Housing Colorado:

The challenge for a growing state

November 1, 2001

Colorado Division of Housing
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Department of Local Affairs


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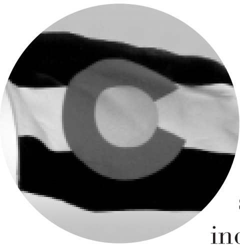
Colorado's Historical Challenge



The availability of affordable housing is paramount to maintaining healthy regional economies as well as helping families maintain financial stability. While this issue affects many individuals, it has larger impacts on the economy as a whole. Without affordable housing, businesses are not able to recruit and retain workers. Without workers, businesses are not able to function with high efficiencies.

Scope of the Need

The magnitude of the problem is great in Colorado. In 2001, 66,479 households need affordable rental units. Affordable housing programs target households earning less than 60 percent of the area median income for rental housing and 80 percent of the median income for homeownership. The accepted standard is that a household should pay no more than 30 percent of their gross household income towards their housing expenses. The number of renter households in need has been fairly stable for two years—dropping this year by just over 2,500 households. However, the need for units affordable to the very-low income (below 30 percent of renter median income) is increasing. Trends indicate that vacancy rates are rising which can have the effect of reducing rent over time.

Affordable homeownership units are in great demand as well. Many homeownership programs are targeted at households earning 60 to 80 percent of area median income or more. These are the renter households that have the most potential for becoming homeowners but need some help to get there. While there is a substantial supply of homes at the median price range, the supply of lower priced units is very limited. Downpayment assistance programs, below market interest rate loans and regulatory reform that reduces the prices of new homes can help moderate income renters achieve homeownership.

The demand for affordable units is clear. How to meet this demand requires examining the market capacity to produce low-income housing. The housing development market has experienced dramatic increases in the cost of land and permitting over the past decade. These cost increases have forced many developers to look closely at the bottom line and reexamine what type of housing product to produce. As a result, the market is producing more high-end homes as opposed to modestly priced homes.

With the private sector unable to produce the affordable housing necessary to meet the needs of Colorado citizens, the roles of the Division of Housing (DOH) and the Colorado Housing and Finance Authority (CHFA) are increased. The legislature has recognized the need to provide public catalysts in the market to encourage the production of affordable housing. In the past five years DOH has received increased funding for development grants and loans. A $10 million state low-income housing tax credit was established in 2001 to give CHFA an additional financing tool.

Using public incentives, 3,785 rental units have been produced in the past year. This means a gap of 14,610 units still exists in the marketplace.

Measuring the Adequacy of Household Income

The Colorado Fiscal Policy Institute has established a measure called the self-sufficiency standard. This standard is calculated for each county in Colorado and assumes a standard of living that is "not luxurious or even comfortable," but does provide for the basic needs of the family.

The ability to command a self-sufficiency wage of $18.90 in today's market requires a significant degree of specialized training—something many people moving from welfare to work lack. Those without a high school education can expect to earn an average wage of $9.25 per hour; those with a high school diploma $11.00 per hour; and those with a college degree $24.00 per hour. Compounding this fact is that the most significant job growth is occurring in the retail and service sectors in Colorado. Even though many retail and service-sector jobs pay above the minimum wage ($8.70 to $14.00 per hour), they pay far below the $18.90 per hour benchmark.

While maintaining subsistence wages for working families is important, it is also important to consider the number of people living on fixed incomes (SSI, Social Security, Disability payments) who must also access decent and affordable housing in our state. The housing needs for people with disabilities will increase in the next few years due to the Supreme Court decision, Olmstead v. L.C. As people are moved from institutional

settings to the community, the state must have accessible, affordable housing available to meet these needs. SSI benefits equate to approximately 16 percent of area median income in Colorado. Even modestly priced units cost the disabled 116 percent of their income. For these individuals, nothing less than heavily subsidized units will solve their housing needs.

DOH interviewed several families living in affordable housing units to determine if decreased housing costs have opened doors to other opportunities. Although each family had a unique set of circumstances, some generalizations can be drawn. Affordable housing serves as the foundation for rebuilding families decimated by financial hardship. For families in welfare to work, access to affordable housing has been a stabilizing factor allowing wage earners to focus on increasing skills or seeking better employment opportunities. For other low-income workers, affordable housing has contributed toward financial self-sufficiency. For some, access to affordable housing has provided a stepping-stone toward homeownership.

