also implicates the questions raised in the advisory opinion and San Jose case outlined previously and should be discussed with the City Attorney.

7. The City should pursue a blended approach to structuring deed-restricted ownership units.

- There are two common approaches to deed restrictions – shared equity and limited appreciation model. In general, the shared equity model lowers the initial cost of home-ownership for households and offers them the opportunity to own the property in the long run while not necessarily attempting to manipulate the "value" of the property for the sake of keeping it in the affordable inventory. The limited appreciation model, on the other hand, seeks to manipulate the value by arbitrarily setting a price appreciation limit that is sometimes set to 2 or 3 percent.
- Shared equity works well in an environment where considerable magnitudes of new housing are being built. It would be worthwhile engaging city officials in a discussion of how to establish the program so that it could be utilized where effective. Specifically, the shared equity approach means that a borrower purchases a home by providing a down payment, typically 5 percent, borrows approximately 75 percent of the value of the property and receives a low-interest equity loan of up to 20 percent (or some limit). At the end of the mortgage term or earlier, the equity loan is paid off in full plus 20 percent of the property's value escalation.
- A lower equity loan means less for a household to pay back over time, the larger the equity loan, the lower the "point of entry" for households in need. As such, the City may want to consider this element as a point of leverage to manipulate given market

conditions. That is, the City could establish a policy where equity loans are available up to a maximum amount, and the borrower could choose whether or not to take advantage of the full value.

- The challenge with this technique, however, will be that the City effectively cannot lend its credit or make loans. To take advantage of this option, the City will have to explore what third-party entities would be appropriate for administering such a program, such as Mountainlands Community Housing Trust or the Housing Authority. Perhaps the City could work to organize local and regional banks to establish a shared equity loan pool whereby the banks receive Community Reinvestment Act credits or other tax abatement incentives.
- This model may also be worth exploring in a rental (or leasehold) context. Instead of an equity loan to the homebuyer, the City might explore whether it has the resources (i.e., pass through of capital funds) to grant lower interest equity loans to a new rental development in exchange for a portion of the units to be provided as affordable.
- In general, the advantages of the shared appreciation model are that it lowers the barrier to entry for households and gives them an opportunity to buy into the market and build equity at the same pace as the rest of the market. On the other hand, the shared equity model works well in a market that is constantly producing new units. In theory, after the first round of households has purchased such a deed-restricted home and sold it, there is risk that the housing inventory could enter the market-rate inventory unless a fail-safe mechanism is included, such as a first right of refusal for the City.

8. Define the timing of commercial and residential developments in the scheme of a revised and modified housing resolution.

- It is important with the modification of existing policy or adoption of new policy that affects land development that a date be selected sometime in the future, at which point all applications received would apply to the revised policies. Depending on the length of time between, for example, permit application and time of construction or site plan and building permit, EPS recommends that, at the time City Council may approve the recommendations governing the housing resolution, a date be chosen that reflects this amount of time and applicable state requirements related to vesting of development rights, as applicable.

9. The City should establish priorities for allocating the recent \$40 million RDA Fund allocation.

- Previous Councils have drawn made important, symbolic, but necessary declarations of need, intent, and priorities in the housing resolution. The recent allocation of \$40 million for capital is an important backdrop to such conversations. The City should engage its elected officials, however, in a policy discussion oriented around determining and voicing their concerns, vision, and direction regarding housing priorities.
- That discussion should utilize major analytical findings from this study as guideposts for policy debate, not necessarily as prioritizations or exact magnitudes of need. The analytical findings of this study, and other studies that have preceded it, can be interpreted as a selection of ways to look at this need. As there are multiple methodologies here and

developed throughout the years by PCMC staff, there is a need to view these findings through the lens of political priority, perceived urgency, as well as within the context of other City priorities.

- EPS recommends that the City consider the various programmatic ways it might utilize the allocated funds. Programmatic considerations include making some portion of the funds available through a Notice of Funding Availability (NOFA), through which the City could create a competitive environment among both housing developers and service providers for use of the funds. Such a process can leverage the private sector for creative and financially efficient uses of funds.
- Another potential programmatic use of funds could be the acquisition of a strategic parcel of land that the City believes might be valuable in the future as a mixed-use redevelopment, in which the land could be leveraged for a public-private partnership development.
- In addition, some portion of the funds could be allocated to the purchase of existing units that might be appropriate for a shared equity or shared ownership program.
- While the City is not authorized under its accounting rules to make loans (i.e., for the purpose of establishing a mortgage pool or shared equity program), the City should still engage in discussion around who would be an appropriate entity to carry out such a function, how it would be done, and what variety of programs it would offer. It is valuable to consider that the original resolution (37-91) set forth an objective to establish a mortgage pool, working with lenders. While it is not clear from subsequent versions of the resolution whether this concept was ever piloted, it is clear that there are obvious obstacles to doing it today. Furthermore, it does not appear that the Mountainlands Community Housing Trust offers this type of assistance through its various ownership programs.
- In terms of beneficiaries, the City could utilize analysis of affordability conditions from this and other studies to identify magnitudes of need, looking at income level, community workforce contingent, and the type of development typically associated with that type of need. For example, EPS prepared revisions of previous gap analyses as well as a new methodology to estimate magnitude of housing type need by respective income levels of in-commuters.
- Based on the analysis of trends, the City would see more effective results and higher production if it focused more on community-based solutions, such as use of funding mechanism, than relied solely on its housing resolution, which is a development-based approach.
- Funding allocations and incentive programs advance moderate income housing planning requirements, including those in section 10-9a-403(2)(a) and (b) and -408 of the Municipal Land Use, Development, and Management Act.

2.0 PROJECT CONTEXT

2.1 Existing Housing Policy

One of the primary objectives of this study is to evaluate the effectiveness of the existing housing resolution. In an effort to understand its evolution, its intent, and in particular, the motivations behind the policy as it stands today, the following section traces the changes in the City's housing policy from its origination in 1991 through today. To formulate more informed recommendations regarding an update to the policy, EPS has looked into the conditions and motivations that warranted the adoption of the resolution, and what how those conditions may have differed from when the current version was updated, and to what extent the current policy is still responsive to the market.

In general, revisions to the housing resolution have focused increasingly on the community's workforce. While improvements have been made to the housing resolution, these changes have had decreasing returns given the changing market. Over time, improvements, clarifications, and modifications have been made to the housing resolution, although some of its elements have not; e.g., the per-unit incentive of \$5,000 has not been updated since 1991. MPDs and annexations were more common in the early 1990s than they are now, and they do not provide the same vehicle for affordable housing production they once did.

2.1.1 Resolution 37-91

In this original version of the resolution, City Council established general policy direction. It established affordable housing as a priority, whereas the Council acknowledged a need to protect and enhance community diversity by encouraging a mix of housing. Specifically, the City noted that it wanted to "assist those members of our community that have demonstrated their commitment to Park City by either their residency and/or work history..." It also acknowledged affordable housing as a housing problem of "national scope." As such, it established a few key components or objectives.

It first of all established a \$5,000 per unit subsidy for projects that imposed resale and occupancy restrictions, giving preference to residents that had lived or worked in community for 3 years. The resolution stated that it should ultimately develop "a program similar to the Historic District Grant Program to encourage the rehabilitation of residential structures for long-term rental or primary occupancy by the owner", establish a private mortgage pool working with lenders, etc., and "consider the need for requiring affordable housing sites as part of all annexation agreements."

2.1.2 Resolution 8-93

The update in 1993 made a few changes, not necessarily to the substance of the policy, but to its specifics. Among the changes, City Council established minimum unit sizes, maximum rents, unit equivalents, in-lieu payments, and a 10% set-aside requirement for annexations.

2.1.3 Resolution 6-94

In 1994, City Council updated some of the “whereas” clauses to the resolution and expanded on its policy discussion and motivations for the policy itself. First, the City stated it would establish affordable housing as a high priority goal and top priority action item. A survey of the community indicated that 86 percent of residents said the City should encourage affordable housing, and that rapidly rising housing costs was exacerbating the lack of moderate and lower income housing.

As such, the revised resolution established a task force, sought to endorse and assist in the development of a model lease to be used as a standard in subsidized units, implemented the Accessory Apartments Ordinance 94-4 to encourage the creation of additional rental units throughout the city, and it “express[ed] the council’s intent to consider new housing requirements that may affect: residential development of more than 2 units; commercial buildings; annexations”.

2.1.4 Resolution 7-95

In 1995, the City Council made a few changes to the resolution language, including a reiteration of making affordable housing an “action target” for 1995 and 1996 and noted the dramatic increases in land and housing prices. Among the additions to the policy were the 10 percent set-aside requirement for residential development, a 40-year affordability term for deed-restricted housing, and a covenant in the deed restriction that indicates the City should have the first right of refusal.

2.1.5 Resolution 17-99

The revision in 1999 was the first major and nearly comprehensive expansion to the resolution since its passage in 1991. The City cited numerous studies having been completed annually that have documented the reality that housing prices have consistently outpaced wages of the service sector workers in the resort-based economy. As a result, the task force formed in the 1994 revision and City Council jointly agreed to list the following as targets for the affordable housing policy: police, teachers, firemen, service workers, and longtime community residents. It rationalized the policy changes by indicating that “out-migration of service sector workforce due to these conditions has been detrimental to community character”. The revision also stated a priority for the creation of for-sale, not rental units.

Interestingly, the policy stated that “the cost of providing affordable housing should not be disproportionately borne by any single sector of the community and any solutions should equitably apportion the costs based on impact generation, growth inducement and the underlying goal to provide a cross section of units...”

Among the changes to the resolution were an identification of the types of units desired, maximum rent guidelines (reference to Summit County 100 percent AMI) for rental and for-sale. It also “codified” the target populations as: those who live and work in Park City; “essential” public and private sector service workers (schools, fire, municipal corporation, sewer district), full time employees of businesses located within city limits, residents of Park City for the past 24 months, owner or owner’s representative of a business within city limits, senior citizens, and the physically or mentally challenged. Language regarding the affordability term also was modified.

The most substantial change, however, was the establishment of the policy as it applies to annexations and master-planned developments (MPD). It established that the policy would apply to MPDs of 50 or more units or mixed-use projects of 5,000 square feet or more. It established a 15 percent set-aside, as well as alternatives to satisfying the policy: i.e. it made provisions for a project to satisfy the policy by building affordable units off-site, donating land, acquiring off-site units, or paying a fee in-lieu.

2.1.6 Resolution 10-06

The next revision also came with some substantial changes. In 2006, the City had just completed its 2005 housing assessment and demand analysis, which had concluded that leisure and hospitality sector would drive demand for affordable housing. The resolution stated that the purpose for the revision was "...to ensure that new development does not adversely affect the supply of affordable housing in the City and to maintain Park City's social, economic, and political fabric..."

Among the changes made to the policy, it was the first to contain the employee generation rate chart, which is still used in the most recent version. It established an option for the reduction of employee generation for institutional/non-profit uses up to 50 percent. It established a provision for additions or changes of use, and a section on applicability of resolution to pending developments. It also reworded the critical whereas statement "the cost of providing affordable housing should not be disproportionately borne by any single sector of the community and any solutions should equitably apportion the costs based on impact generation..." It removed the phrase "the cost of providing affordable housing should not be disproportionately borne by any single sector of the community..."

2.1.7 Resolution 20-07

The following year, a few minor changes were made. These changes added green building requirements to the applicable projects. It added a special needs emergency/transitional housing option as an alternative, and it removed "essential" public and private sector service workers (schools, fire, Municipal Corporation, sewer district) from the list of targeted populations.

2.1.8 Resolution 25-12

The core of today's applicable policy was refined in the revision in 2012. This version expanded the explanation of the fee in-lieu calculation, removed another category from the target population—i.e. "residents of the city for prior 24 months"—and added language regarding the Park City workforce wage.

2.1.9 Resolution 02-15/13-15

In early 2015, minor language changes were made related to the conveyance of land and affordability terminology. In a subsequent revision later in the year (13-15), the City added a paragraph concerning the fulfillment of affordable housing construction in advance of the obligation.

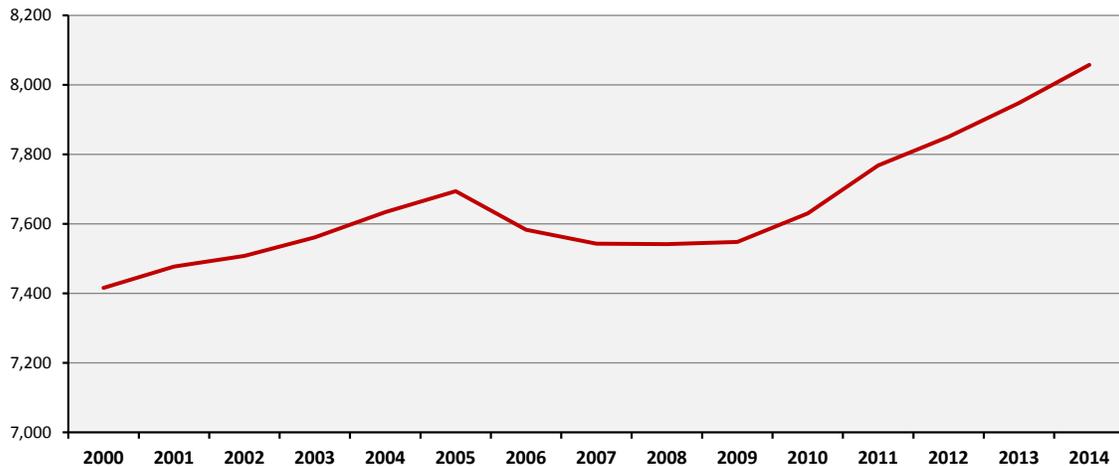
2.2 Economic and Demographic Trends

This section of the chapter details the analysis of market trends relevant to housing policy and feasibility evaluation. Some data contained within may be duplicative of other city study documents, while some may be presented here alone. It is this study's objective, however, to provide findings and conclusions based on analysis of relevant economic and demographic conditions and that those trends be documented here.

2.2.1 Population Trends

According to the U.S. Census, Park City's population has grown by just 642 permanent residents since 2000, fewer than 50 people per year between then and 2014 (illustrated by **Figure 1**). By comparison, Summit County grew by more than 9,100 over the same period, meaning that Park City captured only 7 percent of the county's growth.

Figure 1
Population Growth from 2000, 2000-2014



Source: U.S. Census; Economic & Planning Systems
\\EPSC02\Proj\153048-Park City UT Housing Review\Data\153048-Demographics-012716.xlsx\TABLE Population

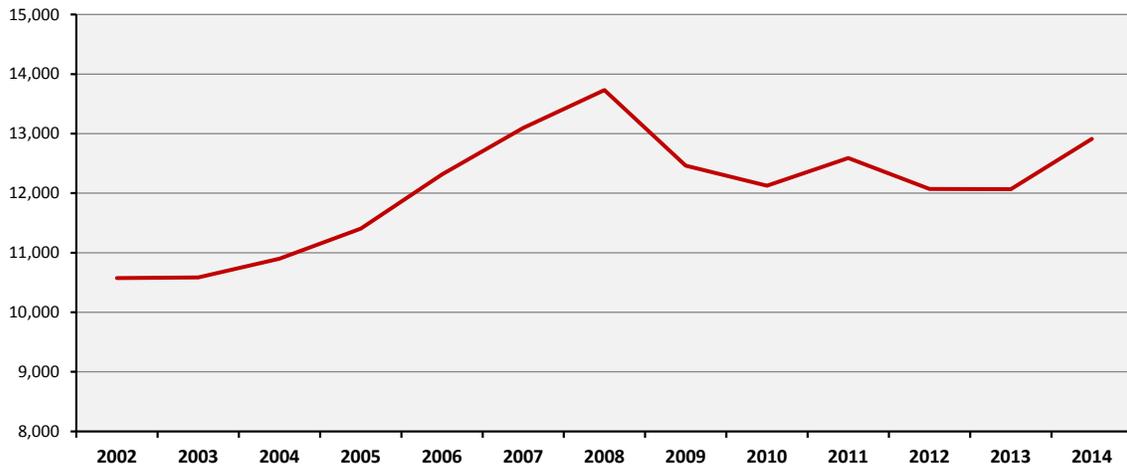
2.2.2 Employment Trends

Park City

Figure 2 illustrates that Park City’s total employment increased from approximately 10,600 jobs in 2002 to slightly more than 12,900 in 2014, a total increase of 2,300 jobs or approximately 195 jobs per year. Employment gains between 2002 and 2008 were more considerable, averaging more than 530 jobs per year. During this time, the arts, entertainment, and recreation sector gained approximately 1,700 jobs; and the accommodation and food services sector gained more than 700 jobs. Among the more modest gains, the retail industry added approximately 300 jobs. The real estate industry added than 120 jobs, and the professional services industry gained approximately 140 jobs.

During the height of the recession (between 2008 and 2009), Park City experienced a net loss of 1,300 jobs primarily in four industries—accommodation and food services (470 jobs), retail (440 jobs), construction (210 jobs), and real estate (190 jobs)

Figure 2
Park City Employment, 2002-2014



Source: U.S. Census, LEHD; Economic & Planning Systems

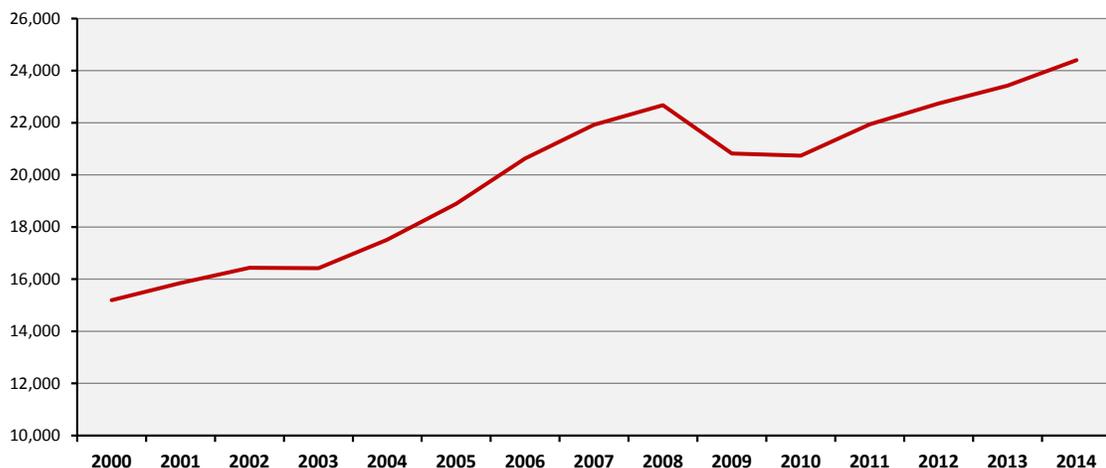
\\EPS002\Proj\153048-Park City UT Housing Review\Data\153048-Communiting.xlsx]TABLE In-Commute

Summit County

By comparison, **Figure 3** shows that Summit County’s employment increased from 15,200 to approximately 24,400 jobs between 2000 and 2014, a total increase of more than 8,500 jobs or 660 per year. Between 2002 and 2014 (the time period for which Park City’s employment data were available), Park City’s employment growth accounted for 29 percent of the county’s growth. Between 2002 and 2008, Park City’s strongest growth years, its share of the county’s growth, however, accounted for 51 percent. In the years following the recession, however, the county recovered its employment base more quickly than Park City did. In fact, 68 percent of the jobs losses in the county were from Park City. By 2012, Summit County had regained its pre-recession employment levels.

