



Memorandum

TO: Vail Town Council

FROM: Community Development Department
Finance Department

DATE: December 20, 2016

SUBJECT: Chamonix Buyer Profile & Subsidy Discussion

I. SUMMARY

While a final site plan has not selected as yet, staff has used estimated costs for Site Plan C containing 32 townhome units (5 types) at Chamonix to provide information surrounding affordability and subsidy.

The purpose of this discussion is to answer the following questions

Does the Vail Town Council want further financial subsidy factored into the sales price of the future homes? If so, how much and which home type(s)? Is the subsidy to be spread equally across all home type(s)? :

II. BACKGROUND

Buyer Profiles

In the last few years the town has commissioned several housing market studies, with the most recent being in April of 2015 by Rees Consulting, Inc.. In February of 2016 staff provided a memo to Council presenting results of a buyer profile based on market surveys taken during Chamonix open houses. For a look back at that memo, please refer to **Attachment A**. Those market surveys were the basis behind the site plans and unit types being presented to Council.

Another key factor in the success of this housing project is the alignment of a target market of homebuyers to a reasonably priced, or affordable, product. To put perspective around a potential target market, staff has gathered additional information on annual incomes for various jobs from the Eagle County Housing department and Vail Resorts. This will help formulate a picture of what type of jobs fall into the various levels of Average Median Income (AMI). Examples of jobs within AMI levels are outlined below.

Households earning 80% AMI

Income: \$49,520 - \$70,720

- Accountant III
- Code Enforcement Officer
- Staff Nurse

- Police Officer - entry level
- Firefighter – entry level
- Heavy Equipment Operator II
- Dispatcher
- Executive Chef
- Two earners such as Ski Patrol and Housekeeper
- Two earners such as a Ski Lift Mechanic and a Retail Lead Cashier
- Two earners such as an Accounting Technician and a part time Administrative Assistant
- Two earners such as a Custodian and a Cashier

Households earning 100% AMI

Income: \$61,900 - \$88,400

- Maintenance Supervisor
- Fire Lieutenant
- Planner II
- Streets Crew Leader
- Police Officer with several years experience
- Two earners such as a Front Office Manager and a Lead Lift Operator
- Two earners such as a Lead Grooming Tech and a Cook
- Two earners such as a Landscape Technician and Parking Attendant
- Two earners such as an entry level Teacher and an Administrative Assistant
- Two earners such as an experienced Teacher and a Light Equipment Operator

Households earning 120% AMI

Income: \$74,280 - \$106,080

- Engineer II
- Fire Captain
- Police Sergeant
- Nurse Practitioner
- Systems Engineer II (IT)
- Senior Planner
- Two earners such as a Lead Snowmaking Tech and an Advanced Maintenance Tech
- Two earners such as a Building Maintenance Specialist and a Parking Supervisor
- Two earners such as a Civil Engineer and a part time host/hostess
- Two earners such as a Facilities Specialist and an Executive Assistant

Households earning 140% AMI

Income: \$86,660 - \$123,760

- Fleet Manager
- Town Engineer
- Physician Assistant
- Street Superintendent
- Two earners such as an Executive Housekeeping Manager and Retail Store Manager
- Two earners such as a Heavy Equipment Mechanic and a Graphic Designer
- Two earners such as an Elementary School Principal and a Mechanic I

III. DISCUSSION

Pricing Options and Target Market

Staff has prepared the attached worksheet (**Attachment B**) to provide perspective surrounding the affordability of each proposed unit. This has been outlined by comparing the unit price (at cost) with various Average Median Income (AMI) levels.

For the purposes of this exercise, staff used the Site Plan C which includes a total of 32 units with five types of townhomes. Proposed construction costs for each unit type were provided by Triumph Development, for a total of approximately \$17.5 million. Please note that staff is currently working with a third party consultant to review the construction estimations and developer fees associated with the project.

The additional \$3.6 million invested in land / infrastructure and an estimated \$2.7 million in forgone “markup” by the town is **not** included in the pricing scenario at this time, which represents a **savings to home buyers ranging from \$172,800 to \$222,600 depending on the unit type.**

The worksheet first outlines the cost to construct each type of unit, ranging from \$402K for a 1,130 square foot 2 bedroom, 2 story townhome to \$734K for a 1,980 square foot 3 bedroom, 3 story townhome. Using a **ten percent down payment and 4.5% mortgage rate**, along with property tax, home insurance and \$250 in monthly homeowner’s association dues, staff has calculated an estimated monthly housing cost for each unit type. ** If rising interest rates impact mortgage rates by as much as 0.5%, the units become less affordable to buyers. For example, at a 5% mortgage rate the Type 5 unit (largest) is no longer affordable to the owners at 160% of AMI.*

Next, the percentage of that monthly housing cost compared to annual household income was computed to determine affordability. The unit and household combinations highlighted in green identify where the cost of housing is 35% or less of annual income for that household. This follows the philosophy that housing costs should average approximately 30% of a homeowner’s annual income.

