

## Draft Report

# Housing Strategic Plan

*The Economics of Land Use*



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Gallatin County, Montana

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# 1. Introduction and Context

## **Purpose**

The purpose of this Strategy is to help Gallatin County government enact strategies and policies that will maintain and increase the supply of affordable housing and help people access stable housing. The audience for this document is primarily Gallatin County policymakers and staff. It will also be useful for policymakers in the municipalities and housing and social service providers in the non-profit sectors.

## **Why Address Housing?**

Local governments are sometimes reluctant to get involved in influencing the housing market as housing is traditionally something that the free market provides. When there is not enough of the right type of housing, or housing is persistently too expensive, housing becomes a quality-of-life issue. Housing is also an important component of workforce development and retention. When housing becomes too costly compared to local wages, it is a constraint on the economy.

## **Housing Definitions**

### **"a"ffordable Housing**

Housing that is affordable (lower case "a") simply means housing that people can afford with their income. The traditional definition established by the U.S. Department of Housing and Urban Development (HUD) and used by most housing practitioners is that housing should cost no more than 30 percent of gross income. For rental housing, affordability is calculated on rent plus utilities. For ownership housing, affordability is calculated on the mortgage payments plus insurance and any association dues.

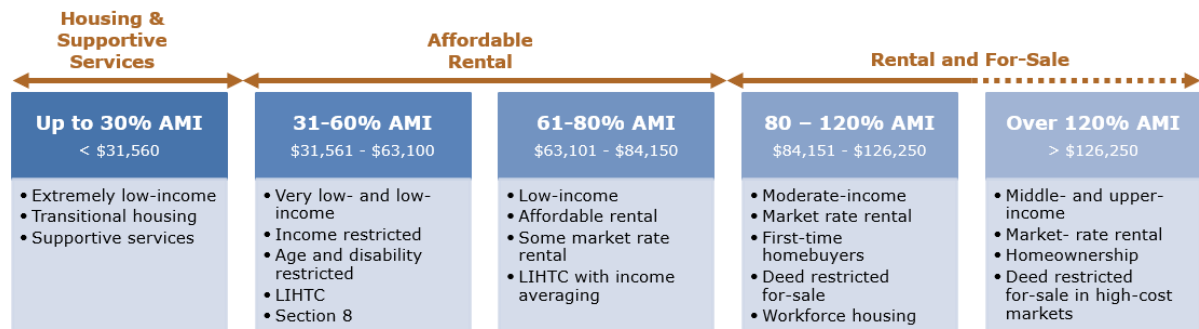
### **Attainable Housing**

Attainable housing is a term that is used to describe housing that is affordable and is free market, not subject to any form of price or rent restriction enforceable by law or covenant.

## “A”ffordable Housing

“Capital A” Affordable Housing, as housing practitioners refer to it, is housing that is permanently (or long-term protected) affordable housing, often tied to the requirements of federal and state funding sources, or local policies and regulations. Federal programs fund permanently affordable housing that is legally restricted by income, age, disability, or other qualifying factors. These programs typically focus on housing for people with extremely and very low (below 50% AMI) incomes, and low incomes (up to 80% AMI). In some areas of the U.S. and Montana, market rate housing can provide affordable/attainable housing at roughly 80% AMI and higher (or lower in low-cost markets).

**Figure 1. Housing Spectrum** <sup>[1]</sup>



[1] Income Limits are based on a four-person household in Gallatin County

## AMI DEFINITIONS

The term Area Median Income (AMI) is a reference to HUD's published income limits that determine eligibility for assisted housing programs and is typically expressed as percentages of AMI, or AMI adjusted for family size. HUD develops income limits based on Median Family Income (MFI) estimates and Fair Market Rent (FMR) for each metropolitan area, parts of some metropolitan areas, and each non-metropolitan county. HUD publishes AMI annually for Gallatin County (**Table 1**).

**Table 1. Gallatin County 2023 HUD Income Limits**

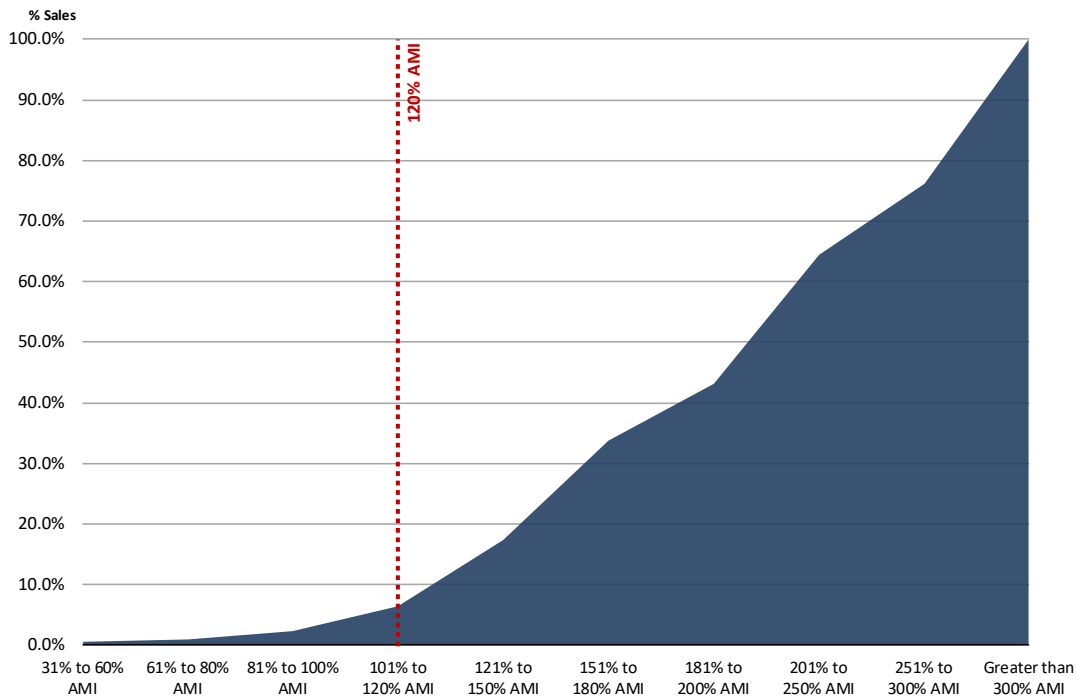
% AMI	1-Person Household	2-Person Household	3-Person Household	4-Person Household
30% AMI	\$22,110	\$25,260	\$28,410	\$31,560
40% AMI	\$29,480	\$33,680	\$37,880	\$42,080
50% AMI	\$38,850	\$42,100	\$47,350	\$52,600
60% AMI	\$44,200	\$50,500	\$56,800	\$63,100
70% AMI	\$51,600	\$58,950	\$66,300	\$73,650
80% AMI	\$58,950	\$67,350	\$75,750	\$84,150
90% AMI	\$66,350	\$75,800	\$85,250	\$94,700
<b>100% AMI</b>	<b>\$73,700</b>	<b>\$84,200</b>	<b>\$94,700</b>	<b>\$105,200</b>
120% AMI	\$88,450	\$101,050	\$113,650	\$126,250
150% AMI	\$110,550	\$126,300	\$142,050	\$157,800
200% AMI	\$147,400	\$168,400	\$189,400	\$210,400

Source: HUD, City of Bozeman, Economic & Planning Systems

## Scale of the Problem

In 2023, the median sales price for all structure types of for-sale housing in Gallatin County was \$662,000 and had nearly doubled over the past five years. In Bozeman, the median sale price of a single-family home was approximately \$825,000 and \$585,000 in Belgrade. Countywide, residents earning less than 120% of AMI (\$113,650 for a three-person household) could afford less than 10 percent of all sales. In other words, 90 percent of the market is only affordable to households earning more than 120% of AMI. For renters, about half of all renters countywide are cost burdened, paying more than 30 percent of their income on rent. In some areas like West Yellowstone, about 40 percent of renters are severely cost burdened, paying more than half of their income to rent.