Overall, between 2009 and 2014, the county gained nearly 3,600 jobs, but Park City’s gains only accounted for 13 percent of that. Evidence of that lies in Park City’s relative employment levels. In 2002, Park City accounted for 65 percent of the county’s total wage and salary employment. And by 2014, Park City’s share of employment in the county had dropped to 53 percent.

Figure 3
Summit County Employment, 2000-2014



Source: Bureau of Labor Statistics; Economic & Planning Systems
H:\153048-Park City UT Housing Review\Data\153048-Employment- Summit County, Utah- 08-26-2015.xlsm]Sheet4

2.2.3 Commuting Patterns

Figure 4 illustrates the 10 communities that account for Park City’s primary in-commuting trade area. Of the city’s 12,900 jobs in 2014, more than 10,600 (83 percent of all jobs) of them were held by workers who commuted in from surrounding areas. Nearly 5,800 of the in-commuters (53 percent) live in the 10 commute shed communities.

Interestingly, in this analysis of historical data from 2002 through 2014, it was possible to evaluate where the “location substitution” factor may have originated. Although this dataset did not exist until 2009, it does provide researchers with information regarding the number of residents of Park City that were living and working in the City. It is understood that the location substitution factor came from an analysis of 2005 data. In 2005, there were approximately 11,400 jobs in Park City, approximately 1,800 of which were held by locals (15 percent). There were also approximately 3,200 residents in Park City who held jobs either in or outside of Park City (28 percent). It is therefore possible that the 34 percent, within a margin of error, could have been derived from this ratio of “employed residents” to total jobs, rather than “employed residents working in Park City” to total jobs.

Figure 4
Park City Commute Shed

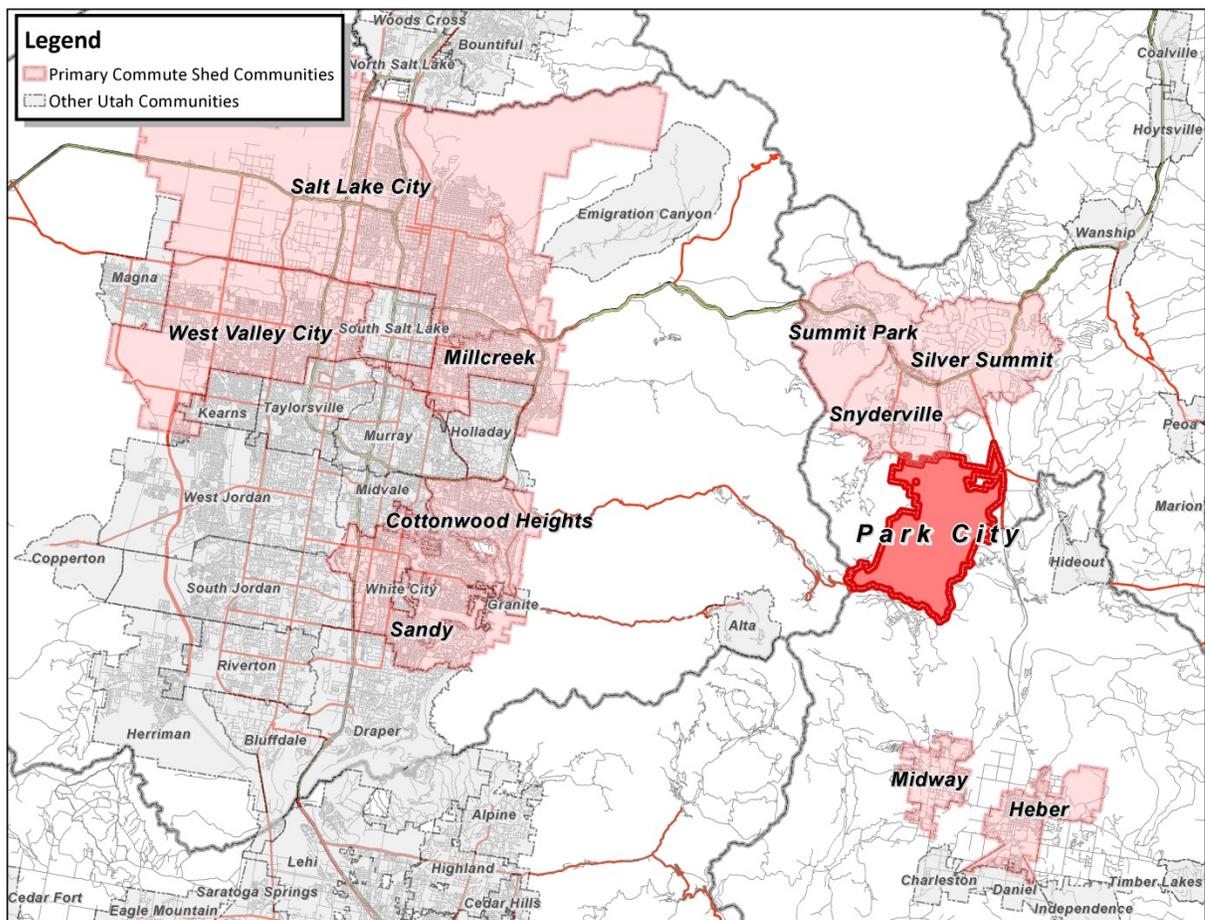
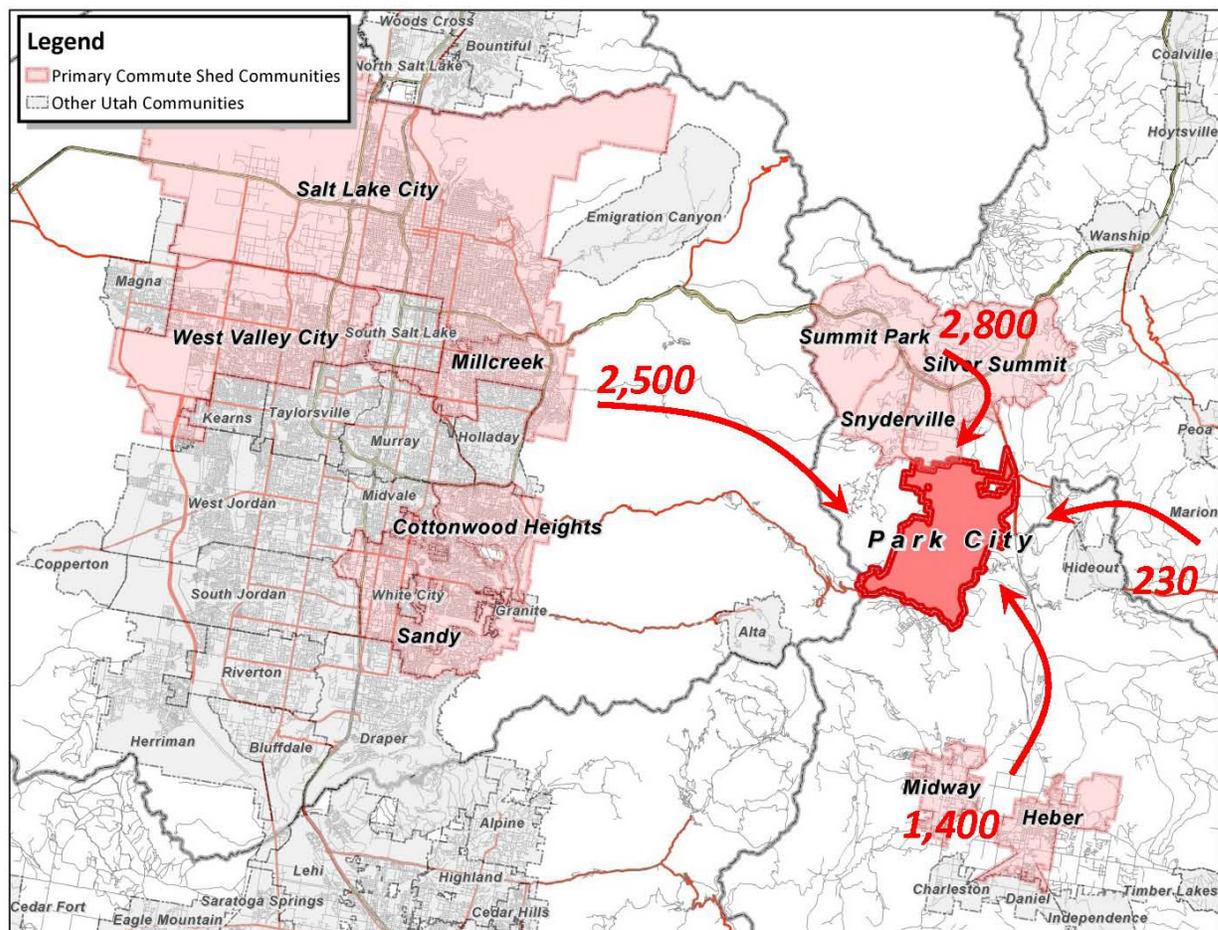


Figure 5 illustrates the magnitude of in-commuting from the 10 primary commute shed community areas. From the north, approximately 2,800 workers are commuting in from Summit Park, Silver Summit, and Snyderville. From the west, approximately 2,500 workers are commuting in from the five primary commute shed communities (Salt Lake City, West Valley City, Millcreek, Cottonwood Heights, and Sandy) as well as other cities in the Salt Lake City metro area. From the east, approximately 230 workers are commuting in from Kamas and Francis. From the south, it is estimated that approximately 1,400 workers are commuting in primarily from Midway and Heber, but also includes Lehi and Orem further south near Provo. According to the analysis of the U.S. Census’s LEHD data, there are an additional 3,700 workers commuting in from other cities (not identified in the data) in any direction.

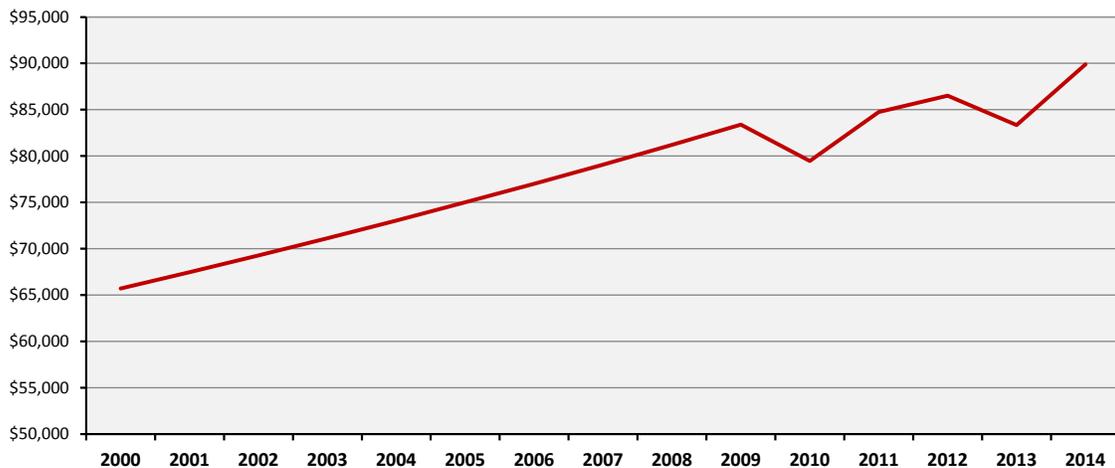
Figure 5
Park City In-Commuting, 2014



2.2.4 Household Incomes

According to data collected from the U.S. Census, the household median income in Summit County, which accurately represents the income levels of Park City, increased from \$65,700 in 2000 to approximately \$89,900 by 2014, an average 2.3 percent per year. During the same time, the consumer price index (CPI) measured for all western urban consumers, increased also at approximately 2.3 percent per year. As a result, the median income of households actually declined by 0.6 percent per year, adjusted for cost of living increases, implying that household purchasing power actually declined during this time

Figure 6
Summit County Median Household Income, 2000-2014



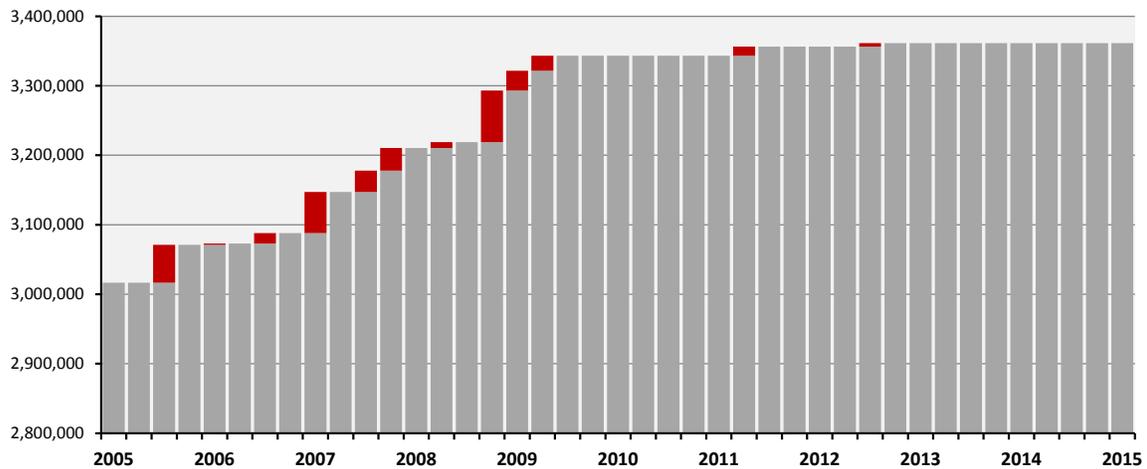
Source: U.S. Census, 5-year ACS; Economic & Planning Systems
H:\153048-Park City UT Housing Review\Data\153048-Incomes.xlsx|TABLE 1 - Incomes

2.2.5 Commercial Growth

Retail

Between 2005 and 2015, approximately 345,000 square feet of new retail space has been added to Park City’s inventory, 95 percent of which (326,000 square feet) was added before 2010 –i.e. during the boom years. Following the recession, just 18,000 square feet was added through the 3rd quarter of 2015. According to the data collected from CoStar, vacancy rates fluctuated between four and eight percent during the years of inventory growth, but have stabilized at around four and five percent since then. Currently, the vacancy rate is approximately 4.5 percent. Typically, vacancy rates below five percent (coupled with the recent increase in lease rates from about \$23 per square-foot NNN to \$26 per square-foot) indicates that demand for new space exists.

Figure 7
Retail Inventory Growth, 2005-2015

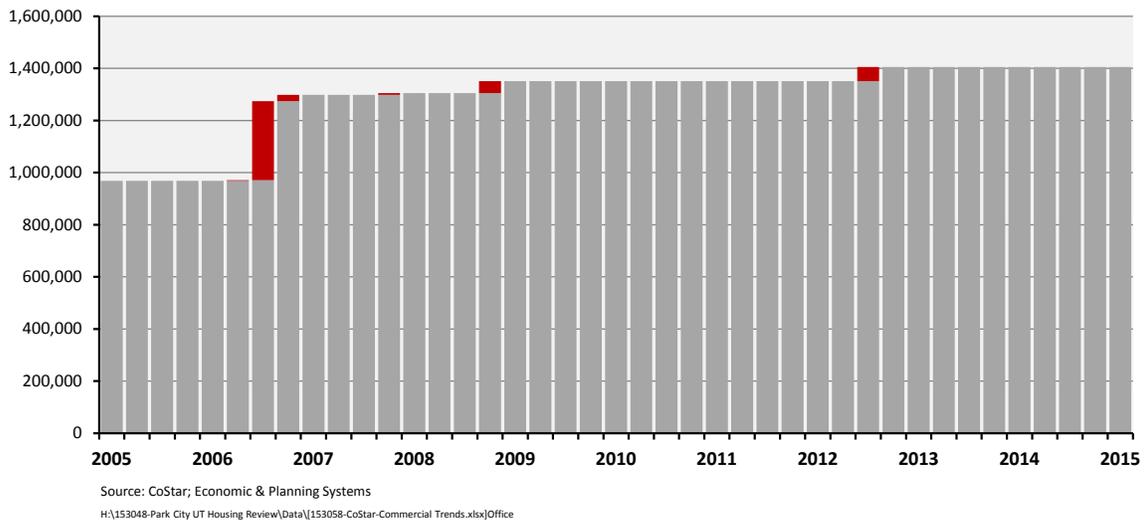


Source: CoStar; Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153058-CoStar-Commercial Trends.xlsx\Retail

Office

Between 2005 and 2015, approximately 345,000 square feet of new retail space has been added to Park City’s inventory, 88 percent of which (303,000 square feet) was added before 2010 –i.e. during the boom years. Following the recession, just 54,000 square feet was added through the 3rd quarter of 2015. According to the data collected from CoStar, vacancy rates fluctuated between four and eight percent throughout the data period. Currently, the vacancy rate is approximately 5.6 percent. Based on the analysis of Park City’s employment data, the fluctuation in vacancy rate is attributable to the periodic losses of office users

**Figure 8
 Office Inventory Growth, 2005-2015**



2.3 Housing Market

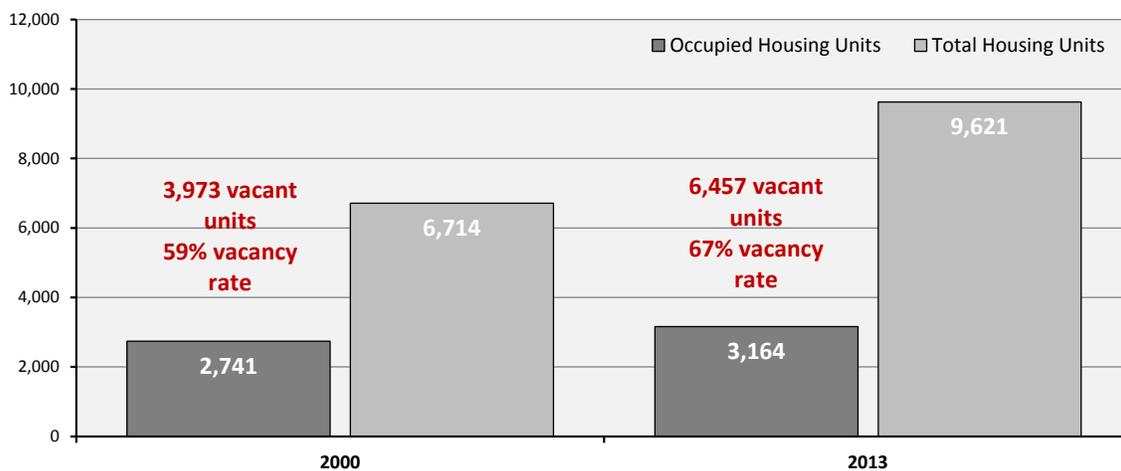
There is dwindling inventory of housing affordable to the community workforce. Other studies and needs assessments have also sounded the alarm. More importantly, there is a dwindling stock of housing affordable to those who work and would live in Park City if they could afford it. This section of the report provides information and grounding in the relevant housing market trends that look at the supply from an affordability perspective.

