City of Longmont Inclusionary Housing Policy Review

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PREPARED FOR:

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Longmont Inclusionary Policy Review

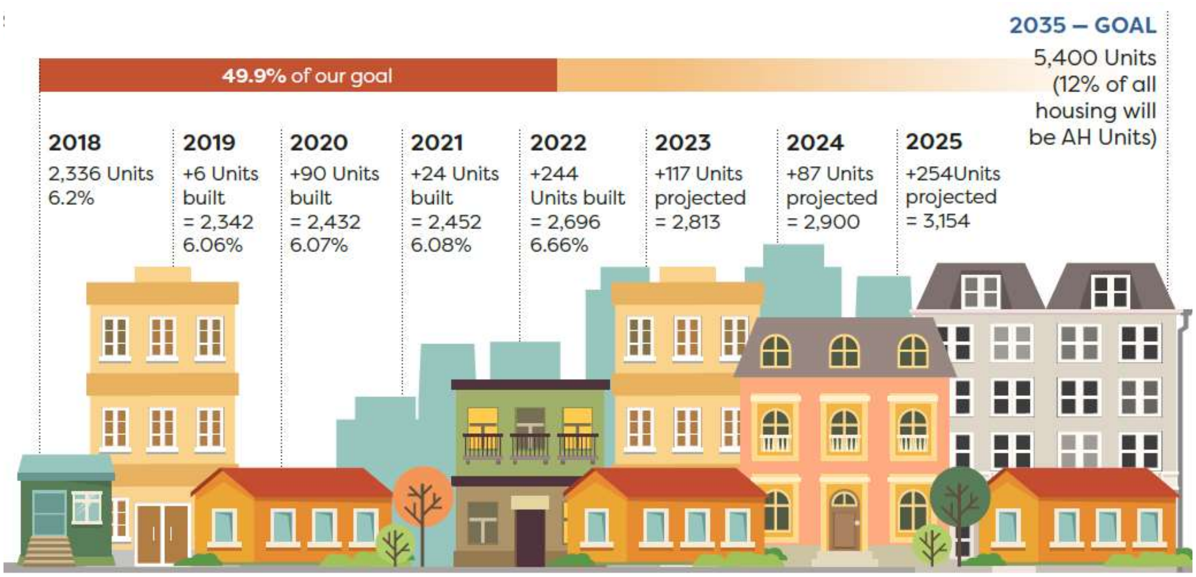
Introduction

Longmont's Inclusionary Housing Ordinance (IHO) was implemented on December 24, 2018. This ordinance, codified in City Municipal Code 15.05.220, mandates affordable housing requirements for eligible residential developments.

The IHO is a core component of the City's strategy to accomplish its adopted housing goal of achieving 12% of its housing stock deed-restricted and affordable by 2035. Growth projections indicate the 12% target requires a total of 5,400 affordable units by 2035. As illustrated by the figure below, the City is about halfway to its affordable production goal.

Inclusionary policies, in general, are meant to ensure that new development is producing at least some units in a price-range affordable to residents who are low/moderate income. In Longmont, newly constructed single family homes sell for an average of $702,500, affordable to households at about 150% (for a 3-person household) or 165% AMI (for a 2-person household). Newly constructed rental units are priced at an average of $1,948 per month, affordable to households at about 80% AMI (for a 1-bedroom). The IHO ensures that those development include some units set-aside for 80% AMI households (for-sale homes) and/or 50% AMI (rental units) or that developers pay a fee in lieu of building the units that the City can then use to create additional affordable units.

Figure 1.
Longmont Affordable Unit Development



Source: City of Longmont Housing & Community Investment Division.

Inclusionary Housing Program Overview

Under the current structure, the Longmont's IHO requires 12% of newly constructed residential units to be contractually affordable to households at or below 80% AMI for for-sale homes and at or below 50% AMI for rental homes.[1] The requirement drops to 9% of units if deeper AMI's are reached: at or below 60% AMI for for-sale homes and at or below 40% AMI for rental homes.

Under the current program structure, developers can comply by building the affordable units on site, paying a fee in lieu, building the units off-site (but not in a low-income area), providing a land dedication, or some combination of the above. City Council approval is required for developments that wish to build off-site or provide a land dedication. Council approval is also required for rental developments that wish to build units on-site.[2]

Developers building for-sale housing affordable to households up to 120% AMI, termed "middle tier housing" in the IHO have a lower set-aside requirement for affordable housing (exact percentage depends on the price of the market-rate units). High density rental projects achieving more than 20 units per acre also have a lower effective set-aside requirement (12% up to 20 units per acre but no requirement on the additional units above 20 units per acre). This policy incentive helps encourage production of additional supply and use of max density.

Compliance option detail. The Ordinance provides a number of ways in which builders and developers can meet this mandate:

- ***On-site:*** Provide required affordable housing within the market-rate development.
- ***Fee-in-Lieu:*** Pay square-footage fees to the City's affordable housing fund.
- ***Off-site:*** Build the required affordable housing in another location. (This option requires City Council approval; locating off-site units in low-income areas is discouraged and is less likely to receive approval).
- ***Land Donation:*** Donate land to the City or a non-profit housing developer (only if approved by Council). Land must have all necessary infrastructure and support the affordable housing that would be required on-site.

[1] Does not apply to single-unit developments or accessory dwelling units. Building more than one unit triggers the IHO.