**Figure 2. Gallatin County Sales Volume by AMI**



The housing supply is also not keeping up with job growth. From 1990 through 2020, jobs grew by 3.3 percent per year while the housing stock increased by 2.3 percent per year. This one percent difference in growth rates may not seem like very much, but Gallatin County also has “amenity pressures” in its housing market: increases in part-time residents, remote workers, and affluent retirees have driven up home prices and occupied some of the supply that was previously available for the local workforce and population.

## **Need for local solutions**

Limited availability of attainable housing can have negative impacts on the local economy, residents, and communities. The entire State of Montana (Division of Housing) was awarded \$13.8 million in Community Development Block Grants (CDBG), HOME Investment Partnership (HOME), Emergency Solutions Grant (ESG), and Housing Trust Fund (HTF) money from HUD in 2023. This money is then allocated throughout the entire state through a competitive grant process. However, these funds do not go far. If all the \$13.8 million in statewide funding was dedicated to below 60% AMI housing, it could provide gap financing for roughly 180 units based on an estimated financing gap of \$75,000 per unit. Gallatin County and other local governments need to raise more money to fund Affordable housing development and programs, as the State and Federal Funding environment is not adequate to address the problem at the scale that is needed.

## **Overview of Current Programs and Roles**

The current roles and abilities of the County and its partners and stakeholders influence the recommendations in this Strategy. It is important to support coordination and to not create competition among organizations and governments.

### **Gallatin County**

Gallatin County is a general law county under Montana Law and operates within the powers explicitly granted by Montana state law. The major services the County provides include the County sheriff, courts, elections, clerk and recorder, a health department, roads and bridges, and planning and community development.

Related to housing, the County has limited resources and authority. The Planning and Community Development Department administers land use regulations which are reviewed by various advisory boards and decision-making bodies, including the County Commission. The County Commission is the legislative body for the County and consists of three elected commissioners. The County Planning Board is a 7-member board that makes recommendations to the County Commission on subdivision and zoning applications in "Part 2" zoning districts and un-zoned areas. The Planning and Zoning Commission is a 7-member board that makes decisions on zoning and development applications in "Part 1" zoning districts.

Zoning is perhaps the most direct tool the County has to influence housing. The County has 22 existing zoning districts. However, approximately 75 percent of the privately-owned land in the County is un-zoned and has no neighborhood plan. The County does not regulate land use in un-zoned areas aside from subdivision and Building for Lease or Rent (BLR) review processes. The County Commission may establish zoning upon petition by property owners (Part 1 Zoning) or at their own initiative (Part 2 Zoning)

Although the County can influence housing through its budgeting process, funding for housing programs or development is limited. Most of the County's financial resources are allocated to providing statutorily required services like a sheriff, courts, health department, and maintaining roads and bridges outside the state highway system.

### ***Current County Housing Work***

Recently the County has been more involved in housing. The biggest housing priority for the County in 2024 is completing development of the Hidden Creek Community. Hidden Creek is proposed to be developed on land owned by the County in the City of Bozeman. If approved, Hidden Creek will contain 6 to 10 for-sale townhomes on land owned by a community land trust. It is also planned for 80 to 150 apartments financed through the federal low-income housing tax credit (LIHTC) program, open to people earning between 30 and 70 percent of AMI. The site also reserves a 0.19-acre parcel for a daycare facility.

The County has also supported efforts to stabilize existing affordable homes. In late 2023, County Commissioners, in collaboration with NeighborWorks Montana, approved more than \$600,000 in low interest loans to facilitate the transition of the Stan's Garden Inc. manufactured home park in Belgrade into a resident ownership model.

Additionally, the County offers a density bonus in some areas of Big Sky for projects that provide workforce housing units deed-restricted in perpetuity and allows for accessory dwelling units in a number of zoning districts.

### **Other Major Organizations**

There are several non-profit organizations operating in Gallatin County that have taken on active roles in housing, partly because of the lack of resources and staffing in County and Municipal Governments available to take on these roles. Most of these organizations serve residents with low- (60-80% AMI) and very low-incomes (below 60% AMI).

- **Human Resource Development Council (HRDC):** HRDC is a private, non-profit organization that serves Gallatin, Park, and Meagher counties. Their current programs range from emergency food and nutrition to transportation and community development. Their affordable housing resources include emergency rental assistance, below-market units that are managed by HRDC, down payment assistance, emergency shelter and young adult housing. They also administer ongoing federal rental assistance programs.
- **Family Promise of Gallatin County:** Family Promise seeks to alleviate housing insecurity for families in Gallatin Valley. They provide services such as temporary rental assistance, landlord mediation, and transportation and utility support needed to prevent homelessness or to maintain or move to stable housing. They also provide emergency shelter services, transitional housing, childcare and early learning opportunities so as to provide families with upward mobility.

- **One Valley Community Foundation:** One Valley is a community foundation that acts as a facilitator between donors and other non-profits with a range of roles in the community. They also convened the Regional Housing Coalition (RHC), a new multijurisdictional working group.
- **NeighborWorks Montana:** A non-profit founded as a network, NeighborWorks Montana provides a range of housing services. They provide housing education and counseling, home loans for individuals, gap financing for affordable housing developers, and help homeowners purchase and manage their mobile home parks through their resident-owned community (ROC) program.
- **Big Sky Community Housing Trust:** The Big Sky Community Housing Trust is an independent non-profit that provides affordable and stable homes for residents within the Big Sky community. They independently or collaboratively develop deed-restricted rental and for-sale units, available to local workers. They also administer the Good Deeds and Rent Local programs. Good Deeds is a deed-restriction incentive program that provides 20 percent of a property's appraised value in exchange for a permanent deed restriction that requires one occupant to work full-time in Big Sky and restricts short-term rentals. Rent Local provides cash to homeowners in exchange for turning their vacant properties into rentals for the local workforce.

Organization	RHC Member	Type	Funding	Major Programs
<b>Non-Profit</b>				
Human Resource Development Council (HRDC) HRDC IX	Yes	501(c)(3)	State and Federal Grants Program Revenue Philanthropy	Down payment assistance, rental vouchers, emergency assistance, affordable housing, energy assistance
Family Promise of Gallatin Valley	Yes	501(c)(3)	Contributions, special events and fundraisers, in-kind donations, grant income, tuitions, rental income, investment income	Transitional housing, homelessness prevention, early childhood education, family resource center
One Valley Community Foundation	Yes	501(c)(3)	Philanthropy, program income	Give Big (fundraising)
NeighborWorks Montana	No	CDFI and 501(c)(3)	Grants, contributions, interest on loans and deposits, loan fees, conference revenue, contract revenue	Gallatin Housing Impact Fund, Second mortgages
Big Sky Housing Trust	Yes	501(c)(3)	Resort Tax, Fees, Philanthropy	Affordable housing development, buy-downs

## Regional Housing Coalition

The Regional Housing Coalition (RHC) was formed in 2022 to bring together the major stakeholders in housing and economic vitality in Gallatin County. Its members include each local government, the major non-profits noted above, banks, major employers, economic developers, real estate developers, the Gallatin Association of Realtors, and Montana State University. The RHC does not have a funding source other than a shared cost of a coordinator position. The RHC is working to:

- Coordinate and align resources to minimize overlap or redundancies
- Identify grant opportunities
- Identify local policy changes that are needed
- Raise funding for housing and programming
- Form partnerships and task forces around special topics and projects
- Advocate at the local and State level for regulations and laws designed to improve access to affordable and attainable housing.

## Strategy Framework

The recommendations in this document are organized into four major categories described below.

