The Economics of Land Use

FINAL REPORT

Big Sky Housing Development Plan

Prepared for:

Big Sky Chamber of Commerce

Prepared by:

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Table of Contents

1. INTRODUCTION 1

Background 1
Overview 1
Stakeholder Involvement 2
Housing Needs 2

2. ECONOMIC AND DEMOGRAPHIC FRAMEWORK 4

Employment 4
Employer Survey 9
Demographics 11
Housing 14

3. WORKFORCE HOUSING BEST PRACTICES 20

Workforce Housing Tools 20
Comparable Resort Workforce Housing 30

4. WORKFORCE HOUSING NEED 37

Housing Targets 37
Housing Goal 39
Benefits of Local Resident Workforce 41

5. SUMMARY AND RECOMMENDATIONS 42

Summary 42
Recommendations 43

APPENDIX: SUPPORTING INFORMATION 50

Supporting Tables and Charts 51

List of Tables

Table 1	County Wage and Salary Job Trends, 2001-2012	4
Table 2	Big Sky Wage and Salary Job Distribution, 2011	5
Table 3	Distribution of Households by Income, 2000-2012	7
Table 4	Distribution of Households by Income, 2000-2012	7
Table 5	In- and Out-Commuters by Wage Level, 2002-2011	9
Table 6	Demographics, 2000-2012	11
Table 7	Occupied, Vacant, and Seasonal Housing, 2000-2012	12
Table 8	Households by Tenure, 2000-2012	13
Table 9	Distribution of Ownership Housing Units by Value in Big Sky, 2000-2012	15
Table 10	Distribution of Rental Housing Units by Gross Rent, 2000-2012	15
Table 11	Average Single-Family Sales Prices per Sqft and Volume, 2003-2013	17
Table 12	Average Condominium Sales Prices per Sqft and Volumes, 2000-2012	18
Table 13	Estimated Impact of New Household Retail Spending	41
Table 14	Communities with Workforce Housing Programs	49
Table A1	Big Sky Jobs by Industry	51

List of Figures

Figure 1 Workforce Housing Spectrum 3
Figure 2 Map of Big Sky Net Commuting Patterns, 2011 6
Figure 3 Inflation-Adjusted Wages, 2000-2013 8
Figure 4 Employee by Location of Residence 10
Figure 5 Employees by Wage Level 10
Figure 6 Residential Construction Trends, 2000-2013 14
Figure 7 Overall Sales Volumes in Big Sky, 2003-2013 16
Figure 8 Housing Affordability and Gap Metrics, 2012 19
Figure 9 Land Use Regulatory Tools 22
Figure 10 Alternative Housing Funding Options 26
Figure 11 Projection of In-Commuting, 2014-2025 37
Figure 12 Workforce Housing Spectrum 40

1. INTRODUCTION

Background

Big Sky, Montana, is at a critical point in its evolution from a single purpose destination resort to a more diversified resort community. Recent growth in visitation, tourism, and the second homeowner markets are all positive indicators, but are also triggers for additional community facilities. Over the last decade, the number of second homes has grown at more than 3 times the rate of permanent resident occupied housing units, and lodging revenues continue to recover post-recession. These positive economic trends will likely continue as the Convention and Visitors Bureau promotes the community for its summer activities as much as for its renowned winter activities.

Although positive signs for the economy, these market drivers place development pressure on the community that create challenges. As the visitation and service industries grow, the need for a larger workforce also grows, and similar to other resort communities, a lack of housing affordable by the area workforce means that many employees are commuting large distances to work in Big Sky.

The Big Sky Chamber of Commerce (BSCC) contracted with Economic & Planning System (EPS) to address some important underlying questions regarding the issues that arise under these conditions.

- What is the magnitude of demand for year-round or workforce housing?
- What kind of framework can be established to facilitate public and private development in support of year-round housing solutions?
- What policies and programs are most successful in other resort communities to address year-round permanent workforce housing needs?
- What are the best strategies for addressing these housing needs? Are there any opportunities for infill development or redevelopment to meet some of this need?
- What organizational, management, and financing steps are needed to implement the recommended strategies?

The following report identifies some of the major trends and conditions present in Big Sky, identifies best practices adopted in similar resort communities that have faced similar affordability problems, and provides EPS's recommendations on housing policies, and organizational and land use strategy concepts that may assist Big Sky in addressing its situation.

Overview

Most resort communities have inflated housing markets fueled by the high costs of housing created by resort developments and in particular the demand for vacation and second homes for affluent buyers with incomes not tied to the local economy. The local workforce, however, is often priced out of the local housing market and forced into lengthy daily commutes. This can make it difficult for employers to recruit and retain employees. It can also have a negative impact on the quality of life in a resort town as the essential community workforce, including teachers, police, fire protection, and other municipal type employees, are not living locally and therefore not readily available to address the health, safety, and welfare needs of the community. The motivation to develop programs for workforce housing is largely based on the following conditions, all of which are currently present in the Big Sky area:

- **Housing Costs** – The sales price of locally available housing far exceeds what a permanent resident household can afford. Currently, the median housing price in the Gallatin County portion of Big Sky is 6.5 times median household income and is increasing as housing prices recover from the Great Recession.
- **Housing Availability** – The development community is oriented to building more expensive and more profitable second homes and base area condominiums. Over the last decade, only 420 housing units occupied by permanent residents (as opposed to second homeowners) were built compared to nearly 750 new jobs.
- **Commuting Patterns –** A large portion of the local workforce cannot afford to live in the community and commutes in from other more affordable locations. Based on available data, approximately one-third of the local workforce is commuting into Big Sky primarily from Bozeman alone.
- **Employee Shortages –** Perhaps the most significant driver is when local businesses find it difficult to find needed employees. This concern was mitigated over the 2008 to 2011 recessionary period but employee recruitment was identified as an increasing problem as the area economy expands and unemployment declines.

Stakeholder Involvement

EPS met with a wide range of stakeholders and community groups with an interest in affordable housing in one-on-one interviews, group meetings, and focus groups. EPS also conducted a survey to collect and identify information regarding in-commuting patterns among the community's largest employers.

Housing Needs

This housing plan is intended to estimate housing needs to adequately accommodate the Big Sky workforce and policies and programs to develop the desired housing stock. This housing can be referred to as workforce housing and defined as housing affordable to the areas employees. The U.S. Department of Housing and Urban Development (HUD) generally defines workforce housing as housing affordable to a household at 80 percent the Area Median Income (AMI).

In a resort setting, area housing prices is often inflated by the market for resort and second-home properties. As a result, even much of the professional (or community) workforce including teachers, firemen, and other municipal employees are priced out of the local housing market. Based on Big Sky economic conditions, the workforce housing market is separated into three components as shown in **Figure 1**.

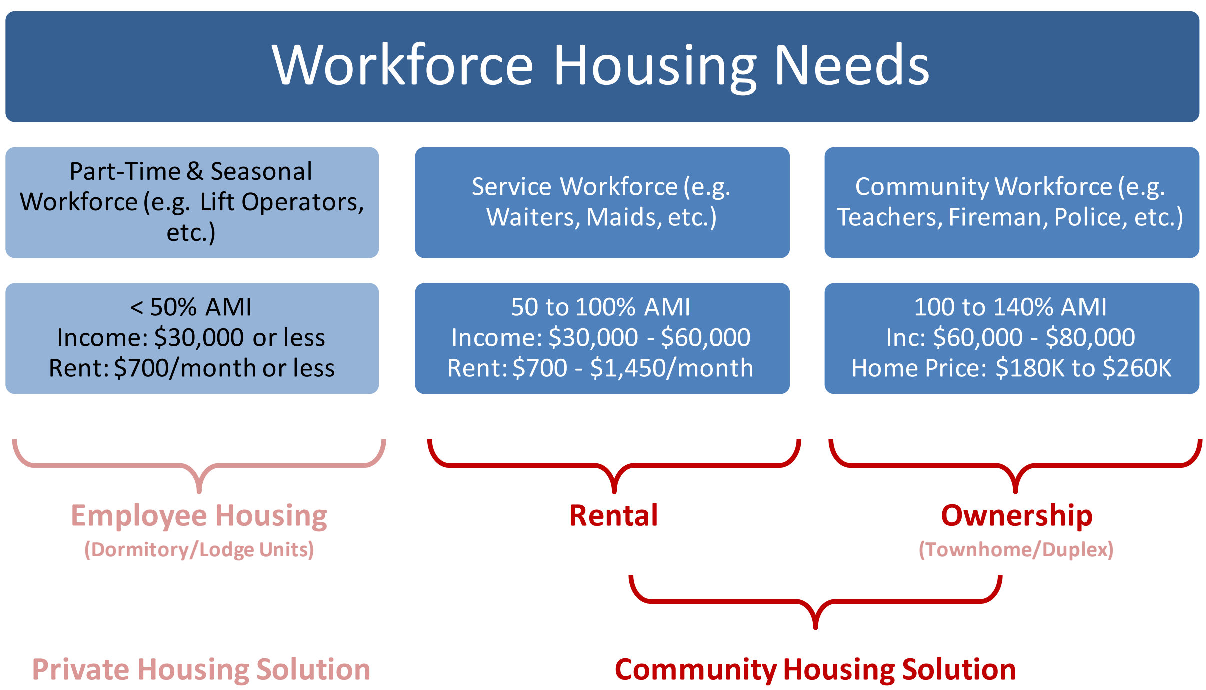
The lowest income addresses needs of the part-time and seasonal workers largely comprised of ski resort employees and seasonal peak-season retail, restaurant, and lodging employees.

Because of their income levels and seasonal status, these workforce housing needs are best addressed by the private market (employers) in the form of employee/dormitory-style housing.

The second category, the service workforce, is also comprised of employees in hourly wage low-skilled jobs. The distinguishing factor is that these are year-round area residents trying to make a living on the jobs available in a seasonally fluctuating resort economy. In many cases, this means working multiple part-time and/or seasonal jobs. For policy creation purposes, the target housing type for this service workforce category is generally rental, as their household incomes typically fall between 50 and 100 percent (approximately $30,000 to $60,000) of Big Sky's median household income.

The last category in the spectrum of workforce housing policy considers the community workforce, comprised of middle managers, teachers, nurses, fireman, police, and other municipal employees. Also a part of the year-round workforce, the distinguishing characteristic from the service workforce is the typical range in household income. Households typically have incomes ranging between 100 and 140 percent of the median income ($60,000 to $80,000), and, because it is more financially feasible for the development community to build for-sale units affordable to this range and because ownership is more feasible for the households, they are generally the target for ownership housing policies.

Figure 1
Workforce Housing Spectrum



2. *ECONOMIC AND DEMOGRAPHIC FRAMEWORK*

This chapter summarizes economic and demographic conditions and trends in the Big Sky area and its surroundings including employment, commuting, wage and income, as well as housing and demographic conditions. This data form the basis of the assessment of housing needs, from which housing gaps are estimated.

Employment

The purpose of this task is to evaluate the underlying socio-economic drivers of housing demand for Big Sky, as they are distinct between both permanent residents (year-round housing) and second homeowners (resort housing).

Wage and Salary Jobs

According to the Bureau of Labor Statistics (BLS), total wage and salary employment in Gallatin and Madison counties has increased since 2001 by an average of 2.2 and 5.2 percent per year respectively.[1] During the Great Recession of 2007 to 2009, the construction, real estate, and retail industries lost a considerable number of jobs. In Gallatin and Madison counties, where construction accounted for 14 percent of the workforce in 2007, approximately 2,500 jobs were lost (approximately 40 percent of the construction workforce in Gallatin County) during the following two years. In the retail sector, which responds to fluctuations in overall employment, more than 700 jobs (or approximately 10 percent of the retail trade workforce) were lost as well.

Since the recession ended in the first quarter of 2009, employment has regained approximately more than 100 percent of the total jobs lost through the Great Recession. However, some sectors, such as construction, retail, and real estate have not regained their levels of peak employment.

Table 1
County Wage and Salary Job Trends, 2001-2012

Type	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2001-2012 Total #	2001-2012 Ann. #	2001-2012 Ann. %
Gallatin County	35,062	36,000	37,357	39,568	42,102	44,248	45,732	45,837	42,697	42,482	43,663	44,747	9,685	880	2.2%
Madison County	1,930	1,961	1,981	2,100	2,386	3,535	3,945	4,000	3,587	3,322	3,444	3,384	1,454	132	5.2%
Total	**36,992**	**37,961**	**39,338**	**41,668**	**44,488**	**47,783**	**49,677**	**49,837**	**46,284**	**45,804**	**47,107**	**48,131**	**11,139**	**1,238**	**2.4%**

Source: BLS; Economic & Planning Systems

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[1] The BLS reports county-level seasonally-adjusted employment information tracked by individual state departments of labor and employment (or commerce). The information it reports are wage and salary jobs (i.e. those jobs for which unemployment insurance records are filed by employers). Sole proprietors (i.e. the self-employed, as typically represent 20 to 30 percent of a total workforce, or sometimes more in resort communities) are not included in this overview.

According to U.S. Census data, there were approximately 2,300 jobs in Big Sky in 2011. **Table 2** shows the distribution of these wage and salary jobs (seasonally-adjusted) and a distribution of jobs held by Big Sky residents. The difference between these distributions shows an estimate of in-commuting. Overall, more than 1,900 workers commute in. Not surprisingly, in-commuting is most prevalent in the Accommodations and Food Services industry, and Arts/Entertainment/ Recreation.[2]

Table 2
Big Sky Wage and Salary Job Distribution, 2011

	Jobs in Big Sky (2011)		Jobs Held by Big Sky Residents		Net Commuting[1]
	#	%	#	%	
Industry					
Agriculture, Forestry, Fishing and Hunting	5	0.2%	4	1.0%	1
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%	2	0.6%	-2
Utilities	8	0.4%	0	0.0%	8
Construction	73	3.2%	17	4.7%	56
Manufacturing	13	0.6%	6	1.7%	7
Wholesale Trade	3	0.1%	5	1.3%	-2
Retail Trade	139	6.1%	50	13.6%	89
Transportation and Warehousing	17	0.7%	4	1.0%	13
Information	15	0.7%	4	1.1%	11
Finance and Insurance	55	2.4%	10	2.7%	45
Real Estate and Rental and Leasing	140	6.1%	16	4.5%	124
Professional, Scientific, and Technical Services	71	3.1%	19	5.1%	52
Management of Companies and Enterprises	0	0.0%	2	0.5%	-2
Administration & Support, Waste Management and Remediation	86	3.8%	14	3.8%	72
Educational Services	9	0.4%	21	5.7%	-12
Health Care and Social Assistance	37	1.6%	27	7.5%	10
Arts, Entertainment, and Recreation	523	22.9%	39	10.6%	484
Accommodation and Food Services	1,024	44.9%	105	28.7%	919
Other Services (excluding Public Administration)	41	1.8%	12	3.3%	29
Public Administration	21	0.9%	9	2.4%	12
Total	**2,280**	**100.0%**	**365**	**100.0%**	**1,915**

[1] A positive number indicates net in-commuting. A negative number indicates net out-commuting.