[2] Council approval of on-site rental compliance is an artifact of state legal requirements on rent control when the City's IHO was passed. At that time, inclusionary build requirements could only be imposed on for-sale developments though rental developments could be charged an affordable fee. In 2021, HB-1117 was passed to explicitly allow rental inclusionary policies. Its implications for Longmont's IHO are discussed in detail later in this review.

- ***Combination of Options:*** A developer and/or builder can use a combination of the available options to fulfill the IH requirements.

- ***Voluntary Alternative Agreement:*** A developer and/or builder can propose to City Council an alternative way of meeting the requirements that are not in the Ordinance.

- ***Redemption of Credit:*** A developer and/or builder may acquire Surplus Unit credits from another developer/builder that built more than the minimum required affordable units and was issued credits by the City. Credits may be redeemed to offset an equal number of required affordable units in a new development.

- ***Middle-Tier or Attainable Housing:*** Provide housing units that are affordable for households earning 80-120% AMI to reduce the required affordable units. A Voluntary Alternative Agreement ("middle tier agreement") is required.

Incentive and offset detail. The following incentives are available to developers who provide on-site affordable units in compliance with the inclusionary housing ordinance:

- Density Bonus: Up to 20% of increase in density over what is allowed within a specific zoning district for projects providing affordable housing on site.

- Reduced and Flexible Parking Requirements: Only one space per affordable housing unit is required. The City of Longmont will also consider alternative parking plans to accommodate innovative proposals.

- Lot size and lot width reduction: A reduction to lot size and lot width for projects providing affordable housing on site.

Enhanced incentives: Approved projects that provide more than the minimum requirement are eligible for additional incentives, subject to available funding, including:

- Fee Waivers: A percentage of certain development fees may be waived for qualifying projects. Reductions can range from 50% to 75% for for-sale units and from 20% to 50% for rental units.

- Fee Deferral: As part of the Impact Fee Deferral Program, new residential developments in the City of Longmont are eligible to defer payment for several fees.

- Subsidy for Water/Sewer System Developments Fees: Projects that provide more than the minimum required affordability may qualify for a percentage of the fees to be subsidized.

- Offsets for Cash-in-Lieu of Raw Water Deficits: A project that provides a minimum of 25% of total units in a development as affordable may be eligible to receive an offset for a percentage of the raw water deficit cash-in-lieu owed to the City. This incentive is only available to projects that are being platted; redevelopment projects are ineligible.

Stakeholder perceptions of current program. Stakeholders and developers interviewed for the program review suggested the following improvements to the current compliance options:

- Ensure a clear path for transfer of land to non-profit entities for the development of affordable housing.
- Encourage on-site build option for rental projects (as well as ownership projects) and reduce process-related barriers to this compliance option.
- Provide clear direction on City's objectives and affordability requirements but also allow for flexibility to achieve the objectives in alternative and/or creative ways—and demonstrate political will to support developments that align with City goals.
- Increase fees in lieu—which are relatively low—to achieve the desired outcomes of the program (increase in affordable units either directly through developer construction of units or indirectly through funds that can be leveraged for affordable construction).

In addition to the suggestions above, there is opportunity for administrative improvements to program compliance and enforcement.

Implications of HB21-1117 on current program. In May 2021, the Colorado state legislature opened the door for mandatory inclusionary housing policies to apply to both rental and for-sale development in Colorado. Prior to the passage of HB21-1117, mandatory inclusionary was considered to be "rent control" and therefore was limited to for-sale development application, unless rental requirements were designed as an "impact fee" with an option to build units. Municipalities that wish to enact mandatory inclusionary housing policies (under HB21-1117) are required to:

1) Offer a compliance alternative to on-site construction of the required affordable units (e.g., a fee in lieu); and

2) Demonstrate current or previous actions intended to increase density or promote affordable housing (e.g., zoning changes that increase density or support affordable housing; or fee reductions or other variances or regulatory adjustments for affordable housing).

Longmont's current IHO is already in compliance with HB21-1117 directives on alternative compliance and efforts to encourage affordable development. **The fact that HB21-1117 explicitly allows affordability requirements on rental developments does create opportunities for Longmont to simplify and streamline some components of its program, specifically:**

- At present, rental development compliance defaults to a fee and requires developers who wish to build affordable on-site to enter a voluntary Affordable Housing Agreement subject to City Council approval. Under HB21-1117, Longmont can make affordable rental unit construction the default compliance option (with a fee-in-lieu option) and no longer needs a “voluntary” AH Agreement or Council approval.

- Fees in lieu for rental developments are no longer bound by impact fee standards of “rough proportionality” and “rational nexus.” Even so, it remains a best practice to set inclusionary policy fees at a reasonable rate and base calculations on a clear and rational methodology.

Recommendations to Improve IHO Structure & Outcomes

Root's in-depth review of the City's IHO yields recommendations discussed below, organized around program components (affordability requirements, compliance options, and incentives). The recommendations are informed by Root's expertise in inclusionary policy design, stakeholder engagement (market-rate and affordable developers), as well as discussions with City staff.

Affordability requirements. The City's program currently requires a 12% set-aside of units at 50% AMI for rental and 80% AMI for owner units.