2.3.1 Housing Inventory

The housing inventory in Park City increased 43 percent between 2000 and 2013, or a total of 2,900 units, from approximately 6,700 to 9,600 units. As mentioned previously, the population of the city grew by just 642 permanent residents between 2000 and 2014, fewer than 50 people per year. **Figure 9** illustrates this juxtaposition. The large growth in vacant housing units and the small growth in permanent resident population indicates that very little of the city’s housing inventory expansion benefited anyone wanting to live in the community as a part of the growing local workforce.

Accordingly, the number of vacant, for seasonal use or for rent, however, increased by 63 percent or nearly 2,500 units during the same time. In fact, the net increase in vacant units accounted for 85 percent of the overall net increase in units. The balance of owner and renter households remained relatively unchanged at approximately 60 percent owner households and 40 percent renter households. The only change that did occur within the two types of households, however, was within the distribution of households by income. The number of renter households increased by approximately 190. Among those, there was a decrease of 10 in households earning less than \$75,000 and an increase of 200 in households earning more than \$75,000.

Figure 9
Total and Occupied Housing Units, 2000 and 2013



Source: U.S. Census; Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-Demographics-012716.xlsx\TABLE Occupancy

Between 2000 and 2014, **Figure 10** illustrates an aggregate decrease of 31 percent in housing valued between \$100,000 and \$500,000. It also illustrates that housing valued between \$500,000 and more than \$1 million increased by 29 percent. In 2000, 26 percent of the City’s for-sale inventory was valued at less than \$300,000. By 2014, that portion had dropped to 12 percent.

Figure 10
Owner Occupied Housing Units by Value, 2000 and 2014

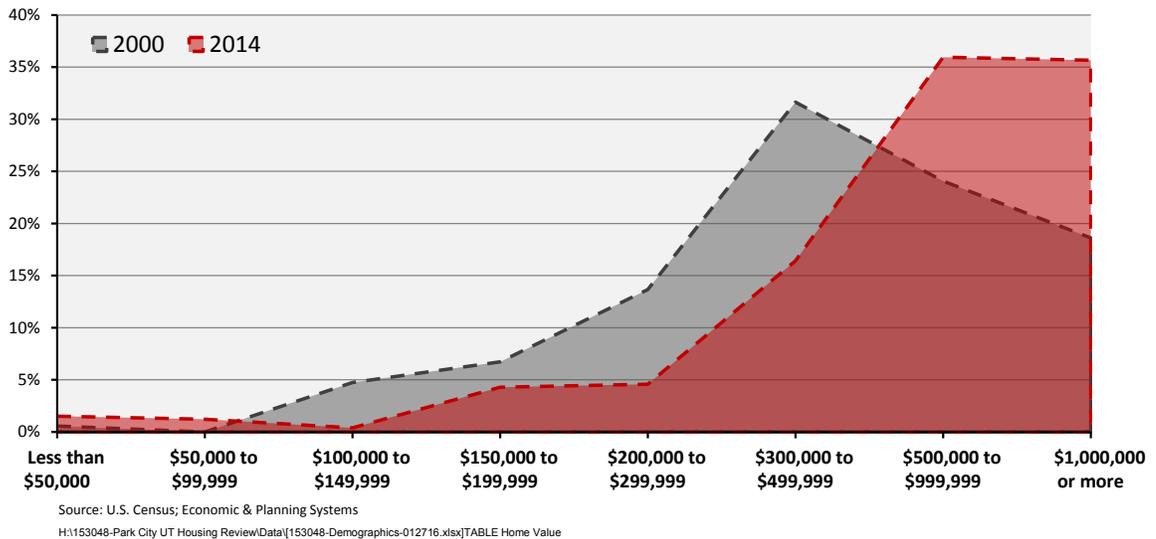
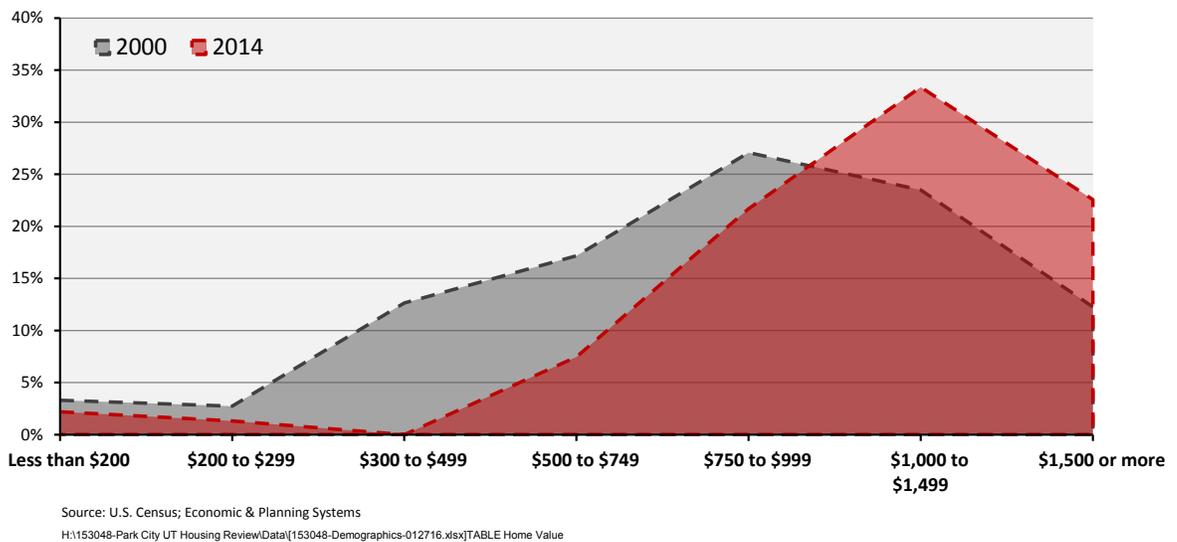


Figure 11 illustrates a 30 percent decrease in rental units available at less than \$1,000 per month and a 30 percent increase in the portion of rental units priced above \$1,000 per month.

Figure 11
Renter Occupied Housing Units by Gross Rent, 2000 and 2014



2.3.2 New Construction

Between 2000 and 2014, nearly 1,900 single-family and multi-family units were permitted, according to data collected from both the U.S. Census and Park City’s building department. **Figure 12** illustrates the magnitudes of activity by year. In the recession at the beginning of the past decade, activity dropped from 200 to approximately 50 units by 2002. Indicative of the housing boom, unit construction rose to 2007 and peaked in 2009 with the construction of a large multifamily project as shown in **Figure 13**. Since 2009, however, construction activity has been below average, climbing only to approximately 70 units in 2014. Moving forward, the development pipeline would suggest that there are fewer applications that will apply to the existing housing resolution. According to staff, there are few if any opportunities for future annexation and only three master-planned developments (MPD) are known. Development is increasingly infill and single-site demolition/rebuild.

Figure 12
Residential Construction Activity in Units, 2004-2014

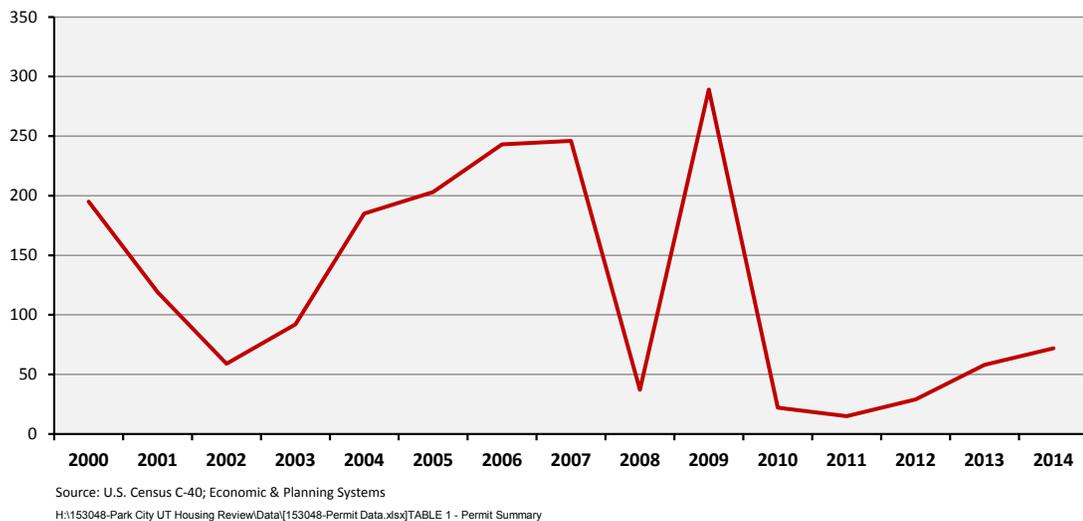


Figure 13
Residential Construction Activity in Units, 2004-2014

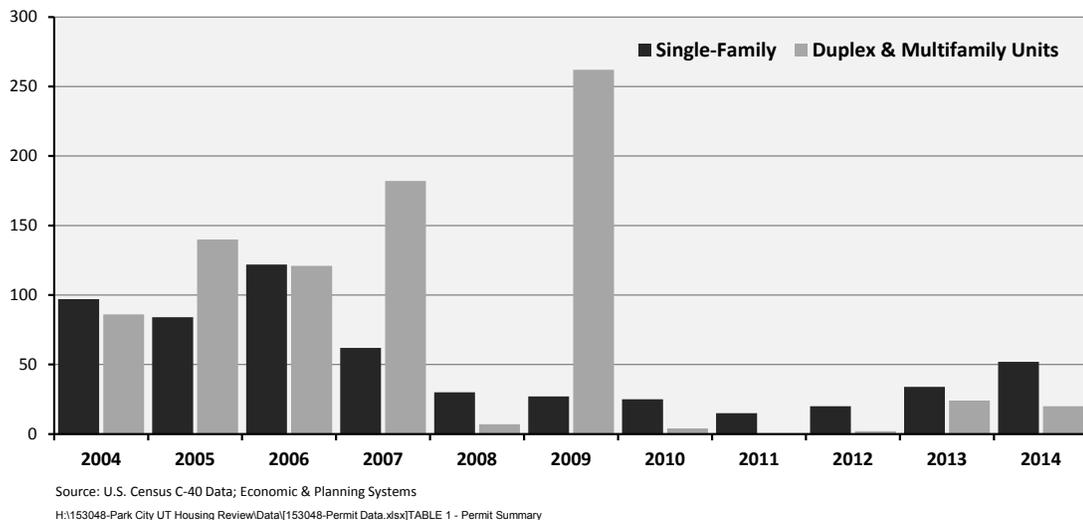
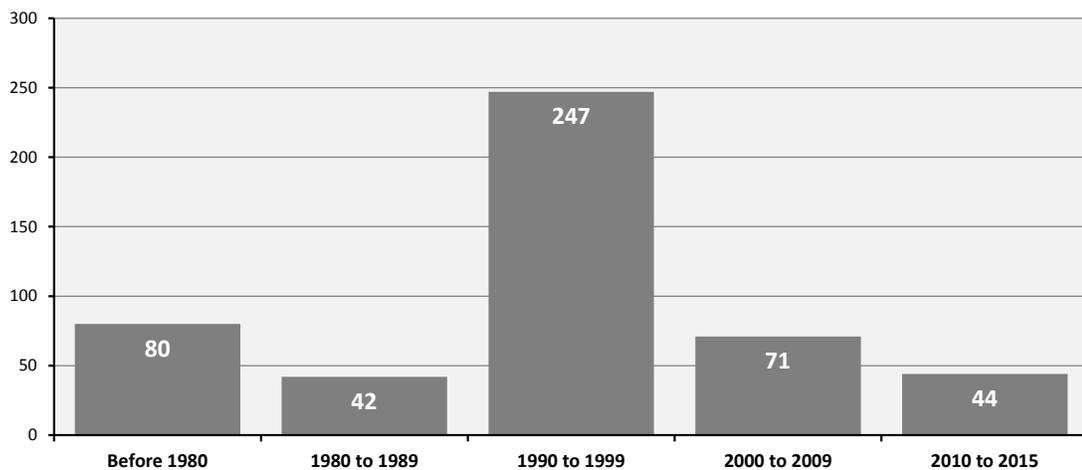


Figure 14 illustrates historic affordable housing development in Park City since 1978. In total, there have been 484 units of affordable housing built since 1978, averaging approximately 13 units per year. This includes the construction of inclusionary zoning units, which occurred from 1996 onward, totaling 135 units up to 2015 (not including those units that were expected to begin construction during late 2015 or after). This also includes the development of LIHTC units, a total of 312 units built all before 2000. According to city staff, there are an additional 269 affordable units in the development pipeline, a number which has been pulled into the analysis of housing needs in a later section of the report.

Figure 14
Historic Affordable Housing Development



Source: Park City Municipal Corporation; Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-City Affordable Housing Total Production.xlsx\TABLE 1 - Affordable Units

An analysis of the city’s overall residential construction activity data and affordable housing construction data, it appears that the inclusionary zoning requirement of Resolution 13-15 applied to approximately 50 percent of all residential construction between 2005 and 2011— years for which complete data in both series were available. Approximately 78 affordable units were built between 2005 and 2011 under the current housing resolution. As these were the units to meet the 15 percent inclusionary zoning requirement, it is estimated that they were based on projects totaling 520 total units. During those six years, however, there were 1,100 residential units permitted.

Based on the review of the housing resolution’s evolution, had the intent of Resolution 6-94 been followed, it is likely that more than double the number affordable units might have been built. Among other things it established, resolution 6-94 expressed the City Council’s intent to consider whether the future version of the resolution’s housing requirements should apply to residential development of more than two units. The largest concern, however, is that Resolution 13-15 is projected to apply to a smaller and smaller portion of all residential development in the future. According to staff, there are only three MPDs in the pipeline for which the existing housing resolution would apply. Moreover, it is projected that there will be little to no opportunity for the housing resolution to apply to annexations.

Table 1
Residential Building Permits, 2015

Permit Type	No. of Permits	Average (2015)					Total (2015)		
		No. of Units	Built Square Feet [1]	Valuation	Permit Fees	Fee Per Unit	No. of Units	Square Feet	Permit Fees
Single Family									
Single Development	43	1	4,589	\$713,689	\$29,599	\$27,988	46	197,336	\$1,272,744
Master-Planned Development	5	1	1,932	\$347,432	\$19,897	\$19,897	5	9,661	\$99,485
Average Total	48	1	3,261	\$530,561	\$24,748	\$23,942	51	206,997	\$1,372,230
Multifamily									
4 Plex	1	4	5,237	\$903,879	\$65,762	\$16,441	4	5,237	\$65,762
Affordable Housing	1	9	11,703	\$1,658,526	\$99,661	\$11,073	9	11,703	\$99,661
Condominium	3	23	59,146	\$9,479,765	\$489,347	\$21,862	70	177,438	\$1,468,040
Duplex	1	2	11,222	\$1,781,912	\$66,999	\$33,499	2	11,222	\$66,999
Mixed Use	1	4	3,404	\$1,275,123	\$67,474	\$16,868	4	3,404	\$67,474
Average Total	7	8	18,142	\$3,019,841	\$157,848	\$19,949	89	209,004	\$1,767,936
Accessory Structure	1	1	1,320	\$196,390	\$5,597	\$5,597	1	1,320	\$5,597
Average Total	1	1	1,320	196,390	5,597	5,597	1	1,320	5,597
Commercial	2	2	9,714	\$1,311,209	\$120,329	\$118,183	3	19,427	\$240,658
Average Total	2	2	9,714	1,311,209	120,329	118,183	3	19,427	240,658

[1] "Built Square Feet" includes residential square feet and finished basement, where applicable

Source: Park City Dept. of Building Safety; Economic & Planning Systems

H:\153048-Park City UT Housing Review\Data\153048-Building Permits 2015.xlsx|TABLE

2.3.3 Housing Sales Trends

Between 2000 and 2015, the average sales price of a single-family home increased from approximately \$555,000 to nearly \$1.5 million, an escalation of 6.7 percent per year. During the same period, the average sales price of a condominium increased from \$365,000 to \$684,000, or 4.3 percent annual average growth. Between 2000 and 2007 alone, single-family home prices escalated at 15.1 percent per year, and condominium prices increased by 14.0 percent per year.

By comparison to other resort markets, average sales prices in Park City did not seem to fall as far. From the sales pricing peak to point of inflection, single-family home prices dropped 33 percent (between 2007 and 2011) before starting to rise again. Based on analysis of comparable resort markets EPS has completed in the past, during the same time period, Aspen's overall market pricing fell by more than 60 percent, Telluride and Mountain Village prices dropped more than 50 percent, Vail's average prices dropped 55 percent, and Northstar/Truckee's average pricing fell also by more than 50 percent.

Figure 15
Average Sales Prices in Park City, 2000-2015

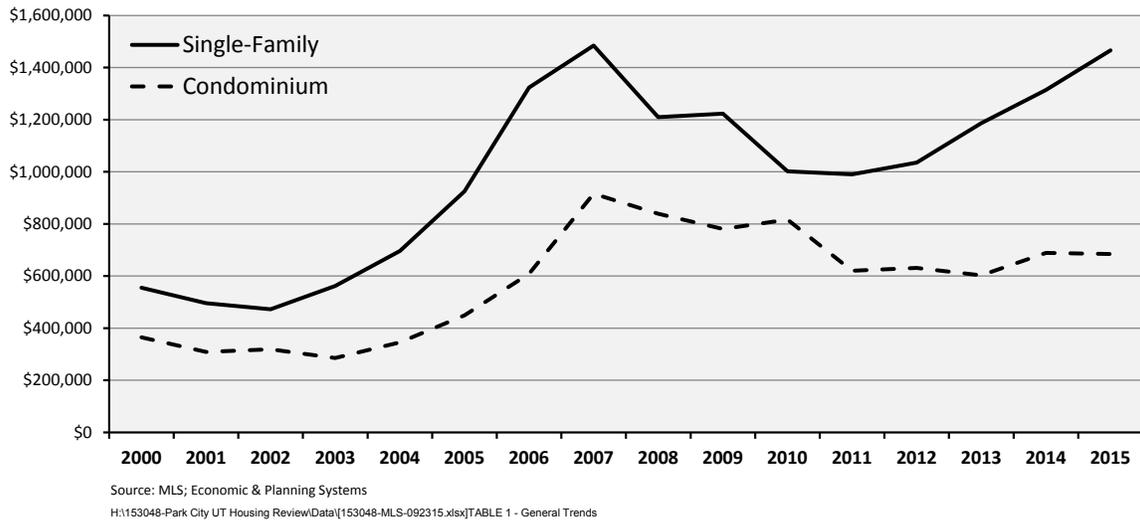
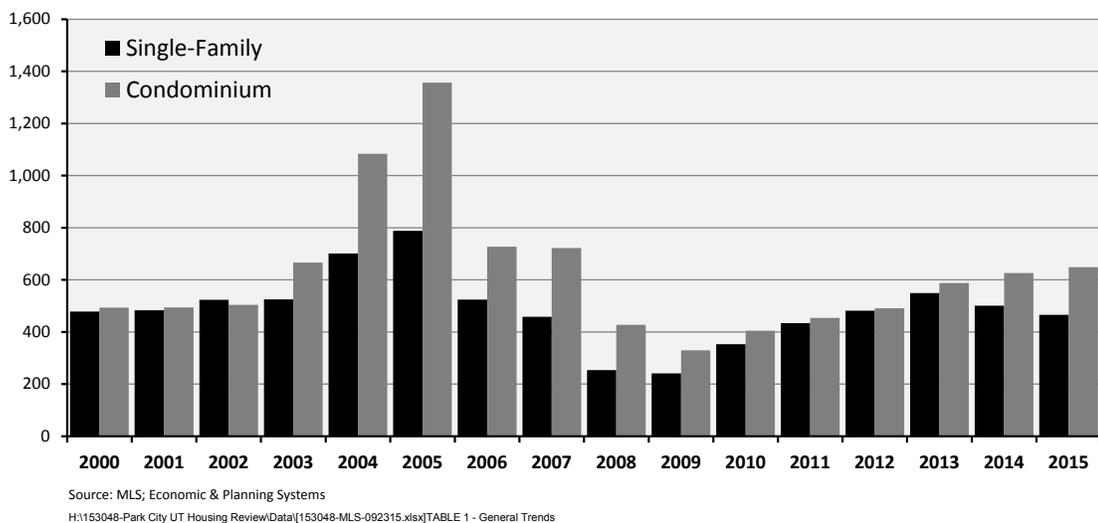


Figure 16 illustrates the volume of sales for single-family and condominiums between 2000 and 2015. Overall, single-family sales averaged approximately 485 per year during this time, with the highest volumes occurring in 2004 and 2005. Lower volumes occurred during the recession and for several years after, but volumes have only recently returned to their overall averages. In fact, the volume of sales in 2015 is extrapolated from the sales data collected through September 2015 and is estimated to be a lower volume than 2014. On the other hand, the estimated volume of sales for condominiums is slightly higher than the overall average for 2015.