- **Supply and Land Use Policy Strategies** – Increasing the supply of housing for all income levels, focusing on land use, infrastructure, and land banking.
- **Preservation and Stabilization Strategies** – Strategies to help people stay in their homes and to preserve affordability in existing homes, largely through funding programs.
- **Demand Strategies** – Providing resources for renters and buyers to help them access housing and lending. Also contains recommendations for a County employee housing assistance program.
- **Implementation Strategies and Actions** – The last Chapter of this Strategy document outlines the steps needed to carry out the top recommended strategies and policies. It begins with a funding evaluation and then describes the top recommendations in more detail. Last, a section on State legislative actions that are needed to expand the ways in which local governments can approach housing affordability.

## Top Priority Recommendations

This section summarizes the top priority recommendations for Gallatin County. The body of this document provides more detail on these strategies and how to move them forward.

The strategies emphasize policies and investments that will create long-term affordability and permanent housing. The top strategies are intentionally designed to make the best use of limited public funds by investing in permanent assets. The County does not, at least today, have the funding to allocate to annual programs such as direct rental assistance to tenants or additional down payment assistance. These programs are temporary assistance that do not create permanently affordable housing assets.

### Tier 1

Tier 1 recommendations are the top priorities. They were put in this category for several reasons including high impact, urgent need, are within the County's purview, and can be scaled to available funding.

#### ***Incentivize development through zoning and land use (supply and land use)***

Chapter 2 identifies zoning and land use policy changes designed to support and encourage more attainable housing and to create more consistency and predictability in the County's zoning regulations. These recommendations were developed in conjunction with the Future Land Use Map (FLUM). The County also recently received a housing grant that will be used to support targeted code updates. Some of the key recommendations are noted below. Each recommendation is discussed in more detail in Chapter 2.

- Ensure zoning in Priority Growth Areas allows for a range of unit types by right, including apartments and ADUs (as applicable to individual land use categories).
- Incentivize infrastructure expansion through higher density 'options' in Priority Annexation Areas and Public Infrastructure Holding Areas.
- Tie opportunities for higher density housing in Managed Growth Areas to the provision of infrastructure and services and other community benefits.
- Remove barriers to smaller, more affordable housing types where appropriate.
- Adopt a single set of housing definitions.
- Clarify allowances for manufactured homes.
- Standardize terminology and expand allowances for non-traditional households.
- Review existing standards for compliance with the Fair Housing Act (FHA) and legal interpretation of the FHA by the federal government and the courts.

***Create a voluntary inclusionary housing ordinance (supply and land use)***

An inclusionary housing ordinance (IHO) is a zoning tool that requires a defined percentage of a new development project to be set aside as permanently affordable below market housing. The authority for mandatory inclusionary housing was repealed by the Montana Legislature in 2021. Local governments still have the authority to enact voluntary incentives-based IHOs and to enter into development agreements that result in an inclusionary housing set-aside. In areas that are suitable for more intensive development, Gallatin County should develop a voluntary IHO tied to a density bonus similar to the Whitefish and Bozeman policies. This tool could be applied in Urban and Rural Growth Areas and potentially in Annexation Holding Areas, Public Infrastructure Holding Areas, and/or Managed Growth Areas identified in the Future Land Use Map (contingent on infrastructure and other land use guidelines).

***Create a dedicated Housing Fund (funding)***

A housing fund simply creates a financial structure into which contributions can be made by public, private, or institutional partners. As a County fund, the County is free to use the funds for any housing or housing-related purpose, unlike federal funds which have many restrictions. As a first step, if the County contributed 1.0-2.0% of its General Fund revenues to a Housing Fund every year, it could budget for \$250,000 to \$500,000 in annual housing expenditures. This is a first step until, or if, a local tax measure can be passed to increase funding for housing and related programs. This fund can also streamline the use of funding for several other strategies described in this document.

***Begin a land banking strategy (supply and land use)***

The cost of land is a significant component of the cost of building housing, ranging from about 12 percent for multifamily housing to over 20 percent for single family housing. For low-income housing, the cost of acquiring land is a major barrier to making a project feasible, so free or very low-cost land is an essential strategy for building low-income housing. There are numerous examples throughout the U.S. of local governments setting aside land they already own and acquiring new land to contribute to Affordable housing development.

“Land banking” is setting aside publicly owned land or building assets to be used for Affordable housing. The County should begin a land banking program, beginning at the County and then collaborating with the municipalities, non-profits, school districts, and others to grow it into a countywide program.

***Create an ADU incentive program (supply and land use)***

Using money from the Housing Fund, the County could allocate funding every year to be given as grants or low/no interest loans for people to build Accessory Dwelling Units (ADUs). Participating in the grant program would be tied to a deed restriction that limits occupancy of the ADU to a full-time resident of Gallatin County working for a local employer. No income restrictions are recommended to

ensure a broad pool of potential renters or buyers, although they could be considered and scaled with the amount of subsidy. For example, a \$10,000 grant could be tied to a 3-to-5-year deed restriction while a larger amount, for example \$25,000 or about 10% of the cost of an ADU, would require a longer deed restriction.

Additional outreach is needed to determine what level of incentive would motivate people to participate in the program. The County will also need to make zoning revisions to ensure ADUs are allowed with few restrictions in the right places (close to jobs and services). Zoning revisions associated with ADUs are addressed in more detail in Section 2: Supply and Land Use Strategies.

## **Tier 2**

Tier 2 recommendations are also important but require additional funding and may not be entirely within the County's control.

### ***Explore the feasibility of creating a Targeted Economic Development District (funding)***

Targeted Economic Development Districts (TEDDs) are tax increment financing districts that counties are authorized to create. Previously the tax increment revenues could only be spent on "value added" industries, but the law was expanded to include workforce housing to support the jobs in new businesses. In 2023, Missoula County created the "Wye District" and will use tax increment financing revenues from the TEDD to finance infrastructure needed to support housing and economic development. After adopting the FLUM, Gallatin County should initiate studies to determine if there is an area of the County where a TEDD could be created that would include a significant housing component.

### ***Develop a small-scale deed restriction incentive or "buy-down" program (housing preservation)***

A deed restriction incentive program pays cash to a homeowner in exchange for placing a permanent deed restriction on the home. There are several examples of these programs in the Mountain West, including one run by the Big Sky Housing Trust. These programs benefit the homeowner by providing them with a cash payment to address major repairs or rectifying mortgage or tax delinquency, allowing them to stay in their home if they are at risk of losing it. The County and the public benefit through this strategy by creating a home permanently restricted to a local resident employee for significantly less money than building a new deed-restricted unit. Deed restriction payments are typically about 20 to 30 percent of the price of the home.

With an annual funding commitment to the Housing Fund, the County can have an application and lottery process to purchase deed restrictions and help people stay in their homes.

***Create an employee housing assistance program (housing demand and economic/workforce development)***

Recruiting and hiring for entry level and front-line positions can be challenging when finding housing is a barrier to accepting a job. Schools, hospitals, private employers, and local governments in high-cost areas of the Mountain West have started employee housing assistance programs out of necessity as recruitment tools.

Initial steps could be a rental assistance program offered to County employees in the form of a no-interest loan to pay for first and last month's rent and security deposit, which is a major cost some people cannot come up with without taking on debt. The loan can be paid back over a defined time period (e.g., 6 months) through an automatic paycheck deduction. If the program is successful, it can be a model for other employers. Longer term, the County can also consider a home ownership program.

***Increase support for vulnerable people***

Stakeholders that participated in this project emphasized the lack of resources – funding and facilities – for people with vulnerabilities. Local governments in Montana, and the State of Montana, have not established enough of a support structure to help people experiencing homelessness, drug addiction, mental illness, and other vulnerabilities such as domestic abuse. There is also non-constructive public discourse around the issue of homelessness in particular, blaming local governments and service providers for inviting homeless people to Montana and Gallatin County.

The County currently has limited funds and resources to address these issues, as they have not been part of the core services that Montana counties are required to provide under state law. The County could begin by leading with positive and supportive messaging for these vulnerable populations and partnering with other local governments and non-profits for changes in state funding and policies.