These AMI targets are in line with identified housing needs (discussed in detail in the City's Housing Needs Assessment) and the set-aside is in line with City's 12% affordability goal. In addition, the City offers flexibility to developers wishing to provide deeper AMIs and to those providing middle tier housing. As such, **there are no recommended changes to the affordability requirements of the current program.**

It is important to note that the City's IHO program alone is an insufficient tool to fulfill the entire affordability goal and/or fully address housing needs. The program (with potential modifications to the fee-in-lieu structure) is sufficient to help the City "keep up" with new development (ensuring 12% of new units are affordable) but does not help the City "catch up" with the current deficit of affordable housing. "Catch up" affordable production is most likely to occur through partnerships with the Housing Authority and non-profit developers, the LIHTC program, and leveraging state and local resources, including the City's affordable housing fund, for additional affordable development above and beyond IHO units.

Compliance options. The most common compliance option used by developments subject to the IHO is the fee-in-lieu: 56% of projects selected this option in 2022. The second most common is building units on-site. A few developers have also used the land donation and middle-tier housing options.

Root offers the following recommendations to the City regarding compliance options. Recommendations are based on Root's experience with other inclusionary programs, best practices, stakeholder feedback, and staff discussions.

- **Raise the fee in lieu.** The current fee-in-lieu amount (as of June 2023), though set according to the affordability gap method, is not generating sufficient revenue for the City to create or subsidize the comparable number of affordable units. This is due to both changing market conditions and construction prices, as well as a lack of units available for acquisition. Raising the fee in lieu will support affordable unit production both directly by incentivizing developers to build units (instead of pay a higher fee) and indirectly by generating proportional revenue for the City to create units. A detailed fee in lieu analysis is included in the subsequent section of this report.

- **Encourage on-site affordable production for rental projects by streamlining the approval process** (removing the requirement for a "voluntary" AH Agreement and Council approval). This recommendation is supported by enabling state legislation (HB 21-1117).

- **Amend the credit compliance option**. At present, the credit redemption option is prohibited for projects that receive City funding or subsidy, but the program does allow credits to be acquired when using federal subsidies, such as the Low Income Housing Tax Credit (LIHTC). Allowing duplication of subsidy can reduce the complementary impact of other programs instead of compounding the impact (e.g., if a LIHTC developer sells credits to remove a market-rate development's IHO obligation).

  Root recommends adjusting this compliance option to prohibit credit allocation for any project receiving federal, state, or local subsidies. This particular compliance option does not appear to be in high demand among developers as none have taken advantage of it to date, but this option may be a good fit for certain areas being considered by multiple developers for phased projects. The City may want to consider that credit systems tend to be challenging to administer, manage, and enforce.

- **Ensure a clear path for land donation and clarify evaluation criteria for Council approval.** When considering land donation approval, evaluate whether the number of required affordable units can feasibly be developed on site and evaluate the in-kind value of land (is it equivalent or greater than the fee-in-lieu?). The viability of a land donation option is also dependent on a clear path for developer donations (transparent process, legal requirements, and evaluation criteria) and strong partnerships with non-profit developers to create affordable housing on the donated land on the City's behalf.

Incentives and offsets. Development incentives are inherently part of voluntary incentive programs but it is also common for inclusionary housing policies to include development incentives that help offset costs of the affordability requirements. Financial benefits of common incentives are described below in general terms. **An in-depth analysis of Longmont's specific incentives is currently underway (future deliverable).**

- **Parking reduction**—Parking costs vary from about $5,000 per space for surface lots to $45,000 per space for structured parking (and more for underground garages). Reducing parking ratios by 0.5 spaces per unit (applied to all units in a development) would save $22,500 per unit in development costs for structured parking and $2,500 per unit for surface parking. This analysis assumes the parking reduction would apply across the entire development, not just to affordable units. In addition to the direct savings, reduced parking may also allow a developer to include additional residential units with the saved space.

- **Fee rebates—**typical fee rebates range from $5,000 to $15,000 per affordable unit and are often capped at a certain threshold. These incentives are usually extended only to the affordable units within a development. A $5,000 per affordable unit fee rebate in association with a 10% affordability set-aside would effectively lower the per-unit cost of the entire development by $500 per total unit.

- **Density bonus and open space reduction**—Both density bonuses and open space reductions serve to increase the number of units that can be constructed as part of an overall development. As long as the increase in unit capacity does not change the construction type (e.g., from lumber to steel) then the cost per unit does not change significantly. The developer may realize some overall cost savings in per unit land costs but the bigger benefit is in increased total revenue for the project.

  If/when a density or height bonus does change the construction type (e.g., going from 4 stories to 6 stories results in a change from lumber to steel construction), then the incentive actually increases the per-unit cost of the development. However, it may still be an attractive option for developers because they are able to increase the total number of units and the nominal project value increases. A density bonus may also help attract new developers that specialize in taller buildings if they view the bonus as entitled when complying with the affordability requirements of the incentive.

- **Fast-track or administrative approvals**—Process-oriented incentives are highly valued by developers but are not quantifiable in the same way as other incentives. Even so, these types of incentives are often a key driver in success of incentive programs.

Fee in Lieu Calculation Options

Most cities with an inclusionary housing ordinance offer a "fee-in-lieu" compliance option, which allows developers to pay a specified fee instead of constructing the affordable units.

Fees can be structured on a per square foot or per unit basis and range from nominal fee amounts up to the full cost of developing the affordable unit, depending on the policy priorities of the program. In general, low fees incentivize developers to pay the fee-in-lieu rather than build units, which contributes to revenue generation but results in relatively few affordable units constructed as part of the inclusionary program. High fees are more likely to incentivize developers to construct units on site and would result in lower revenue generation.