Figure 16
Indexed Average Sales Prices in Park City, 2000-2015



2.4 Housing Affordability

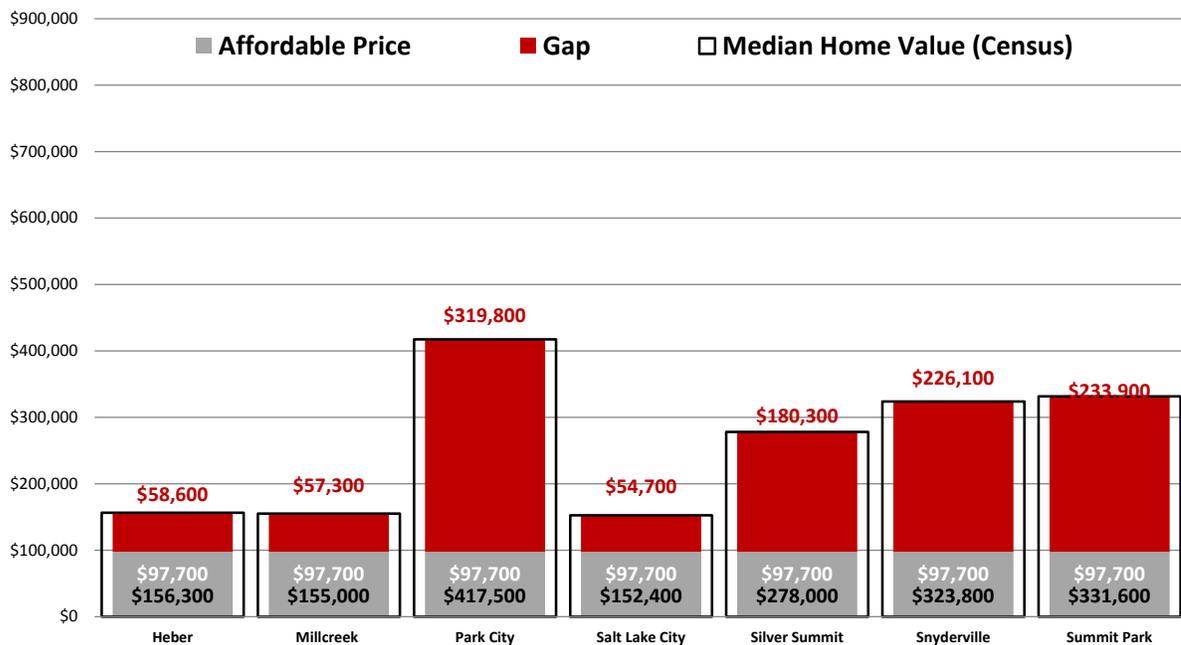
The definition of housing affordability lies at the intersection of housing costs and household incomes.¹ This section provides a juxtaposition of the housing purchase price that is affordable to a household earning the area median income (AMI) against median housing price levels for Park City and the surrounding communities.

2.4.1 Affordability Gaps

This last section of the chapter deals with the difference between the median home value in Park City and its commute shed and the price of a home that would be considered affordable to a household earning the regional median income. The two graphics below illustrate affordability conditions in 2000 and in 2015. **Figure 17** illustrates the average price of homes sold in Park City and the surrounding commute shed communities in 2000.

In Park City, the median home value was approximately \$417,500. Silver Summit, Snyderville, and Summit Park were also relatively more affordable, ranging between \$278,000 and \$332,000. On the other hand, median home values in Heber, Mill Creek, or Salt Lake City were considerably more affordable. In 2000, a household working regionally and earning the regional median income, estimated at \$40,240, could afford a home priced at \$97,700. This implied that the gap between the median home value in Park City and what this household could afford was \$319,800. In other communities, that gap was not as wide, estimated at around \$55,000 to \$59,000 in Heber, Millcreek, and Salt Lake City.

Figure 17
Affordability Gap by Regional Standards, 2000



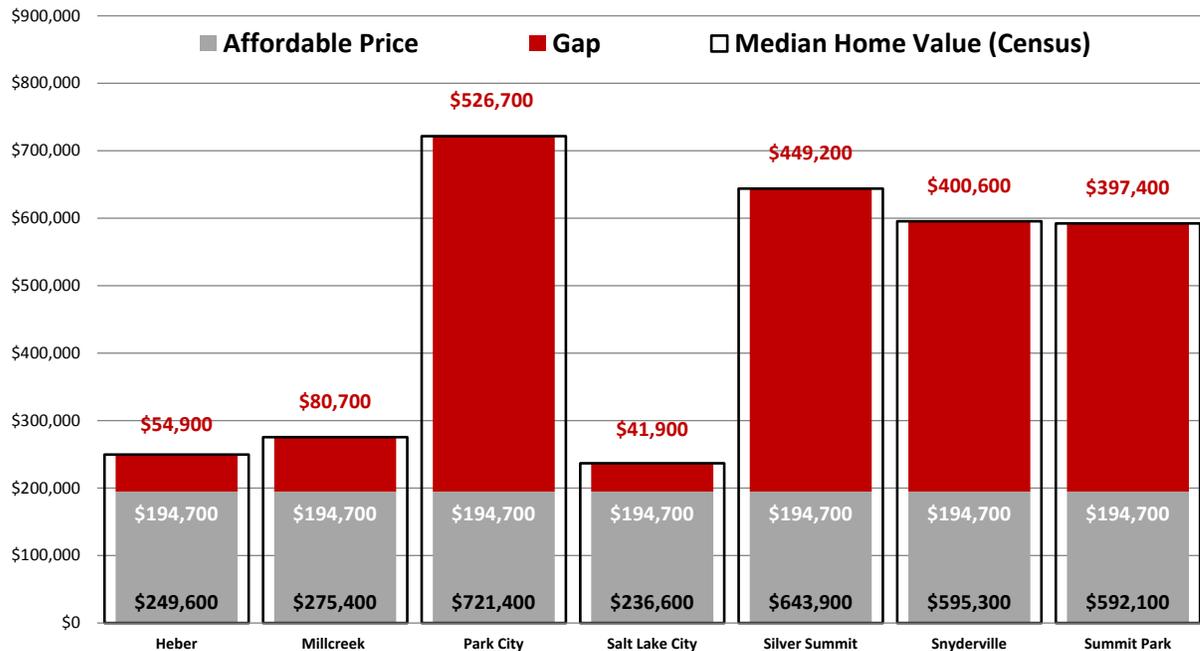
Source: U.S. Census, Economic & Planning Systems

¹ Affordability is defined as a household spending no more than 30 percent of its income on housing, including payments on principal, interest, taxes, and insurance. EPS has calibrated affordability metrics for this project average lending terms and conditions for each time period evaluated, 2000 and 2013. For 2000, the assumptions are: 8 percent mortgage interest rate; 30-year fixed rate mortgage, 5 percent down payment; property taxes, insurance, and a factor for HOA dues collectively total approximately \$330 per month. For 2013, the assumptions are: 5 percent mortgage interest rate; 30-year fixed rate mortgage, 5 percent down payment; property taxes, insurance, and a factor for HOA dues collectively total approximately \$500 per month.

In 2013, the estimated regional income had increased to approximately \$53,700 and the average 30-year fixed mortgage rate had dropped to approximately 4.0 percent, making higher-priced homes relatively more “affordable” than under 8.0 percent average mortgage rates in 2000. A household earning the regional median income in 2013 could afford to purchase a home for \$194,700, as shown in **Figure 18**. But because the median value of homes had increased so substantially in Park City, Silver Summit, Snyderville, and Summit Park, the affordability gaps had widened considerably.

In Park City, the affordability gap had increased 65 percent to \$526,700. But most striking were the increases in affordability gaps for the city’s northern three neighbors. The affordability gap in Silver Summit increased 150 percent from \$180,300 to \$449,200. The gap in Snyderville increased by 77 percent, and the gap in Summit Park increased by 70 percent. The affordability of houses in Heber remained relatively unchanged, although Millcreek became slightly less affordable, and Salt Lake City’s housing became slightly more affordable.

Figure 18
Affordability Gap by Regional Standards, 2013



Source: U.S. Census, Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-Census-Affordability.xlsx\TABLE 2 - Aff Price in 2013

2.4.2 Estimates of Housing Need

The following tables detail updates to two of the methods the City has previously used to estimate the magnitude of housing need for the City. In the first table, **Table 2**, one of the critical assumptions used in the calculation involves a factor called the “location substitution” factor of 34 percent.

Location Substitution Method

As mentioned previously, it appears through research that this number originated from an analysis of 2005 commuting data that identified 34 percent of the City’s jobs were held by City residents. It was held that this was an optimal number to maintain and has been applied to estimates of affordable housing demand since then. Although there is little documentation on the derivation of this 34 percent factor, EPS has determined that the actual number of residents living and working in Park City at the time was approximately 1,800, which equated to 15 percent of the city’s jobs. That portion has remained relatively stable since then, fluctuating only between 15 and 20 percent.

The other factor used in this analysis is 39 percent, which characterizes a portion of all jobs that are deemed to be central or “core” to the local economy. Using this method, it is estimated for 2014 that there is a need for 378 more affordable housing units for households of local job-holders that would be interested in living in Park City, assuming also that the 269 units in the pipeline can meet a portion of this demand.

**Table 2
Housing Need, Location Substitution Method**

	Factor	2013	2014
Individuals working in Park City		12,079	12,911
Multiply by Location Substitution Rate	34%	4,107	4,390
Subtract persons already living in the City		1,737	1,901
Estimate of those wanting to live in the City		2,370	2,489
Divided by 1.5 jobs per household	1.5	1,580	1,659
Multiply by % of core sector jobs	39%	616	647
<u>Less: Pipeline projects</u>		<u>269</u>	<u>269</u>
Estimate of households needing assistance		347	378

Source: Park City Municipal Corporation; Economic & Planning Systems

H:\153048-Park City UT Housing Review\Data\153048-Housing Need Calcs.xlsx\TABLE 1 - Location Sub Method

Commuting Method

The second method of estimating housing need is based on the commuter method, which adjusts for several different factors, including an adjustment for the portion of jobs considered primary, an apportionment for households living in 84098, as well as the portion of jobs considered core sector. This analysis estimates that there is a need for 476 housing units to meet the needs of additional commuters that would be interested in living in the city.

**Table 3
 Housing Need, Commuter Method**

	Factor	2013	2014
Individuals working in Park City		12,079	12,911
Less % of those already living in City		1,737	1,901
Workers living outside City limits		10,342	11,010
Multiplied by % of primary jobs	84%	8,687	9,248
Divided by 1.5 jobs per household	1.5	5,792	6,166
Less % for households living in 84098	69%	3,996	4,254
Estimate of those wanting to live in the City		1,795	1,911
Multiply by % of core sector jobs	39%	700	745
<u>Less: Pipeline projects</u>		<u>269</u>	<u>269</u>
Estimate of households needing assistance		431	476

Source: Park City Municipal Corporation; Economic & Planning Systems

H:\153048-Park City UT Housing Review\Data\153048-Housing Need Calcs.xlsx\TABLE 2 - Commuter Method

Commuting and Distribution Method

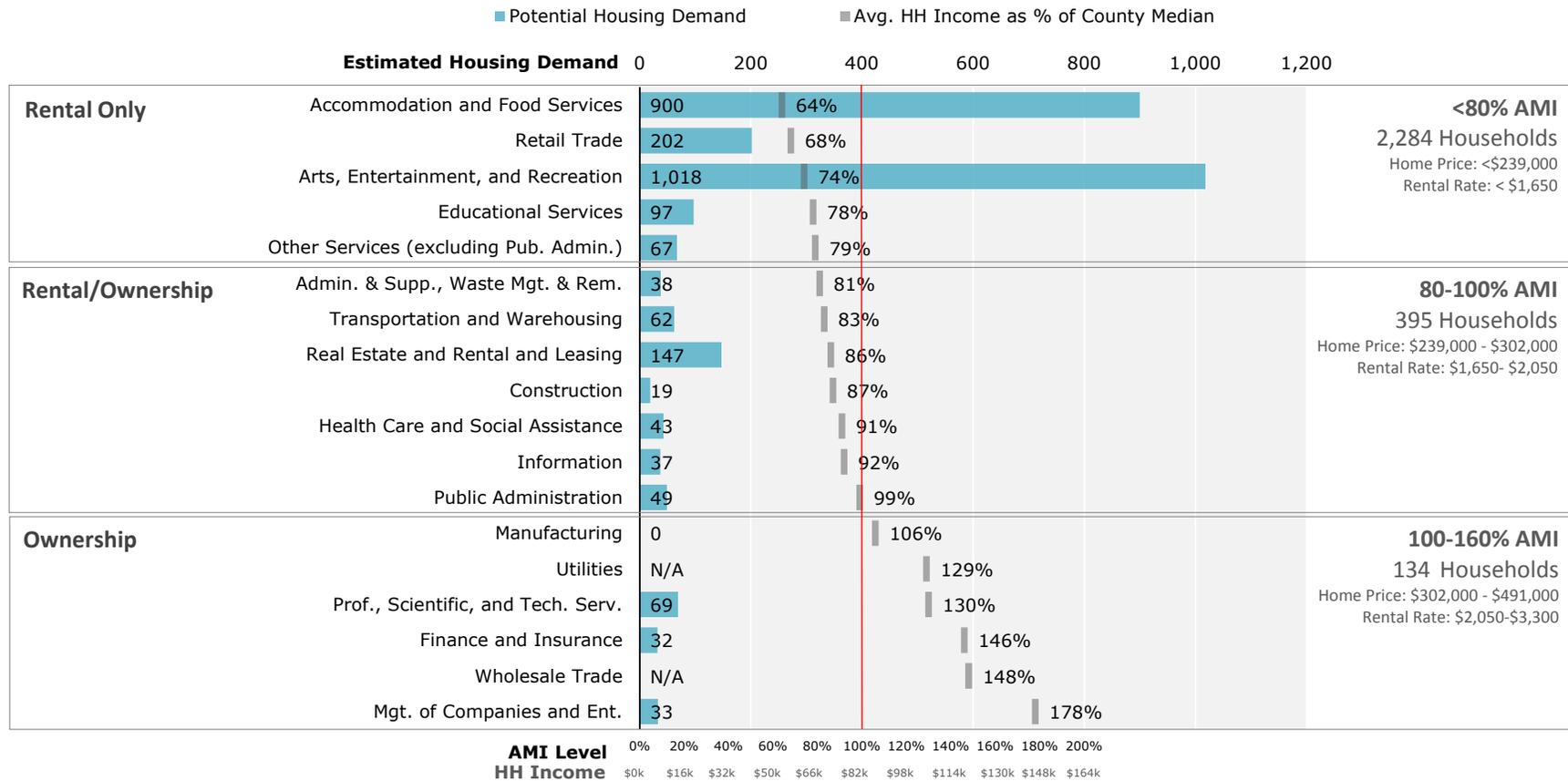
EPS has constructed a third method for estimating the magnitude and type of housing need. This method uses multiple pieces of information from commuting patterns and the distribution of employment by industry, as well as average wages by industry and adjustments for average jobs per household. In 2014, there were 12,900 jobs in Park City, and living in Park City, there were nearly 4,000 workers employed either in Park City or elsewhere. This methodology is most likely a conservative estimate of need, given that the total number of in-commuters was approximately 10,600 in 2014.

While it isn't possible with the available data to document the distribution of employment for only those Park City residents employed in Park City, it is possible to identify the general magnitude of net in-commuting by industry by juxtaposing the distribution of Park City jobs with the distribution of employed Park City residents. The following chart illustrates the distribution of estimated households for those remaining (net in-commuting) workers that would be interested in living and working in Park City. The distribution is sorted by AMI level and categorized according to which income levels are appropriate for different housing types. For example, it is estimated that there are a total of 2,284 households at income levels below 80 percent AMI, a majority of which are in the accommodations and food services or arts, entertainment, and recreation sectors.

These households fall within the category of rental housing only, though. Their affordable purchase price would be in the range of \$239,000 or less, a category of housing affordability that is generally not available in Park City. There are an estimated 395 households, however, in the range of 80 to 100 percent AMI, where the target affordability range falls between \$239,000 and \$302,000. This is classed as the rental or ownership housing category (e.g. townhomes or condos). At the higher end of the spectrum are an estimated 195 households in sectors that support generally ownership housing and represent also more stable year-round employment categories, such as finance and insurance, professional and technical services, wholesale trade, and management. At this income level, household would be targeting affordable purchase prices of \$302,000 to \$491,000. Combined, the top two categories (from 80 to 160 percent AMI) represent a total possible housing demand of 529 housing units.

EPS does not believe that the magnitude of need estimated with this methodology is any more accurate than the City's other two methodologies. After all, this method assumes that 50 percent of the in-commuting workforce would be interested in living in Park City. It is possible that a smaller portion of the in-commuting workforce would prefer to live in Park City if given the chance. The value in this method, however, is the distribution of housing need by AMI level. As such, these estimates imply that 81 percent of the need is for housing at or below 80 percent AMI. Only 14 percent of the housing need falls in the 80 to 100 percent AMI category, and 5 percent of housing need is estimated to fall into the 100 to 160 percent AMI category.

Figure 19
Estimated Housing Demand in Park City by AMI Level, 2014



Source: U.S. Census Bureau, U.S. Department of Housing and Urban Development; Bureau of Labor Statistics; Economic & Planning Systems

3.0 POLICY CONSIDERATIONS

This chapter details research completed for the sake of understanding how Park City's existing housing policy might evolve further to address its growing affordable housing needs. This section provides a discussion of the most common elements of development-based approaches to affordable housing policy:

- Employment generation
- Mitigation rates
- Inclusionary zoning requirements and set-asides
- Density bonuses

While additional discussion of some of these policy considerations follows in the recommendations chapter, this chapter also contains a discussion on establishing a housing goal of target and the benefits to the local community of achieving the goals. In general, this discussion is intended to facilitate the public dialogue on setting a housing target for the community and identifying which mechanisms are appropriate to achieve it.