Permitting and Regulatory Barriers

Increases in the cost of infrastructure decrease the affordability of newly constructed housing. It is because of this issue that the Division of Housing has conducted an examination of the permitting fees and regulatory burdens.

In addition to providing more funding for affordable housing development, an examination of permitting fees and regulatory burdens has been conducted. Because of the taxpayer bill of rights (TABOR), many communities are unable to plan for future housing needs in a constructive manner. They are prohibited from raising taxes to pay for the infrastructure costs in their growing communities without a vote of the people. The ability to charge impact fees is the only way many communities can recoup costs associated with new development. Even these fee increases, however, are not enough to pay for the public expenses associated with the broader infrastructure and services defined by the community. The other alternative available to local governments without new financing tools is to consider cutbacks in services in order to balance their budgets.

In its survey of municipalities, the Division concluded at least 148 municipalities have incorporated comprehensive land use plans into their community's planning and budgeting procedure. The most prevalent features of these plans include parks and recreation, transportation, housing, public facilities and water supply.

At least 106 communities have adopted affordable housing policies—and many communities have attracted new housing development in the last year.

The Division recommends the following solutions be considered to solve problems created by growth.

- Affordable housing projects should be exempt from some or all impact fees, particularly amenity-driven fees, since these fees directly impact the ability of new home buyers to enter the market and for renters to find affordable units.
- Local governments should include affordable housing strategies in their master plans.
- Local and state governments should be aware of fiscal tools and options implemented by other states that may assist in the production and retention of affordable housing.

Focus on the Future: Setting Goals for the Next Five Years

The Division of Housing with its funding partners propose to meet 10 percent of the annual affordable housing need for the next five years. This goal includes the production of 2,643 affordable worker rentals, 2,380 deep subsidy rentals/transitional housing units, 100 homeless shelter beds and 5,416 homebuyer opportunities. This will require production to expand by 3,371 units per year. To meet this goal, The Division of Housing recommends the following policy options be considered.

Increase Affordable Housing Funding

- Establish a $5 million appropriation for the Affordable Housing Grants and Loans line item in the Division of Housing Budget for five years to achieve the goal of meeting 10 percent of the housing needs in the state in five years;
- Establish a dedicated revenue stream to capitalize a state housing trust fund; and
- Provide a five-year extension for the Colorado Low Income Housing Tax Credit.

Increase Infrastructure Funding

- Exclude affordable housing from amenity-driven impact fees (library, parks, open space etc.), but maintain payment of life/safety fees (water, sewer, emergency services, transportation etc); and
- Create a State Infrastructure Bank with existing pooled resources to assist local governments and developers in financing adequate infrastructure for modest detached and attached housing developments.

Increase Development Capacity

- Provide housing counseling services (eviction/foreclosure prevention, budget counseling etc.), help for emergency rental assistance/mortgage assistance and referral services to community resources through Employers' Employee Assistance Programs (EAPs);
- Call on private sector developers to form joint ventures with charitable groups to increase production; and
- Encourage employers to contribute to the charitable housing organizations to assist in stretching scarce operating and program resources.

Modify Land Use and Zoning Policies

- Encourage local planning and zoning bodies to provide an adequate supply of properly zoned land to address both the affordable rental and homeownership needs of the employees working in the community; and
- Encourage a Jobs/Housing Demand analysis as a requirement in Comprehensive Plans developed by municipalities and counties.

Combat NIMBY (Not In My Backyard)

- Create a private sector sponsored media campaign to educate the public on the benefits of higher-density development, living close to employment, using mass transit, NIMBY, the affordable housing need (i.e. "The Face of Affordable Housing").

Reduce Transportation Congestion

- Provide local density bonuses to encourage the development of higher density rental and for-sale units within three miles of employment centers; and
- Provide local density bonuses and expedited approvals for transit-oriented developments along the I-25 light rail corridor.