***Advocate for changes in state legislation***

Montana law has removed or restricted many tools that other states, and local governments within those states, have, to address housing and social services. Gallatin County leaders can continue to work with other local governments and legislators to build support for more funding and legislation to advance affordable and attainable housing. Chapter 5 of this document provides a list of tools available in other states, some of which were recently repealed in Montana. Inclusionary housing, affordable housing impact fees, and real estate transfer taxes are some of the most powerful tools for creating and funding Affordable housing but are prohibited in Montana.

### **Local Solutions and Deed Restrictions**

When local funding or policies create affordable housing units, best practices from other states and communities in Montana show that they are often subject to a locally created deed restriction to maintain affordability permanently or for a defined time period. For example, if a community provides financial assistance or other incentives to a developer that creates affordable housing units in return, those units are subject to a deed restriction so that the public investment does not result in a windfall for the developer or first buyer who can re-sell the home at free market pricing and make a quick profit.

There are many forms of deed restrictions. Some limit occupancy to certain income levels. Others limit appreciation upon resale or have a mechanism that shares in the appreciation between the owner/seller and the agency. The simplest form of deed restriction only limits occupancy to someone who is a full-time resident that works full-time in the same county with any employer. This deed restriction creates a natural pricing limit by excluding vacation homeowners or part-time residents from purchasing the home, and additionally avoids employer involvement in housing.

## 2. Supply and Land Use Strategies

This chapter identifies the strategies recommended for expanding and diversifying the housing supply in areas of Gallatin County that are suitable for housing, as identified by the Growth Policy and Future Land Use Map (FLUM).

### Goals

- Increase housing production and the range of housing types to meet market demand for all income levels, life stages, and household types.
- Reduce the cost of new housing construction.
- Encourage and allow a broader range of housing types and sizes.
- Support rental housing development, market rate, and permanently affordable.
- Incentivize attainable housing and disincentivize high-cost housing in areas close to job centers.
- Identify and grow the supply of land for permanently affordable housing in areas also close to job centers.

### Tier 1 Recommendations

#### Zoning Reform (Tier 1)

##### *What is it and how does it help?*

Zoning creates predictability about what is allowed to be built in certain areas of the county. The County, in partnership with property owners, water and sewer districts, local municipalities, and partner agencies, can use zoning to ensure that a range of housing types are allowed where they are most needed.

Zoning can also be used to encourage more attainable homes in Priority Growth Areas (as described below), and to disincentivize large, single-family residential lots in these same areas. Zoning ensures that there is a sufficient land supply that allows the potential for future housing development. While Gallatin County has a tremendous supply of land, the vast majority of it is not suitable for high-density housing due to a lack of infrastructure, natural hazards, or other limitations, as documented through the FLUM process.

### ***Implementation Path and Recommendations***

While some zoning recommendations should be applied countywide, others vary by location and should be aligned with the FLUM. Recommendations are provided below based on ongoing discussions related to the Suitability Map, draft FLUM, and as informed by County staff's analysis of the degree to which existing zoning districts comply with Housing Goal 1 from the Growth Policy. Where applicable, specific land use categories or geographies are called out. Private covenants may limit the applicability of certain recommendations.

### ***Recommendations for Priority Growth Areas***

Priority Growth areas as identified in the FLUM generally represent areas around existing community cores (with access to jobs, amenities, and services) that are served by public water and sewer infrastructure.

Priority growth areas identified in the FLUM completed concurrently with this housing plan include the following FLUM categories: Urban Growth Areas and Rural Growth Areas, and Public Infrastructure Holding Areas when connected to municipal or district water and sewer services. The latest FLUM should be consulted to determine priority growth areas.

### **Ensure zoning in Priority Growth Areas allows for a range of unit types by right, including apartments and ADUs (as applicable to individual land use categories). This action could include:**

- Targeted updates to existing zoning districts to expand use permissions for smaller and more affordable housing types. For example, if ADUs are currently allowed only through special review, modifications could be considered to allow them by-right. Expanded permissions could potentially be tied to a deed restriction that specifies that the unit will be rented to an onsite employee or member of the local workforce.
- The creation and adoption of new zoning districts in un-zoned areas that are suitable for a mix of higher density housing and supportive services. Having zoning in place that supports smaller and more affordable housing options in suitable locations increases the predictability of the development process, saving homebuilders time and money.

### **Incentivize infrastructure expansion through higher density 'options' in Priority Annexation Areas and Public Infrastructure Holding Areas.**

- Zoning allowances in Priority Annexation Areas and Public Infrastructure Holding Areas should be limited to more rural densities (larger lot sizes) and uses unless infrastructure and services can be provided in conjunction with a proposed development (as specified by Future Land Use Guidelines). Limiting the intensity and range of uses that are allowed in the near-term is intended to help maintain the opportunity for the expansion of housing options as Gallatin County continues to grow. Options for higher density development will vary by land use category.

**Tie opportunities for higher density housing in Managed Growth Areas to the provision of infrastructure and services, and other community benefits.**

- Zoning in Managed Growth Areas should be structured to provide a lower base density (larger lots) and the option for smaller residential lot sizes and other supporting uses in association with a cluster or Planned Unit Development (PUD) where the potential for groundwater contamination from septic systems can be mitigated, and community benefits (e.g., permanently affordable housing, preservation of working agricultural land or public open space) are provided.
- Identify areas where a voluntary incentive program is viable that will create permanently affordable housing.
  - In areas where new zoning will be established, set the base zoning at a low density below what the market desires.
  - Allow landowners to voluntarily set aside permanently affordable units or lots when developing at a higher density (a density bonus). [See also, Tier 1 recommendation: Create a voluntary inclusionary housing ordinance.]

**Remove barriers to smaller, more affordable housing types where appropriate.**

Dimensional standards in some areas of the county may preclude the construction of smaller, more affordable housing options. Where appropriate, minimum unit sizes, maximum lot coverage, setbacks, and other potential barriers should be removed. Near-term efforts to remove barriers should be focused on existing zoning districts. As new Part 1 or Part 2 districts are developed, the creation of new barriers should be avoided.

These recommendations broadly address how the County describes and regulates different types of housing. These recommendations should ideally be applied countywide but may need to be implemented in phases.

**Adopt a single set of housing definitions.**

Currently, each of the County's 22 zoning districts includes a standalone set of definitions. Because the current zoning districts were adopted over an extended period of time, terminology is sometimes inconsistent. For example, the term 'multi-family or multiple family dwelling' can mean very different things in different areas of the county:

*Dwelling Unit, Multi-family: A Structure or portion thereof containing multiple Dwelling Units for habitation by one or more persons co-residing therein and their domestic Employees. (Gallatin Canyon/Big Sky Zoning Regulations)*

*Dwelling, Multi-Family. A structure or portion thereof used for occupancy by two or more families living independently of each other in two or more dwelling units. (Reese Creek Zoning District)*

*Dwelling, Multiple (multi-family). A Building, or portion thereof, used for occupancy by three (3) or four (4) Families living independently of each other with the Units completely separated by a common wall, floor and/or ceiling. (Gallatin County/Bozeman Area Zoning Regulation)*

Modern zoning codes typically establish a single, comprehensive set of definitions (not just for housing). This approach ensures that regulations for similar uses are applied consistently across districts and removes the need for interpretation when a zoning district is silent on a use that is consistent with the intent of the district, but that may not have been defined for that area when the district was originally adopted.