Source: LEHD; Economic & Planning Systems

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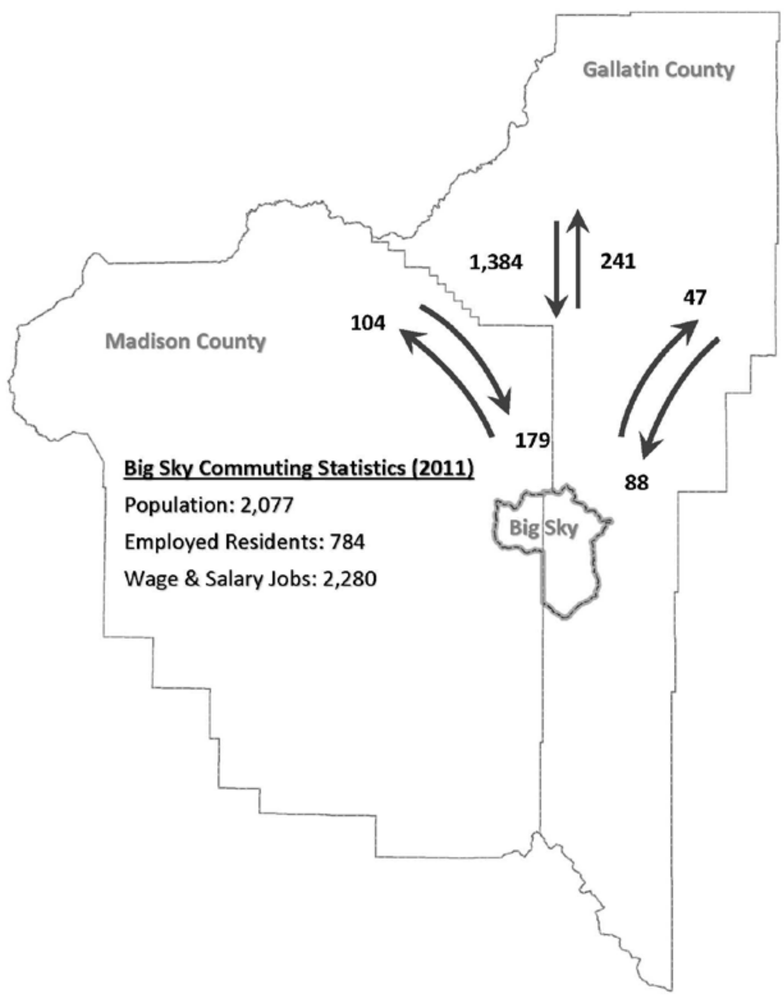
[2] Industry-level data made available for small workforces, such as Big Sky, are sometimes incomplete (and therefore undisclosed) where there are either too few jobs in the data set or too few employers within the industry, such that disclosure of the data would violate privacy protections. As a result of the non-disclosure issues, the distribution of jobs presented here should be interpreted as a general gauge of employment conditions in Big Sky, and thus, not definitive.

Commuting

Figure 2 shows the general in- and out-commuting patterns. Wages in the largest local employment sectors (i.e. Accommodations & Food Service, Arts/Entertainment/Recreation, and Retail) do not afford households the ability to live locally. As a result, 83 percent of workers commute in from other locations, primarily northern parts of Gallatin County, such as Bozeman and Belgrade. In total, more than 1,900 workers commute in. Within Gallatin County alone, nearly 1,400 workers commute in daily from other parts of Gallatin County (Bozeman and Belgrade) and more than 200 workers commute out daily to other parts of Gallatin County. While there is some in- and out-commuting between locations to the northwest and northeast, there is no significant commuting to the east, west, or south.[3]

Figure 2
Map of Big Sky Net Commuting Patterns, 2011



[3] The U.S. Census LEHD reports detailed in- and out-commuting data for 10 different geographies, which were used here to determine general north-south commuting patterns. Many of the 10 locations identified were to the northeast or northwest, but not to the east, west, or south. The data do include a category for “all other locations”, a small portion of which may include West Yellowstone to the south.

Income and Wages

Household incomes provide a measure for estimating the buying power of households in an area, and using the median household income ensures that neither extreme lows or highs skew the metric. Nationally, household median incomes have largely stagnated over the past decade, as have median incomes for Big Sky. The median household income reached $58,359 in 2012. The permanent resident household income in Big Sky increased by an average of 3.3 percent per year but only by 0.8 percent per year adjusted for inflation, as shown in **Table 3**.

Table 3
Distribution of Households by Income, 2000-2012

	Distribution		2000-2012		
	2000	**2012**	**Total**	**Ann. $**	**Ann. %**
Income					
Household Median Income	$39,688	$58,359	$18,671	$1,556	3.3%
Per Capita Income	$31,492	$29,797	-$1,695	-$141	-0.5%
Adjusted for Inflation[1]					
Household Median Income	$52,761	$58,359	$5,598	$467	0.8%
Per Capita Income	$41,865	$29,797	-$12,068	-$1,006	-2.8%

[1] Adjusted by CPI for Western U.S.

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

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Demographics.xlsx]TABLE 5 - Incomes

Table 4 shows the distribution of area households by income range. The number of households under $50,000 increased from 340 to 440 between 2000 and 2012, although as a portion of total households declined from 59 to 44 percent. The following distribution of households by income is useful for comparing, as will be detailed later in this report, to the inventory of for-sale housing units and a distribution of available housing units for sale.

Table 4
Distribution of Households by Income, 2000-2012

	Distribution		Distribution	
	2000	**2012**	**2000**	**2012**
Households by Income Category				
Less than $50,000	340	441	59%	44%
$50,000 to $74,999	87	163	15%	16%
$75,000 to $99,999	55	203	9%	20%
$100,000 to $149,999	56	171	10%	17%
$150,000 or more	43	18	7%	2%
Total	**581**	**996**	**100%**	**100%**

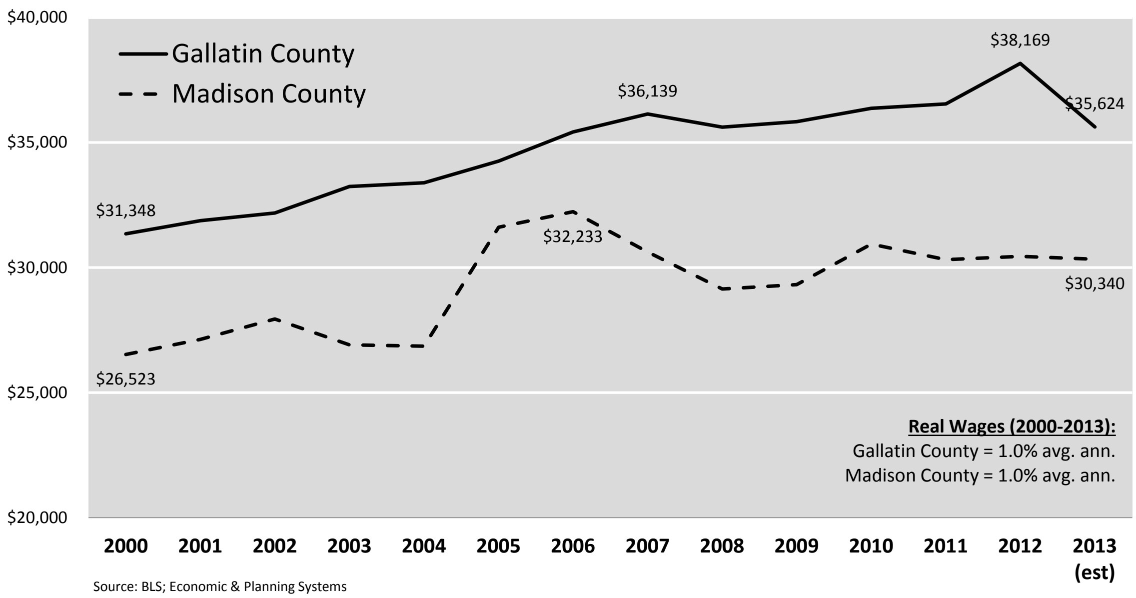
Source: U.S. Census; Economic & Planning Systems

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Demographics.xlsx]TABLE 1 - HHs by INC

According to wage data available from the U.S. Census LEHD, in 2011, approximately 50 percent of workers in Big Sky earned less than $15,000 per year. Approximately one-third (33 percent) earned between $15,000 and $40,000 per year, and 17 percent earned more than $40,000 per year.

At the national level, real wages (adjusted for inflation) have generally stagnated since 2000. In Gallatin and Madison counties, however, shown in **Figure 3**, real wages have increased at approximately 1.0 percent annually since 2000. Wages at the peak of the housing and construction boom reached a high in 2006 of approximately $32,200 but have since dropped to approximately $30,400. Wages in Gallatin County, on the other hand, have risen with slightly more constancy, rising from approximately $31,300 in 2000 to approximately $38,200 in 2012, but falling to $35,600 in 2013 year-to-date reports.

Figure 3
Inflation-Adjusted Wages, 2000-2013



Source: BLS; Economic & Planning Systems

Table 5 compares employed residents of Big Sky with workers who are employed in Big Sky but live elsewhere (i.e. commuters).

Table 5
In- and Out-Commuters by Wage Level, 2002-2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011 Total	Ann. #	Ann %
Residents Employed in Big Sky													
$1,250 per month or less	147	129	176	174	223	149	180	212	233	337	190	21	10%
$1,251 to $3,333 per month	93	96	114	130	132	131	164	150	128	273	180	20	13%
More than $3,333 per month	29	24	23	37	29	40	70	64	78	174	145	16	22%
Total	**269**	**249**	**313**	**341**	**384**	**320**	**414**	**426**	**439**	**784**	**515**	**57**	**13%**
Workers Employed in Big Sky													
$1,250 per month or less	1,112	758	1,199	1,186	1,204	520	673	518	807	1,140	28	3	0%
$1,251 to $3,333 per month	312	305	427	497	638	371	598	268	282	742	430	48	10%
More than $3,333 per month	110	93	141	224	359	221	355	169	159	398	288	32	15%
Total	**1,534**	**1,156**	**1,767**	**1,907**	**2,201**	**1,112**	**1,626**	**955**	**1,248**	**2,280**	**746**	**83**	**5%**

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

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Employer Survey

In February 2014, EPS conducted a brief online survey of Big Sky's major employers[4] to identify and confirm the magnitude of commuting patterns and simultaneously collect information on wage distributions and a few other pertinent issues regarding the availability of housing and its effect on employers' abilities to hire qualified staff. This survey was not intended to be a statistically valid sample of the areas employers, and the results should be interpreted with the understanding that they provide complementary and useful information regarding employment, commuting, and wages, but they should not be interpreted as representing the full spectrum of employment, commuting, and wages for all Big Sky employers.

Employment

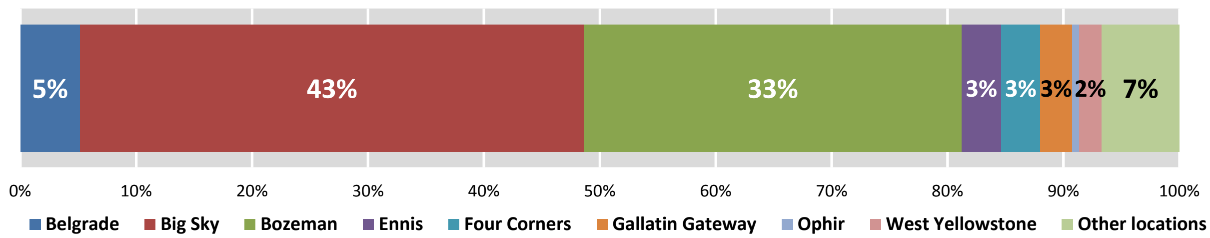
There were 10 total major employers who completed and returned this survey, with a combined total employment (full-time and part-time) of 2,386 jobs during peak season and 574 jobs during off-season. Of the businesses surveyed, more than one-third have only operated in Big Sky for less than 1 year, and another 33 percent have operated for just 1 to 5 years. Nearly 20 percent indicated they have operated for 5 to 10 years, and the remaining 10 percent indicated operating in Big Sky for more than 10 years.

[4] Employers participating included: Yellowstone Club, Big Sky Resort, Big Sky Landscaping, Big Sky School District, Big Sky Water & Sewer District, Big Sky Western Bank, Blue Ribbon Builders, Gallatin River Guides, Hammond Property Management, Highline Partners

Commuting

Among workers of all employers surveyed, 43 percent live in Big Sky and the remaining 57 percent live elsewhere. Of the 57 percent living elsewhere, 33 percent live in Bozeman, and those living elsewhere accounts for the remaining 24 percent.