3.1 Commercial Linkage

3.1.1 Employment Generation Rates

The affordable housing requirements for commercial development in Park City's existing housing resolution are based on general average employment generation rates from a variety of mountain resort communities. A primary objective of this study was to collect primary data from the city's employers and provide locally-relevant generation rates that could be incorporated into a modified form of the housing resolution.

A survey for the city's businesses was designed and fielded via email through three of the city's primary business community contacts, including the Park City Area Lodging Association (with 137 members), the Park City Area Restaurant Association (190 members), and all of Park City's Historic Main Street members. It was estimated that in total, surveys were sent to more than 500 establishments.² In addition to collecting responses electronically, survey information was collected door-to-door during December 2015.

² As a point of comparison, there are approximately 2,580 establishments in Summit County. It was not possible to identify the number of establishments for Park City alone with data available from the BLS.

Figure 20 illustrates the location and magnitude of employment (in terms of full-time equivalents) represented by the survey information. In total, 138 surveys were tabulated, representing a response rate of approximately 28 percent and representing business employment during the low-season of 3,021 FTEs and 5,126 FTEs during the high-season. Additionally, 11 lodging establishments were tallied in the responses, accounting for 3,581 rooms in the city.

Figure 20
Indexed Average Sales Prices in Park City, 2000-2015

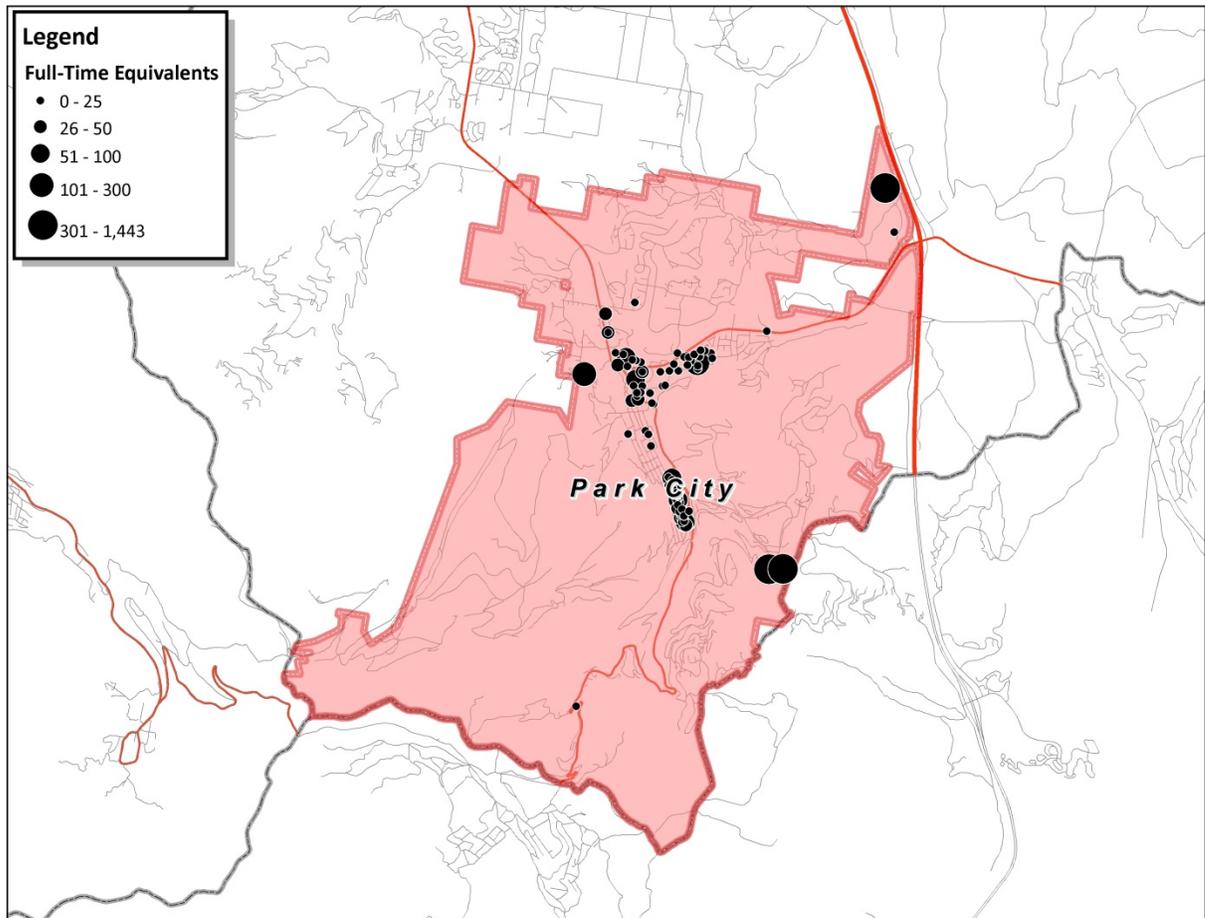
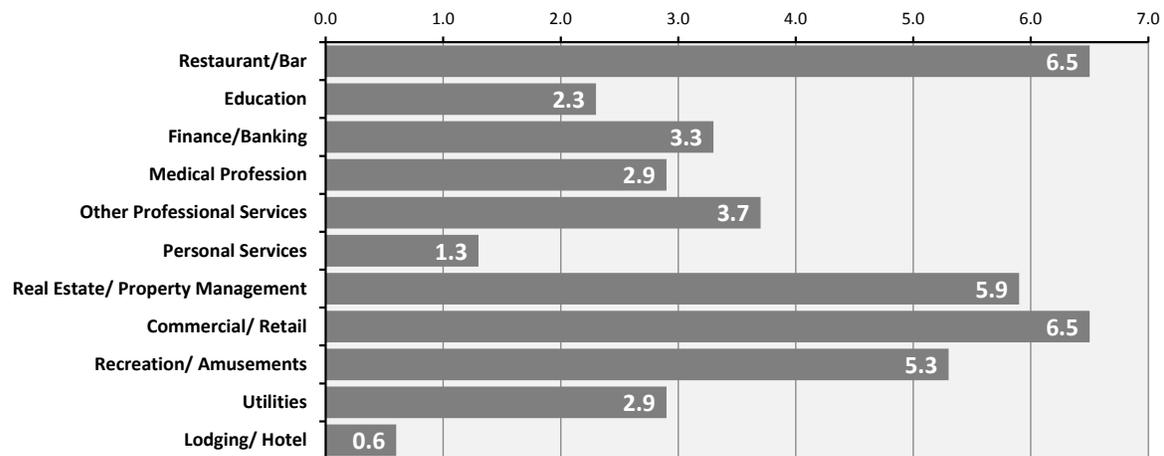


Figure 21 illustrates the current FTE rates in Resolution 13-15. These rates have been used for estimating the employment generation rates for new non-residential development since they were first incorporated into Resolution 10-06. According to staff, they reflect overall average FTE generation rates among other resort economies in the Rocky Mountain West and are credited to research from RRC Associates.

Figure 21
Existing FTE Generation Rates



Source: Park City Municipal Corporation; Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-SurveySummary_3.14.16.xls|TABLE 1 - Existing Rates

EPS employee generation survey data for Park City are generally in line with the current factors in the existing housing resolution. In fact, for a majority of the existing categories, the FTE generation rates have decreased: education, finance/banking, medical profession, other professional services, real estate/property management; general commercial/retail. **Figure 22** illustrates the employee generation rates based on information collected through the survey.

The commercial mitigation portion of the current housing resolution bases its mitigation requirement on 20 percent of the 4.4 full-time equivalents (FTEs) generated per 1,000 square feet of commercial space. Based on analysis and vetting of the survey responses from Park City employers, the overall rate is currently estimated at 4.1 FTEs per 1,000 square feet for the City.

The information collected provides sufficient detail to replace the existing types of rates with City-relevant numbers as well as differentiate between, for example, a full-service restaurant (8.1 FTEs per 1,000 square feet) and a quick-casual or fast food restaurant (6.9 FTEs per 1,000 square feet). These generation rates are based on 14 and 10 businesses, respectively.

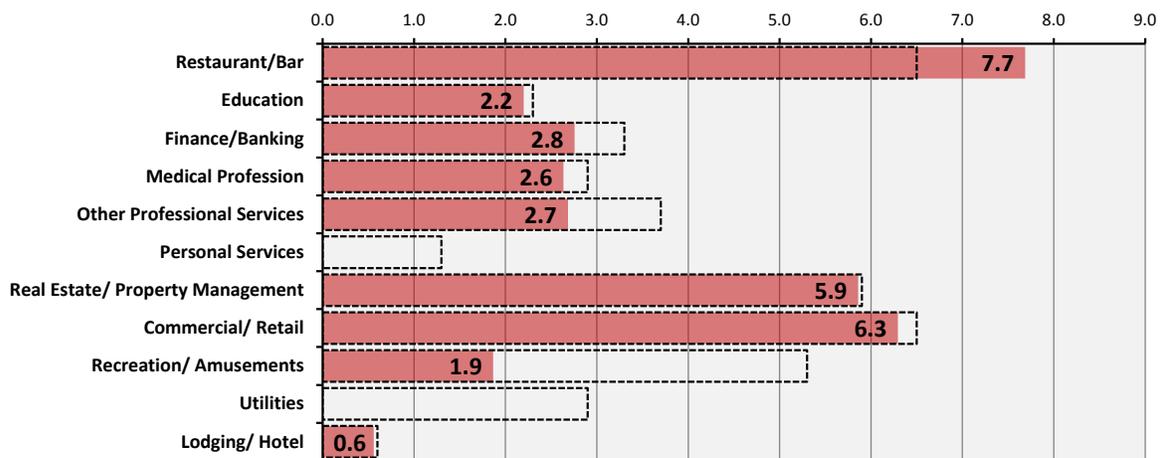
All categories except one (“other professional services”) were within 20 percent of the current generation rate. The current employment generation rate is 3.7 FTEs per 1,000 square feet, and the survey data, which include most likely a different sampling of land uses (i.e. business types), indicate an average of 2.7 FTEs per 1,000 square feet.

Another business category for which its original definition is unclear is the category for recreation and amusement. It is unclear what the composition of recreation and amusements was in the original data. The new category accounts for an average generation rate for: art galleries, other galleries, movie theaters, museums, visitor centers, and theaters.

The restaurant/bar generation rate was 6.5 FTEs per 1,000 square feet and is estimated at 7.7 FTEs in the survey data. Jobs classified as education were at 2.3 FTEs, and the survey data show a factor of 2.2 FTEs per 1,000 square feet. The category of finance and insurance is currently 3.3 FTEs, but the survey data indicate the 2.8 FTEs. Medical profession businesses have an average of 2.9 FTEs, and the survey data have an average of 2.6 FTEs for that land use. Real estate and property management were at 5.9 FTEs per 1,000 square feet and did not change in the survey data.

The restaurant and bar category is the only category to have increased over the existing rates. This generation rate is based on a wide selection of 25 full service and quick casual restaurants and averages 7.7 FTEs per 1,000 square feet of space. Lodging and hotels were at 0.6 FTEs per room, and the survey data indicate that this factor also did not change. The generation rate for lodging establishments, which includes hotels, motels, resort areas, and condo-hotels, is based on 13 responses representing 3,581 rooms in Park City.

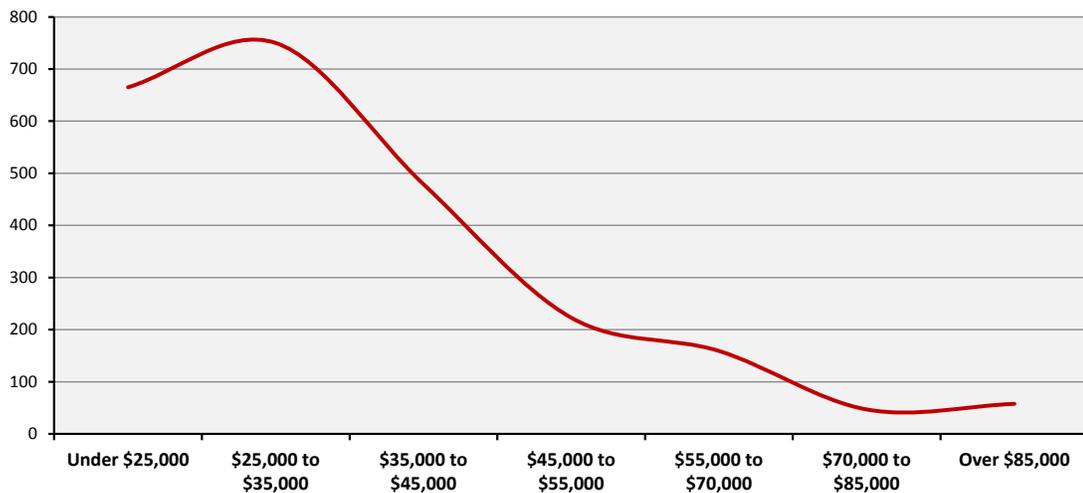
Figure 22
Survey-Based FTE Generation Rates



Source: Park City Municipal Corporation; Economic & Planning Systems
 H:\153048-Park City UT Housing ReviewData\153048-SurveySummary_3.14.16.xls|TABLE 1 - Existing Rates

Figure 23 illustrates the distribution of jobs (both part-time and full-time) by salary levels. The purpose for reporting and illustrating this distribution is to provide evidence of the representativeness of the survey sample, while also illustrating the magnitude of relatively low-paying jobs in Park City’s economy. While not all businesses provided this level of information, the following distribution is based on the responses of 44 businesses, representing 2,381 part- or full-time positions. In 2014, the average annual wage for Summit County was approximately \$38,400. Using salary midpoints for each category, the average annual wage for positions represented in the survey data is \$35,900, indicating that the distribution of employment and businesses sampled in the employer survey reflects a representative sample of Park City’s employers.

Figure 23
Distribution of Employee Salaries



Source: Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-SurveySummary_3.14.16.xls\DATA

It should be noted that this basis of calculating employment generation rates is always subject to a margin of error. On one hand, asking employers the number of their full-time and part-time staff relies on the accuracy of the information the person surveyed has available. On the other hand, it relies on the respondent’s knowledge of the total floor area of their space, and in the absence of that (which is very common), the accuracy of this part of the information is reliant on either the respondent’s or the data-gather’s ability to accurately gauge the size of the space. EPS made every attempt to fully vet the numbers given to all data-gathers in the survey work. We cross-checked the square-footage numbers against Summit County Assessor data.

3.1.2 Commercial Mitigation Requirements

The city's commercial development employment mitigation requirements are related to commercial linkage programs. Commercial linkage programs are a form of impact fee assessed on new commercial developments or major employers. They are designed to mitigate the need for workforce housing generated by new or expanding commercial business or development. In some cases, commercial linkage programs require the construction of employee housing (as is commonly the case in resort settings), but typically in-lieu fee revenues are collected to fund the development of affordable or workforce housing.

Because linkage fees are a type of impact fee, they require a nexus study. Such a study provides a quantitative basis for the connection (i.e. the nexus) between the affordable or workforce housing demand generated and the amount of space being developed or redeveloped. Fees are often calculated on a per-1,000 square-foot basis of commercial space and based on the number of employees generated by a particular type of land use. Because employee generation rates differ widely among land uses, communities with a commercial linkage program (or similar) distinguish between retail, restaurant, office, hotel, and industrial space, or sometimes with greater distinction of land use as in Park City. It is important to note that commercial linkage fees—like development impact fees—are a variation on exactions and can only be used to pay for the impact of the new development and may not be used to address existing deficiencies.

As is the case in many other communities, commercial linkage programs are often just one component of the community's housing strategy. In conjunction with an inclusionary zoning ordinance, for example, a community is able to address the demands for affordable or workforce housing generated by both new residential and commercial development. Such policies have been adopted in Boston (fees are approximately \$8 per 1,000 square feet), Boulder (adopted fees will range from approximately \$1 to \$8), Cambridge (recommended increase of fees from \$4 to \$12), San Francisco (fees range from \$16 to \$24 per square foot), and Seattle (fees range from \$5 to \$17 per square foot). Currently, a few other cities have been evaluating how to structure a commercial linkage program including Denver and Portland.

In addition to these urban markets, the following section provides an overview of several comparable mountain communities' commercial linkage programs.

- Telluride, CO: Telluride's general employee generation rate is 4.5 FTEs per 1,000 square feet, nearly identical to Park City's current overall rate. The Town currently mitigates commercial and hotel uses consistently at 40 percent of the employee generation rate. Research indicates that the program is fairly successful in getting units built on-site, attributable to a land use code that makes it much more complicated to build such units off-site. In addition, commercial developers can only "buy out" of 10 percent of their total mitigation requirements or when the mitigation calls for less than the required minimum 500 square feet per employee unit, further encouraging the building of on-site units. Each mitigation requirement is multiplied by 350 square-feet to establish the total floor area to be provided.
- San Miguel County, CO: San Miguel County's commercial linkage program was last updated in 2012 and requires a 15 percent mitigation of employees generated across all use categories. In addition to its lower mitigation rate, the county's generation rates are also lower than Park City's. Office, restaurant, and general retail uses are all classified as generating 3 FTEs per 1,000 square feet of use, but hotels/lodging are classified as having a rate twice as high as Park City's, i.e. at 1.5 FTEs per room.

- Vail, CO: The Town of Vail's employee housing mitigation program, established in 2007, requires developers to mitigate 20 percent of employees generated by different commercial uses, and that at least 50 percent of those affordable units be built onsite. The town distinguishes between a set of business types slightly different from Park City's current types. Lodging uses are estimated to generate 0.7 FTEs per room; professional office users are estimated to generate 3.2 FTEs per 1,000 square feet (compared to Park City's current 3.7 and survey-based 2.7 FTEs). The Town makes no distinction between types of restaurants, however, and estimates it generates 6.75 FTEs per 1,000 square feet (compared to Park City's current 6.5 FTEs and the survey-based 7.7 FTEs). Real estate offices are estimated to generate 5.1 FTEs versus Park City's current and survey-based 5.9 FTEs. The Town also includes a few other specialty categories, such as conference facilities, health clubs, and spas.
- Steamboat Springs, CO: The Town of Steamboat Springs is illustrative of the challenges faced by mountain communities when balancing the needs of affordable housing options with economic vitality. The town implemented its first commercial linkage program in the mid-2000s, only to remove the program in the face of the economic crisis in 2008. The town council and planning leadership decided that the additional burdens such a program placed on developers and businesses impeded growth and negatively impacted the business climate. Due to the limited duration of the program's existence, town planners say it is difficult to ascertain whether the program would have successfully generated the levels of affordable housing needed in Steamboat. Given the still struggling economy and changes in the town council, there are no immediate plans to revive the program.
- Aspen/Pitkin County, CO: Aspen has broader categories of land uses in its Growth Management Quota System (GMQS), which was updated last in 2012. In general, businesses in Aspen are estimated to generate 4.7 FTEs per 1,000 square feet, which includes its commercial core designations, neighborhood commercial, commercial lodges, and ski base areas. Within its mixed-use zone districts, the City estimates there are 3.6 FTEs per 1,000 square feet, and within its service commercial/industrial zone districts 3.9 FTEs per 1,000. For lodging (specifically, for accommodations located in commercial lodge, lodge, and ski base zone districts), it is estimated that there are also 0.6 FTEs per room. The city's current mitigation rate is 60 percent and has produced approximately 2,800 residential units, 1,500 of which have been for-sale units and 1,300 rental units. And consistent with its commercial mitigation rate, Aspen's community goal is to house 60 percent of its workers locally.
- Jackson/Teton County, WY: The commercial linkage programs of Jackson and Teton County are similar, in that they identify non-residential land uses to be mitigated at 35 percent of employees generated. The difference in their land use codes, however, is that Jackson identifies the floor area of space required per land use category, whereas Teton County identifies the number of employees and thus units that must be mitigated per land use category. Interestingly, Jackson/Teton County's community housing goal (i.e. related to the commercial mitigation rate) is 65 percent, a number they have justified because they believe the loss of a local workforce and associated diversity also reflects the loss of a sense of community. This development-based policy, however, does not seem to be at risk of inapplicability given the coordinated effort between the town and county, as well as the land availability for offsite affordable housing construction in unincorporated Teton County.