#### **Clarify allowances for manufactured homes.**

Manufactured housing and mobile home parks are specifically allowed in some of the County's existing zoning districts today (with or without limitations) and are simply not mentioned in other zoning districts. Modern manufactured homes are very hard to differentiate from traditional construction and can offer more affordable housing options. As part of the recommendation above, definitions contained in the Gallatin County/Bozeman Area Zoning Regulation that distinguish between 'Manufactured Home,' 'Mobile Home,' and 'Modular Home' should be applied countywide. Additionally, existing standards and use allowances should be reviewed and discussed further with the community to determine whether they pose barriers to affordability. Montana law does require local governments to treat manufactured housing and stick built housing similarly in zoning, but additional consistency is needed in Gallatin County's zoning to better address this requirement. Applying a dedicated zoning district for mobile home parks (where necessary) is another strategy that can be used to help protect existing affordable housing from future redevelopment.

#### **Standardize terminology and expand allowances for non-traditional households.**

The Housing Needs Assessment found that as housing costs continue to rise, households in Gallatin County are increasingly comprised of unrelated individuals living as roommates or included extended family situations. As shown in the examples below, definitions for 'households' or 'family' vary (or are in some cases used interchangeably) in different zoning districts and generally limit the number of unrelated people that may live together in a single dwelling.

*Household. (1) A person living alone; (2) any number of people related by blood, marriage, adoption, guardianship or other authorized custodial relationship; (3) two unrelated people and any children related to either of them; (4) not more than four unrelated people living together as a single nonprofit housekeeping unit and sharing common living, sleeping, cooking, and eating facilities.*

*Family. a) A person living alone; b) any number of people related by blood, marriage, adoption, guardianship or other authorized custodial relationship; c) two (2) unrelated people and any children related to either of them; d) not*

*more than four (4) unrelated people living together as a single nonprofit housekeeping unit and sharing common living, sleeping, cooking, and eating facilities. (Gallatin County/Bozeman Area Zoning Regulation)*

*Family. Any individual or two or more persons related by blood or marriage, or a group of not more than two persons (excluding domestic employees) who need not be related by blood or marriage, living together as a single non-profit housekeeping unit. (Hebgen Lake Zoning Regulations)*

While it is likely not enforced unless a complaint is made, this type of verbiage is contrary to the County's goal of promoting "equitable and inclusive" housing options. Generally, the number of unrelated people living together should be increased to five or more. This will allow more efficient use of the existing housing stock by allowing the rental of extra bedrooms, and the types of house-sharing arrangements that help both the young and the old to pool their resources and afford adequate housing.

### **Review existing standards for compliance with the Fair Housing Act (FHA) and legal interpretation of the FHA by the federal government and the courts.**

This means ensuring that the County does not require more onerous standards for housing that serves people with disabilities from housing that does not. This often includes reviewing use permissions to ensure standards for household living and group living are treated equally and establishing a process for the County to make administrative adjustments to allow reasonable accommodations under the FHA (e.g., a wheelchair ramp that needs to extend into a required setback).

### **Voluntary Inclusionary Housing Density Bonus (Tier 1)**

#### ***What is it and how does it help?***

An inclusionary housing ordinance (IHO) is a zoning tool that requires a defined percentage of a new development project to be set aside as permanently affordable below market housing, thus expanding the supply of Affordable housing. The authority for mandatory inclusionary housing was repealed by the Montana Legislature in 2021. Local governments still have the authority to enact voluntary incentives-based IHOs and to enter into development agreements that result in an inclusionary housing set-aside. In Priority Growth Areas, Gallatin County should develop a voluntary IHO tied to a density bonus similar to the Whitefish and Bozeman policies. An IHO requires developers to build a component of their project as permanently affordable housing.

#### ***Implementation Path***

A density bonus and voluntary IHO can be implemented through code changes, either prepared by staff or an outside consultant. In addition to the Bozeman and Whitefish examples mentioned below, there are others throughout the U.S. that the County can use as an example to start from. In crafting the ordinance, the

County could consider using a real estate pro-forma model and outreach to developers to gauge and calibrate the effectiveness of the incentives prior to drafting and adopting the ordinance.

### **Land Banking (Tier 1)**

#### ***What is it and how does it help?***

Land banking involves safeguarding and preserving land until it is ready for development or revitalization to support community objectives. Land banks typically acquire, manage, maintain, and repurpose properties that are vacant, abandoned, or foreclosed.

Controlling land costs is crucial for the creation of affordable housing, as high development costs often render such projects challenging or financially unviable. By utilizing land banking, the County and its partners can establish a future supply of land for development while guiding the type of development that takes place on those properties.

#### ***Implementation Path***

- Conduct a land inventory to identify land or facilities owned by the County that no longer serves a core operational purpose that could be considered for housing development.
- Partner with other jurisdictions and districts to create a regional land bank strategy that includes assets from all local governments, special districts, and non-profits.
- Strive to develop an annual or 5-year plan for the development of viable sites.
- When funding allows, look for opportunities to purchase property for less than market value, such as foreclosed property or property with development constraints that can be addressed in a public-private partnership. This is a limited and strategic action.

### **ADU Incentive Program (Tier 1)**

#### ***What is it and how does it help?***

An Accessory Dwelling Unit (ADU) is a secondary housing unit on a single-family residential lot that has all the basic facilities for independent living such as a bathroom, kitchen, and sleeping area.

ADUs, as small homes, can be developed more affordably than traditional homes, creating housing opportunities for their occupants. For the owners of the ADU and principal property, ADUs create an additional income stream that can help people stay in the community and build wealth and can also assist residents to age-in-place by creating additional housing for caregivers or family members. Lastly, because of their size, limited amenities, and shared characteristics, rents in ADUs tend to be generally lower than other new construction.

An ADU is not an inexpensive endeavor for a typical homeowner as the average ADU can cost approximately \$200,000 or more to construct. Additionally, ADUs often require permits and additional review that may be perceived as complex and time-intensive. Incentives and assistance are also needed for these barriers.

### **Implementation Path**

- Incentive programs for ADUs have become popular in western mountain communities. With a funding source, the County could allocate money each year to an incentive program.
- Financial incentives for ADUs can include low/no interest loans and rebates on development fees and water and sewer connection fees. Use of incentive funding should be tied to maintaining affordable rents or renting only to a full-time resident of Gallatin County who works for a local employer. The length of the affordability covenant is proportional to the amount of the incentive (e.g., some are 1-3 years, some are in perpetuity).
- With a financial grant agreement with property owners, the County could use a contract to require rental restrictions to a local resident/employee as a condition of the funding. This would allow the County to work around state zoning laws that require ADU regulations to be no more restrictive than zoning for other housing.

## **Tier 2 Recommendations**

### **Monitor Short-Term Rentals**

Outside of some zoning districts, the County does not currently have any regulations to allow or restrict the short-term rental (less than 30 days) of a dwelling unit. Short term rentals can occupy housing that would have otherwise been available to residents and workers, reducing the housing supply. The County should at a minimum enforce the licensing program for short-term rentals to allow it to monitor where they are operating. A fee can be charged for the license to cover the administration costs.

### **Support Infrastructure Projects**

Infrastructure – water, sewer and drainage, roads, transit – is needed to support and provide services to new housing. Growth in Gallatin County is straining the road network and there are capacity constraints in water and sewer districts. While the County has limited powers to regulate private water and sewer systems, it can help facilitate planning and cross-district collaboration on system planning. The County can also continue to pursue federal grants for transportation projects, water, sewer, drainage, and other environmental and quality of life projects.

## Case Studies

### Voluntary Inclusionary Housing

#### *Whitefish Legacy Homes*

The Whitefish Legacy Homes policy provides incentives to projects that provide 10% of their units as permanently affordable. For a rental project, the affordable units must be priced at 60 to 80% of AMI, averaging 70% of AMI. For-sale project affordable units must be priced at 80 to 120% of AMI, averaging 100% of AMI.

For projects requesting a conditional use permit, they are eligible to receive a 20% reduction in parking requirements, a 5-foot height increase to 3 stories, a 10% lot coverage increase, and a 20% density increase. A subdivision using the incentive can receive a 20% reduction in minimum lot size, a 20% increase in density, and reduced setbacks and increase lot coverage.