For example, the City of Atlanta set its in lieu fees equivalent to the average cost of unit development and nearly all developers in the program constructed the affordable units rather than paying the fee. Other cities set a fee-in-lieu similar to the sale price of the affordable unit—or even lower in order to incentivize revenue generation, which is often then used as gap funding to leverage other financing or subsidies (e.g., LIHTC) to build affordable units.

Cities typically calculate potential fee options according to established methodologies based on market information and then may choose to "discount" those fees according to policy priorities (e.g., revenue generation vs unit production). The two most common methodologies used to calculate potential fee-in-lieu options for inclusionary programs are:

- The Affordability Gap Method—a fee based on the difference in price between market-rate units and affordable units; and
- The Development Cost Method—a fee based on the actual cost (or subset of costs) to develop affordable units.

Longmont's IHO currently uses the Affordability Gap Method to calculate fees, which are assessed on a per-square-foot basis of the development. The current fee schedule requires the following fees for developers not providing on-site affordable housing units:

- Rental: $1.90 per square foot, based on the total finished livable square footage of the market rate units in the development; and
- For-Sale: $7.90 per square foot, based on finished square footage of market-rate homes.

Comparison to Other Front Range IHO Fees. Colorado House Bill 21-1117 requires any community pursuing inclusionary housing policies in Colorado to provide alternatives to constructing units on site. A fee-in-lieu is the most common alternative.

In addition to Longmont, there are currently five municipalities in the Denver Metro with active mandatory inclusionary housing policies.[3] Brief descriptions of each program are below, followed by a table of in-lieu fee standards. Details on other programs throughout Colorado are included in Appendix A.

- **City and County of Denver:** Denver recently passed mandatory inclusionary program for both rental and ownership housing that replaces the previous residential linkage fee system (commercial linkage fees are still in place). The new mandatory inclusionary program requires 8% of units affordable to 60% AMI in rental developments and 8% of units affordable to 80% AMI in for-sale developments.[4] The program has higher affordability requirements in high-cost areas, and does allow for fees-in-lieu for compliance.

- **City of Boulder:** Boulder's inclusionary policy requires 25% of units in a development be dedicated as affordable. Of the 25%, 80% must be affordable to households below 80% AMI and the remainder must be affordable to households under 120% AMI. Developers have a fee-in-lieu option;[5] but other compliance options (e.g., land dedication and off-site build) are evaluated on a case-by-case basis.

- **City of Broomfield:** Broomfield adopted an Inclusionary Housing Ordinance (IHO) in 2020 (ordinance No. 2100) that requires 10% of for-sale units and 20% of rental units be income-restricted and affordable to households earning 80% AMI or below (applies to for-sale developments exceeding 25 total units and rental developments exceeding 3 total units). The program allows for alternative compliance through in-lieu fees or land dedication. It also offers incentives to developers that build affordable units on site, including fee waivers and tax rebates.

- **City of Superior:** Superior adopted an inclusionary policy in 2020 requiring residential developments with at least 10 units to dedicate 15% of all units to 80% AMI households. Developments of fewer than 10 units may pay a fee-in-lieu.

- **City of Littleton:** Littleton adopted its inclusionary program in 2022 and requires a 5% set-aside at 60% AMI for rentals and 80% AMI for ownership units. The program offers a number of incentives for projects that build affordable units on-site but also allows for a fee-in-lieu of building units.

Figure 2 shows the fee options for the Denver Metro programs; Superior is excluded as their fees are not applicable to all developments. It is important to note that some

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[3] Many more communities offer development incentives for affordable housing, but do not have a mandatory inclusionary structure with fees in lieu. A recent DRCOG survey indicates that at least 10 Denver metro municipalities are currently considering implementation of inclusionary housing programs in response to the state legislative changes in 2021 (HB21-1117).

[4] www.denvergov.org › Affordable-Housing-Project

[5] Developments with for-sale units are required to provide at least half of the required affordable units on-site.

communities in Metro Denver prioritize unit production and therefore set intentionally high fees; others have lower fees which effectively prioritize revenue generation. In addition, different communities have different set-aside requirements so the fees per affordable unit do not necessarily have the same impact across the total development).

As such, comparison between communities is not necessarily a benchmark for adjusting current fees but does help provide context for Longmont's existing fee structure.

Figure 2.
IHO Fees for Denver Metro Programs

IHO Program	Fee In Lieu Detail	Fee In Lieu per Affordable Unit Required in Typical* Development	Set-Aside (% of Units Affordable)	Sample Scenario: Total Fee-in-Lieu for a 100-Unit Project
Multifamily Rentals				
Longmont	$1.90/SF based on the total finished livable sq. ft. of the market rate homes in the development	$17,417	12% (@50% AMI)	$209,000
Denver	$250,000 - $311,000 per affordable unit required (depending on building height and submarket)	$250,000	8% (@ 60% AMI)	$2,000,000
Boulder	$76,427 - $213,284 per affordable unit required (depending on square footage of unit)	$200,842	25% (60-80% AMI)	$5,021,050
Broomfield	$55,295 per affordable unit required (reflects 2023 fee; scaling up to $106,635 per unit in 2025)	$55,295	20% (@ 60% AMI)	$1,105,900
Littleton	$269,708 (applies to developments with >19 units; fees are lower for smaller developments)	$269,708	5% (@ 60% AMI)	$1,348,540
For-Sale (assumes Single Family Detached for Peers that differentiate by type)				
Longmont	$7.90/SF based on finished square footage of market-rate homes	$144,833	12% (@ 80% AMI)	$1,738,000
Denver	$408,000 - $478,000 per affordable unit required (depending on submarket)	$408,000	8% (@ 80% AMI)	$3,264,000
Boulder	$77,036 - $274,251 per affordable unit required (depending on size and # of units in development)	$274,251	25% (80-120% AMI)	$6,856,275
Broomfield	$88,556 per affordable unit required (reflects 2023 fee; scaling up to $165,669 per unti in 2025)	$88,556	10% (@ 80% AMI)	$885,560
Littleton	$269,708 (applies to developments with >19 units; fees are lower for smaller developments)	$269,708	5% (@ 80% AMI)	$1,348,540