Encourage Federal Government Support

- The General Assembly could send a joint resolution to Congress requesting a clear statement of the Federal goal for addressing the shelter needs of the poorest households. State and local affordable housing efforts are hampered by the fact the scope of the Federal commitment is difficult to determine; and
- Citizens could encourage Congress to support Federal appropriations for housing development. Programs worthy of support include: The Community Development Block Grant, HOME, the Federal Low Income Housing Tax Credit Program and the Private Activity Bond Program.

Encourage Intergovernmental Coordination

- Encourage communities over 10,000 population to prepare a Local (in some cases regional) Housing Assistance Plan to apply for State or Federal funds administered by state agencies or state chartered authorities. Local Housing Assistance Plans would be reviewed for consistency with regional and state plans. Conversely state and regional plans should be formulated to complement local needs so that a bottoms-up approach is used in planning.

Understanding the Problem

Economic Trends

In the past decade, Colorado has experienced a real estate boom. Housing prices have exceeded wages, vacancy rates have dropped and construction has exploded around the state. In the past year, however, Colorado has not been completely isolated from national economic trends—especially downturns in the communications and manufacturing industries.

Activity in Colorado's manufacturing sector declined in July; with the Front Range Purchasing Manager's Index falling to 45.2. A score below 50 indicates a decline in manufacturing.[1] A separate Creighton University index of Colorado business activity rose to 41.7 in September from 36.6 in August.[2] In addition, Colorado's workforce continues to experience layoffs. Since January, joblessness has increased by approximately 19,000 persons.

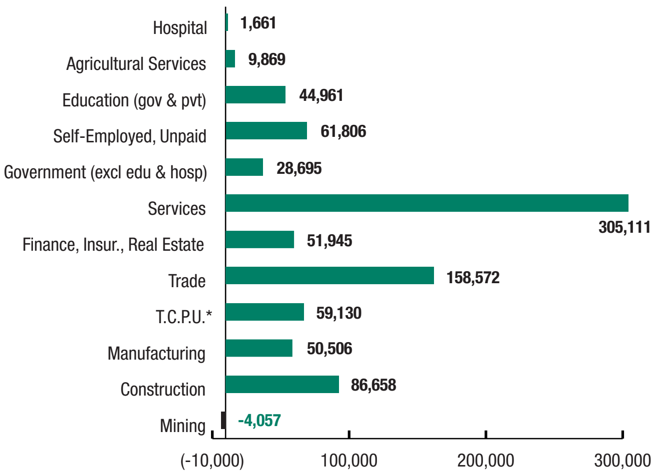
Colorado continues to fare better than many other states because of our diverse economy and location. Although layoffs have increased, Colorado continues to gain jobs at a moderate rate. The state's job growth from January to June 2001 was 1.7 percent. For the first time in ten years this figure was below 2.0 percent.[3] Nonfarm employment growth was 3.2 percent in June 2001—off 0.6 percent from 2000.[4] Colorado's unemployment rate of 3.3 percent is still well below the national average of 4.5 percent.[5] Still, this unemployment rate rose two-tenths of a percentage point from June, and is the second highest since the December 1998 rate of 3.4 percent.

Though there continue to be downward trends in the nation's economy, many economists still hold out hope that the economy will stabilize early in 2002. There have been indications the decline in manufacturing activity was slowing, but the effects of the New York and Washington tragedies are still unknown. The Consumer Confidence Index fell nationally to 97.6 in September from 114.3 in August, while in August the Mountain Region was 121.2.[6] While growth in personal income and consumer spending is lower than in 2000, modest gains of 0.3 percent were recorded for personal income, and consumer spending increased by 0.4 percent in July.[7]

Though some employment sectors in Colorado are weakening, local economists maintain projections for continued population and job growth. An estimated 32,500 new households moved to Colorado in 2001. The State Demographer's Office projects Colorado's population will grow 2.0 percent per year for the next decade.[8] This optimism is reflected in the housing industry, which is currently the strongest sector of the economy. Consumers are still purchasing and building homes statewide, and lower interest rates have continued to fuel refinancing of existing properties.