#### *Bozeman Affordable Housing Overlay (AHO)*

Bozeman's code of ordinances offers two types of incentives to encourage the development of affordable housing. The first, 'shallow incentives', requires new developments include greater than or equal to 5% of housing units to be affordable for individuals at 80% AMI (rental units) and 120% AMI (for sale and condominiums) or lower. This applies to single-household detached (SHD), single-household attached (SHA), and multi-household dwellings (MHD). The duration of affordability must be 30 years. If these criteria are met, the developer may reduce the minimum lot size to 2,500 sq. ft. for SHD units and 1,800 sq. ft. for SHA. The incentives for MHD include a 10% reduction in lot area and one to two additional stories of height depending on the zoning district.

To meet the requirements for 'deep incentives', new developments must contain greater than or equal to 50% of units that are affordable at 80% AMI (rental) and 120% AMI (for sale/condo) or lower. The duration of affordability must be 30 years. If these criteria are met, the developer may reduce the minimum lot size to 1,600 sq. ft. with no minimum lot width requirement, and off-street parking reduced to one space per dwelling for SHD units. The developer may reduce the minimum lot size to 1,400 sq. ft. with no minimum lot width requirement, and off-street parking reduced to one space per dwelling for SHD units. For MHD projects, the developer may add one to four additional stories of height depending on the zoning district. Also, no onsite vehicle parking is required.

## **ADU Incentive Program**

### ***Durango, CO ADU Incentive Program***

The City of Durango set aside \$80,000 for 10 grants of \$8,000 each. The owner must agree to rent to a tenant verified to work in La Plata County (no income limit) and participate in the program for two years.

### ***Summit County, CO***

Summit County will reimburse up to \$60,000 in water and sewer connection fees in several water and sewer districts that participate in the program. Rents must be between 80 and 110% of AMI with a permanent deed restriction.

### ***Mad River Valley, Vermont Accessory Dwelling Unit Program (ADUP)***

The nonprofit Mad River Valley Housing Coalition offers grants of \$10,000 to homeowners to construct ADUs and rent them at affordable rents for five years. The maximum rent is \$1,500 per month for a 2-bedroom unit. The Mad River Valley is close to several major ski resorts and experiences tourism and vacation home housing impacts.

### ***Whitefish, MT***

In May 2022, the city council approved an ordinance that allowed ADUs in all zoning districts without requiring a conditional use permit, re-legalized the long-term rental of ADUs regardless of the owner's residency and eliminated the requirement that ADUs be located above a garage. It further incentivized the development of ADUs by allowing them to be built up to 800 square feet rather than 600 square feet, and without building additional parking, in exchange for a minimum of five years of long-term renting via 12-month leases and no more than 30 days of vacancy between leases.

However, State Senate Bill 528 that passed in 2023 overruled the ordinance, by allowing ADUs to be built up to 1,000 square feet where single-family homes are allowed, and eliminated parking, building height, and setback requirements. It also stated that there would be no owner-occupancy requirements and that regulations for ADUs cannot be more restrictive than those for single-family homes.

### ***West Denver Single Family Plus (WDSF+)***

This is a large scale program seeded with \$1.1 million in General Fund appropriations. It is available to homeowners who make more than 81% of AMI and must rent to someone earning less than 80% of AMI. If the homeowner makes 80% and under, there are no income restrictions for the tenant.

The program provides loans of \$30,000 (studio), \$50,000 (1 bedroom), and \$75,000 (2 bedroom). The loans depreciate over 25 years and do not need to be repaid unless the property owner sells the property or does not comply with the terms of the deed restriction. The program includes seven pre-approved home designs.

## 3. Preservation and Stabilization Strategies

### Goals

- Help people stay in their homes who may be at risk of displacement due to rising ownership or rental costs and address substandard living conditions.
- Seek opportunities to permanently preserve existing homes and properties that are already affordable.

### Tier 2 Recommendations

There are no Tier 1 recommendations for Gallatin County government in this category.

#### **Deed restriction incentive or “buy down” program**

##### ***What is it and how does it help?***

Deed restriction incentives are effective tools to help people stay in their homes and to preserve naturally occurring affordable housing. For example, some homeowners may need financial assistance to address major repairs or delinquency on their mortgage or taxes and the County can provide a financial incentive in exchange for a deed restriction that helps people continue to live in their homes. Alternatively, the County can assist local buyers by contributing toward their purchase in exchange for a deed restriction, making homes immediately more affordable to residents and adding permanently affordable homes to the inventory.

Additionally, the County can consider buying units from homeowners wanting to sell as strategic opportunities are presented, and subsequently place deed-restrictions to maintain permanent affordability. A key advantage of this type of program is that acquiring deed restrictions is usually less expensive than developing new housing. Depending on the deed restriction in the incentive, the cost ranges from about 15 to 30 percent of the market value of the home.

##### ***Implementation Path***

The first step for this program is to design the parameters of what the County would fund, who is eligible, and to start setting an annual funding target. The County should do further research on these programs and contact the organizations that administer them to learn more about best practices and lessons learned. After designing the program, the County may need to:

- Pass an ordinance authorizing the use of funds

- Identify a staff position or partial FTE to administer the program
- Implement a tracking database to ensure deed restrictions are not lost
- Retain an outside real estate attorney to assist with transactions.

### **Mobile home community stabilization**

#### ***What is it and how does it help?***

Mobile home community stabilization refers to efforts aimed at maintaining the affordability, stability, and long-term viability of mobile/manufactured home communities. These initiatives typically focus on protecting residents from displacement, rent increases, or the sale and redevelopment of the land into other types of housing or commercial projects.

Stabilization strategies can include resident or non-profit ownership of the land, legal protections against eviction, infrastructure improvements, and support for maintaining affordable housing options. The goal is to preserve the affordability and quality of life for residents while ensuring the community remains intact and sustainable over time.

#### ***Implementation Path***

- Create an inventory of existing mobile home communities, current zoning, and a preservation network of non-profits and other organizations that have the capacity to participate in preservation efforts.
- Implement zoning safeguards for existing mobile home communities to ensure they can remain an allowed use.
- Implement a right-to-purchase ordinance that comes into effect under certain conditions, such as when the park owner intends to sell the property, issues a notice to vacate due to demolition or closure, or files a rezoning request. This ordinance can mandate the park owner to give advance notice of the sale and share any offers received, allowing residents a window of 2-6 months to submit a counteroffer and arrange financing. Additionally, tenants may have the option to transfer their purchasing rights to a non-profit organization.

### **Connect people with and support the organizations that provide housing assistance**

#### ***What is it and how does it help?***

A number of public entities and private non-profit organizations operate in the county that play crucial roles in enhancing housing stability for vulnerable residents, including emergency shelter services, food security, rental and down payment assistance, and building and managing affordable housing.

Although these organizations possess the expertise to develop and manage assistance programs, the demand is vast, and current financial resources are limited. The County can play a vital role by linking residents to available services and supporting these organizations with additional funding, which may be more cost-effective than creating new programs internally. Moreover, the County can work to remove obstacles that hinder these programs by updating outdated regulations and advocating for increased support at both local and state levels.

Specific areas of support include:

- Tenant protections and legal assistance, currently provided by organizations like the Montana Legal Services Association that do not yet have dedicated local presence.
- Repair and efficiency loans and grants some of which is provided by HRDC. Habitat for Humanity also has a home repair program that may be able to provide labor for repairs.
- Find/help establish an entity to administer USDA Rural Development programs, including down payment assistance, rental assistance and multifamily development lending, and single-family housing repair loans and grants. There currently is not a local representative for these federal programs.
- Promote the federal Low Income Housing Energy Assistance program administered by HRDC.

### ***Implementation Path***

- Create a Housing Resource Guide to help connect residents to available resources.
- Conduct outreach to existing organizations through the RHC process to better understand the limitations and needs they face.
- Advocate for additional funding at the federal and state levels for these types of programs.