Note: "Typical" development assumes 2,200 square foot single family home; 1,500 SF townhome, and 1,100 SF apartment. Denver fee assumes "typical" market area and 4-story MF.

Source: Root Policy Research.

Fee-in-Lieu Update Options for Longmont. As previously noted, most developers opt to pay the fee-in-lieu rather than build affordable units. However, Longmont's current fees are too low for the City to effectively use the fee revenue to create an *equivalent* number of affordable units. The City can (and does) use the revenue to leverage federal and state funds (e.g., LIHTC gap financing), but it doesn't necessarily create a one-for-one exchange of inclusionary units to affordable units excluding other subsidies.

In order to explore potential updates to Longmont's fee structure, the following analysis provides fee options based on both the affordability gap method and the development cost method. As noted previously, final fee setting is typically driven by policy priorities, within the bounds of feasibility. As such, the following analyses do not test specific fees but rather quantify the likely upper limit of in lieu fees using data driven, quantitative methods for fee calculation.

Affordability gap method. The affordability gap method establishes fee-in-lieu based on the difference in price between market-rate units and affordable units. The theory behind this methodology is that the City should be able to use the fee revenue to "subsidize" affordable units—effectively "buying down" the cost of market-rate units.

Current Longmont methodology. The current Longmont fee utilizes the affordability gap approach; the exact methodology for Longmont's fee calculation is based on the Housing Fee in Lieu Methodology, dated November 30, 2018 and referenced in the City's Inclusionary Housing Ordinance. Key elements of the methodology are outlined below.

- The market price for for-sale housing is defined as the median price of Longmont homes built in the last 15 years and sold in the last eighteen months. These home sales are divided into two categories: single-family homes (both detached and townhomes), and condominiums.

- The market price of rental housing is based on a current average rental rate and unit size in square feet for market-rate 2-bedroom units (regardless of construction date) using the Apartment Insights database. These rental rates are converted to rental unit values using the Gross Rental Multiplier valuation method, where annualized rent is multiplied by a regionally specific Gross Rental Multiplier (GRM) to arrive at a value. The GRM is also provided by the Apartment Insights database.

- Affordable sales prices used for the gap calculation are based on affordability to households with an income of 80% AMI, as defined in the Sales Price methodology used in Housing and Community Investment which uses a guideline of 33% of income being spent on housing. Affordable rental prices use the Colorado Housing and Finance Authority (CHFA) rent limit for a 2-bedroom unit at 60% AMI and apply the GRM as is applied to the market rental price.

City staff has provided an update to the fee using the adopted methodology but current market data; calculations shown in Figure 3. **Based on the affordability gap method as specified in the City's current regulations, Longmont could consider a fee in lieu of up to $11.91 per square foot on for-sale developments and $3.83 per square foot on rental developments.**

Figure 3. Affordability Gap Calculation: Current Methodology with New Market Data

Note:

* Median Home Price from assessor data on 18 months of sales of homes built 2007 and later.

Rental valuation based on gross rent multiplier (GRM) of 17.77.

Although 2023 income limits are now in place, the calculation uses 2022 income and rent limits to calculate fees so that the time period for market-price data matches the time period for affordable prices.

Source:

City of Longmont Housing & Community Investment Division.

For-Sale FIL Calculation	Single Family	Condos (Attached)
Median Home Price*	$601,140	$461,358
Affordable Homes Sales Price 80% AMI (3 bedroom max-range)	$407,150	$358,292
Affordability Gap per Unit (diff b/t market price and affordable price)	**$193,990**	**$103,066**
Median Home Size (sq.ft)	1,836	1,307
Affordability Gap per sq ft	$105.66	$78.86
12% for Affordable Housing Units Requirement	$12.68	$9.46
FIL per total Finished sq foot (weighted average by product type)	**$11.91**	

Rental FIL Calculation	Monthly Rent (2 Bedroom)	Valuation
Market Rate Monthly Rent (all multifamily)	$1,939	$413,472
(3 bedroom max-range)	$1,794	$382,553
Gap per Unit (diff b/t market price and affordable price)		**$30,920**
Median Home Size (sq.ft)		968
Affordability Gap per sq ft		$31.94
12% for Affordable Housing Units Requirement		$3.83
FIL per total Finished sq foot		**$3.83**

Potential modifications to affordability gap methodology. Should the City want to explore updates to both the data and methodology, Root recommends using market prices of *new construction*—in both rental and for-sale markets—to determine the comparison value in the affordability gap calculations. (Currently the City uses homes built in the last 15 years and uses all rentals). New construction prices will better reflect the affordability gap of the developments to which the inclusionary policy applies. The only downside to focusing solely on new construction is that in some years the sample size could be relatively small.