3.2 Inclusionary Zoning

3.2.1 Set-Aside Requirements

Inclusionary zoning (IZ) requires developers to “set aside” a portion of new housing construction as affordable to households at specified income levels. IZ set-aside requirements generally range from 10 to 30 percent, and the affordability level generally ranges from 60 to 100 percent of area median income (AMI), based on family size defined by HUD. In most versions of IZ, a developer can comply with its requirements by building the units on site as a part of the overall project master plan and/or by building them in an off-site location. Alternatively, many IZ programs allow for all or a portion of the housing requirement to be met by cash-in-lieu (CIL) payments – i.e. the payment of a fee in-lieu of building units, as with Park City’s policy.

Nationally, according to recent research by the Lincoln Land Institute (Jacobus, 2015) more than 500 communities have adopted some form of inclusionary zoning. Montgomery County, Maryland was one of the earliest to adopt IZ and has built over 14,000 affordable or workforce housing units, although a majority of these units’ deed restrictions have since expired and are no longer in the affordable housing inventory. All cities and towns in Massachusetts, for example, are subject to General Law Chapter 40B which requires communities with less than 10 percent affordable housing to require new developments to provide 20 percent affordable housing and redevelopments to provide 15 percent affordable units.

In general, most policies in the U.S. apply only to new residential construction, and there is generally a threshold of applicability. Most programs set a threshold where the policy applies only to projects at a scale of 5 to 10 or more units. There are a few outlier policies, though. On one end of the spectrum, there are a small handful of policies that have no threshold, i.e. that apply to all projects and thus assess a fraction of an affordable housing requirement. On the other hand, there are programs with much larger thresholds, e.g. 30 units, where the intent is to apply the policy only to mid- to larger-scale projects.

The selection of cities chosen for research here fall in the middle of the range with thresholds of 5 to 30 units and with set-aside requirements of generally 10 percent. Based on EPS’s recent research, the following is a summary of set-aside requirements from more urban markets around the country:

- Arlington County, VA: 5 percent
- Austin, TX: 20 percent (of bonus floor area)
- Boston, MA: 13 percent
- Boulder, CO: 20 percent
- Burlington, VT: 15 to 25 percent
- Cambridge, MA: 15 percent
- Chapel Hill, NC: 15 percent
- Chicago, IL: 10 percent
- Denver, CO: 10 percent
- Irvine, CA: 15 percent
- Montgomery Co., MD: 15 percent
- Redmond, WA: 10 percent
- San Francisco: 12 percent
- Santa Fe, NM: 15 percent
- Santa Monica, CA: 20 percent
- Washington, D.C.: 8 to 10 percent

This section provides an overview of the inclusionary zoning requirements of the same mountain resort communities.

- Jackson/Teton County, WY: This policy sets a residential inclusionary zoning policy set-aside at 25 percent workforce housing on-site. As in other communities, alternative compliance may be satisfied through the provision of off-site units, dormitory style units, the conveyance of land, or deed-restricting existing housing. There are, however, multiple clauses in the land development regulations that state on-site construction is not required if “impractical or inequitable”, for example, allowing for the possibility of off-site pooling of workforce housing unit requirements from one or more projects. Off-site locations are evaluated by the Jackson Town Council based on land use criteria such as: proximity to employment centers, commercial services, and infrastructure; compliance with Jackson/Teton County Comprehensive Plan; compatibility with surroundings; compliance with maximum gross densities of surroundings; size and materials for the selection of an appropriate location.

Interestingly, there is also a residential linkage requirement for large single-family dwellings of 2,500 square feet or greater to mitigate the additional service workers generated by these types of housing units. These fees are estimated via a highly-complicated formula that differentiates between construction on lots platted before or after 1995. Fees per square foot range from \$1.98 per square foot to \$14.39 per square foot.

Similar to Aspen, a weakness of the program is there is no provision for the development of units for the gap between workforce and market rate housing. With average prices in excess of \$1.0 million in the county, workforce households in the \$65,000 to \$100,000 income range are still largely priced out of area housing and are commuting from over one hour away in the Victor and Driggs communities of Teton County, Idaho.

- Telluride, CO: The Town of Telluride and its housing authority adopted comprehensive workforce housing guidelines in 1994 (and subsequently amended over the years). The general goal of Telluride’s workforce housing programs is to provide workforce housing for persons who make a living from employment within the boundaries of the Telluride R-1 School District and their families.

Telluride requires that all new residential (i.e. single-family, duplex, and multifamily) development provide workforce housing for 60 percent of new employees generated. For new commercial development, housing units must be provided for 40 percent of employees generated. The workforce housing requirements can be met by cash payments, construction of new deed-restricted housing, or deed-restriction of existing housing. Incentives to create new housing also exist, such as a density bonus granted within residential zones intended to establish more secondary dwelling units.

To incentivize the provision of housing under these land use requirements, Telluride grants several types of incentives. The first, and most common among all communities is a density bonus, where a residential development, for example, is allowed to construct secondary dwelling units. There is also a green building incentive, where if a development exceeds minimum green building requirements, an incentive is granted. Some typical incentives are the waiver of water/sewer tap fees for the employee dwelling units or the building and development application fees are credited toward building permit fees.

- Vail, CO: The Town of Vail started a workforce housing program in 1996. At that time, Vail created a housing team responsible for policy direction, project definition, developer and consultant selection, and asset management. Vail has helped more than 175 local employees purchase housing units (through a lottery system) within its boundaries. There are currently 727 deed-restricted rental and for-sale employee housing units within Vail.

In addition to its non-residential development policy, the employee housing program requires that new residential development and redevelopment provide 10 percent deed-restricted employee housing units (EHUs) where the 10 percent results in a mitigation requirement of 438 square feet or greater. The housing requirement is actually measured in gross residential floor area (GRFA) which is then converted to housing units.

As with the town's commercial mitigation strategy, the employee housing program requires that at least 50 percent of employee housing mitigation be provided on-site unless the developer provides sufficient evidence that such units are not possible. Because Vail is almost completely built out, there are limited available sites for building off-site units. Instead, developers typically purchase individual existing condominium units that are then designated as deed-restricted employee housing. These units tend to be concentrated in several condominium projects in West Vail. This concentration is generally not viewed as a "problem" by the community, as West Vail is predominately occupied by permanent residents and many of these buildings have long been employee housing. Thus, new workforce units represent a continuation of current use rather than a noticeable change in use.

- Aspen/Pitkin County, CO: The City of Aspen and Pitkin County both created their workforce housing programs in 1974. In 1982, both entities were combined into the Aspen/Pitkin County Housing Authority (APCHA). There are two main funding sources for the housing program, a 1.0 percent RETT (City of Aspen only) and a portion of the City/County sales tax. The purpose of the housing program is "to create a balanced community representative of the various types of people that live, work and retire in the area and to assure the existence of a supply of desirable and workforce housing for persons currently employed in Pitkin County, persons who were employed in Pitkin County prior to retirement, the disabled who have worked or are working in Pitkin County, and other qualified persons of Pitkin County as stated in the Aspen/Pitkin County Workforce Housing Guidelines." As indicated previously, the City maintains an overall goal to house 60 percent of the area workforce locally.

The city Growth Management Quota System (GMQS) affects any new residential and commercial construction in Aspen. Though Aspen characterizes its workforce housing requirements as more general employee housing requirements, Aspen has each of the major workforce housing tools: an IHO for multifamily residential construction, residential linkage program for single-family and duplex construction, and a commercial linkage program for non-residential development. For example, in addition to the commercial mitigation rate, the GMQS requires residential development provide a total of 30 percent of total floor area as affordable.

As with most IHOs or linkage programs, a developer may construct units off-site or pay a fee in-lieu of the construction requirement. Each year the CIL is increased by 3 percent or the Consumer Price Index (CPI), whichever is greater.

Aspen has also recently adopted another alternative to the on-site, off-site, and payment of a CIL option: a housing certificate program. This program, established in 2010, created an open market solution, much like a "cap and trade" program functions to benefit the environment by incentivizing the reduction of emissions. A developer who provides workforce housing units beyond the required amount by zoning receives housing certificates that another development may purchase in lieu of building units. Aspen does not place value on these certificates, so their value is determined in the free market by the two developers. If there are no or insufficient certificates to purchase, the developer must return to the Aspen Planning Board and/or City Council to amend the final approval and satisfy the workforce housing requirement either through the construction of units or payment of a CIL.

3.2.2 Density Bonuses

Use of the density bonus as a development incentive is generally the most economically valuable incentive governments have to leverage. They are widely used around the country in the context of other common development incentives, but their effectiveness varies as widely as the variety of communities who use them. In some communities, density bonuses have little to no value because either the market wants low-density development or development pressures have simply never reached or exceeded base entitlements. In other communities, density bonuses have measurable economic value that can be leveraged for the provision of community needs, such as affordable housing.

Based on EPS's experience with the financial and economic modeling of density bonuses within the context of development-based policies such as mandatory and voluntary inclusionary zoning, or simply in the context of incentives, the following is a general overview of findings that occur consistently among our projects in both rural and urban settings. That is, the economics, and thus value, of density bonuses are reflective of construction and building types, and less dependent on the regional variations in construction labor or materials costs.

In areas where demand for density or development exceeds the base entitlement level, a density bonus can create positive additional value (i.e. profit) for a development. Using a financial modeling tool to estimate residual value under multiple development prototypes, EPS has consistently found that positive economic value can be leveraged to feasibly provide community benefits. Residual value refers to an additional profit value, netting all development costs and profit factors.

There are multiple trigger points as a project increases in scale, however, where greater density does not result in positive economic value to the project. Specifically, when a project exceeds 6 floors (usually constructed as one floor or concrete with 5 floors of wood frame above), significant additional costs were incurred for different construction materials, fire suppression systems, and general building core if a density bonus was offered that required a development to shift into a higher cost construction type. Trigger points also occur at 10 floors and again at 20 floors.

Strong markets like Park City, however, can support an increase in market rate rents, sales prices, or lease rates in proportion to the higher construction costs. If a market is strong enough to support revenue increases in proportion to the increased construction costs, then the density bonus maintains a positive residual value.

Supportable Set-Asides

The following two figures illustrate the results of economic and financial modeling for single-family and townhome developments, two of the more common prototypical residential development types for Park City. The modeling is based on typical relationships between construction costs, land values, and supportable market-rate for-sale pricing. The model used determines the internal rate of return (IRR) for various project prototypes with different set-aside requirements for each level of density bonus assigned.

Figure 24 illustrates the magnitudes of supportable affordable housing set asides within the context of typical single-family developments. Each colored line series represents a different level of density bonus granted to the project, and the intersection between those lines and the perpendicular dotted black line (the IRR for a project with no affordable housing requirement) reflects. The point of intersection indicates the optimal affordable housing set-aside for a project granted respective levels of density bonus. The purpose of identifying the point of intersection in a development-based policy analysis is to identify a point at which the decision to take advantage of a certain development option is optimal by comparison to alternatives.

For example, a project receiving a 10 percent density bonus could not support more than a 5 percent affordable housing set-aside without pushing the IRR below the base entitlement level. A project receiving a 20 percent density bonus could support nearly a 12 percent affordable housing set-aside. A project receiving 90 percent density bonus could support up to 13 percent affordable housing, but a 100 percent density bonus seems to begin affecting the IRR negatively.

Figure 24
Supportable Set-Aside with Variable Density Bonuses in Single-Family

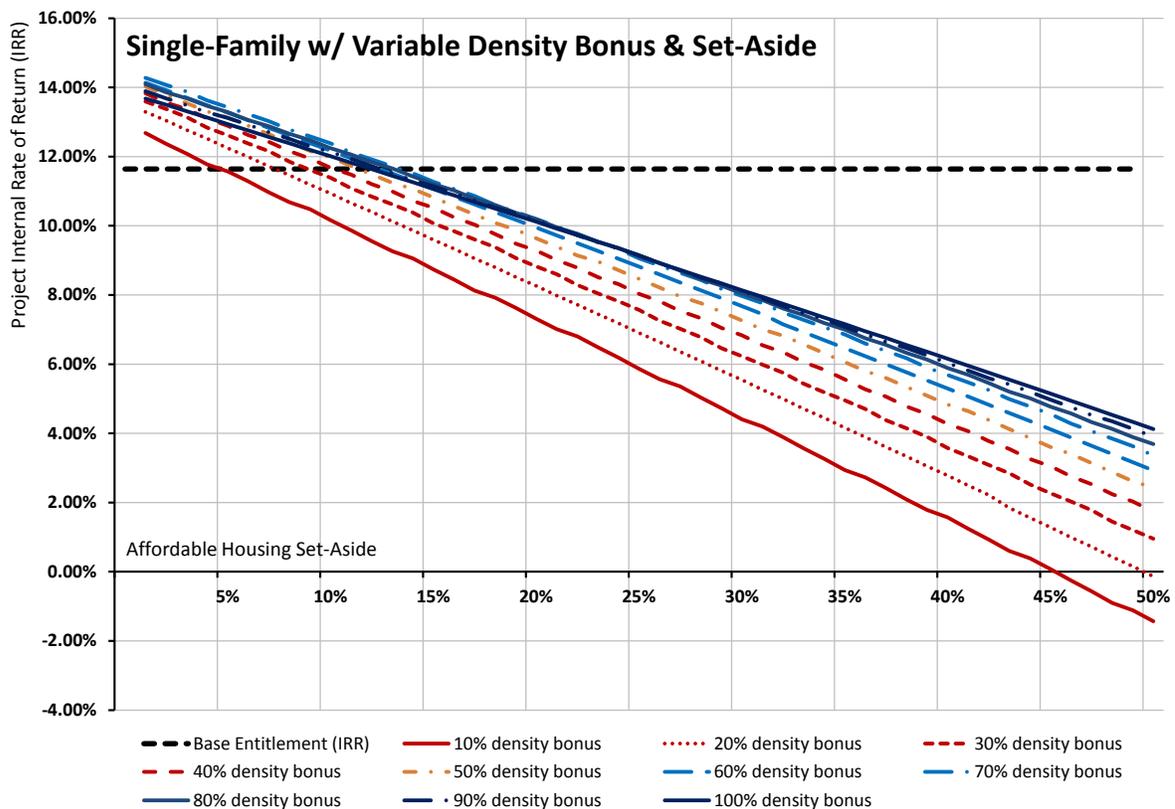
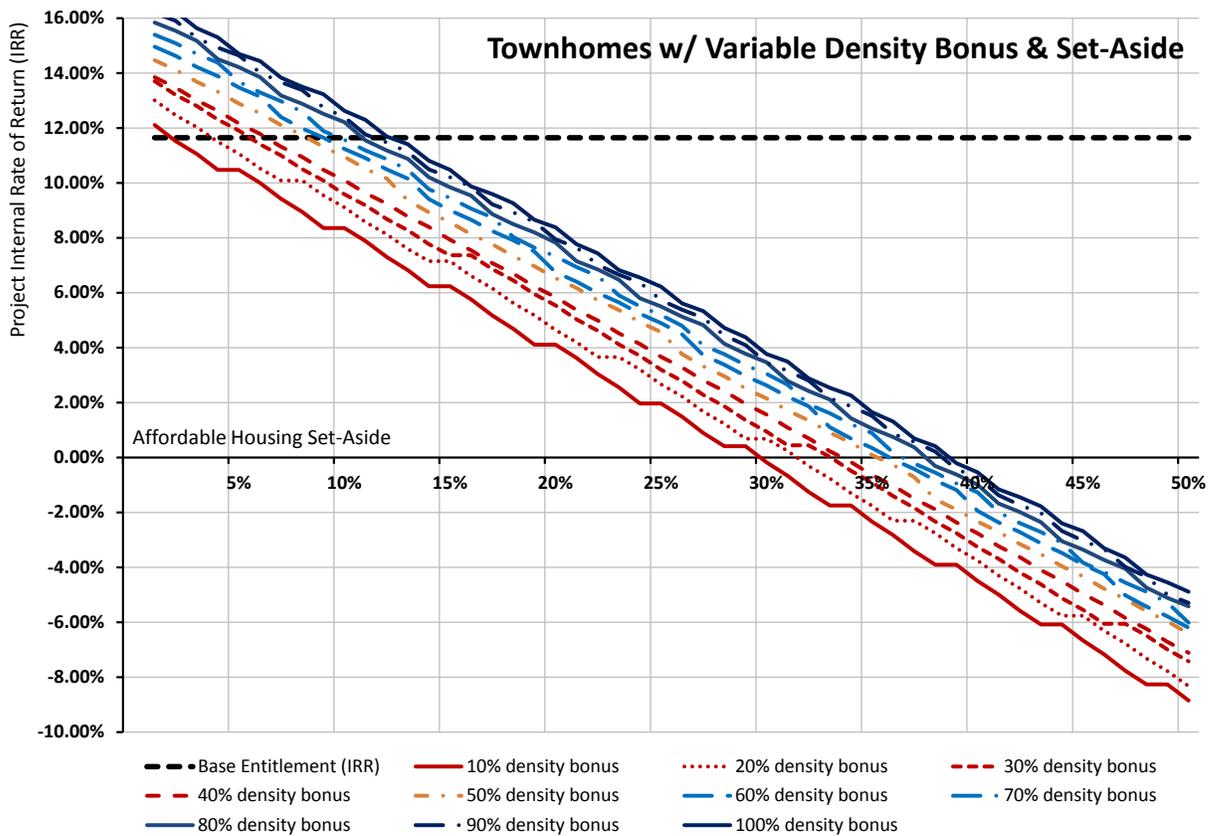


Figure 25 illustrates the magnitudes of supportable affordable housing set asides within the context of typical townhome developments. Again, each colored line series represents a different level of density bonus granted to the project, and the intersection between those lines and the perpendicular dotted black line (the IRR for a project with no affordable housing requirement) reflects. The point of intersection indicates the optimal affordable housing set-aside for a project granted respective levels of density bonus.

The findings here illustrate that a project receiving a 10 percent density bonus could not support more than a 2 percent affordable housing set-aside without pushing the IRR below the base entitlement level. A project receiving a 20 percent density bonus could support nearly a 5 percent affordable housing set-aside. A project receiving 70 percent density bonus could support up to 10 percent affordable housing, and a 100 percent density bonus could support up to 13 percent affordable housing.