## **Advocate to increase funding and facility support for vulnerable populations**

### **What is it and how does it help?**

Many residents face vulnerabilities in regard to housing stability, and the deepest needs are among those who are experiencing or at risk of experiencing homelessness, mental health challenges, drug and substance abuse, domestic violence and abuse, chronic health conditions, disability, and aging.

By bolstering both funding and facility support, the County can create a more comprehensive safety net, ensuring that vulnerable populations have better access to stable, long-term housing solutions.

***Implementation Path***

- Advocate at the state level for additional funding and increasing facility capacity.
- Lead in improving the narrative amongst the public on the causes of housing instability and the advantages of contributing to its improvement.

## 4. Demand Strategies

Demand strategies are targeted at people – owners and renters, current or prospective – to help them get into or remain in stable housing situations.

### Goals

- Increase support for buyers and renters in navigating the housing market.
- Improve employee attraction and retention for important public service positions and front-line workers.

### Tier 2 Recommendations

Recommendations under demand strategies were assigned to Tier 2 mostly because they would require additional funding and compete with the Tier 1 recommendations. If additional funding can be allocated, these recommendations can also be prioritized and advanced.

#### County employee housing assistance

##### What is it and how does it help?

It is becoming increasingly difficult for local governments and other public agencies to retain and attract employees at nearly all pay and career levels. The ability to sustain public services is threatened by high housing costs. The County can provide temporary assistance to County employees, both current renters and homeowners, in the form of zero- to low-interest loans, forgivable after a predetermined tenure at the County. These loans may be used for first- and last-month and security deposits or down payment assistance for renters and new homebuyers, or as a fund for emergency repair and maintenance for existing homeowners.

##### Implementation Path

- Create an employee housing assistance program for County employees as a model for other jurisdictions and the private sector.
- Begin with a rental assistance program comprised of a no interest loan for first and last month's rent and security deposit. This can be paid back through a paycheck deduction over a defined time period, or potentially forgiven after a certain number of years of service. The program could be designed in any number of ways: limiting it to below certain pay scales or certain departments or positions with the most recruiting challenges.
- Longer term if needed, an ownership assistance program could also be developed. This can be comprised of a larger second or third mortgage for down payment assistance, or a co-investment model as described in the case studies.

## **Expand down payment assistance programs**

### **What is it and how does it help?**

Down payment assistance programs are loans and grants that help homebuyers cover a down payment and in some cases closing costs. This type of assistance is especially helpful for those that can afford monthly mortgage payments but find it challenging to save for a down payment.

There are currently several assistance programs in the County and Montana as follows:

- HRDC: Qualified first-time homebuyers earning up to 80% AMI may be eligible for assistance up to \$30,000 in the form of a second loan at 0 percent interest and deferred payment.
- Montana Board of Housing: A participating lender will qualify eligible borrowers and select one of two available types of loans that may be used for down payment and closing cost assistance:
  - Bond Advantage Down Payment Assistance Program: Available for up to 5 percent of sale price up to \$15,000 with low monthly payments in a 15-year amortizing loan.
  - MBOH Plus Deferred Down Payment Assistance Program: Also available for up to 5 percent of sale price up to \$15,000 with no required monthly payments and only due upon transfer/sale of property or refinance/payoff of first loan. These loans are limited to households earning up to \$80,000 for 1-2 person households or \$90,000 for 3+ person households.
- Montana Board of Housing Set-aside Loan Program: It assists borrowers earning up to 80% AMI who receive down payment assistance from approved sources. The BOH partners with cities, counties, and non-profits to qualify the buyer for most of the purchase price, and non-profit provides the balance up to \$45,000.

These programs are typically geared toward very low- and low-income households. The challenge in Gallatin County is that home prices are too high for buyers under 80% of AMI to be able to afford the home and the mortgage payments. However, both additional funding and larger subsidized loans could help.

### **Implementation Path**

- The Gallatin Impact Fund run by Neighborworks Montana may be the best lead entity to expand down payment assistance programs. As noted in Chapter 5, Implementation and Funding, the County could consider contributing to this fund annually.

## Employee Housing Assistance Program Case Studies

- **State of Montana:** The 2023 Montana State Legislature authorized the investment in Pintler Meadows to provide housing for state employees at the Montana State Prison and Montana State Hospital. Eligible employees are those that have a household income less than the state median and spend over 30 percent of monthly household income on housing or are currently unhoused.
- **Colorado River Water and Sanitation District:** Employees may be eligible for a housing loan up to \$50,000 with a 4 percent interest rate and loan forgiveness after certain years of service.
- **City of Aspen, Colorado:** An employee may apply for an interest free rental advance loan for one-half of the cost to secure housing, including first and last month's rent plus damage deposit. The loan must be repaid in biweekly payroll deductions within one year.
- **Pitkin County, Colorado** – The County assists employees in the purchase of their home by investing up to 40 percent of the purchase price in equity. When the employment ends, they are allowed to buy-out the County, or provide the County with right to first purchase.
- **Town of Silverthorne, Colorado (Summit County):** The Town provides a Down Payment Assistance Program in the form of a second mortgage for full time employees purchasing a home within Summit County. The Town also has a Rental Deposit Assistance Program that provides an interest-free loan to either full-time or 3/4-time employees to be used for a rental deposit.
- **Bozeman Health** - Bozeman Health partnered with ERES Capital to develop 100 apartment units in Belgrade just south of the airport as part of a large residential mixed use project. Bozeman Health will subsidize the rents in their units to rent them to employees at attainable rates. Phase 1 construction began early summer of 2022 with completion in the second half of 2023. Bozeman Health will also be able to expand the number of units available to employees in future phases of the project.

## 5. Funding and Implementation

Funding is the largest constraint to addressing Affordable housing in almost all communities. This chapter reviews the federal, state, and local funding environment for housing and then shows how Gallatin County could create a dedicated housing fund. It also provides a concise set of actions or steps for carrying out the Tier 1 recommendations.

### **Funding and Financing**

Many of the recommended policies and actions require funding and staff resources to implement. The County has very limited funding resources beyond funding its core operations. Montana law also constrains the types of revenues available to local governments, both at the municipal and county level. Sales tax is not enabled in Montana outside of Resort Tax Districts. Property tax revenues can only be increased by a factor of the past three years' average inflation plus growth in taxable value, or by voter approved mill levies.

#### **Current Funding Sources**

The current funding sources for housing in Gallatin County are annual competitive HOME grants from the state, and pandemic related grants which will end. For context, the entire State of Montana was awarded \$13.8 million in Community Development Block Grants (CDBG), HOME Investment Partnership (HOME), Emergency Solutions Grant (ESG), and Housing Trust Fund (HTF) money from HUD in 2023. This money is then allocated throughout the entire state through a competitive grant process to "non-entitlement" communities.

Gallatin County is not an "entitlement" county and therefore does not qualify for direct awards of CDBG funds from HUD. CDBG funds are also minor in terms of the scale of the problem: the entire state was awarded \$6.5 million in 2023, and annual distributions to the three entitlement cities (Billings, Missoula, and Great Falls) ranged from about \$500,000 to \$700,000 per year. Bozeman is now an entitlement community and may see funding in that range as well.

These funds do not go far. If all of the \$13.8 million in statewide funding was dedicated to below 60% AMI housing, it could provide gap financing for roughly 180 units based on a financing gap of about \$75,000 per unit.