Figure 4
Employee by Location of Residence

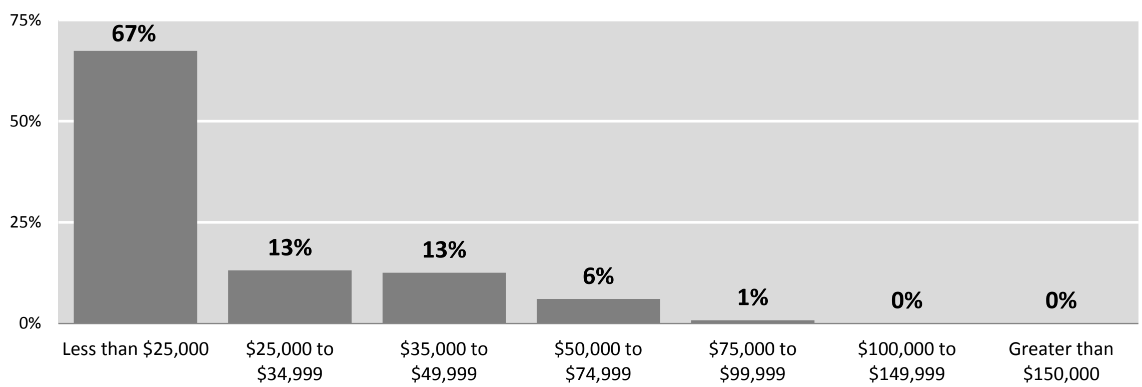


Source: Economic & Planning Systems

Wages

Employers were asked to identify the number of their employees by wage levels, as illustrated below in **Figure 5**. The results show that approximately two-thirds (67 percent) of the workforce represented by this survey sample earn less than $25,000 per year. It should be noted that these results are consistent with the earnings estimations data reported by the U.S. Census LEHD data.

Figure 5
Employees by Wage Level



Source: Economic & Planning Systems

Housing as an Issue

Among the employers surveyed, 7 out of the 10 indicated that the availability of housing was a major issue affecting their ability to hire qualified staff, but just two of them provide employee housing units. One of the employers also indicated that they were beginning plans to provide employee housing to address the issue.

Demographics

Population and Households

Demographic data comes from the U.S. Decennial Census and the U.S. Census American Community Survey (ACS). Between 2000 and 2012, the population of Big Sky has increased from approximately 1,200 full-time residents to more than 2,200—a growth rate of approximately 5.3 percent per year on average. Big Sky has also added more than 400 households during this time, but more than 1,200 housing units.

Gallatin County's population has also grown relatively quickly over the past decade, as it has added nearly 1,900 people, 860 households, and more than 1,000 housing units per year. Madison County growth was slower adding 837 people in 770 households and an average of 177 housing units per year.

Table 6
Demographics, 2000-2012

			2000-2012		
	2000	**2012**	**Total**	**Ann. #**	**Ann %**
Population					
Big Sky	1,221	2,266	1,045	87	5.3%
Gallatin County	67,831	90,339	22,508	1,876	2.4%
Madison County	6,851	7,688	837	70	1.0%
Households					
Big Sky	573	996	423	35	4.7%
Gallatin County	26,323	36,659	10,336	861	2.8%
Madison County	2,956	3,726	770	64	1.9%
Housing Units					
Big Sky	1,788	3,030	1,242	104	4.5%
Gallatin County	29,489	42,205	12,716	1,060	3.0%
Madison County	4,671	6,800	2,129	177	3.2%

Source: US Census Bureau; Economic & Planning Systems

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Growth in the Big Sky population and number of households is largely attributable to the growth in the second home market. As documented in **Table 7** below, second homes account for 672 (approximately 50 percent) of the 1,242 total new housing units over the 2000 to 2012 time period. While the number of occupied housing units (i.e. occupied by local resident households) increased by 35 per year, the number of second homes increased by 56 per year from 2000 to 2012 (more than 1.5 times the rate of occupied housing growth).

Table 7
Occupied, Vacant, and Seasonal Housing, 2000-2012

			2000-2012		
	2000	**2012**	**Total**	**Ann. #**	**Ann %**
Big Sky					
Occupied Housing Units	573	996	423	35	4.7%
Vacant Housing Units	1,215	2,034	819	68	4.4%
for Seasonal Use	1,024	1,696	672	56	4.3%
Total	**1,788**	**3,030**	**1,242**	**104**	**4.5%**
Gallatin County					
Occupied Housing Units	26,323	36,659	10,336	861	2.8%
Vacant Housing Units	3,166	5,546	2,380	198	4.8%
for Seasonal Use	1,723	2,416	693	58	2.9%
Total	**29,489**	**42,205**	**12,716**	**1,060**	**3.0%**
Madison County					
Occupied Housing Units	2,956	3,726	770	64	1.9%
Vacant Housing Units	1,715	3,074	1,359	113	5.0%
for Seasonal Use	1,144	2,314	1,170	98	6.0%
Total	**4,671**	**6,800**	**2,129**	**177**	**3.2%**

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

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Nationwide, the homeownership rate is currently approximately 65 percent, according to the U.S. Census. Over the past decade it has fluctuated between 65 and 69 percent, peaking in the middle of 2004. In Big Sky, as shown in **Table 8** below, the homeownership rate dropped slightly from 56 to 55 percent between 2000 and 2012. In Gallatin and Madison counties the tenure split is more in line with the national proportions, falling between 60 and 70 percent for ownership households and 30 to 40 percent for rental households.

Table 8
Households by Tenure, 2000-2012

	2000			2012		
	Big Sky	**Gallatin County**	**Madison County**	**Big Sky**	**Gallatin County**	**Madison County**
Households						
Owner-occupied	322	16,434	2,082	550	22,446	2,691
Renter-occupied	251	9,889	874	446	14,213	1,035
Total	**573**	**26,323**	**2,956**	**996**	**36,659**	**3,726**
Households						
Owner-occupied	56%	62%	70%	55%	61%	72%
Renter-occupied	44%	38%	30%	45%	39%	28%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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

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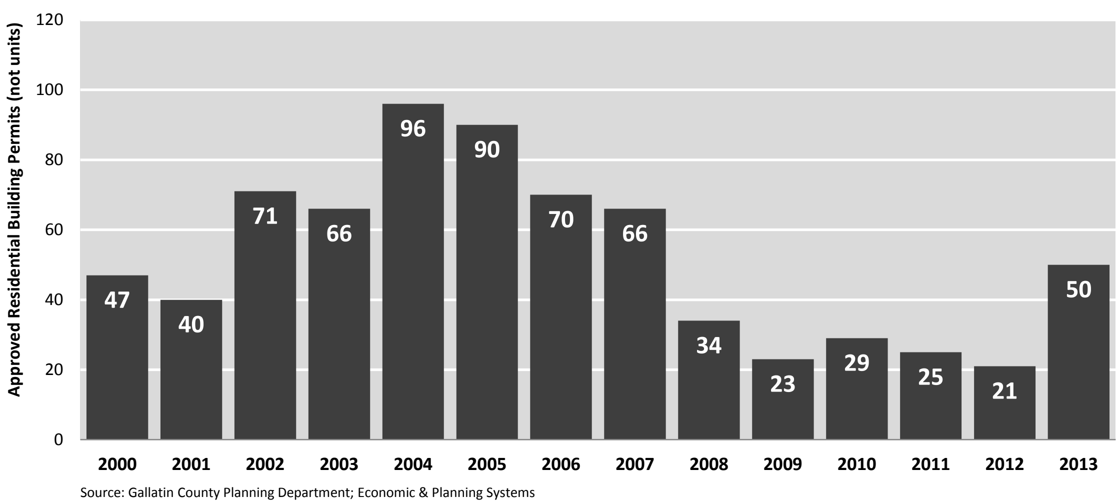
Housing

This section documents the housing market conditions of Big Sky, including residential building activity, an inventory of housing units by value, a distribution of rental units by gross rent, and sales trends in the for-sale housing market. In conjunction with income data collected in the previous section, as well as primary data collected through a survey of employers in the Big Sky area, this provides complementary information useful in framing the housing gaps and needs analysis in a later section of the report.

General Housing Trends

Residential construction activity across the U.S. reached its peak between 2006 and 2007, and regionally, most markets peaked around that time, as well. In the Gallatin County portion of Big Sky, permitting activity reached its peak of 96 total permit approvals for the year 2004 and tapered to 66 permit approvals for the year by 2007.[5] With the exception of 2013, the level of permitting activity has generally been below 50 percent of pre-housing bust activity levels since 2008.

Figure 6
Residential Construction Trends, 2000-2013



The following information provides a cross-section of the for-sale housing inventory by value, according to data reported by the U.S. Census. The data are presented in nominal values (i.e. not adjusted to account for inflation or price appreciation). In terms of overall distribution, the portion of units under $200,000 has risen from 56 in 2000 to 137 in 2012, but as a percent of total units has decreased from 31 to 25 percent. The number of units valued between $200,000 and $400,000 has similarly increased from a total of 81 in 2000 to 148 in 2012, but as a percent of total inventory, has decreased from 45 to 27 percent. In general, the trend reflects the experience of maturing resort communities, where the portion of units affordable to local residents (i.e. generally under $400,000) shrinks and the portion of units above this mark increases.

[5] Madison County does not issue building permits. They are handled through electrical permitting at the state level. EPS attempted to acquire data from the state, but only found data available from 2007.

Table 9
Distribution of Ownership Housing Units by Value in Big Sky, 2000-2012

	Housing Units		Housing Units	
	2000	**2012**	**2000**	**2012**
Inventory by Housing Value				
Less than $199,999	56	137	31%	25%
$200,000 to $299,999	54	98	30%	18%
$300,000 to $399,999	27	50	15%	9%
$400,000 to $499,999	7	37	4%	7%
$500,000 to $749,999	19	92	10%	17%
$750,000 to $999,999	11	60	6%	11%
$1,000,000 or more	8	76	4%	14%
Total	**182**	**550**	**100%**	**100%**

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

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Demographics.xlsx]TABLE 2 - Inventory by Value

The inventory of rental units by monthly rent range is shown in **Table 10** below. The number of units affordable to lower income levels has also decreased as a portion of the total inventory of for-rent units. In 2000, units with gross rents under $650 per month accounted for nearly 60 percent of the total inventory of rentals. The number of units, however, at higher monthly rents (i.e. greater than $900 per month) has increased from approximately 16 percent of the inventory in 2000 to approximately 49 percent of the inventory by 2012.

Table 10
Distribution of Rental Housing Units by Gross Rent, 2000-2012

Gross Rent Category	Approximate Income Category	Units by Gross Rent		as % of Total	
		2000	**2012**	**2000**	**2012**
Less than $650	Less than $25,000	127	98	58%	24%
$650 to $899	$25,000 to $34,999	54	112	25%	28%
$900 to $1,249	$35,000 to $49,999	16	101	7%	25%
$1,250 to $1,999	$50,000 to $74,999	18	96	8%	24%
$2,000 or more	$75,000 or more	3	0	1%	0%
Total		**218**	**407**	**100%**	**100%**

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

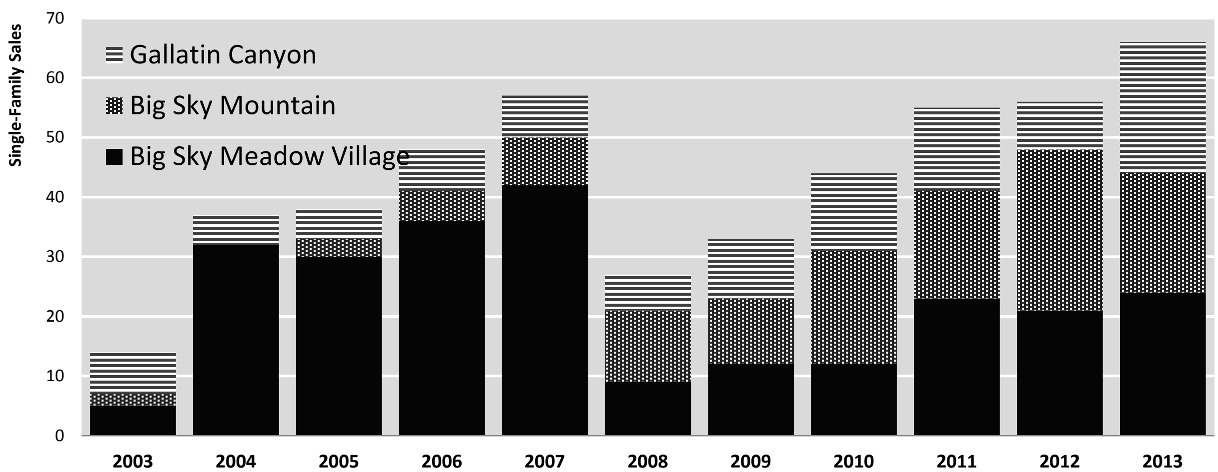
H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Demographics.xlsx]TABLE 3 - Gross Rent

Sales Trends

The following information is detailed to provide a framework for understanding the general housing sales conditions and trends in Big Sky. The data presented in this section describe sales trends in the Gallatin Canyon, Big Sky Mountain, and Big Sky Meadow Village based on an analysis of MLS sales data.[6]

Generally, the volume of activity in the housing market in Big Sky has recovered to levels exceeding the previous 2007 peak. Many resort markets in the Rocky Mountain West experienced a 30 to 55 percent drop in average pricing (per square foot) and an average drop in volume of 80 to 90 percent. Interestingly, Big Sky's experience was somewhat different when combining volume of activity for single-family and condominium real estate product, as shown below in **Figure 7**. Housing sales volumes, fueled predominantly by condominium sales as shown in the following charts, began to taper steadily from 2005 to a trough in 2008. Although annual activity in 2008 was 50 percent of its 2005 peak, sales have reached more than 150 percent of this level in 2013—a sign of increased demand.

Figure 7
Overall Sales Volumes in Big Sky, 2003-2013



Source: ERA Landmark; Economic & Planning Systems

[6] Given non-disclosure limitations in the state of Montana regarding multiple listing service (MLS) data and privacy concerns, EPS made a special request through ERA Landmark to acquire sales data for the Madison and Gallatin county portions of Big Sky. The data used in this report are from the MLS data sent to EPS from that request.

Single-Family Sales

Single-family housing unit sales volumes are more consistent with the pattern of the national and regional experience in housing markets, characterized by a peak in 2007 followed by a steep decline in sales activity the following year. In Big Sky, sales of single-family housing units peaked in 2007 at 57 units and dropped to 27 units the following year. By 2013 (a complete year), the volume of activity has surpassed that 2007 peak and reached 66 units sold.