Figure 25
Supportable Set-Aside with Variable Density Bonuses in Townhomes



3.3 Housing Goal

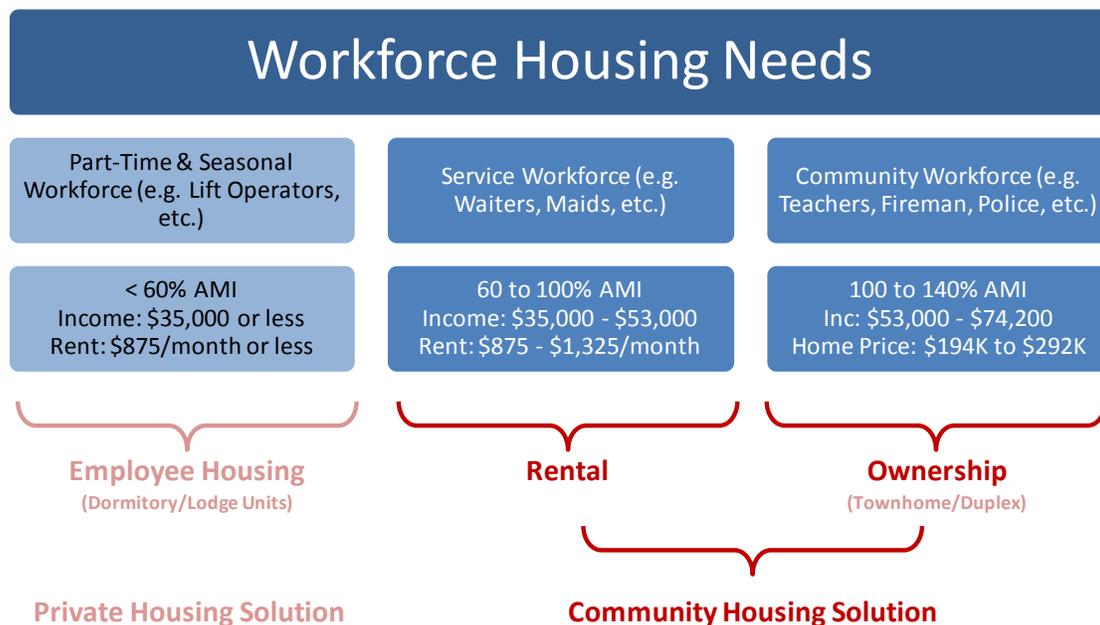
A target of 60 or 65 percent of its workforce living locally, as in the case of Aspen or Jackson Hole, may be a long term goal, if not unfortunately out of reach for Park City right now. EPS recommends that Park City set a more realistic target, reflecting on where it is today (i.e. 15 percent of the city’s jobs live locally), of what can be achieved in the next 10 years.

3.3.1 Spectrum of Need

Among the first considerations, as illustrated previously under the estimates of housing need, is a spectrum of housing need (**Figure 26**) that identifies two types of need to be provided by the community: those of the service workforce, such as retail and service sector jobs; and those of the community workforce, such as teachers, fireman, police, etc.

- **Rental Housing:** Given the distribution of wages from the employer survey, a majority (80 percent) of housing needs would fall under the category of the part-time and seasonal workforce housing (less than 60 percent of the region’s median income – approximately \$53,000). As such, most of the housing need would be most appropriately met with either dormitory-style employer-built rental housing or market-rate/affordable rental housing.
- **Ownership Housing:** Approximately 10 percent of the workforce falls into the category of community workforce, or between 100 and 140 percent of the region’s median household income. This need would be met by for-sale units (townhomes and condominiums, with some portion of single-family), and to the extent possible, the greater the variety of product developed to meet these needs, the more the housing may be able to accommodate longer-term stability and upward mobility possibilities.

Figure 26
Workforce Housing Spectrum



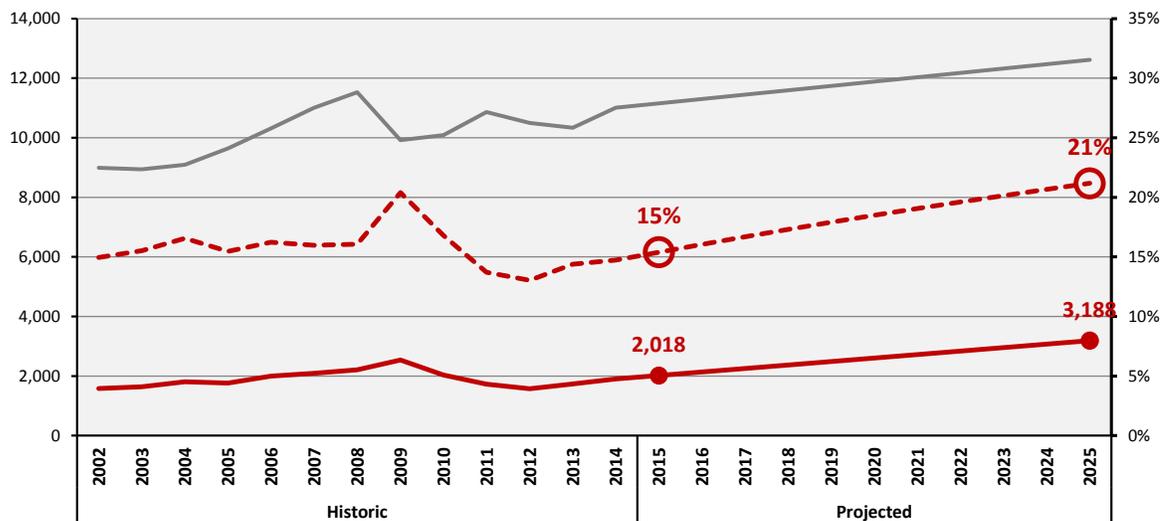
3.3.2 Community Target

Figure 27 illustrates a projection of the number and portion of Park City’s workforce that lives and works locally, given an increased commercial mitigation rate. This projection assumes that Park City adopts a much higher commercial mitigation rate, in line with the highest among comparable communities, at 60 percent. The analysis assumes that the City’s employment level continues to grow at the annual rate of 195 jobs per year for the past 13 years, which averages out the effects of the recession.

The solid grey line illustrates both the historic and projected in-commuters. The solid red line illustrates both the historic and projected jobs held by the city’s residents, and the dotted red line illustrates the portion of all jobs held by city residents. (The portion of the city’s total jobs is currently 15 percent, roughly the same as in 2002.) The projection assumes that 60 percent of each year’s new 195 jobs, equating to 117 jobs, is housed locally. By 2025, this would imply that an additional 1,170 jobs would be held by local residents, lifting the ratio of locally-employed residents to 21 percent.

If it is assumed that there are 1.5 jobs per household and that households form exclusively from the new 117 locally-employed residents, a demand for 78 housing units would result from this policy, translating to a total demand for new housing (independent of housing that is also built for the second homeowner market) of 858 units over 10 years. This magnitude of affordable housing development would be equivalent to more than two times the magnitude of affordable housing developed in the city (including inclusionary zoning and LIHTC projects) since 1980.

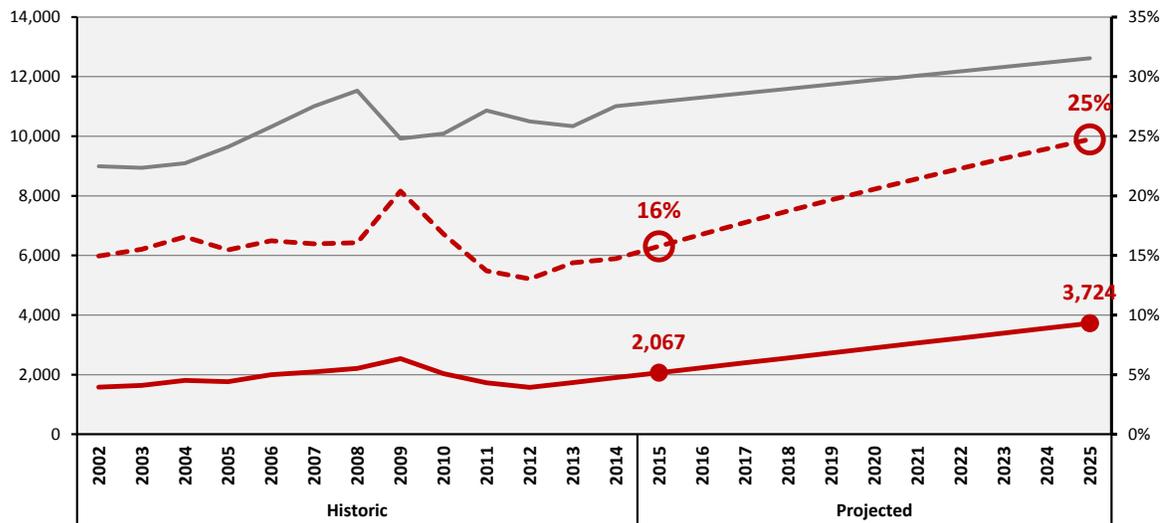
Figure 27
60 Percent Mitigation Rate, Projection of Locally-Employed Residents



Source: U.S. Census LEHD, On the Map; Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-Projection of Housing Need.xlsx\TABLE 1 - Projection

Alternatively, **Figure 28** illustrates how a very aggressive mitigation rate of 85 percent might impact the portion of the city’s workforce living locally. This projection assumes that 85 percent of new workers are housed locally, requiring the production of 111 new housing units per year to meet this demand. In total, this goal would require more than 1,200 new housing units over the next 10 years.

Figure 28
85 Percent Mitigation Rate, Projection of Locally-Employed Residents



Source: U.S. Census LEHD, On the Map; Economic & Planning Systems
 H:\153048-Park City UT Housing Review\Data\153048-Projection of Housing Need.xlsx\TABLE 1 - Projection

3.3.3 Benefits of Local Resident Workforce

Housing a larger portion of Park City’s workforce locally has broader community, social, and economic benefits. The more households that live locally, the better for developing the sense of community on which households place increasing value. Among the economic benefits, the more households that live locally, the more local business is supported.

Illustrated in **Table 4** below are estimates of the impact that the workforce housing goal would have on local retail spending. Assuming that new households had similar incomes to a recent regional income estimate (\$53,700), total personal income (TPI) estimated between \$46.1 million and \$65.3 million annually. Of that total, households typically spend approximately 35 percent of their income on retail goods and services, of which a portion comes from daytime expenditure, such as meals or small errands during the workday.

Retail expenditure includes a wide spectrum of purchases, including convenience goods, clothing, electronics, sporting and entertainment, building materials and gardening supplies, eating out, and groceries. Based on EPS’s experience evaluating these conditions for other mountain resort communities, we believe it is reasonable to assume that approximately 50 percent of working households’ expenditure could occur within Park City, or approximately \$16.1 million to \$22.9 million in additional local spending. This additional spending would support the equivalent of an additional 26,900 to 38,100 square feet of local retail space at an average of \$300 per square foot per year.

Table 4
Estimated Impact of New Household Retail Spending

	Household Income			Estimated Income Spent on Retail		
	Households	Average	Total	Annual 35%	Local Supportable Capture 50%	Floor Area \$300
New Resident Households						
Target 20% of Workforce Living Locally	858	\$53,703	\$46,080,000	\$16,130,000	\$8,065,000	26,900
Target 25% of Workforce Living Locally	1,216	\$53,703	\$65,280,000	\$22,850,000	\$11,425,000	38,100

Source: Economic & Planning Systems

H:\153048-Park City UT Housing Review\Data\153048-Retail Capture of New HHs.xlsx\Calculation

4.0 RECOMMENDED POLICIES AND IMPACTS

4.1 Recommendations

The following recommendations are intended to directly address the City's interest in updating and modifying the residential and non-residential applications of the existing housing resolution. They are also intended to serve as a basis for:

- Continuing city-led discussions and efforts regarding the prioritization of affordable housing policy;
- Identification, by the City's leadership, of affordable and workforce housing production targets; and
- Identification of who is or should be the beneficiaries of such policy

Most of the recommendations concern the existing housing resolution, which can be classified as a development-based approach to addressing affordable housing problems. In this category, a community often needs an increase to the supply of housing. Such approaches stem from the view that because the development community builds housing (and thus, whose housing prices are a part of the problem), they are equipped and should be responsible. This is the case with inclusionary zoning and linkage programs, the two development-based approaches that are at the root of the City's housing resolution.

A few of the recommendations, on the other hand, can be classified as community-based approaches. For a growing number of communities, strong leadership and political will are translating into the recognition that a policy that broadens the responsibility of addressing complicated challenges across the community not only lowers the financial burden placed on any one portion of the community, but, because it is locally generated, results in greater flexibility of its use.

4.1.1 Development Incentives

From a development-based approach, Park City should consider providing additional development incentives. A first consideration concerns the development of rental units. To address this need, the City could consider deferring, abating, or granting back some portion of local property taxes to property owners/managers for keeping units in long-term affordability.

From one perspective, and because 9 percent low-income housing tax credit (LIHTC) allocations are so limited, it might be worthwhile to explore this tool as a way to "fund" additional housing without necessarily having to generate funds. In such a case, there are a number of communities that have established such a mechanism to very effectively incent the development of affordable rental units.

The City could decide what level of affordability (e.g., a percent of the affordable workforce wage) and what term (e.g., units remain affordable at specified income level for 15 to 30 years) to require. This technique could be applied to new and rehabilitated rental properties, as well as new developments. (This recommendation needs to be considered within the City's legal authority.)

To illustrate the potential impact on a new development, Table X below shows the impact that a full (100 percent) property tax abatement could have on the return on cost (ROC) metric. The calculations are shown for a LIHTC project as well as a market-rate rental project. The general assumptions made are based on either information available from the Summit County Assessor's website or common practice regarding development costs. As such, a few of the assumptions made in this analysis are:

- LIHTC development costs are \$200,000 per unit
- Market-rate rental development costs are \$240,000 per unit
- Both projects have 80 units
- LIHTC rents are estimated at 60 percent AMI or \$1,050 per month (2015)
- Market-rate rents are estimated at \$1,650 per month
- Average annual O&M expenses are \$4,800 per unit

LIHTC Projects

Although Summit County property tax records for five past LIHTC projects (which were all developed before 2000), average property taxes per unit are approximately \$230 per year. This is based on tax records for Holiday Village, Parkside Apartments, Washington Mill, Aspen Villas, and Iron Horse Apartments. The assumptions outlined above indicate that a new LIHTC project might have property taxes as high as approximately \$900 per month.

Under these assumptions, the base ROC for a project not receiving a property tax abatement is estimated to be 3.43 percent. By abating property taxes for this project, the ROC is estimated to increase to 3.90 percent, reflecting an increase in NOI of nearly \$75,000 per year. While it is difficult to presume that this would be accretive to every project ROC, the fact remains that decreased expenses means a greater debt service coverage ratio for a project.

Market-Rate Projects

The use of a property tax abatement in the context of a market-rate rental development, however, could have a substantial impact on the ROC metric in a development consideration. Assessors often appraise rental properties by either the replacement or income methodologies. As mentioned above, it is assumed that the development cost for such a project would be slightly higher at \$300,000 per unit. It is also estimated, that because of it, property taxes are estimated to be higher as well.

The base ROC is estimated to be approximately 5.78 percent with all expense and 6.25 percent with the property tax abatement. It is fairly common that a rental project development will seek a base ROC of 6.00 percent. While these numbers are not based on any specific project, the impact of the property tax abatement could, assuming the magnitude of these assumptions is correct, make a project either more feasible or encourage a project to move forward that otherwise would not have.

Table 5
Estimated Impact of a Property Tax Abatement

	Units	Total Dev. Cost	Gross Income	Expenses		NOI		ROC	
				O&M	Property Taxes	Base	Excl. Prop. Taxes	Base	Excl. Prop. Taxes
LIHTC Project	80	\$16,000,000	\$1,008,000	\$384,000	\$74,624	\$549,376	\$624,000	3.43%	3.90%
Market-Rate Rental Project	80	\$19,200,000	\$1,584,000	\$384,000	\$89,549	\$1,110,451	\$1,200,000	5.78%	6.25%

Source: Economic & Planning Systems

H:\153048-Park City UT Housing Review\Data\153048-Development Incentive Values.xlsx\TABLE 2 - Impacts

As it concerns for-sale housing, the City should consider whether the per-unit fee waiver, currently a part of the existing housing resolution, is worth maintaining. Because the gap between market rate and affordable units is so great (currently estimated at nearly \$950,000), the \$5,000 per unit waiver of fees is not enough to motivate a developer; it is therefore, largely symbolic. At a minimum, the City should consider having a discussion about waiving either 100 percent or some substantial portion of permit and impact fees. (In context, the fee waiver was set at \$5,000 in 1991. In today’s dollars, it would need to be approximately \$8,600 to have at least the same value.)

4.1.2 Density Bonus

Applicability

The City should expand the applicability of the density bonus for affordable housing and consider raising the density bonus. The density bonus is granted only to MPDs in the City’s Land Management Code. Using additional entitlements to motivate a developer to provider affordable housing can be a strong incentive in markets where additional density is particularly valuable. As a matter of policy coverage, EPS believes that the density bonus should be made available to any development that would look for ways to include affordable housing, including commercial and infill developments.

Current 10 Percent

The density bonus is frequently the strongest incentive an inclusionary zoning ordinance can offer in any setting where development pressures exceed entitlement. In EPS’s experience, an increase in density, while greater efficiencies of land are usually realized (lowering the per-unit costs of land), is still associated with more construction costs. There are two challenges for most communities utilizing this incentive.

On one hand is calibrating the amount of density, recognizing the marginal costs of construction, so that it has sufficient residual value to motivate a developer to pursue it. On the other hand is calibrating the amount of the “requirement” so that it doesn’t eliminate the positive residual value of the density bonus itself. That is, there is value in the density bonus that can be leveraged for additional community benefit (i.e., affordable housing), but it needs to be of sufficient scale so as not to make the density bonus worth pursuing at all.

Currently, Section 15-6-5(A)(1)(b) allows the Planning Commission to grant a maximum of 10 percent density bonus if a developer proposes an MPD where more than 30 percent of the equivalent units are affordable (or employee) housing. Therefore a developer of a residential MPD in Park City would have two basic choices: comply with the standard 15 percent set-aside requirement, or provide an additional 15 percent affordable housing for 10 percent additional density. It is very unlikely that these two elements have been calibrated such that a developer would be economically indifferent to the two choices – i.e., they would both yield the same financial return, or even ideally that the financial return of the project with the density bonus is actually higher.

Recommendation

EPS recommends that the City re-evaluate its motivation for the two factors and discuss to what extent they can be brought into closer economic alignment. For example, the findings of the economic modeling detailed in the previous chapter indicate that density bonuses of various higher magnitudes may more economically support certain set-aside requirements.

For example, a single-family project receiving a 10 percent density bonus could not support more than a 5 percent affordable housing set-aside without pushing the IRR below the base entitlement level. A project receiving a 20 percent density bonus could support nearly a 12 percent affordable housing set-aside. A project receiving 90 percent density bonus could support up to 13 percent affordable housing, but a 100 percent density bonus seems to begin affecting the IRR negatively.