The number of jobs in Colorado is expected to grow in the next decade. As reported in the past, the largest number of jobs projected for Colorado from 1998 through 2008 are in the service industry. Service jobs are expected to grow at a rate of 5.6 percent each year—adding 305,110 new jobs. Business services, a division of the service industry, will contribute 143,000 new jobs over this ten year period. Wholesale and retail trades will add 158,572 new jobs. Professional and blue collar occupations are expected to have the largest occupational job increases overall, and will represent 23.6 percent and 22.6 percent respectfully of all jobs in Colorado in 2008.[9]

■ Graph 1: Growth By Industry



Growth in Colorado Jobs by Industry—1998–2008
Source: Colorado Department of Labor and Employment, Labor Market Data
New Jobs
*Transportation Communication & Public Utilities

Economic changes in Colorado may decrease the number of professional jobs created as the telecommunications industry recovers—but increases are anticipated for other service jobs. Significant increases will occur within the following job categories: temporary help workers, computer consultants, engineers, accountants, managers, health service workers, social service workers and recreation workers. Educational services are projected to account for almost 7.0 percent of new jobs in the state due to growth in the number of school aged children, as well as efforts to decrease classroom size.[10]

The *2000 Denver Metro Job Vacancy Survey* revealed almost 73.0 percent of all Denver metro area job openings were in the services and retail trade categories. The overall hourly wage for all jobs offered was $12.70. The average services wage offered was $14.00 an hour, while retail trade offered $8.70 per hour. Those without a high school diploma could expect to earn an average wage of $9.25 an hour. Those with a high school diploma could expect to earn an average wage of $11.00 an hour, and those with a bachelors degree could expect to earn more than double that average at $24.00 an hour.[11]

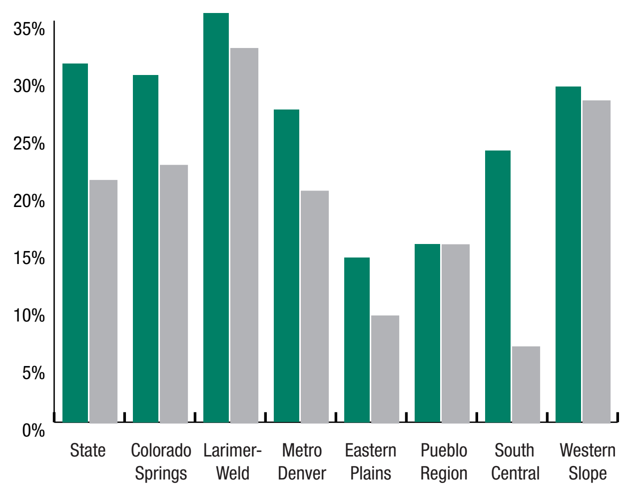
Colorado's Housing Market

While homes in Colorado are staying on the market longer than a year ago, the housing market is far from soft. Housing starts in major metro areas were up in July. In Colorado Springs, multifamily housing permits tripled from last year. Single family permits grew 18.2 percent in the Colorado Springs area and 10.2 percent in the Denver area.[12] Active listings of existing homes have jumped, but prices are still up 15.6 percent from last year.[13] The average price of a single family home in the Denver area was $265,255 in July 2001—up from $246,539 the year before.[14]

U.S. Housing Markets second quarter report for 2001 ranks the Colorado Springs and Denver areas as the twelfth and thirteenth hottest markets in the nation based upon the number of building permits per 1,000 residents. These same areas fall to forty-sixth and thirtieth respectfully in the ranking of investor hotness, which measures 12-month demand for units vs. supply.[15]

Overall rental vacancy rates are slightly higher when compared to the third quarter of 2000. The statewide vacancy rate was 4.3 percent for the first quarter of 2001, up from 3.5 percent the third quarter of 2000. Still, this rate is lower than the first quarter of 2000 (4.9 percent).

■ Graph 2: Growth In Households and Housing Units



Comparison of the Growth in Households and Housing Units in Colorado Regions from 1990-2000
Source: Department of Local Affairs Demography Section
Households
Housing Units

Vacancy rates vary by market area in the state—from 0.0 percent in Salida to 13.8 percent in Lake County. Rents dropped slightly in some Colorado markets from the third quarter of 2000 to the first quarter of 2001. Yet, the statewide average rent continues to climb, growing five percent from the first quarter of 2000 to $752.69 per month in the first quarter of 2001.[16]