To determine new construction prices and rents Root relied on current market data from CoStar and Zonda (formerly known as Metro Study). Figure 4 compares market rate rents and home prices on newly constructed units to the affordable rent/price limits. The difference reflects the potential fee-in-lieu based on the modified affordability gap method.

Note that this approach uses 2022 HUD Income Limits for the affordable sales prices and rents so that the affordable price/rent data year matches the market-rate data year. As such, affordable prices in Figure 4 differ slightly from those in Figure 3, which uses 2023 income limits.

Figure 4.
Affordability Gap Calculation: Modified Methodology with New Market Data

For-Sale FIL Calculation	Single Family	Duplex/ Townhomes	Condos
Median Home Price New Construction	$702,495	$552,462	$465,613
Affordable Homes Sales Price 80% AMI (3 bedroom max-range)	$409,402	$378,697	$347,991
Affordability Gap per Unit (diff b/t market price and affordable price)	**$293,093**	**$173,766**	**$117,622**
Median Home Size (sq.ft)	2,167	1,701	1,530
Affordability Gap per sq ft	$135.25	$102.15	$76.88
12% for Affordable Housing Units Requirement	$16.23	$12.26	$9.23
FIL per total Finished sq foot (weighted average by product type)		**$13.50**	

Rental FIL Calculation	Monthly Rent (2 Bedroom)	Valuation
Market Rate Monthly Rent (new construction)	$1,948	$415,312
(3 bedroom max-range)	$1,693	$360,946
Gap per Unit (diff b/t market price and affordable price)		**$54,366**
Median Home Size (sq.ft)		1,100
Affordability Gap per sq ft		$49.43
12% for Affordable Housing Units Requirement		$5.93
FIL per total Finished sq foot		**$5.93**

Note: Median Home Price from Zonda data on new construction sale prices past 18 months. Rental valuation based on GRM of 17.77.

Source: Root Policy Research.

Based on the modified affordability gap method, Longmont could consider a fee in lieu of up to $13.50 per square foot on for-sale developments and $5.93 per square foot on rental developments.

Though not included in the preceding analysis, Root could also test further modifications including fee differentiation by product type (single family, townhome, and condo); alternative method for converting market rents to value (using capitalization rates rather than GRM); and or other modifications based on best practices or peer programs as desired by City staff or Council.

Development cost method. The development cost method bases fees on the actual cost to develop affordable units. The theory supporting this fee is that if the market-rate developer chooses not to build the inclusionary units, they should fund the full cost of the City developing such units. The following analysis uses market data to assess the development cost of both affordable multifamily rental units and affordable single family for-sale units in Longmont under current market conditions.

Multifamily. According to data from the Colorado Housing and Finance Authority (CHFA), the average development cost of affordable housing in Colorado was $360,000 per unit in 2022, up from $255,000 per unit in 2018. The five-year average (2017-2021) for Denver Metro affordable housing is $329,000 per unit—higher than the statewide five-year average of $306,000. Assuming the same annual appreciation in the Denver metro as the state overall yields a current **development cost of $386,673 per affordable rental unit in Longmont.** With an average unit size of 1,029 square feet, this cost equates to **$375.78 per square foot.** In the context of Longmont's inclusionary program, a development cost of $375.78 per square foot translates to **a potential fee-in-lieu of $45.09 per square foot** applied to the total square footage of the market-rate units in the development (applies the 12% set-aside requirement to the development cost).

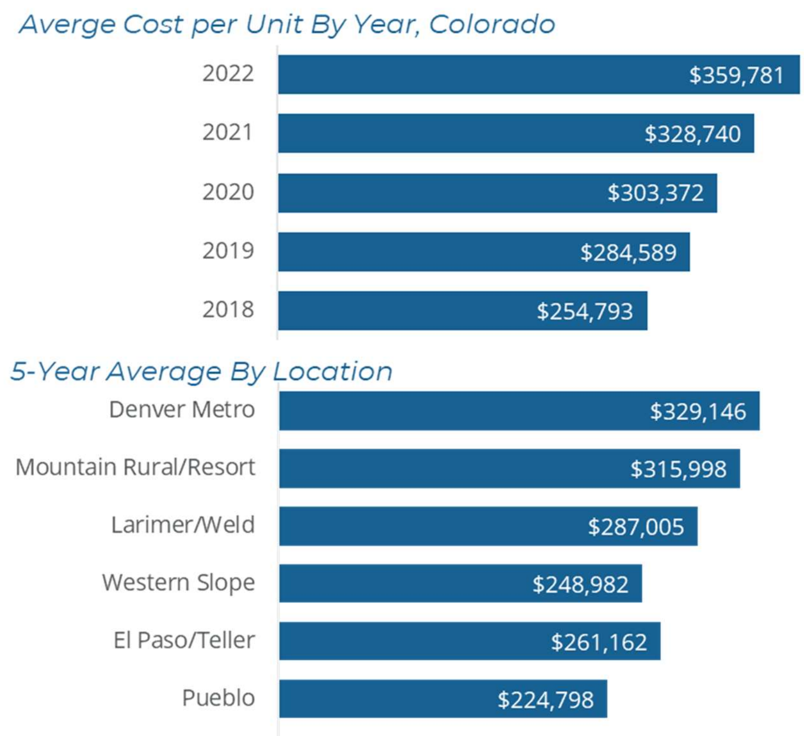
Figure 5. Development Cost per Unit of Affordable Rental Units

Note:

Reflects all Colorado LIHTC (43 developments per year on avg). Includes new construction and acquisition/rehab projects.