As sales activity peaked in 2007, so did pricing. Generally, average sales prices per square foot for single-family housing units peaked in 2006 and 2007 (as shown below in **Table 11**) at $567 per square foot. While price levels declined sharply in the years following the housing bust in 2008, they have generally not recovered their peak and only in 2013 have average prices per square foot begun to increase again, reaching $309 per square foot. When viewed from the perspective of the start and finish of this 10-year period, prices have increased at a rate of 3.0 percent per year.

Table 11
Average Single-Family Sales Prices per Sqft and Volume, 2003-2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2003-2013 Total	2003-2013 Ann. %
Sales by Volume													
Gallatin Canyon	7	5	5	7	7	6	10	13	14	8	22	---	---
Big Sky Meadow Village	5	32	30	36	42	9	12	12	23	21	24	---	---
Big Sky Mountain	2	n/a	3	5	8	12	11	19	18	27	20	---	---
Total	**14**	**37**	**38**	**48**	**57**	**27**	**33**	**44**	**55**	**56**	**66**	**---**	**---**
Average Sales Price / Sqft by Area													
Gallatin Canyon	$227	$240	$224	$346	$342	$275	$271	$165	$224	$119	$203	-$24	-1.1%
Big Sky Meadow Village	$238	$210	$303	$591	$521	$508	$276	$215	$217	$223	$203	-$35	-1.6%
Big Sky Mountain	$215	n/a	$541	$706	$744	$677	$446	$474	$487	$382	$553	$339	9.9%
Overall	**$229**	**$214**	**$312**	**$567**	**$530**	**$532**	**$331**	**$312**	**$307**	**$285**	**$309**	**$80**	**3.0%**

Source: ERA Landmark; Economic & Planning Systems

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Big Sky MLS - Robyn Erlenbusch.xlsx]TABLE 1 - Overall SF Trends

Condominium Sales

Condominium sales volumes are shown below in **Table 12**. As indicated previously, the overall volume of activity and the Big Sky area's general level of sales activity have been predominantly affected by the activity in the market for condominiums. Sales activity of condominiums peaked in 2007 at approximately 120 units and dropped to less than 50 percent for the following three years. In the period since the end of the Great Recession (1st quarter 2009) and 2013, sales activity has again reached a peak of 180 sales for the year.

Condominium sales prices have increased faster than single-family housing units in Big Sky. As shown below, the average price per square foot increased from $140 in 2003 to $209 in 2013. Peak pricing generally occurred between 2006 and 2008, although this was with lower sales volume than during 2005. Condominium pricing, during the trough, fell to approximately 50 percent ($178 per square foot) of its peak pricing, but has since only recovered to approximately 60 percent ($209 per square foot) of the peak.

Table 12
Average Condominium Sales Prices per Sqft and Volumes, 2000-2012

												2003-2013	
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**	**Ann. %**
Sales by Volume													
Big Sky Meadow Village	26	74	109	71	43	32	33	54	75	60	89	---	---
Big Sky Mountain	7	4	10	24	15	29	26	41	57	53	90	---	---
Total	**33**	**78**	**119**	**95**	**58**	**61**	**59**	**95**	**132**	**113**	**179**	**---**	**---**
Average Sales Price / Sqft													
Big Sky Meadow Village	$132	$148	$245	$313	$302	$240	$158	$139	$109	$123	$155	$23	1.6%
Big Sky Mountain	$172	$165	$377	$425	$386	$473	$280	$229	$234	$230	$262	$90	4.3%
Overall	**$140**	**$149**	**$256**	**$341**	**$324**	**$351**	**$212**	**$178**	**$163**	**$173**	**$209**	**$69**	**4.1%**

Source: ERA Landmark; Economic & Planning Systems

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Big Sky MLS - Robyn Erlenbusch.xlsx]TABLE 2 - Overall Condo Trends

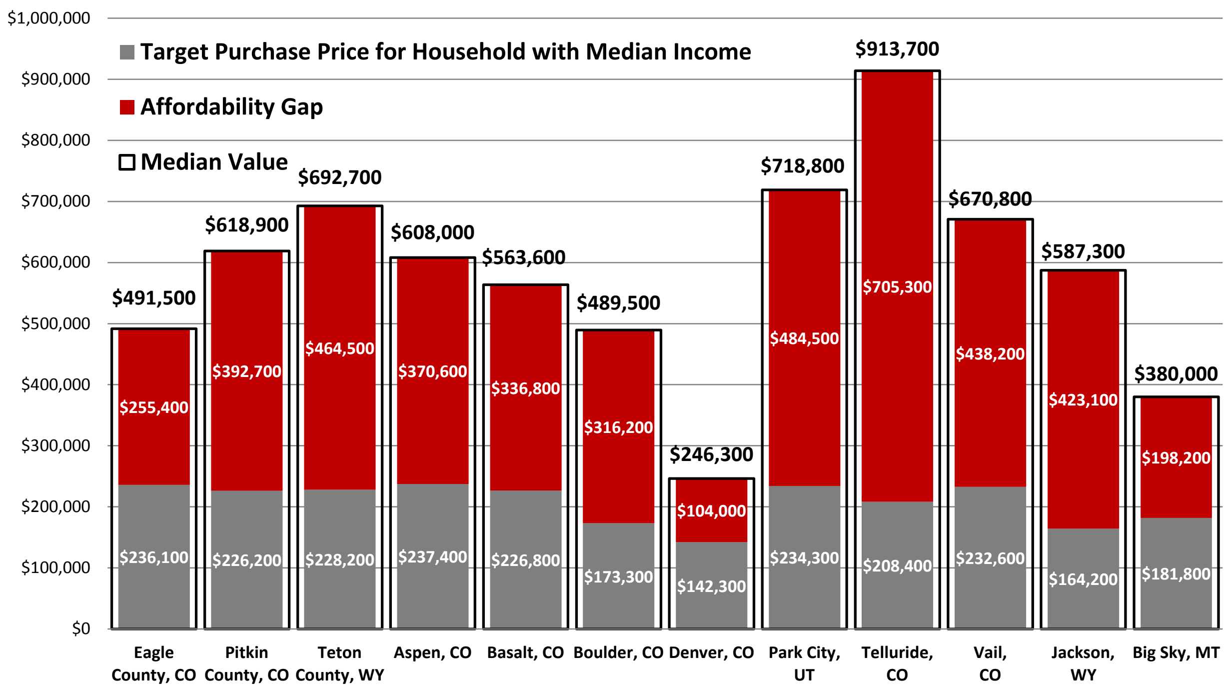
Housing Costs and Income

EPS collected data on housing costs and affordability in other communities with inclusionary housing ordinances (IHOs) and/or commercial linkage programs. **Figure 8** illustrates how affordable each community comparing two basic metrics – the median value of for-sale housing and the target purchase price for a household earning the median income.[7]

Overall, median housing values in these communities are 9 times what a household earning the median income can afford. Historically, housing industry practitioners have used a multiplier of 3 to gauge what a target affordable price is. For example, the target purchase price for a household with a $50,000 income would be $150,000.

According to data compiled from the U.S. Census, Big Sky's median housing value is $380,000 and the median household income is approximately $58,400, which is 6.5 times household income. In Denver, the median home value is approximately $246,000, or 5 times median household income. In Telluride, on the other hand, the median home value is greater than $900,000 or 14.2 times the annual median household income.

Figure 8
Housing Affordability and Gap Metrics, 2012



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

[7] 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 also includes a monetary assumption for HOA dues for analyses in markets where this is common. The assumptions used in this analysis are: 5 percent mortgage interest rate; 30-year fixed rate mortgage, 5 percent downpayment; property taxes of 1 percent of total housing value per year; insurance of $500 per year; and HOA dues of $300 per month.

3. WORKFORCE HOUSING BEST PRACTICES

This section of the report provides a summary of the methods and techniques used to provide workforce housing in the U.S. The workforce housing programs of five Rocky Mountain area resorts with similar housing affordability issues are reviewed. As noted, each community operates in a different legal and regulatory environment; as a result not all of the tools described can be currently implemented in Big Sky.

Workforce Housing Tools

The analysis of best practices is structured as a matrix of policy or financing strategy options used in comparable resort communities. It includes an evaluation of which are best-suited for public-private solutions, which financing mechanisms are available and under what structure, and the qualitative and quantitative advantages and disadvantages of each. The tools for providing workforce housing can be separated into two major categories, land use regulatory mechanisms that require developers to mitigate the impacts of development on workforce housing needs and other funding and financing methods that generate revenues dedicated to building workforce housing.

Land Use Regulations

There are two basic land use regulation programs in common practice, inclusionary zoning requirements (i.e., Inclusionary Housing Ordinance or Inclusionary Zoning Ordinance) and commercial linkage requirements as shown in **Figure 9** and summarized below.

Inclusionary Housing

Inclusionary zoning refers to municipal and county planning ordinances that require a portion of new housing construction to be affordable by households at specified income levels. In resort communities, most IHOs require a development to provide a percent of the housing units in a new development to be built for the local workforce. The IHO requirements generally range from 10 to 30 percent of the total housing units. The level of affordability generally ranges from 80 to 140 percent of HUD AMI.

The developer can comply with the 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 IHO programs allow for all or a portion of the housing requirement to be met by cash-in-lieu payments.

IHO ordinances are enacted by self-governing cities or counties as land use regulations under the health safety and welfare provisions. In most states, statutory cities or counties do not have the ability to adopt such ordinances. For example, the Idaho Supreme Court recently ruled that the Sun Valley/Ketchum IHO was an impact fee and not allowed by the Idaho statutes. After being established in 2005, it was repealed in 2008.

IHOs are the cornerstone of many resort community's workforce housing programs including Aspen and Pitkin County, CO; Telluride and San Miguel County, CO; Breckenridge, CO, Park City, UT, and Jackson and Teton County, WY. There are also IHOs in a number of urban markets with housing affordability issues including Denver and Boulder, CO; Santa Fe, NM, San Francisco, CA; and New York City, NY.

Commercial Linkage

Commercial linkage fees are a form of impact fee assessed on new commercial developments or major employers based on mitigating the need for workforce housing generated by new or expanding business. Revenues collected from fees are then used to help fund the development of workforce housing within the community.

Linkage fees require a nexus study to establish the basis for the fee. The study quantifies the cost of the capital facilities needed to address the estimated impacts, allocates these costs to the new development, and sets the required payments. The commercial impacts are most often calculated as a cost per square foot of commercial space based on the number of employees estimated to occupy the commercial space. As a result there are different rates calculated for retail, restaurant, office, hotel, and industrial space. It is important to note that commercial linkage, like all impact fees, can only be used to pay for the impact of new development going forward. They cannot be used to address existing capital deficiencies in the community.

Some communities combine an IHO with commercial impact fees to allocate a portion of the workforce housing burden to both new residential and commercial development. In resort settings, commercial linkage fees are used jointly with IHOs in Aspen and Telluride, Colorado, and Park City, Utah.

Residential Linkage

A less common practice is the adoption of residential linkage fees. These fees are assessed against residential developments to mitigate the workforce housing needs created by the permanent employment they are estimated to generate. In Teton County, Wyoming, these fees are imposed on large “trophy” homes (e.g. greater than 2,500 square feet of habitable floor area) to mitigate the demand for employees to provide property management, landscape maintenance, cleaning, road maintenance, and snow removal services. In Telluride, these fees are applied to resort lodging developments to mitigate the requirements for accommodations related employment such as retail, restaurant, maids, and other service workers.

Figure 9
Land Use Regulatory Tools

	Land Use Regulations			
	Inclusionary Housing Ordinance	**Commercial Linkage**	**Residential Linkage**	**Land Set-Aside**
What is it?	● Addresses housing need from residential growth pressure; ● Requires a percent of housing be provided at affordable levels	● Addresses housing need from commercial growth pressure; ● Requires commercial development to provide housing units (or pay a fee) based on new employees generated	● Addresses housing need from market for large second homes; ● Developer provides employee housing units or pays fee in-lieu	● Requires percent of land to be set-aside for affordable housing
What are its advantages / disadvantages?	● Addresses community workforce housing needs (i.e. ownership or rental); ● Limits the burden to new residential development; ● Most common among the three programs identified	● Addresses workforce housing needs; ● Broadens the burden to wide variety of land uses; ● Requires nexus analysis	● Addresses seasonal/ service worker housing needs (i.e. rental); ● Limits the burden on market to large second homes; ● Requires complicated nexus analysis	● County subdivision regulations allow for parkland, school, or other uses; ● Affordable housing not currently an specified use; ● Would require amendment of state subdivision regulations
Who has it?	Jackson/Teton County, WY; Aspen/Pitkin County, CO; Vail, CO; Telluride, CO; Basalt, CO; Park City, UT	Vail, CO; Aspen/Pitkin County, CO; Telluride, CO; Basalt, CO; Park City, UT	Telluride, CO; Jackson/Teton County, WY	N/A

Source: Economic & Planning Systems

Other Funding Sources

There are a range of other funding sources in use for providing workforce housing in both urban and resort settings. These sources are shown in **Figure 10** and summarized below. Most of these funding sources are enabled under self-governing powers as noted.[8]

Excise Tax

An excise tax is a tax paid on a level of production that is intended to become a cost of the product passed on to the end user or customer. It differs from a sales tax in that it is based on a unit of production rather than a percent of the final purchase price. A number of communities have implemented an excise tax on construction designated for the development of workforce housing including Boulder, Parker, and Snowmass Village, CO. Boulder's excise tax is $160 per 1,000 square feet of residential development and $340 per 1,000 square feet of commercial development. Snowmass Village's excise tax is calculated on a complex formula and only applies

[8] **§7-1-101. Self-government powers**. As provided by Article XI, section 6, of the Montana constitution, a local government unit with self-government powers may exercise any power not prohibited by the constitution, law, or charter. These powers include but are not limited to the powers granted to general power governments. **§7-1-102: Authorization for self-government services and functions**. A local government with self-government powers may provide any services or perform any functions not expressly prohibited by the Montana constitution, state law, or its charter. These services and functions include but are not limited to those services and functions which general power government units are authorized to provide or perform. **§7-1-106: Construction of self-government powers**. The powers and authority of a local government unit with self-government powers shall be liberally construed. Every reasonable doubt as to the existence of a local government power or authority shall be resolved in favor of the existence of that power or authority.

to residential expansions over 550 square feet. However, it can be as high as $150,000 to $200,000 on larger expansions and has generated a total of $3.4 million over the last six years. An excise tax has some advantages over a linkage fee in that it is a general purpose tax that does not require a nexus study and does not require the funds collected to be allocated to a specified set of improvements. However, because it is a tax instead of an impact fee, it requires approval of the voters in a community.