Federal Program	Montana 2023 Award	Allowed uses
Community Development Block Grants (CDBG)	\$6,541,090	- Range of infrastructure and housing projects - Planning projects - Moderate income housing (50-80% AMI) - More than 51% of people in service area must be low and moderate income
HOME Investment Partnerships Program (HOME)	\$3,450,234	- Building, buying, and/or rehabilitating affordable housing - Mostly <60% AMI - 5% local match for development - Direct rental assistance
ESG: Emergency Solutions Grants Program	\$741,200	- Homeless services and facilities
Housing Trust Fund	\$3,066,413	- Housing for 30-50% AMI
<b>Total State Funding</b>	<b>\$13,798,937</b>	

Source: MT Division of Housing; Economic & Planning Systems

### Local Funding Options

Today, the only options the County has to increase funding for housing are through voter approved tax measures. At the right time when there is political support, a dedicated mill levy could generate meaningful funding. A 1.000 mill property tax would generate \$744,000 per year and cost approximately \$9.00 per year on the median home price.

<b>Taxable Value in Gallatin County</b>	<b>\$744,000,000</b>
<b>Dedicated Mill Levy</b>	
0.250 mills	\$186,000
0.500 mills	\$372,000
0.750 mills	\$558,000
1.000 mills	\$744,000
<b>Impact on Median Priced Home</b>	
Median Home Price	\$662,000
Taxable Value (1.35%)	\$8,937
0.250 mills	\$2.23
0.500 mills	\$4.47
0.750 mills	\$6.70
1.000 mills	\$8.94

Source: Economic & Planning Systems

Without a tax ballot measure, the County will have to find funds within its current budget structure and process. The General Fund brings in approximately \$24.0M in annual revenue. The County could consider committing 1.0 to 2.0 percent of its General Fund annually to the Housing Fund. This would raise roughly \$250,000 to \$500,000 per year to be used in an employee housing assistance program, a buy-down program, and other opportunities as they arise. Unspent funds would accrue in the fund.

## Tier 1 Strategies

### Create a dedicated Housing Fund

One of the top priority recommendations from this study is to create a dedicated Housing Fund within the County budget. Forming a housing fund simply creates a financial structure into which contributions can be made by public, private, or institutional partners. Through its budgeting process, the County would try to commit a consistent annual level of funding. The County would then be able to plan and budget for housing projects or programs each year. While the initial amount of money put into the fund may be small, it is an important starting place.

The scenario below shows a \$250,000 annual contribution from the General Fund to the Housing Fund (1.0% of General Fund revenues). The money could be allocated any way County leaders see fit. In the example below, 10% is allocated to County employee rental assistance, a recruiting tool for new hires (no-interest loan of 1<sup>st</sup>, last, and security deposit). Fifty percent is allocated to an ADU grant program at \$10,000 per ADU (tied to a resident-employee deed restriction). The remaining 40% can be used to partner on development projects, acquire land, or for grant matching. As shown, the County could help about four new hires each year and provide grants for about 13 deed-restricted ADUs.

Funding Program	Factors	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>1% of General Fund</b>		<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>
<b>Allocation</b>											
County Employee Rental Assistance	10.0%	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
ADU Grants	50.0%	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Development/Land/Grant Matching	40.0%	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
<b>Total</b>	<b>100.0%</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>\$250,000</b>
<b>Housing Units</b>											
County Employee Rental Assistance	\$5,700	4	4	4	4	4	4	4	4	4	4
ADU Grants	\$10,000	13	13	13	13	13	13	13	13	13	13
Development/Land/Grant Matching	N/A	---	---	---	---	---	---	---	---	---	---
<b>Total Units</b>		<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Development/Land/Grant Matching/Misc.</b>		<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>

Source: Economic & Planning Systems

If the development funds were not spent in that budget year, they could continue to accumulate, e.g., \$500,000 to a project every five years. Of course, if more money is contributed to the fund, there will be more impact.

## **Tier 2 and Ongoing Strategies**

The Tier 2 strategies under Funding are things the County is already involved with periodically, directly and indirectly. It is important however to note them so that they continue to be part of the County's housing actions.

### **Use Conduit Lending**

#### **What is it and how does it help?**

Conduit lending is providing borrowers access to tax-free debt through the County as a financing vehicle. The County has done this on affordable housing projects with HRDC in the past, and on a private economic development project with Bridger Aerospace. Conduit lending uses the project cash flow revenues as the pledge revenue for debt service (a bond), yet the County does not incur any financial or credit rating risk under this structure. If the project does not meet its debt obligations, the banks and bond holders go through a process to work out the distribution of remaining assets. This is a commonly used tool for housing and economic development finance.

#### ***Implementation Path***

Conduit lending would be used in limited case by case projects. The challenge still remains that in order for it to be used, there needs to be a viable project with a capable project sponsor/developer. Using conduit lending would also complement the land banking strategy: the County can contribute land and tax-free debt to an affordable housing development.

### **Support the Gallatin Impact Fund**

#### **What is it and how does it help?**

The Gallatin Impact Fund is a revolving loan fund managed by Neighborworks Montana. It aims to create a \$10.0 million loan fund and estimates it can leverage \$80.0 million in investment in housing (a 1 to 8 leverage ratio). The fund is being seeded by large businesses and philanthropic donors who receive a 2.0% annual return. The fund is restricted to rental projects at up to approximately 70% of AMI and for-sale projects up to about 140% AMI. So far the fund has been used mostly for rental project gap financing. A broader down payment assistance program is envisioned as the fund grows.

#### ***Implementation Path***

Through the Housing Fund, the County can also consider annual contributions to the Gallatin Impact Fund.

## **Support Tax Increment Financing for Housing**

### **What is it and how does it help?**

Tax increment financing (TIF) is authorized by the State to be used in Urban Renewal Areas (URAs) in municipalities and in Targeted Economic Development Districts (TEDDs) in counties. TIF can be used for public infrastructure projects in the URA, including infrastructure needed for housing development. The City of Bozeman's TIF policy allows TIF to reimburse fees and public infrastructure costs for rental housing at up to 80% of AMI, making it a form of gap financing. The City has used it on several 4.0% low income housing tax credit developments and projects utilizing the City's AHO density bonus.

Montana law recently expanded the allowable uses of TEDD funds from solely non-residential economic development projects to include costs related to workforce housing development. Missoula County created a TEDD in 2023 with a focus on financing infrastructure needed to support both economic development projects and workforce housing. The cost of land and infrastructure is a major constraint to Affordable and attainable housing, and both are allowable costs in a TEDD. Gallatin County should determine if there are areas of the county where a TEDD with a major housing component would be feasible.

### ***Implementation Path***

- Monitor and pledge support for municipal URA projects that create affordable housing.
- After adopting the FLUM, conduct a planning and feasibility study(ies) to identify potential areas to create a TEDD with a significant housing component. The County may be able to find partners for this work including land owners, developers, and businesses.

## Legislative Strategy

There are several regulatory tools and funding sources authorized in other states that would be helpful in creating more affordable housing units and more funding. The County should partner with other local governments facing similar challenges to advocate for changes to State Legislation and the State Constitution.

- **Inclusionary housing ordinances** – Inclusionary housing or inclusionary zoning was repealed by the Montana Legislature in 2021. Inclusionary housing ordinances can create permanently affordable housing and are especially effective in high cost areas where there is a large gap between what people can afford and market prices. Most states in the U.S. allow inclusionary housing ordinances.
- **Affordable housing impact fees** – Housing impact or “linkage fees” link job generation and affordable housing demand to new development. Linkage fees can be applied to residential development, non-residential development, or both. In a fast growing area like Gallatin County, linkage fees can generate significant revenue for Affordable housing. The same legislative action that repealed inclusionary housing powers also prohibited linkage fees.
- **Real estate transfer taxes** – A voter referendum passed in 2010 to amend state law to prohibit any tax, including sales tax, on the sale of real estate. In Colorado and Vermont, these taxes generate significant local revenues for Affordable housing. Mountain resort communities in Colorado receive several to 10s of millions in annual revenue from transfer taxes.
- **Sales tax** – Only Resort Tax Districts are allowed to collect sales tax. In most other states, sales tax is one of the largest funding sources for local governments for general operations, and capital projects including Affordable housing. Under the current tax structure, local governments in Montana do not have the funding tools to keep up with the demands of growth.