In the townhome example, the findings illustrate that a project receiving a 10 percent density bonus could not support more than a 2 percent affordable housing set-aside without pushing the IRR below the base entitlement level. A project receiving a 20 percent density bonus could support nearly a 5 percent affordable housing set-aside. A project receiving 70 percent density bonus could support up to 10 percent affordable housing, and a 100 percent density bonus could support up to 13 percent affordable housing.

4.1.3 Commercial Mitigation

The City should modify the commercial component of the housing resolution. From the perspective of a policy modification, it is always possible to convert this commercial mitigation strategy into an actual commercial linkage program— i.e., using a nexus study to establish fees that are assessed to new non-residential developments on a per-square foot basis by land use categories.

EPS believes that the current version of a “commercial mitigation strategy” generally achieves the same outcomes as a commercial linkage program might, and that the magnitude of units built or in-lieu fees collected would be roughly equivalent. Like the survey data collected in this study, a nexus study also collects data to identify the number of FTEs generated by different non-residential land uses. It quantifies the distribution of jobs by occupational category and assigns them to wage levels. The workers (and their households) are distributed by median income categories, from which it can be estimated what portion of all jobs created by the new non-residential development require housing assistance. The fee is calculated as the affordability gap, or the difference between the market rate and price of an affordable housing unit to particular households by median income level. The total affordability gap for the lower-income households is estimated and divided by the total square feet of a development to determine a per-square foot fee.

Generation Rate

The City should discuss the merits of incorporating the new survey-based employment generation rates. It should be acknowledged that this type of basis for calculating employment generation rates is always subject to a margin of error. On one hand, asking employers the number of their full-time and part-time staff relies on the accuracy of the information the person surveyed has available. On the other hand, it relies on the respondent's knowledge of the total floor area of their space, and in the absence of that (which is very common), the accuracy of this part of the information is reliant on either the respondent's or the data-gatherer's ability to accurately gauge the size of the space. EPS made every attempt to fully vet the numbers given to all data-gathers in the survey work. We cross-checked the square-footage numbers against Summit County Assessor data.

Mitigation Rate

Aside from the 15 percent residential set-aside requirement, there are a couple other factors that seem to be associated with mitigation of affordable housing need. On one hand is the 20 percent mitigation factor applied to the commercial component; on the other hand is the 34 percent "location substitution" factor identified and both require the mitigation of some portion of the housing demand generated by those uses. In the case of the City's current resolution, 20 percent appears to have been chosen as a number reflective of the portion of FTE-based households in need of housing assistance, though no documentation is available to confirm this. EPS recommends that the City evaluate whether or not to pursue a substantially higher mitigation rate, as via by the establishment of a housing goals, discussed in the following recommendation.

4.1.4 Establish a Housing Goal

The evolution of the City's current housing resolution, as outlined in Chapter 2, illustrates clearly the City's intent to prioritize affordable housing, but also illustrates how the City's statements did not identify actual goals. In the original ordinance, 37-91, City Council states if feels a need to protect and enhance the community's diversity by encouraging a mix of housing, and to "assist those members of our community that have demonstrated their commitment to Park City by either their residency and/or their work history..." A few years later, in 6-94, the City Council established affordable housing as a high priority goal and top priority action item, but did not identify what that goal should be. In the revised 7-95, City Council indicated that affordable housing should be an "action target" for the years 1995 and 1996, but did not identify what that target would be. In one of the more substantial characterizations of the City's goals, 17-99 listed out seven categories of target populations, such as those who live in Park City, the "essential" public and private sector service workforce, full-time employees of businesses within city limits, residents of the city for the past 24 months, business owners or their representatives, senior citizens, and the physically or mentally challenged.

At this time, establishing an actual housing goal – i.e. a concrete numeric target, should be the City's highest priority. As indicated earlier in the report, the closest the City has come to identifying a numeric target has been the informally-adopted "location substitution" rate of 34 percent. Research into the root of this factor shows that it may have been based unintentionally on the incorrect ratio of "job-holding residents" to total Park City jobs. Historic in- and out-commuting trends indicate that in 2005, when the location substitution factor was developed, that the ratio of Park City residents working in Park City was actually 15 percent (not 34 percent).

As outlined in the previous chapter, a number of other mountain resort communities who deal with the same problem of an in-commuting workforce have either a higher mitigation rate or have codified a housing goal based on City Council direction. Both Jackson Hole and Aspen have adopted housing goals. Aspen has a stated target of housing 60 percent of its workforce locally, and as such, holds its commercial mitigation rate at 60 percent. Jackson Hole also has a stated policy target of housing 65 percent of its workforce locally, although it requires just 35 percent commercial mitigation.

EPS recommends that Park City not only engage in a discussion of what it would like the target to be, but whether or not it believes that a modified commercial mitigation rate should or needs to be the only manifestation of that policy goal. That is, even if the City chooses to adopt a high locally-housed workforce target, the City will likely never achieve its goals with future commercial development alone. And if Park City did embark on a nexus study to quantify the jobs-housing linkage for commercial development, this mitigation rate would be a factor developed in the analysis, which then becomes, for communities with such policy, the subject of policy debate and community goals.

Target #1: 20 Percent Workforce Living Locally

Based on the projection of future employment levels with a modified commercial mitigation requirement of 60 percent, it is optimistic but attainable to achieve a level of 20 percent of the workforce living locally within the next 10 years. This would mean, however, that the rate of housing production for the local population would have to more than double from its current rate of 33 new occupied housing units per year to nearly 80 occupied housing units per year.

Target #2: 25 Percent Workforce Living Locally

Based on the projection of future employment levels with a modified commercial mitigation requirement of 85 percent, it is optimistic but attainable to achieve a level of 25 percent of the workforce living locally within the next 10 years. This would mean, however, that the rate of housing production for the local population would have to more than triple its current rate of 33 new occupied housing units per year to nearly 110 occupied housing units per year.

4.1.5 Fee In-Lieu Structure

The City should modify its in-lieu fee structure. The current housing resolution establishes a structure based on three pieces of information: 1) the median market value per square-foot of 600 to 1,600 square foot units sold in the prior year; 2) multiplied by 900 square feet; and 3) the affordable home sale price for a household earning Park City's workforce wage subtracted from the result. Questions that the City should answer in this process include:

- Is the City receiving adequate revenues from these fees such that the same number of units as the 15 percent residential or 20 percent commercial mitigation rate requirements could build?
- Has the City been able to use those funds to build the same number of units?
- Or is the in-lieu fee inadequate to build units in appropriate locations?
- Should it be based on assumptions that more accurately reflect the market?
- Looking ahead, are there even development opportunities for which the fees based on the same calculation will be useful?

As a point of consideration, if land is becoming scarcer and its value continues to escalate, there may be a good justification for changing the fee methodology such that it results in a higher fee per unit.

Approaches

There are a variety of approaches to structuring an in-lieu fee: 1) the difference between a market rate unit and a deed-restricted affordable unit; 2) a percent of the construction cost; 3) a percent of the maximum affordable sales price; 4) a percent of the land value to construct units elsewhere; and 5) nexus-based fee, which is described in recommendation above.

For example, the current methodology (#1 above) relies on one piece of outside information: the market rate price per square-foot from the Summit County Assessor. In #2 above, no outside information is needed for calculating a percent of the affordable sales price. In #3, outside information is required for two components: one for establishing a base construction cost per square foot that developers can agree is accurate, and another for escalating the value annually with the Bureau of Labor Statistics Producer Price Index (PPI), for example. In #4, outside data would need to be collected as well to document the value of land with comparable sales. In #5, the methodology would use outside data for the fee calculation, but because of its complexity of inputs, an annual escalation with the PPI, for example, might be too simplistic, while a full recalculation of the fee might be unnecessarily time-consuming.

Construction Cost Method

Given considerations for complexity versus simplicity of the in-lieu fee's design, considerations for the magnitude of revenues generated, and considerations for the ease in making annual updates, EPS recommends that the City adopt a construction cost methodology for its in-lieu fee structure. This method would rely on only one piece of information for the actual in-lieu fee (construction cost per unit), rather than the current three.

This per-unit factor could be developed using the City's own development projects of a relevant prototype, such as single-family homes, townhomes, or condos. The methodology would also involve making annual updates, using either the BLS producer price index (PPI) for all residential construction (i.e., for Material and Supply Inputs to Construction Industries, which is published annually on a 1½ year lag), or the consumer price index (CPI), which is published by the BLS monthly and without a lag. Either way, the methodology does not rely on collection of magnitudes of MLS or Assessor data each year for updates.

EPS also recommends that the City consider applying a percentage to this factor, such as 75 percent of the total cost of construction, so as to remove a portion often attributable to land costs. To illustrate the potential revenues that might have been generated with this methodology, **Table 6** shows the overall number of units permitted between 2004 and 2014 along with the number of units permitted that yielded inclusionary zoning units. In total, there were 1,416 units permitted between 2004 and 2014, 520 of which are estimated to be in MPDs and annexations for which there were inclusionary zoning units produced.

Had the housing resolution been applied to all residential development, as recommended, and assuming these remaining residential developments paid a fee in-lieu of constructing affordable units, it is estimated that the City would have generated approximately \$19 million in in-lieu fees.

This calculation is based on the average cost of construction of \$240,000 for 2014, which has been de-escalated for the previous years using the Bureau of Labor Statistics' producer price index. The calculation also assumes that the fee in-lieu is 75 percent of the cost of construction. The rationale for such a factor is that land costs are often approximately 25 percent of the total development cost. As such, the City would want to structure its fee in-lieu to compensate at least for the cost of construction.

**Table 6
Estimated Hypothetical Fees In-Lieu, 2004-2014**

	Units Permitted				Fee In-Lieu		
	Overall	Less: MPDs / Annex.	Other	IZ Applied to Other	Const. Cost [1]	Fee / Unit	Revenue (\$ million)
Factor				15%		75%	
2000 to 2014							
Overall Total	1,416	520	896	134	---	---	\$19,132,538
Annual Average	129	47	81	12	\$240,000	\$180,000	\$1,739,322

[Note 1]: The cost of construction is assumed to be \$240,000 in 2014. It is de-escalated by the producer price index from the Bureau of Labor Statistics. In 2004, it is estimated that the cost of construction per unit was \$171,000.

Source: U.S. Census; Park City Municipal Corporation; Economic & Planning Systems

H:\153048-Park City UT Housing Review\Data\153048-Fee in-lieu estimates.xlsx\TABLE 2 - Estimates

4.1.6 Housing Resolution Applies to All New Residential Development

The City should consider modifying the residential portion of the housing resolution to apply to all residential development. It should consider applying this portion of the resolution to all residential development. This is based on the review of the intent of the original housing resolution and the focus of subsequent iterations on annexations and MPDs, as well as analysis of historic building permit data, and an understanding of development in the pipeline. That is, it is unlikely that annexations or MPDs will be a majority or even a substantial component of development moving forward, such that the housing resolution as written will continue to be effective.

For either of the previous options, EPS would recommend that an exemption be structured for projects that are contributing to the City's affordable housing inventory. As such, the exemption could be drawn at units that are priced below a certain affordability mark. For example, in 2014 the maximum affordable purchase price for a household earning 100 percent of median income (\$89,886) was \$359,600. Alternatively, the maximum affordable purchase price for a household earning 150 percent of the Park City workforce wage (\$73,253 for a household of two persons) was \$282,700. Whatever the threshold, EPS recommends that it serve equally as a proxy for the size of units being constructed.

The implication of this is that all new residential development, large and small-scale projects of all structure sizes would apply. Given that the City has been concerned about recent increases in the number of larger single-family homes (i.e., second homes) that have not been subject to the resolution, it would be in the interest of the City to adopt a mechanism by which these are either subject to a higher mitigation, or that units priced more affordably (or of a smaller size) would be exempt.

One option available is that the City could consider establishing a residential linkage program, which would establish the nexus between the level of affordable housing demand generated by units at various price points (i.e., proxy for size). There are two methodologies that such an analysis could employ: 1) other resort economies who have traditional residential linkage programs have conducted door-to-door surveys of the actual employment generated by their household (i.e., gardeners, housekeepers, other staff, etc.); and 2) there are a few larger, urban markets that have adopted residential linkage programs that rely on a nexus established on the basis of overall employment (i.e., jobs vis-à-vis household spending patterns). The first method requires primary data collection, and the second relies on input-output modeling factors.

The other option is that the City keep its existing mitigation structure, but apply it to all new construction or demo-rebuild projects (i.e., no threshold). The fee in-lieu structure would be kept the same, but its outcome would require that smaller projects would be a fraction of a per-unit fee.

4.1.7 Deed Restrictions

The City should pursue a blended approach to structuring deed-restricted ownership units. There are two common approaches to deed restrictions – shared equity and value appreciation limits. In general, the shared equity model lowers the initial cost of home-ownership for households and offers them the opportunity to own the property in the long run while not necessarily attempting to manipulate the “value” of the property for the sake of keeping it in the affordable inventory.

The limited appreciation model, on the other hand, seeks to manipulate the value by arbitrarily setting a price appreciation limit that is sometimes set to 2 or 3 percent. During high appreciation times, this is a frustrating element for buyers because they don’t benefit from equity gains. Both of these approaches may offer the development community more flexibility in the product it builds, and may open up a slightly wider inventory of housing to households in need of affordable housing.

Shared Equity

This tool works well in an environment where considerable magnitudes of new housing are being built. Although it might have been very effective for Park City to have had this in place when a vast majority of new development was occurring in annexations and MPDs, there still are opportunities to use it moving forward. It would be worthwhile engaging city officials in a discussion of how to establish the program so that it could be utilized where effective.

Specifically, the shared equity approach means that a borrower purchases a home by providing a down payment, typically 5 percent, borrows approximately 75 percent of the value of the property and receives a low-interest equity loan of up to 20 percent (or some limit). At the end of the mortgage term or earlier, the equity loan is paid off in full plus 20 percent of the property’s value escalation.

In a housing market where construction costs are high, this may be an effective way to leverage the construction of units that would otherwise enter the market at slightly higher price points than the typical affordable unit. Because the mortgaged value of the property to the homeowner is actually 75 percent of its face value at the time of sale, it may also be a valuable technique to address the burgeoning need for middle-income housing, an issue that has been raised with increasing frequency.

While a lower equity loan means less for a household to pay back over time, the larger the equity loan, the lower the “point of entry” for households in need. As such, the City may want to consider this element as a point of leverage to manipulate given market conditions. That is, the City could establish a policy where equity loans are available up to a maximum amount, and the borrower could choose whether or not to take advantage of the full value.

The challenge with this technique, however, will be that the City effectively cannot lend its credit or make loans. To take advantage of this option, the City will have to explore what third-party entities would be appropriate for administering such a program, such as Mountainlands Community Housing Trust or the Housing Authority. Perhaps the City could work to organize local and regional banks to establish a shared equity loan pool whereby the banks receive Community Reinvestment Act credits or other tax abatement incentives.

Beyond the obvious application for this structure on ownership condominiums, townhomes, and single-family homes, this may be a model worth exploring in a rental (or leasehold) context. Instead of an equity loan to the homebuyer, the City might explore whether it has the resources (i.e., pass through of capital funds) to grant lower interest equity loans to a new rental development in exchange for a portion of the units to be provided as affordable.

While the specific terms of the stipulations would have to be worked out, this might be a second policy option to use for new rental developments (versus the option to utilize property tax abatements for new or rehabilitated rental properties). In such an example, instead of a 20 percent equity loan being paid off at the end of the mortgage term, the City receives a 20 percent share of the rents.

In general, the advantages of the shared appreciation model are that it lowers the barrier to entry for households and gives them an opportunity to buy into the market and build equity at the same pace as the rest of the market. On the other hand, the shared equity model works well in a market that is constantly producing new units. In theory, after the first round of households has purchased such a deed-restricted home and sold it, there is risk that the housing inventory could enter the market-rate inventory unless a fail-safe mechanism is included, such as a first right of refusal for the City.

The advantages of the limited appreciation model are generally that once the unit enters the deed-restricted inventory, and assuming that covenants are written appropriately, the unit will remain in the affordable inventory, benefiting households for as long as the deed restriction lasts.

On the other hand, in a market like Park City’s, where the average sales price of units continues to escalate at more than 6 percent per year, maintaining an affordable inventory that is limited to 2 or 3 percent appreciation means that households who buy these units do not have an opportunity to build equity alongside the market. Beyond this equity concern, the affordable inventory is likely to be a more limited inventory of housing types, meaning that if a household living and working in Park City wanted to move into a different home, they would be limited to the overall variety of available affordable inventory.

4.1.8 Timing of the Policy Change

It is important with the modification of existing policy or adoption of new policy that affects land development that a date be selected sometime in the future, at which point all applications received would apply to the revised policies. Depending on the length of time between, for example, permit application and time of construction or site plan and building permit, EPS recommends that, at the time City Council may approve the recommendations governing the housing resolution, a date be chosen that reflects this amount of time.

4.1.9 Funding Priorities

The City should establish priorities for allocating the recent \$40 million RDA Fund allocation. Previous Councils have drawn made important, symbolic, but necessary declarations of need, intent, and priorities in the housing resolution. The recent allocation of \$40 million for capital is an important backdrop to such conversations. The City should engage its elected officials, however, in a policy discussion oriented around determining and voicing their concerns, vision, and direction regarding housing priorities.

That discussion should utilize major analytical findings from this study as guideposts for policy debate, not necessarily as prioritizations or exact magnitudes of need. The analytical findings of this study, and other studies that have preceded it, can be interpreted as a selection of ways to look at this need. As there are multiple methodologies here and developed throughout the years by PCMC staff, there is a need to view these findings through the lens of political priority, perceived urgency, as well as within the context of other City priorities.

EPS recommends that the City consider the various programmatic ways it might utilize the allocated funds. Programmatic considerations include making some portion of the funds available through a Notice of Funding Availability (NOFA), through which the City could create a competitive environment among both housing developers and service providers for use of the funds. Such a process can leverage the private sector for creative and financially efficient uses of funds.

Another potential programmatic use of funds could be the acquisition of a strategic parcel of land that the City believes might be valuable in the future as a mixed-use redevelopment, in which the land could be leveraged for a public-private partnership development. In addition, some portion of the funds could be allocated to the purchase of existing units that might be appropriate for a shared equity or shared ownership program.

While the City is not authorized under its accounting rules to make loans (i.e., for the purpose of establishing a mortgage pool or shared equity program), the City should still engage in discussion around who would be an appropriate entity to carry out such a function, how it would be done, and what variety of programs it would offer. It is valuable to consider that the original resolution (37-91) set forth an objective to establish a mortgage pool, working with lenders. While it is not clear from subsequent versions of the resolution whether this concept was ever piloted, it is clear that there are obvious obstacles to doing it today. Furthermore, it does not appear that the Mountainlands Community Housing Trust offers this type of assistance through its various ownership programs.

In terms of beneficiaries, the City could utilize analysis of affordability conditions from this and other studies to identify magnitudes of need, looking at income level, community workforce contingent, and the type of development typically associated with that type of need. For example, EPS prepared revisions of previous gap analyses as well as a new methodology to estimate magnitude of housing type need by respective income levels of in-commuters.

Based on the analysis of trends, the City would see more effective results and higher production if it focused more on community-based solutions, such as use of funding mechanism, than relied solely on its housing resolution, which is a development-based approach.