Dedicated Sales Tax

A number of communities have imposed a dedicated sales tax collected to fund workforce housing construction and programs. This is an attractive funding option in resort communities because the majority of the taxes are paid by visitors and because the tax increases over time with growth and inflation. Aspen has a 0.45 percent tax that currently generates about $2.75 million per year in revenues. This type of dedicated tax can only be done in self-governing cities or counties and requires voter approval.

The Big Sky Resort Area Tax District was established in 1992 and imposes a 3.0 percent tax on nonessential (e.g., luxury) retail goods. The District collects about $3.0 million per year in revenues and distributes these funds largely through a competitive grant process. A portion of existing funds could potentially be allocated to workforce housing needs. Alternately, the District could investigate the potential of imposing an additional 0.5 percent tax to be designated for workforce housing development.

Workforce Housing Rebates

A development incentive used in a number of urban markets is a rebate on sales and use taxes applied to construction materials on workforce housing developments. Currently Fort Collins and Loveland, CO, have this incentive in place. It may often save a developer 1 to 3 percent of total development costs, assuming that use taxes typically are applied to about 50 percent of a total development's value. Given the size of the housing gap in resort communities, however, the rebate alone is not enough to incentivize new workforce housing construction.

Occupational Privilege Tax

An occupational privilege tax (head tax) is an employment tax assessed on a per worker basis. The tax can be paid by the employer, employee or both. It has generally been used by larger cities for general fund revenues or for designated services. The City and County of Denver, CO has a $9.75 per month head tax that is paid: $5.75 by the employer and $4.00 by the employee. The revenues are split with 50 percent going to the general fund and 50 percent going to the capital improvement fund. Other Colorado cites with a head tax include, Aurora and Greenwood Village. Nationally, Kansas City, MO and Chicago, IL, have employee head taxes. Seattle, WA recently repealed a $25 per year employee head tax because it was determined to be an impediment to attracting new business to the community.

EPS is not aware of any resort communities that have implemented a head tax. However, it is a potentially viable source of revenue for workforce housing based on employment impacts and could be assessed to major employers regardless of where their employees live. The disadvantage is that it is a flat tax that does not increase with inflation or appreciation like a sales or property tax.

Lodging Tax

Cities have placed additional taxes on hotel and lodging receipts to fund a range of programs and facilities. Some larger cities have total combined sales and lodging taxes in the 15 to 20 percent range. These dedicated taxes over and above the base sales tax rate have generally been for tourism marketing and promotion programs and facilities related to the tourism industry such as convention centers. There is a logical nexus between the tourist visitor and the service level jobs needed to serve the hotel and lodging industry. The Town of Snowmass Village, CO has a 2.4 percent lodging tax (a portion of which is dedicated to housing) in addition to the overall sales tax rate of 10.4 percent, which is restricted to the marketing and promotion of special events and the development of tourism. Additionally, a few communities nationally have dedicated a portion of their lodging tax to workforce housing including San Francisco, CA and Columbus, OH.

Document Recording Fee

A document recording fee (Doc Fee) is a fee applied to the sale of real estate at the time of closing. These fees are generally applied at the state and/or county level and vary greatly in rate. It is similar in nature to an excise tax in that it is calculated as a fee per value of construction. A number of cities have imposed an additional Doc Fee specifically dedicated to workforce housing including St. Louis, MO, and Bucks County, PA.

Real Estate Transfer Tax

Real estate transfer taxes (RETTs) are taxes imposed by states, counties, and cities on the transfer of title of real property within the jurisdiction. RETTS are often enacted as a general revenue source but can also be designated for specific purposes such as workforce housing. In most cases, it is an ad valorem (property) tax based on the value of the property transferred. A total of 37 states and the District of Columbia provide for this tax, but 13 states, including Montana do not. The rates vary greatly from 0.01 percent to as high as 4.0 percent in Pittsburgh, PA.

Colorado has a modest 0.01 percent tax at the state level. A number of Colorado ski resort communities including Aspen, Snowmass Village, Vail, Breckenridge, Telluride, and Winter Park have local RETTS ranging from 1.0 to 2.0 percent, however, only Aspen has designated their RETT revenues for their workforce housing development program. A State Supreme Court ruling amendment has prohibited any new local RETTs from being implemented; however existing programs are grandfathered in.

A number of other Colorado communities have implemented negotiated real estate transfer assessments (RETAs) with major developers most often for workforce housing. A RETA resembles a RETT but is a voluntary negotiated agreement between a municipality and a developer that becomes a deed restriction on the sale. The disadvantage of a RETA is that it only applies to a new housing development where the developer agrees to the restriction; it does not apply more uniformly to sales or re-sales community-wide.

Tax Increment Financing

Tax increment financing (TIF) is a financing mechanism that allows for the allocation of the net new property and/or sales taxes for new development to pay for eligible public costs in support of the new development. TIF is most commonly a redevelopment financing tool allowed by the urban renewal or redevelopment districts. Montana allows for TIF within its urban redevelopment district (URD) statutes. As in most states, Montana URDs need to be within incorporated cities or towns, which Big Sky is not.

A limited number of states have expanded the use of TIF for economic development purposes. For example, in 2005, New Mexico approved Tax Increment Development Districts (TIDDs) that allowed the use of TIF at the city, county, and/or state level for economic development projects that created net new economic activity for the state. Also, in 2010, Colorado approved the Regional Tourism Act (RTA), which allowed the use of sales tax at the state level for a limited number of tourism development projects that generate net new tourism activity for the state.

Montana statute (§7-15-4282) also allows TIF for economic development purposes. In 2013, the State of Montana approved SB-239 revising the Targeted Economic Development District (TEDD) act and allowing its use within unincorporated county areas. TEDDs are intended to support the development of value-added economic development within the state. Value-added products are products that are manufactured, processed, produced or created by changing raw materials or intermediate products into more valuable products that can be sold or traded in interstate commerce. TEDDs can be formed to provide infrastructure improvements in support of secondary value adding industries, and must address documented infrastructure deficiencies within the district that constitute a barrier to these industries.

Nationally, TIF has rarely been used as a financing tool for workforce housing. TIF is generally applied to commercially-based redevelopment projects creating a large tax increment. In some redevelopment settings, workforce housing may be a component of a larger mixed use project; however it is not a primary funding source for its development.

Under the Montana statute, housing is not listed as an eligible expense but it may be possible to make a case for the payment of infrastructure in support of company housing as a means of locating a secondary value adding industry in the district.[9] However it would be necessary to document that the housing was only for the employees of that company.

[9] According to Montana Code §7-15-4279, a targeted economic development district: (a) must consist of a continuous area with an accurately described boundary that is large enough to host a diversified tenant base of multiple independent tenants; (b) must be zoned for use in accordance with the area growth policy, as defined in §76-1-103; (c) may not comprise any property included within an existing tax increment financing district; (d) must, prior to its creation, be found to be deficient in infrastructure improvements as stated in the resolution of necessity adopted under §7-15-4280; (e) must, prior to its creation, have in place a comprehensive development plan adopted by the local governments that ensures that the district can host a diversified tenant base of multiple independent tenants; and (f) may not be designed to serve the needs of a single district tenant or group of nonindependent tenants.

Figure 10
Alternative Housing Funding Options

	Alternative Funding Options						
	Excise Tax	Dedicated Sales Tax	Occupational Privilege Tax (Head Tax)	Use Tax (on Construction Materials)	Lodging Tax	RETA	TIF / TEDD
What is it?	Residential and commercial development pay a fee per sqft of new floor area	Additional assessment on taxable goods	Tax assessed per worker per month	Additional assessment on construction materials	Assessment on lodging tax	Voluntary assessments on title transfer (RETA)	Mill levy
What are its advantages / disadvantages?	● Broad distribution of burden to new residential and commercial development; ● Requires voter approval	● 0.5% could generate $500K / year; ● Voter approval required; ● Could be implemented by Resort Tax District (may require legislative mod.)	● Broadest distribution of burden; ● Would have to be employer-paid; ● Addresses both existing and new needs	● Voter approval required; ● Strong nexus to new resort residential development	● Lodging industry typically expects to use funds for tourism development/ marketing; ● Reasonable nexus to creation of service industry jobs	● Can be imposed voluntarily using developer agreement; ● Only feasible for application to new projects; ● Apply to new sales subject to developer agreement	● Revenues need to be spent primarily for infrastructure improvements
Who has it?	Snowmass Village, CO; Boulder, CO	Aspen/Pitkin County, CO; St. Paul, MN; Dayton, OH	Denver, CO; Aurora, CO; Greenwood Village, CO	San Miguel County, CO	Snowmass Village, CO; San Francisco, CA; Columbus, OH;	Aspen, CO; Snowmass Village, CO; Vail, CO; Breckenridge, CO; Telluride, CO; Winter Park, CO	Widely used across U.S.; seldom for affordable housing

Source: Economic & Planning Systems

Non-Profit Organizations

There are a number of organizations that can be formed for the development and management of workforce housing. Non-profit structures are a way to generate funds that are charitably donated, rather than exacted in the form of taxes or fees. To this point, in 2008, Governor Schweitzer was quoted as saying that "*over the next ten years,…nearly nine billion dollars will pass out of the estates of Montana residents. Local and county community foundations are critical to retaining a portion of that wealth to preserve Montana's legacy.*"[10]

There are a number of different organizational structures that may help Big Sky address its needs specifically with the provision of workforce housing or more broadly with other community needs. Depending on the structure, the primary mission of these organizations can vary and be very narrowly or broadly focused, but all of them can be implemented to address housing needs. The three organizations reviewed below are housing authorities, community land trusts, and community (housing) foundations.

[10] Excerpted from the 2008 *Guide to Supporting Montana's Local and County Community Foundations* of the Big Sky Institute for the Advancement of Non-Profits.

Housing Authority

A housing authority can be established by a city or county through a petition process and approved by resolution of the governing body. Housing authorities can develop, own, and manage publicly owned workforce housing. The housing authority is an entity of a city or county government and not a separate governmental entity. Housing authorities are most often formed to administer federally-funded programs through HUD. In a county, the housing authority is governed by commissioners appointed by the Board of County Commissioners. It is therefore generally reliant on county financial support although it can use federal and state housing funds for development.

- **Great Falls Housing Authority** "in partnership with its residents, will responsibly and respectfully make safe, basic, workforce housing available for qualifying individuals and families." GFHA offers three programs, including subsidized public housing, where it owns and operates 490 apartments available to income qualifying residents. It also offers housing choice vouchers, where the GFHA is a manager for assisted housing vouchers for the Section 8 housing program, the GFHA approves a home for quality standards and subsidizes the rent (private landlords may also contract with the GFHA). In the GFHA's workforce housing program, it owns 24 apartments that are not subsidized but whose rents are affordable to low/moderate income people.
- **Housing Authority of Billings (HAB)** was established in 1973 and is governed by a seven member board appointed by the mayor of Billings to provide safe, decent and workforce housing to individuals and families in Billings and within a 10-mile radius of the city's limits. Currently, the HAB, operated by a staff of 25, owns and/or manages more than 400 housing units and administers rental subsidy for over 1,000 units. The HAB receives most of its funding from the HUD. The HAB offers several programs, including: public housing, Section 8 vouchers, Section 8 homeownership, Section 8 project-based programs, development, shelter plus care, housing referrals, and low-income housing tax credits.
- **Missoula Housing Authority (MHA)** was created by Missoula voters in 1978. The MHA offers several programs, including: housing choice vouchers, public housing, shelter plus care (the MHA currently has 107 vouchers), and workforce housing, such as low-income housing tax credits. Like other housing authorities, the MHA is authorized to purchase property, demolish and rebuild areas and build new housing projects. The MHA also administers and partners with several programs that serve the homeless—it currently provides about 175 households with permanent supportive housing.

Community Land Trust

A community land trust (CLT) is a non-profit corporation that has 501(c)(3) or (4) IRS status that provides permanently affordable housing units by acquiring land and removing it from the speculative for-profit real estate market. CLTs hold the land it owns "in trust" for the benefit of the community by ensuring that it will always remain affordable for homebuyers. CLTs were enabled under Section 213 of the Federal Housing and Community Development Act of 1992.

A CLT typically acquires land for workforce housing in its designated community (a geography can be established that crosses county lines). The land is transferred to a developer and ultimately a homeowner under a long term land lease. The CLT generally leases the land to a qualified homeowner at a reduced rate to subsidize the housing unit price. The CLT retains the option to repurchase the housing unit upon sale and the resale price is set by formula to give the homeowner a fair return on their investment but also to maintain affordability for future homeowners (e.g., the appreciation is capped).

There are currently over 250 CLTs nationwide including the following five in Montana and nearby areas.

- **Jackson Hole Community Land Trust** was established in 1992 by a number of wealthy Teton County, Wyoming area residents. The Trust has an endowment of $5.6 million and has built nearly 100 deed-restricted workforce housing units. It has also acquired sufficient land to build an additional 57 housing units over the next three years.
- **Northwest Montana CLT (NWMTCLT)**, a function of the Community Action Partnership of Northwest Montana, is based in Kalispell and was established in 1976. In conjunction with Kalispell's planning department, has acquired more than 20 housing units with private and federal funds, including more than $4 million in HUD Neighborhood Stabilization Program funds. The NWMTCLT offers several programs, including: housing programs, energy programs, a homeless program, asset management program, and employment/training programs.
- **Whitefish Area Land Trust** was established in 2008 and is a component of the Whitefish Housing Authority. It currently has five deed-restricted units in its inventory.
- **North Missoula Community Development Corporation** established in 2000, has a land stewardship program using a community land trust model, and currently has 24 units. Its goals and mission are to provide access to land and housing for people of modest incomes, promote neighborhood preservation, revitalization and stability, and create and maintain housing that will remain affordable in perpetuity.
- **Trust Montana** – In 2010, a feasibility study was completed by the Community Action Partnership of Northwest Montana to establish a statewide CLT in Montana. As a result of this process, Trust Montana was established very recently in January 2014 and is intended to function as an umbrella organization for land trust entities throughout the state. Overall, its purpose, which has yet to be more fully defined, is to provide land trusts throughout the state a vehicle to maintain their functions without the burden of administrative expenses, and a way of mitigating against the loss of continuity in leadership when personnel leave. To date, Trust Montana has been applying for and receiving state-level grants generally from private non-profits, such as foundations for its financial support.