Source:

CHFA Affordable Housing Development Cost Dashboard.



Single family. The National Association of Home Builders (NAHB) provides the most comprehensive data on all components of single family residential development, though estimates are national, as opposed to regional/local. Root used NAHB data as a baseline but further calibrated estimates using Marshall & Swift Construction Data to adjust estimates to reflect local construction cost conditions for prototypes most likely to be used in affordable construction (slightly smaller units with lower-cost finishes). The affordable prototype for development cost modeling reflects a single story, 1,800 square foot home with modest finishes (fair/average quality); construction costs are based on 2023 Q1 estimates for Longmont ZIP codes. Root also incorporated feedback from regional affordable for-sale housing developers.

As illustrated in Figure 6, the **total development cost for an affordable single family home in Longmont is $422,148, or $234.53 per square foot.** In the context of Longmont's inclusionary program, a development cost of $234.53 per square foot translates to **a potential fee-in-lieu of $28.14 per square foot** applied to the total square footage of the market-rate units in the development (applies the 12% set-aside requirement to the development cost).

Figure 6. Affordable Single Family Unit Development Cost

Note:

Finished lot cost includes utilities/fees; sales commission assumes 3.5% on a home price affordable to 80% AMI ($315,320).

Source:

Marshall and Swift Construction Estimates, NAHB Construction Cost Survey 2022 and Root Policy Research.

Component	Cost
Finished Lot Cost	$105,000
Construction Cost	$271,848
Financing	$8,450
Overhead and General Expenses	$22,857
Marketing Cost	$2,958
Sales Commission	$11,036
Total Development Cost	**$422,148**

Based on the development cost method, Longmont could consider a fee in lieu of up to $28.14 per square foot on for-sale developments and $45.09 per square foot on rental developments.

Summary of IHO Fee Options. The methodologies described above yield potential fees ranging from $4.23 to $45.09 per square foot:

- Based on the affordability gap method as specified in the City's current regulations, Longmont could consider a fee in lieu of up to **$11.91** per square foot on for-sale developments and **$3.83** per square foot on rental developments.

- Based on the modified affordability gap method, Longmont could consider a fee in lieu of up to **$13.50** per square foot on for-sale developments and **$5.93** per square foot on rental developments.

- Based on the development cost method, Longmont could consider a fee in lieu of up to **$28.14** per square foot on for-sale developments and **$45.09** per square foot on rental developments.

Figure 7 shows how the different fee options would apply to a 100-unit construction project in Longmont. Calculations assume a for-sale home of 2,200 square feet and apartments of

1,100 square feet, based on the average size of new construction units in the Longmont market.

Figure 7.
IHO Fee Options Applied to a 100-Unit Project

Note:
Assumes 2,200 square foot, for-sale home and 1,100 square foot apartment.

Source:
Root Policy Research.

Method	Maximum Fee in Lieu per Square Foot	Total Fee in Lieu Obligation on a 100-unit project
Rental (e.g., 1,100 SF apartment)		
Current Fee	$1.90	$209,000
Affordability Gap: Data Update	$3.83	$421,300
Modified Affordability Gap	$5.93	$652,300
Development Cost	$45.09	$4,959,900
For-Sale (e.g., 2,200 SF Single Family Detached)		
Current Fee	$7.90	$1,738,000
Affordability Gap: Data Update	$11.91	$2,620,200
Modified Affordability Gap	$13.50	$2,970,000
Development Cost	$28.14	$6,190,800

The calculated fees could be adopted at the full rate or at discounted rates (e.g., 75% of development cost method); it is also common to automate annual adjustments to fees in lieu. Raising the fee in lieu from current rates will support affordable unit production both directly by incentivizing developers to build units (instead of pay a higher fee) and indirectly by generating proportional revenue for the City to create units—either through continued gap financing or through funding other strategies for unit creation and subsidy.

Appendix A.

Figure A-1. Mandatory Inclusionary Housing Programs in Colorado: Rural Resort & Western CO Communities