The next section of the worksheet identifies the maximum home price a buyer can afford at 35% of annual income, and an amount of subsidy that would be necessary to lower the Chamonix unit cost in order to keep the housing costs at 35%.

Virtually all of the units are affordable at household incomes of 140% of Average Median Income (AMI) and above:

- Type 1 units (1,130 GRFA) at a cost of \$402,000 are affordable at 100% of AMI and above
- Type 2 units (1,201 GRFA) at a cost of \$498,000 are affordable at 120% of AMI and above
- Type 3 units (1,507 GRFA) at a cost of \$534,000 are affordable at 120% of AMI and above
- Type 4 units (1,552 GRFA) at a cost of \$596,000 are affordable at 140% of AMI and above
- Type 5 units (1,980 GRFA) at a cost of \$734,000 are affordable at 160% of AMI and above

To mix larger units with lower AMIs will require additional cash subsidy **beyond** the \$112,500 for land and infrastructure and another \$60,300 to \$110,100 in foregone mark up already assumed in calculations.

Project Timing and Impact to Town Finances

The currently proposed project assumes a single phased approach and modular construction, with completion in 2018. Using this approach requires more upfront funding, especially when committing to a modular manufacturer.

Other options include a phased approach, with either modular or “stick-built” construction. These options have a cost associated with them however they provide more flexibility and less financial risk. To pursue a phased approach using modular construction, the additional cost is estimated at \$1.4M, which includes escalation of construction and materials costs as well as additional soft costs for the longer timeline of project management. Stick built method of construction adds approximately \$800,000 to the overall project cost. We’ve assumed that if stick built was chosen, it is intended for a phased approach in order to test the market for the units built so the cost of phasing is included as well. **The below chart demonstrates the impact to the town’s Capital Project Fund** for the various options:

Chamonix Funding - cash flow

Single Phase

	2017	2018	2019
Beginning Fund Balance	16,226,887	2,665,842	21,542,338
Annual Activity per 5-Year Capital Plan	636,955	4,678,496	(9,496,899)
Remaining Development cost estimated at \$17.5M			
Systems Built Expenditures - No Phasing	(15,000,000)	(2,544,000)	
Systems Built - Sales of Units (Revenue)	802,000	16,742,000	
Estimated Fund Balance	2,665,842	21,542,338	12,045,439

Phased Approach

Beginning Fund Balance	16,226,887	9,160,842	10,718,338
Annual Activity per 5-Year Capital Plan	636,955	4,678,496	(9,496,899)
*Adds \$1.4M in cost (\$18.9M)			
Systems Built Expenditures - Phased	(8,505,000)	(10,395,000)	
Systems Built - Sales of Units (Revenue)	802,000	7,274,000	9,468,000
Estimated Fund Balance	9,160,842	10,718,338	10,689,439

Beginning Fund Balance	16,226,887	7,998,842	9,918,338
Annual Activity per 5-Year Capital Plan	636,955	4,678,496	(9,496,899)
*Adds \$1.4M in cost to phase and \$800K for stick built (\$19.7M)			
Stick Built - Expenditures	(8,865,000)	(10,835,000)	
Stick Built - Sales of Units (Revenue)		8,076,000	9,468,000
Estimated Fund Balance	7,998,842	9,918,338	9,889,439

The first option shown is the currently proposed construction method and schedule. It reduces the Capital Projects Fund down to \$2.6M by the end of 2017. Based on the timing of unit sales, we would need to transfer reserves from the General Fund to continue normal capital maintenance and planned 2017 capital projects. There is financial risk to the town if not all of the sales are completed by 2018.

The second option shown increases the cost by \$1.4M (not passed on to the consumer) to pursue a phased approach. This method allows some time to react if the first phase does not go as planned. For example, Council may decide to change unit size or type in the second phase based on market demand.

The third option assumes a “stick built” construction rather than modular. While this method has some construction risk from changing sub-contractor markets, there is more control over project timing. Again, Council would have the ability to change direction depending on lessons learned during the first phase.

Should Council decide to subsidize beyond the land, infrastructure and markup, there will be additional impacts to the fund balance in the Capital Projects Fund.

IV. ACTION FROM COUNCIL

Does Council want to provide any additional cash subsidies beyond the \$6.2 million already subsidized through land / infrastructure (\$3.6M) and normal “markup” (\$2.6M)?