Foundations

Community foundations can be established with very broad purposes, and may be more suitable for communities seeking to achieve a variety of goals in a more flexible structure than the housing authority or land trust models. While a number of foundations have been established with the primary purpose of building workforce housing, there are also many organizations throughout Montana dedicated to a wide variety of causes. The following provides an overview of foundations in the state.

- **Mountainlands Community Housing Trust (MCHT)** is a non-profit corporation founded in 1993 based on the belief that a safe and decent home is often a family's first step toward economic self-sufficiency. MCHT addresses the dual problems of housing affordability and availability on three fronts: acquisition and new construction of workforce housing, direct assistance in securing housing and needed basic services, and education and advocacy to promote housing policy. MCHT has $4.7 million in assets and has built or acquired 135 housing units in Summit County, UT (Park City area) for workforce housing.

- **Ruby Valley Community Foundation (closed)** discontinued operations in March 2014, but was established in 2011 to serve the geographic area from Silver Star to the Upper Ruby Valley in Montana. It was an outgrowth of the Horizons leadership development project carried on in Twin Bridges, MT and Sheridan, MT during 2009, culminating in a start-up grant of $7,500 awarded by the Montana Community Foundation to begin a permanent endowment and organize this local community foundation. Its mission focused on services for the elderly, health and nutrition programs, education, recreation and health for children, arts and culture, and the environment. The foundation was apparently closed because of its redundancy with other local organizations seeking to achieve similar goals.

- **Madison Byways** is not a traditional foundation addressing housing issues. As an example of how broadly-based such an organization's mission can be, Madison Byways is a group of Ennis and Madison Valley, MT residents dedicated to developing and maintaining a trail and pathway system. Its mission is to construct and maintain a network of paths for travel within and beyond the Town of Ennis, and to promote an environmentally clean method of travel. Funding for this organization was made possible by initial efforts and resources of the Northwest Area Foundation, an organization supporting poverty reduction and sustainability in an 8-state region from Minnesota to Washington, including Montana. Funding for some of the Madison Byways projects have come through grants and collaborations with Madison County, Ennis Schools, the Town of Ennis, Montana Fish, Wildlife, and Parks, and the Montana DOT.

Comparable Resort Workforce Housing

As noted many of the comparable Rocky Mountain area resort communities use multiple tools and funding sources to address their workforce housing needs. The five communities profiled below have unique, robust, long standing, and proven workforce housing programs with relevance to Big Sky.

Telluride, Colorado

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.

Program

Telluride relies primarily on a comprehensive residential and commercial linkage program. These programs are administered by the Planning & Building Department within its development review activities, with assistance from the San Miguel Regional Housing Authority to process necessary deed restrictions for affected dwelling units.

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. Each mitigation requirement is multiplied by 350 square-feet to establish the total floor area to be provided.

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 bonus density, 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.

Alternatives are also available to a developer for the satisfaction of the housing program. Developers may make cash payments in-lieu payments, deed-restrict existing housing stock, construct dormitory or shared facility units or dedicate land. Telluride's Land Use Code has established more burdensome guidelines for building off-site units to discourage this practice. Yet, developers often encounter resistance from HOAs that must approve workforce units within their developments. As a result, taking the off-site option is a common practice.

For commercial development, there is less resistance, particularly in mixed-use settings. Telluride zoning allows for mixed use development; while the first 35 vertical feet has to be pure commercial use in certain zones, upper floors can be used for residential, allowing developers to more easily include the required employee units on-site. In addition, commercial developers can only opt out of 10 percent of the total mitigation requirement or if the mitigation required is less than 500 square feet per employee unit, which attempts to encourage the construction of workforce housing units on-site.

Off-site units built or provided by developers tend to be scattered throughout Telluride, while the units built using Telluride's housing fund are more concentrated in a few developments, mostly toward the western end of town. In general the location and level of concentration of workforce units are not viewed as a "problem" by the community.

Eligible Households

There are three tiers of households targeted for employee housing. In general 50 percent of the required square footage needs to be provided for Tier 1 households. With a median household income of $64,189 for a two person household, the target income range is approximately $51,000 to approximately $83,000.

- **Tier 1 Households** – includes one bedroom units for 1 person households from 60 to 80 percent of AMI and two bedroom units for 2 person households from 80 to 100 percent of AMI.
- **Tier 2 Households** – includes one bedroom units for 1 person households from 75 to 105 percent of AMI and two bedroom units from 95 to 125 percent of AMI for 2 person households.
- **Tier 3 Households** – shall not exceed 130 percent of AMI for household sizes.

Strengths

Telluride believes its commercial linkage program is working well and meeting its goals, although there is a slight imbalance between workforce units for sale (which are often not being purchased) and available workforce units for rent (which are scarce). There are no plans to significantly modify the program in the near future.

Vail, Colorado

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.

Programs

The Vail program has two components: an IHO (named the employee housing program) and a commercial linkage program. 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.

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.

The commercial linkage program establishes employee generation rates by type of development including 0.7 employees per lodging unit, 2.4 employees per 1,000 square feet for retail uses, 6.75 employees per 1,000 square feet for restaurant uses, and 3.2 employees per 1,000 square feet for office uses. The mitigation requirement is for 20 percent of the employees generated. The EHU size requirements are a GRFA or 250 square feet for a dorm unit for one employee, 438 square feet for a studio for 1.25 employees, 613 square feet for a one bedroom for 1.75 employees, and 788 square feet for a two bedroom for 2.25 employees.

Eligible Households

Vail does not have income restriction for its deed restricted housing units. Eligible households need to have a head of household who is a full time Vail area employee.

Strengths and Weaknesses

In general, Vail’s commercial linkage and employee housing programs are functioning well and are not likely to change significantly in the near future. Two issues that might soon be addressed relate to balancing business needs (lowering development costs) against community needs (providing ample workforce housing), and the concern that the on-site requirement generally provides only the smallest type of housing units (often dormitory in nature), and fails to create more family-oriented units.

Aspen / Pitkin County, Colorado

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.” There is an overall goal to house 60 percent of the area workforce locally.

Today the requirement to construct workforce housing is controlled through the Aspen’s Growth Management Quota System (GMQS). The system 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.

The GMQS requires residential development provide a total of 30 percent of total floor area as affordable. Commercial development must provide workforce housing for 60 percent of the anticipated employees through commercial mitigation. Overall, the program has overseen the construction of approximately 2,800 residential units, approximately 1,500 for-sale units and 1,300 rental units.

As with most IHOs or linkage programs, a developer may construct units off-site or pay a fee in-lieu of the construction requirement. The in-lieu payment, however, must be approved by APCHA. The cash in-lieu CIL payment differs by housing category, from $264,228 for a low-income unit (Category 1) to $130,213 for a middle income unit (Category 4). Each year the CIL is increased by 3 percent or the Consumer Price Index (CPI), whichever is greater.

Aspen has 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.

Eligible Households

The program is focused on full-time employees within Pitkin County working a minimum of 1,500 hours per year. Renters currently have an annual household limit of $51,000 for a two person household in a Category 1 unit or up to $213,000 for a Category 4 housing unit. Ownership units are focused on families of full time employees with a maximum income of $42,400 for one dependent for Category 1 units up to $150,500 for Category 4 units.

Strengths and Weaknesses

Aspen and Pitkin County have the most comprehensive and aggressive program in the nation. All residential development is subject to the housing IHO mitigation with a requirement of 30 percent of the total floor area and all commercial development is required to provide 60 percent of total space for workforce housing. The program also benefits from multiple additional funding sources including the RETT in Aspen and a dedicated sales tax in Pitkin County.

In spite of the high level of funding, Aspen still has a challenge getting housing units built. There is neighborhood resistance to the development of workforce housing that is exacerbated by the differences in housing size, mix, and price with free market units. The APCHA has tried to address this issue by purchasing available sites for ownership housing, but even some of these projects have been controversial and have taken years to be implemented.

Jackson / Teton County, WY

The Town of Jackson and Teton County, Wyoming, like Aspen/Pitkin County, have coordinated and consolidated their workforce housing programs through the Teton County Housing Authority (TCHA). The community has a goal of housing at least 65 percent of area employees. Jackson and Teton justify this as a policy objective because they believe the loss of a local workforce and associated diversity also reflects the loss of a sense of community.

Jackson and Teton have provisions for inclusionary housing and residential linkage requirements, as well as for commercial linkage requirements. The major difference, however, acknowledges that there is greater land availability (e.g., for subdivision planning) in unincorporated Teton County than there is in the Town of Jackson. As a result, Jackson's residential requirements make provisions primarily for employee housing through its residential linkage program.

Teton County and Jackson has an IHO requiring new residential development provide 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.

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.

The commercial linkage programs of Jackson and Teton County are similar, in that they identify different non-residential land uses and their employment generation rates to be mitigated. 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. Teton County mitigation requirements are measured by employees per 1,000 square feet including 0.20 for office, 0.65 for retail, and 1.35 for restaurants.

Administering the programs is the TCHA, whose role is to assist the Board of County Commissioners with implementing the Jackson/Teton County Comprehensive Plan and the Housing Standards in the Land Development Regulations of the Town of Jackson and Teton County. It reviews development applications and provides comments to Jackson and the Teton County Planning Departments, and it helps developers with their housing requirements and mitigation plan.

Eligible Households

The maximum household income limits are 80 percent of AMI for Category 1 units, 100 percent of AMI for Category 2 units, and 120 percent of AMI for Category 3 units. At least 33 percent of housing units need to be provided at the Category 1 and 2 levels. There are also Category 4 and 5 units defined by no requirements for their development.

Strengths and Weaknesses

The Jackson/Teton County workforce housing program is comprehensive with a 35 percent IHO and both commercial and residential linkage requirements. The Category 1 and 2 housing units are primarily rental units and the Category 3 units are primarily ownership units. The TCHA program is complemented by a private non-profit, the Jackson Hole Housing Trust which also develops workforce ownership housing in the area.

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.

Park City, Utah

Park City adopted its first set of workforce housing policies in 1995. The program is based on: "mitigating the impact of the resort economy, providing workforce housing so that employees can continue to live locally, and maintaining the social, economic, and political fabric of the community". It therefore provides housing to the full range of local employees including ski resort employees, waiters, waitresses, and bartenders, local bus drivers, teachers, city employees, and police officers. There are currently 485 workforce housing units in Park City of which 80 percent are rental and 20 percent are home ownership units. There are an additional 136 units in various stages of development.

Park City has an IHO requiring all residential developers to provide 15 percent workforce housing units. The workforce housing units do not count against the allowable density of a housing project. The payment in lieu of development fee is $114,282 per employee housing unit equivalent. At the discretion of Park City, an employer may also satisfy the employee housing requirements by building dormitory/lodge units designed for occupancy by seasonal employees.

It also has commercial linkage requiring developments to mitigate 20 percent of the employees generated. The employee generation factors per 1,000 square feet of space range from 1.3 employees for personal services to 6.5 employees for restaurants.

Eligible Households

Rental units are rented at a rate affordable by a household at 100 percent of the HUD AMI. For sale housing prices average below the price affordable to a household at 150 percent of AMI.

Strengths and Weaknesses

Park City's workforce housing program is intended to serve the full income spectrum of area workers but in practice is skewed towards the lower income segment of the market in that it has built primarily rental housing to date.

4. WORKFORCE HOUSING NEED

This section of the report presents EPS's estimate of workforce housing targets and needs for Big Sky. The estimate is presented in two components: 1) existing need based on a workforce housing target, and 2) projected need based on a continuation of existing trends. These estimates of workforce housing need are built on information regarding employment, commuting, and housing conditions as presented in this report, and based on EPS's experience in other mountain resort communities facing similar issues, as well as a recognition of additional capacity and constraints to development that exist in the Big Sky area.

Housing Targets

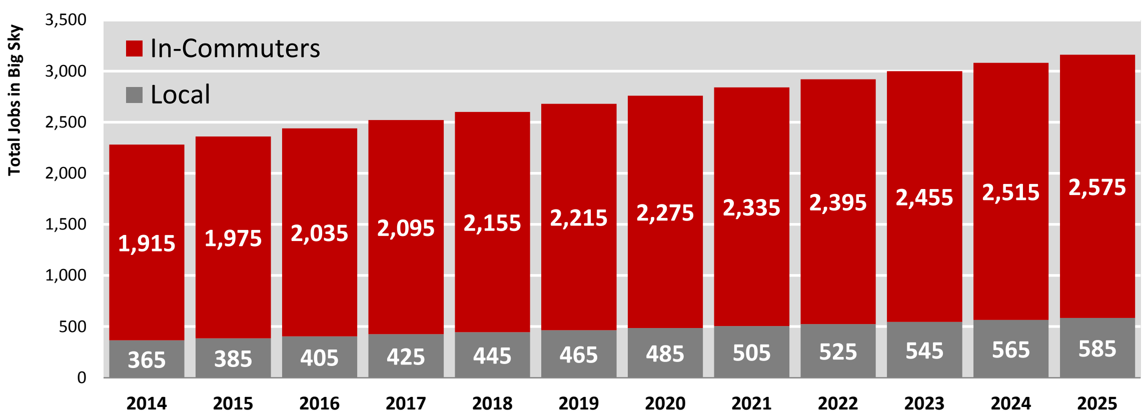
Estimates of housing need are based primarily on identifying and applying a community-level policy target to basic economic and demographic data. The estimates are based on reasonable and viable targets for local workforce housing policy that Big Sky can set as goals.