	Carbondale, Colorado	Eagle County, Colorado	Eagle, Colorado	Glenwood Springs, Colorado	Mt. Crested Butte, Colorado	Salida, Colorado	Telluride, Colorado	Basalt, Colorado	Durango, Colorado
Name	Community Housing Inclusionary Requirements	Affordable Housing Guidelines	Inclusionary residential requirements	Affordable and Workforce Housing	Inclusionary Zoning	Inclusionary Housing	Affordable Housing Mitigation	Residential Inclusionary Requirements	Fair Share Housing
Year adopted	2001	2004		2021	2003	2018	2007	1999	2009
Year updated	2016	2014	2002	N/A	N/A	2022		2015	2012
Geography	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction	Certain zones/ neighborhoods	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction
Ownership vs. rental	Ownership and rental	Ownership and rental	Ownership	Ownership and rental	Ownership and rental	Ownership and rental	Ownership and rental	Ownership and rental	Ownership
Project minimum	5 units	4 units	10 units	10 units	Single family less than 2,700 sq. ft. exempt	5 units	N/A	3 units (units <3,000 sq. ft. each detached or <1,400 sq. ft. attached	4 units
Affordability requirement	20% of units (15% of bedrooms) both rental and for sale	25% of units or 15% of square footage both rental and for sale	10% of units for both rental and for sale	10% of units for both rental and for sale	15% of units for both rental and for sale	16.7% of units for both rental and for sale	Calculated based on square footage	20% of all units for both rental and for sale	16% of all units
Fee in Lieu	None	$184.31/sq. ft.	None	None	unknown	$10.23-$20.46/ sq. ft.	$217-$284/ sq. ft.	$106.12-$197.41/ sq. ft.	Average $80,500-$399,500 based on bedrooms
Other compliance options	On-site units, off-site units, buy down units	On-site units, off-site units, rehab regulated units, renovate unregulated units, donate land	On-site units	On-site units, land donation	On-site units, off-site units, in-lieu fee	On-site units, off-site units, in-lieu fee, donate land	On-site units, in-lieu fee, other	On-site units, off-site units, in-lieu fee, other	On-site units, fee in lieu, land donation
Affordability term	In perpetuity	In perpetuity	In perpetuity	30 years	In perpetuity	In perpetuity	In perpetuity	In perpetuity	In perpetuity
AMI Level	Mix of 80-150% AMI for both owner and renter	Owner: 100-140% AMI Renter: 80-100% AMI	Must be local employee; 100% AMI for both owner and renter	Up to 120% AMI; restricted units must average to 100% AMI both owner and renter	120% AMI for both owner and renter	Renter: 80% AMI Owner: 120-160% AMI (140% average)	Tier based on square footage Target: 70%-110% AMI Limit: 120%-180% AMI	Up to 120% AMI; must average to 100% AMI for both owner and renter	Owner: 80%-125% AMI
Incentives (Unless otherwise noted, incentives only apply to on-site compliance)	Fee reduction/waiver	Discretionary incentives	None	Density bonus, site design flexibility, public-private partnerships, tax rebate	Incentives if units beyond what is required are provided	Density bonus, reduced parking requirements, concessions	Fee reduction/waiver including water fees	Fee reduction/waiver, other	Fee refunds and waivers
Community Data:									
Population	6,464	55,693	7,420	10,017	906	5,671	2,593	3,802	18,953
Median income	$86,321	$91,338	$97,724	$69,728	$85,625	$62,668	$83,542	$104,605	$68,550
Median rent	$1,670	$1,724	$1,408	$1,237	$1,336	$1,251	$1,825	$1,844	$1,325
Median home value	$638,000	$640,400	$614,400	$465,600	$494,700	$377,500	$443,500	$873,400	$497,100

Source: Jurisdiction Municipal Codes and Grounded Solutions IZ database.

Figure A-2. Mandatory Inclusionary Housing Programs in Colorado: Front Range Communities

	Longmont, Colorado	Boulder, Colorado	Superior, Colorado	Denver, Colorado	Broomfield, Colorado	Littleton, Colorado
Name	Inclusionary Housing Program	Inclusionary Housing	Inclusionary Housing Requirements	Expanding Housing Affordability	Inclusionary Housing Ordinance	Inclusionary Housing
Year adopted	2018	2000	2020	2022	2020	2022
Year updated	2019	2017			2022	
Geography	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction	Entire jurisdiction
Ownership vs. rental	Ownership and rental	Ownership and rental	Ownership and rental	Ownership and rental	Ownership and rental	Ownership and rental
Project minimum	2 units	N/A	10 units	8 units	For sale: 25 units Rental: 3 units	5 units
Affordability requirement	12% of all units	25% of all units	15% of units	8%-12% of units (depending on tenure and location)	10% of ownership units; 20% of rental units	5% of units
Fee in Lieu	Owner $7.90 /sq. ft. Renter $1.90 / sq. ft.	$50,025-$301,680/ unit	unknown	$250,000 to $478,000/ unit	$25,000-$50,000/ unit	$269,708 per unit
Other compliance options	On-site units, off-site units, renovate unregulated units, in-lieu fee, donate land	On-site units, off-site units, rehab regulated units, in-lieu fee, donate land	On-site units, in-lieu fee, other	On-site units, in-lieu fee; alternate set-asides for alternate AMIs	On-site units, in-lieu fee, donate land	On-site units, in-lieu fee
Affordability term	For-sale: in perpetuity; Rental: 30 years	In perpetuity	In perpetuity	99 years	For sale: 30 years Rental: 40 years	30 years
AMI Level	Rental: 50% AMI Owner: 80% AMI	60-120% AMI	80% AMI	Rental: 60% AMI Owner: 80% AMI	Rental: 60% AMI Owner: 80% AMI	Rental: 60% AMI Owner: 80% AMI
Incentives (Unless otherwise noted, incentives only apply to on-site compliance)	Density bonus, other zoning variance, fee reduction/waiver, unit concessions, parking reduction; Lower set-aside for deeper AMIs	Density bonus, unit concessions	None	Permit fee reduction; parking reduction. Additional incentives if exceed baseline affordability requirements.	Fee waivers and tax rebates	Fast track review, parking reduction, open space reduction (if adjacent to park), permit fee rebate, other zoning and process variances. Additional incentives if set-aside >50%.
Community Data :						
Population	98,789	104,930	13,283	706,799	72,697	45,465
Median income	$83,104	$74,902	$131,757	$78,177	$107,570	$82,997
Median rent	$1,538	$1,711	$2,162	$1,495	$1,814	$1,414
Median home value	$423,300	$790,100	$660,000	$459,100	$482,100	$471,900

Source: Jurisdiction Municipal Codes and Grounded Solutions IZ database; Community data from 2021 5-year American Community Survey (ACS).