Current Conditions

Employment and Commuting

Based on the analysis of 2011 commuting data from the U.S. Census, approximately 84 percent of Big Sky's 2,300 workers commute in from surrounding locations, equating to an inflow of more than 1,900 workers. Since 2002, the volume of in-commuters has increased at an average of 8 percent annually while those commuting out from Big Sky has remained relatively flat resulting in fewer than 400 workers (or 16 percent) of the current workforce living locally. A continuation of these trends would imply that in 10 years, as shown in **Figure 11**, there could be 660 more in-commuters than there are today.

Figure 11
Projection of In-Commuting, 2014-2025



Source: Economic & Planning Systems

Capacity and Constraints

Big Sky's capacity for growth is limited by two critical factors: available land and water. Of the existing platted but incomplete developments, most are resort developments; Big Sky Town Center is the only one that contains a sufficient number of developable lots to accommodate any portion of the following workforce housing targets. The Town Center has built approximately 220 of its entitled 1,200 housing units, leaving approximately 1,000 yet to be built. It is, however, unlikely that much of this capacity could be identified for workforce housing without additional housing subsidies.

In the Gateway and South Canyon areas, there are the Lazy J Ranch and the old gravel pit, which are potential sites for accommodating workforce housing development, as well as a couple of small sites in the area between Town Center and the Canyon. In total, over 200 acres could accommodate more than 400 to 600 units, notwithstanding the constraints of water, upgrades to a treatment plant, and discharge permits. Moreover, while funding for such infrastructure improvements may not be a practical concern (though politically challenging), there is also a strong possibility that any efforts to acquire water and/or discharge permits to the Gallatin River will result in lengthy legal battles with interest groups.

Community Targets

The following targets are based on average adopted policy targets of similar resort communities:

Target #1: 60 Percent Workforce Living Locally

It is unrealistic to try to house 100 percent of the workforce locally as a substantial number of employees will choose to live elsewhere even if affordable housing were available. A number of resort communities have a goal of housing 60 percent of the total workforce locally. If Big Sky were to achieve this goal it would mean that 60 percent of the 2,300 workers would live locally, or approximately 1,380 workers. Given that there are currently 365 workers living locally, this target implies a need for 1,010 more workers to live locally. Dividing this estimate by an average of 1.5 workers per housing unit yields a goal of 670 more housing units.

Target #2: 50 Percent of In-Commuters Live Locally

Another approach to identifying a workforce housing target is to set the benchmark against the number of in-commuters. That is, in surveying many resort communities throughout the Rocky Mountain West, EPS has found that not more than 50 percent of the in-commuting workforce, given an opportunity to live locally, would actually choose to do so. That is, most workers choose to live where they do based on a variety of factors, including lifestyle preferences, type of housing available, type of neighborhood and community, and the availability of amenities and proximities and costs. On the other hand, the remainder often are forced to live elsewhere either because of the mere lack of housing or the lack of affordably-price housing. Using this approach, 50 percent of the current in-commuters would be approximately 950 workers, translating to approximately 630 households.

Housing Goal

Although a targets of 60 percent of its workforce living locally or 50 percent of its in-commuters living locally may be a long term goal, we recommend that Big Sky set a more realistic goal of what can be achieved in the next 10 years. As such, EPS believes a more realistic and achievable goal for Big Sky would be in the range of 200 to 300 housing units. This goal represents approximately 13 to 19 percent of the remaining capacity of Town Center, Lazy J Ranch, and the old gravel pit combined (1,600 units in total).

It should also be acknowledged that this goal, while reasonable with respect to the existing constraints, will fall short of addressing future needs as Big Sky's employment base continues to grow. EPS estimates, based on a projection of historic patterns, that more than 300 additional workforce housing units could be needed to meet the demands of the next 10 years.[11]

Spectrum of Need

The spectrum of housing need (**Figure 12**) 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, it is likely that a majority (nearly 67 percent) of housing needs would fall under the category of service workforce housing, or households with incomes less than 100 percent AMI. As such, approximately two-thirds of the housing need would be most appropriately met with a rental housing project (or projects) with an estimated 130 to 200 rental units.

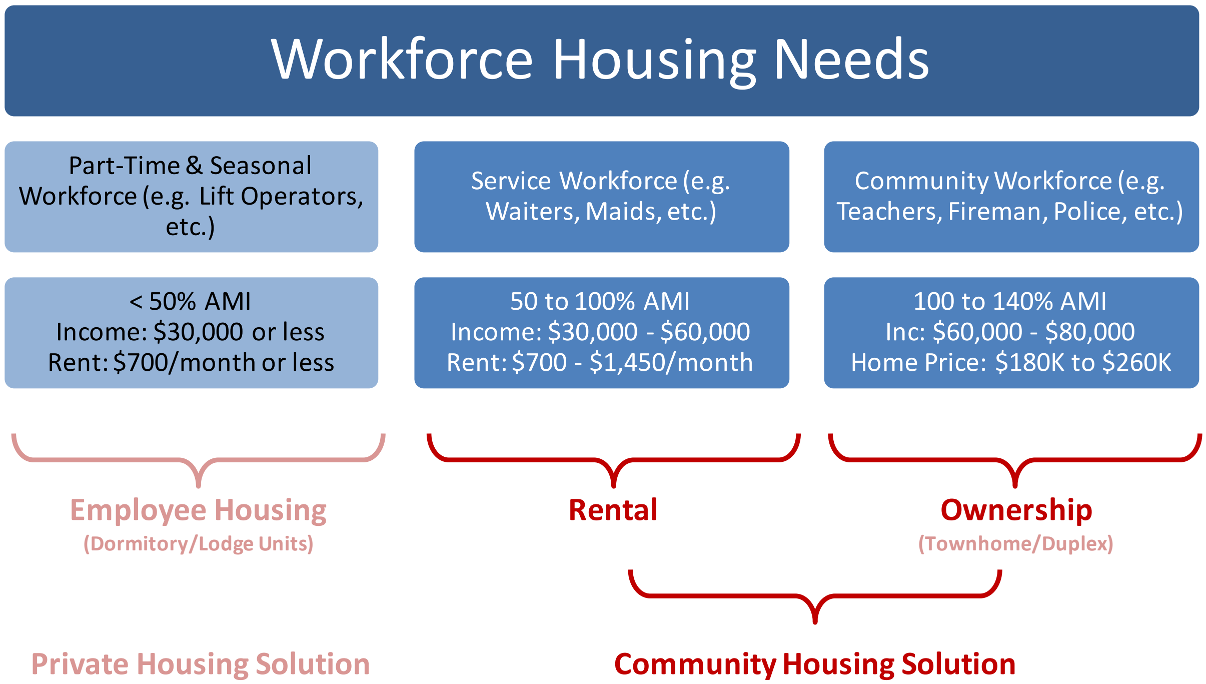
Ownership Housing

EPS also estimates that, based on the distribution of wages from the employer survey that approximately one-third, or between 70 and 100 for-sale units (mainly townhomes and condominiums, with a smaller portion of single-family detached product) would be needed to address community workforce housing needs.

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.

[11] Growth in housing need is closely tied to growth in employment. While unstable national economic conditions have contributed to an unpredictable and volatile market, overall employment in Big Sky has grown by approximately 80 jobs per year since 2002. Historically, approximately 75 percent, or 60 out of 80 job-holders lived elsewhere and commute in from outside Big Sky. Based on the following assumptions, EPS projects that Big Sky would need an additional 320 housing units to accommodate the next 10 years of employment growth: a) employment grows at the historic rate of 80 jobs annually for the next 10 years; b) the community maintains a target of housing 60 percent of its workforce locally; c) each household is comprised of 1.5 jobs; and d) workforce housing unit demand is calculated as follows: 80 jobs x 10 years = 800 jobs; 800 jobs x 60 percent local capture = 480 jobs; 480 jobs ÷ 1.5 jobs per household = 320 households. Meeting this projection of housing need, however, would require that additional land be developed and additional water capacity be created.

Figure 12
Workforce Housing Spectrum



Employee Housing

For the part-time and seasonal service workforce, the responsibility of housing is better left to private or employer solutions. The demand for housing is temporary in the case of seasonal workforce, but can result in lower income households in both situations. Few Big Sky employers have provided employee housing for their workforce. The exceptions are:

- The resort operators buying properties for seasonal workforce
- A bank purchasing units for its employees
- The hospital planning to build units for some of its employees

This housing plan recommends that employers be responsible for providing more seasonal employee housing.

Benefits of Local Resident Workforce

Housing a larger portion of Big Sky's workforce locally has broader community, social, and economic benefits. The more households living locally, the better for developing a sense of community on which households are placing increasing value. Among the economic benefits, the more households that live locally, the more local business is supported.

Illustrated in **Table 13** 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 the current 2012 figure ($58,400 as shown), total personal income (TPI) estimated between $11.7 million and $17.5 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 Big Sky, or approximately $2.0 million to $3.1 million in additional local spending. This additional spending would support the equivalent of an additional 7,000 to 10,000 square feet of local retail space at an average of $300 per square foot per year.

Table 13
Estimated Impact of New Household Retail Spending

		Household Income		Estimated Income Spent on Retail		
	Households	**Average**	**Total**	**Annual**	**Local Capture**	**Supportable Floor Area**
				35%	50%	$300
New Resident Households						
Housing Goal 1	200	$58,359	$11,670,000	$4,080,000	$2,040,000	6,800
Housing Goal 2	300	$58,359	$17,510,000	$6,130,000	$3,065,000	10,200

Source: Economic & Planning Systems

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Retail Capture of New HHs.xlsx]Calculation

5. Summary and Recommendations

This chapter presents EPS's recommendations for Big Sky to address its workforce housing needs through a variety of short- and long-term solutions and with a range of possibilities.

Summary

More than 1,900 workers (seasonally-adjusted) commute in to Big Sky on a daily basis (on a limited capacity two-lane highway), which is more than 80 percent of the total employment base. This level of commuting means that a majority of essential community workforce, such as middle-management, teachers, public safety officers, nurses, medical technicians, or other skilled workers, are not living locally. Also, about 67 percent of the local housing stock is comprised of second homes, which means many neighborhoods are largely vacant for much of the year. Both conditions have a negative impact on the quality of life and the overall fabric of the community.

Goal

As stated in the previous section, EPS recommends Big Sky establish a goal of creating 200 to 300 more housing units for its workforce over the next 10 years. Meeting these goals also requires meeting the goals of the spectrum of service and community workforce income levels. This means that approximately two-thirds of the housing should be rental to accommodate the respective workforce income level distribution, and approximately one-third should be some combination of for-sale housing, such as townhomes, condominiums, and small-lot single family detached product.

Actions

As a community of motivated individuals and entities, Big Sky has successfully and effectively structured an agglomeration of governing bodies and districts to address its various public service needs. Big Sky, through its existing governance structure can accomplish some of the smaller more incremental housing programs recommended below.

However, as an unincorporated area, Big Sky is limited in its ability to establish a comprehensive housing program of the scale found in other mountain resort communities. Because it does not have legal self-governing status, Big Sky is disadvantaged by comparison to Telluride, Vail, Aspen/Pitkin County, Jackson/Teton County, and Park City. Each of them rely primarily on regulatory tools, such as IHOs or commercial linkage programs, available only to incorporated towns with self-governing authorities.

Big Sky can implement more modest voluntary housing programs funded through charitable contributions and donations. Because there is considerable wealth in the community, a philanthropic campaign to fund a land trust, or housing or community foundation is a potential solution (and/or first step). A housing foundation similar to the Jackson Hole Housing Trust could be created to acquire land for a workforce housing project, as well as to partner with the development community to build workforce housing. This option would have its own challenges, as presented below, in that it would create an additional non-profit entity vying for the same limited pot of potential funding.

There is also a selection of alternative funding sources that could be available to Big Sky under a modification to the Resort Tax District's taxing authority or under incorporation. One possibility is an expanded authority for the Resort Tax District to levy an additional sales tax that could serve to add an additional revenue source available for housing goals.

Another possibility, which would require incorporation, would be the exploration and approval by voters of one or a combination of other tools commonly used by self-governing jurisdictions, such as an excise tax, dedicated property tax, head tax, document and recording fee, or RETA.

Each of these concepts is described in greater detail, along with the advantages and disadvantages below and divided into two categories:

Short-Term Objectives

- What can Big Sky do now without any governance or regulatory changes?
- What can be done with minor governance changes?

Long-Term Objectives

- What can be done through a 501(c)(3) organization to meet these goals?
- What can be done with significant governance changes (e.g., incorporation)?

Recommendations

The following recommendations are structured from highest priority to lowest, in terms of both ease of implementation and viability.

Short-Term Objectives

1. Participation in Development Project

This recommendation addresses the short-term goal of facilitating the development of a demonstration project by constructing an initial workforce housing project through a public/ private partnership. Because of land constraints, such as the availability of land or serviceability of water and sewer infrastructure, an opportunity to contribute public funds to an otherwise private development whereby securing a portion of land for workforce housing has merits. A demonstration project would provide the community with an illustration of, in tangible terms, the design and character of a workforce housing project that can incorporate energy efficiencies and low-maintenance standards, while being developed to contribute aesthetically to its surroundings.

Advantages

- Immediately addresses need to create housing
- Leverages funds

Disadvantages

- Participation exposes funds to risks commonly associated with development, such as market and timing risk, financing risk, etc.

2. *Evaluate Potential of Tax Increment Financing*

As described earlier in this report, Targeted Economic Development Districts (TEDD) are an option available under Montana law for the purpose of using TIF to incentivize the establishment of a secondary value-added industry in areas with infrastructure deficiencies by providing an effective funding tool for roads, sewer, water or stormwater drainage, utilities, or other typical infrastructure-related costs.

While it is unclear whether the production of housing would meet this definition (i.e. secondary value-added industry) without legal clarification or legislative change, workforce housing is not explicitly among the eligible uses of TIF. It might, however, be possible to indirectly offset (subsidize) the cost of workforce housing in a mixed-use development where the availability of workforce housing were a means of attracting or locating a secondary value-adding industry within the district.

EPS recognizes that efforts are simultaneously underway to investigate the feasibility and legal viability of using a TEDD to fund community workforce housing. EPS also acknowledges that with modifications to Montana statute, use of a TEDD to offset housing costs within the district, may be possible with legislative change. A cautionary now however, TEDD would not be an ongoing source of revenues, as a district is authorized for 15 years (and can be extended to 40 years to cover bonds issued in the 15-year period).

<u>Advantages</u>

- An effective financing tool to offset the costs of infrastructure with tax revenues derived from future development
- Can be authorized by cities or counties
- Creates a new funding tool for Big Sky

<u>Disadvantages</u>

- Workforce housing is not among the specified eligible uses of TIF within a TEDD
- A broadly drawn district would likely be opposed by one of the counties as diverting too large a tax increment from the County general fund
- Limited to 15 years (or 40 years to pay back a bond debt issuance)

3. *Explore Modifications to Resort Tax District Legislation*

Another option that could require a legislative modification is to gauge the interest for and work with members of the current Resort Tax District Board to explore a legislative modification to Montana statutes governing the Resort Tax District taxing powers at the state level. If pursued and implemented, such an effort could establish a supplemental and ongoing revenue source available to sustain a workforce housing program. Therefore, EPS recommends that Big Sky work with the Resort Tax District Board to seek authority from the Montana Legislature to allow, but not require, resort tax districts to levy an additional tax that could be channeled to building and/or operating workforce housing. If implemented, an additional tax of ½ cent could generate $500,000 per year, based on historic revenue collections, or approximately $5 million over a 10-year period.

Advantages

- The resort tax broadly distributes the burden of need through the community and second homeowner population
- Funds could be directed to workforce housing needs

Disadvantages

- Legislative risk
- Additional tax may not have strong community support

4. Establishment of a Non-Profit Organization (Workforce Housing Needs)

The best option currently available to Big Sky to fund, develop, and achieve housing goals for its workforce may be through the creation of a non-profit organization with a primary mission to build and operate workforce housing. To be successful, the organization needs an influential board of directors comprised of community leaders who can help raise an endowment to fund initial efforts. When established, EPS recommends that Big Sky consider the pros and cons of the following three types of non-profit organizations, each of which could be charged with using its resources to secure land for workforce housing and to partner with local developers and builders for its development.

In line with a longer-term perspective, Big Sky could benefit from the establishment of a housing authority, housing foundation, or community land trust.[12] Because this funding option would be motivated by an interest to leverage what funds are available, a couple general considerations warrant attention. To be eligible to receive federal funds, such as HUD sources, including state-level CDBG funds, Big Sky must have a 501(c)3/(c)4 in place that can administer the funds. Such an organization must also operate under a specific mandate to administer housing programs and be governed by a board of directors. To be eligible for further federal funding, such as HOME funding, other restrictions may apply, such as the entity employing staff.

In general, each of the identified entities has the potential to meet these requirements, but further investigation is needed to determine how each of these organizations could be most feasibly established. Given the market of Big Sky, however, a housing foundation or trust could be a more relevant and successful strategic structure. Such organizations have been successfully established in markets with considerable fund-raising potentials, such as resort markets.

[12] Establishing a land trust was among the recommendations for Big Sky in the *Housing Needs Assessment and Five Year Housing Plan, July 2006* completed for Madison County by the Human Resources Development Council in Bozeman.

Establish a Housing Authority

A housing authority's purposes and goals are clearly oriented to the provision of very-low, low-, and moderate-income housing, whose mission is often specifically focused on special needs populations, e.g. physically or mentally disabled, etc. In the case of an incorporated municipality, a housing authority can also function to implement and administer regulatory tools such as inclusionary housing ordinances. Such a function creates fiscal efficiencies for the municipality. As for the establishment of a housing authority, according to Montana Code, a petition must be filed with the county clerk, public hearings must be held, and the county commissioners must make a positive determination for the need, after which is registered with the Secretary of State.[13]

In considering this option, the Big Sky community should be aware of the advantages (i.e., goals and powers of a housing authority), such as the ability to develop, purchase, own, operate, or rehabilitate property for the purposes of workforce housing. It is also capable of receiving funds from local, state, and federal sources, including state CDBG funding, which would filter through the Montana Department of Commerce.

The Big Sky community should consider that there is the cost of operation and administration to a housing authority that have turned other communities throughout the state away from pursuing this option. Madison County, for example, evaluated the feasibility of creating a housing authority less than 10 years ago and decided against it because it was likely that its housing would be located in dispersed parts of the County, making it impractical and costly to maintain property or administer.

<u>Advantages</u>

- Power to develop, acquire, own, and operate housing
- Addresses needs of very-low, low-, and moderate-income households
- Can receive local, state, and federal funding, as well as grant funding

<u>Disadvantages</u>

- Board would be appointed by the County Commissioners under the current governance conditions as an unincorporated community
- Maintenance of property is costly, especially when properties are dispersed
- Administration can be costly and governing body may create redundancies of leadership locally

[13] The following steps are enumerated in Montana Code § 7-15-2102: 1) Petition to create county housing authority with any 25 residents of a county is filed with the county clerk setting forth that there is a need for a housing authority; 2) Clerk gives notice of a public hearing at which the board of county commissioners will determine the need for an authority; 3) Determinations of need must be made by the county commissioners – e.g. unsanitary or unsafe inhabited dwelling accommodations and/or a lack of safe or sanitary dwellings; 4) Upon a positive determination of one or more of the conditions, the board adopts a resolution and appoints commissioners to an authority; 5) The board submits an application to the Secretary of State stating that a public hearing has been held, the commissioners made a determination, the name of the proposed entity, and the location of its principal office. Its administration is as follows: 1) The housing authority commissioners are appointed and removed by the board of county commissioners; 2) It must operate as a non-profit (no project may be operated to generate a profit/revenues for the county); 3) It may manage/operate its housing projects, borrow money, use grants, make lease or purchase agreements, rent or sell dwelling units, structure leases or agreements, including covenants that run with the land, and no more than 2 acres of land per dwelling can be exempt from property taxes.

Establish a Community Land Trust

As there are several more examples of community land trusts, particularly throughout Montana, including the recently established statewide Trust Montana, this option provides more flexibility and efficiency as an organizational resource than the housing authority model. As mentioned above, Madison County has also evaluated the feasibility of a countywide community land trust, but dismissed it given that it was unlikely to generate sufficient funds with a small number of properties to justify the administrative expenses.[14]

On the other hand, because non-profit organizations may raise funds through charitable giving, the success of land trusts in other similarly affluent resort communities, such as Jackson Hole, represent a stronger likelihood that a community like Big Sky may have success in generating interest from wealthy local or even second-homeowner residents than other communities in Montana. As such, an endowment could be established that sets in motion a land trust and positions itself more sustainably with respect to administrative costs.

As for the experience in Whitefish, which has recently lost its executive director, the issue of leadership continuity is a consideration that the Big Sky community needs to make. That is, when the leadership, or its “driving force” retires, these organizations are often left with a legacy that cannot easily be replaced or replicated.

<u>Advantages</u>

- Is more flexible than the housing authority
- Preserves and ensures long-term affordability by controlling escalation in resales
- Creates opportunities for first-time homebuyers in high-cost areas to buy and generate equity (some say that occupants typically stay for 3 to 7 years)
- May partner with development community
- Can purchase, own, and lease land; transfers ownership of structure to homeowner
- No maintenance expenses like the housing authority would have
- Can receive local, state, and federal funding, as well as grant funding

<u>Disadvantages</u>

- Administration can be costly and governing body may create redundancies of leadership locally
- Loss of leadership can create continuity problems with its mission

Alternatively, if this option appeals more broadly to Big Sky, the community should evaluate the possibility of collaborating with the newly-established Trust Montana for administrative purposes. In such a scenario, a newly-formed Big Sky Land Trust could raise funds, either through grants or philanthropy and work with Trust Montana to administer its program rather than funding a local executive director and administrator. Under such a scenario, the land trust would still maintain control over its own funds; the administration of them would merely be coordinated centrally.

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[14] As a result of the 2006 *Housing Needs Assessment and Five-Year Housing Plan*, Madison County had pursued the possibility of establishing a land trust countywide. After review of the study’s findings, the County decided against creation of a land trust because of likelihood of low incomes being generated by the properties against the administrative costs that were likely.

Establishing a Community Foundation

The most flexible of the organizational structures available is the community foundation. As described above, a foundation can incorporate the functions of a land trust, as with the Whitefish example and the Northwest Montana Community Development Corporation, or it can be much more broadly based to achieve other goals such as the Madison Byways example – i.e., its purposes can be more broadly defined than a land trust.

Advantages

- Is more flexible than the housing authority or community land trust
- Can be designed to address broader community needs as well
- Can act as a land trust and/or form a land trust as a separate entity within the foundation
- Can receive local, state, and federal funding, as well as grant and private funding

Disadvantages

- The mission of foundations can often overlap, creating redundancy of purpose and diluting the market for funding
- Creates increased competition among many existing non-profits for limited funding

Long-Term Objectives

5. Evaluate Feasibility of Incorporation

Many of the most common and powerful regulatory tools for obtaining workforce housing, including inclusionary housing ordinances and commercial linkage programs, are not available to Big Sky, because they are enabled under the self-governing powers of municipalities or counties, and both Gallatin and Madison counties are general power counties.

EPS is aware that incorporation has been suggested and discussed in the past. There has not been, however, a comprehensive analysis of its feasibility and advantages and disadvantages. It ultimately will still be up to the residents of the area to decide if it is brought to a vote.

Because there are a variety of regulatory tools that Big Sky could benefit from in its pursuit of addressing workforce housing needs, such as an inclusionary housing ordinance, and the ability to tax, that are available only to incorporated (self-governing) entities, EPS recommends that Big Sky conduct an objective and thorough evaluation of the benefits and costs of incorporation. At a minimum, such a study should address the following issues and answer the following questions:

- What powers would be available as an incorporated entity that are not available now?
- What tools would be available that are not now?
- What will it cost to incorporate, both upfront and operationally?
- What opportunities are being missed currently?

Advantages

- Local control
- Retain greater share of local taxes
- Taxing and self-governance authority
- A more comprehensive list of advantages could be developed through further study

Disadvantages

- Has faced opposition in the past
- Certain additional municipal services may be required to be provided and paid for
- A more comprehensive list of disadvantages could be developed through further study

6. Inclusionary Housing Ordinance

As described in the Best Practices section, an IHO is an effective and powerful tool particularly in high-cost environments, such as Big Sky, and where future higher-end development is unplatted or unpermitted. Given that the enactment of an IHO succeeds where there is an opportunity to tie the approval of building permits or an application for development (i.e. in the development review process) to the requirement to set aside a portion of units as workforce or pay a fee in-lieu, Big Sky would need to evaluate after incorporation whether sufficient additional development opportunities remained such that this option made sense to still pursue.

Advantages

- Most effective mechanism for requiring workforce housing to be built

Disadvantages

- Tied to the development of new housing and would not be a major generator of housing if the community is largely built out.

Table 14
Communities with Workforce Housing Programs

	Eagle County, CO	Teton County, WY	Aspen, CO	Basalt, CO	Boulder, CO	Denver, CO	Park City, UT	Telluride, CO	Vail, CO	Jackson, WY
Housing Program										
IHO / Res. Linkage	35%	25% [1]	30%	35%	20%	10%	15%	60%	10%	25% [1]
Commercial Linkage	55%	calc.	60%	25%	n/a	n/a	20%	40%	20%	calc.

[1] Teton County and Jackson, WY apply fee requirements for the development of single-family homes, but a mitigation requirement of 25 percent for new subdivisions.
Source: U.S. Census; Economic & Planning Systems
H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Best Practice Community Demographics.xlsx]TABLE 4 - Summary

Appendix:
Supporting Information

Supporting Tables and Charts

The following are tables and charts to supplement material in parts of the report with additional detail.

Table A1
Big Sky Jobs by Industry

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011 Total	Ann. #	Ann. %
Industry													
Agriculture, Forestry, Fishing and Hunting	0	2	0	0	0	0	1	3	5	5	5	1	0.0%
Mining, Quarrying, and Oil and Gas Extraction	0	0	0	0	0	0	0	0	0	0	0	0	0.0%
Utilities	9	9	9	7	8	10	9	10	9	8	-1	0	-1.3%
Construction	70	124	165	264	374	219	198	120	39	73	3	0	0.5%
Manufacturing	4	3	4	13	8	10	18	12	9	13	9	1	14.0%
Wholesale Trade	0	0	0	1	0	5	7	22	0	3	3	0	0.0%
Retail Trade	44	40	60	68	74	107	120	87	76	139	95	11	13.6%
Transportation and Warehousing	2	1	1	1	3	4	3	16	19	17	15	2	26.8%
Information	13	9	2	4	10	9	15	6	6	15	2	0	1.6%
Finance and Insurance	6	9	9	10	17	26	27	21	33	55	49	5	27.9%
Real Estate and Rental and Leasing	100	111	106	74	85	79	109	130	72	140	40	4	3.8%
Professional, Scientific, and Technical Services	22	5	22	44	48	48	41	24	21	71	49	5	13.9%
Management of Companies and Enterprises	0	0	0	0	0	0	0	0	0	0	0	0	0.0%
Administration & Support, Waste Management and Remediation	36	33	42	65	71	17	97	26	13	86	50	6	10.2%
Educational Services	46	8	30	22	6	5	2	8	30	9	-37	-4	-16.6%
Health Care and Social Assistance	10	16	13	10	14	24	42	36	32	37	27	3	15.6%
Arts, Entertainment, and Recreation	140	192	236	248	387	177	598	13	18	523	383	43	15.8%
Accommodation and Food Services	988	553	1,014	1,031	1,042	330	301	359	821	1,024	36	4	0.4%
Other Services (excluding Public Administration)	39	32	43	33	37	29	25	47	30	41	2	0	0.6%
Public Administration	5	9	11	12	17	13	13	15	15	21	16	2	17.3%
Total	**1,534**	**1,156**	**1,767**	**1,907**	**2,201**	**1,112**	**1,626**	**955**	**1,248**	**2,280**	**746**	**83**	**4.5%**

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

H:\133083-Big Sky MT Housing Development Plan\Data\[133083-Emp_Housing.xlsx]LEHD Jobs