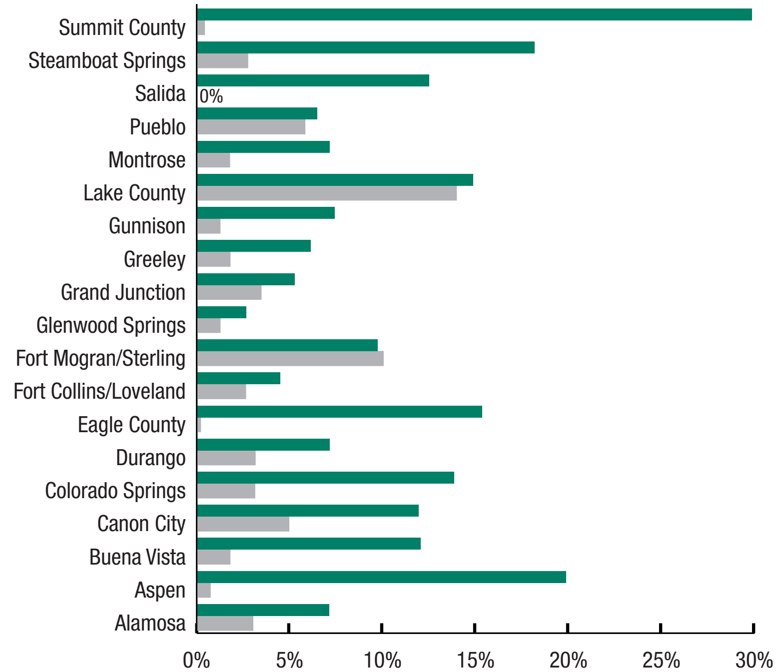
JOBS/HOUSING IMBALANCE: LOCAL EFFECTS

Perhaps nowhere in Colorado is the effect of high housing prices as evident as in Colorado's ski communities.

Eagle, Pitkin and Summit Counties continue to import major portions of their workforce, with as high as 44% of the resort employee base commuting from adjoining counties.

Garfield and Lake counties still export significant numbers of their workers due to the lack of local employment opportunities.

Graph 3: Colorado Vacancy Rates



Comparison of Colorado Vacancy Rates
by County for the years 1990 and 2001
Colorado Division of Housing, Multi-Family Housing Vacancy and Rental Survey, February 2001 and 1990 Census

1990
2001

People are still moving to Colorado, housing prices continue to rise, and most importantly, our lowest income households are experiencing difficulty finding an affordable place to live. Housing costs continue to increase faster than incomes in Colorado. Between 1989 and 2000 in the Denver metro area, the average wage increased 71 percent, while the average rent increased 103 percent. The most dramatic increase during this time is the cost of existing single family homes, which jumped 131 percent.[17]

While our housing market may slow during 2002, the state will not face the problems experienced during the late 1980s and early 1990s, when builders overdeveloped single-family building lots and homes. Colorado builders have been consciously developing new subdivisions at a slower pace in the past decade–placing infrastructure and developing lots based upon short-term demand. Already developers are pulling fewer building permits and slowing the release of lots in metro Denver. These practices should keep the housing market from experiencing large-scale construction loan defaults. This is also true of multi-family development. The limited availability of loans for multi-family housing developments statewide has kept the rental supply from exceeding demand. In fact, as our analysis shows, rental demand exceeds supply.

The increase in housing prices is directly affecting the consumer price index in the Denver-Boulder-Greeley area. The index rose 5.4 percent between the first quarter 2000 and 2001, while housing costs rose 7.7 percent.[18] Table 1 shows the American Chamber of Commerce Researchers Association (ACCRA) Cost of Living Index, published since 1968. ACCRA is a nonprofit professional organization comprised of the research staff of chambers of commerce, economic development organizations, and related entities throughout the United States and Canada. The ACCRA Cost of Living Index for the first quarter of 2001 shows Denver's index was higher than other surrounding cities, including Kansas City, Salt Lake City, and Phoenix.[19] Not only is the cost of living index higher than these cities, the housing index, average rent and average home price are also higher.

■ Table 1: ACCRA Cost of Living Index

City	Total Cost Index	Housing Index	Transportation Index	Average Rent	Average Home Price
Denver	108.6	119.7	107.5	$861	$243,424
Kansas City	99.4	91.3	104.9	$600	$187,402
Salt Lake City	100.8	97.9	99.9	$808	$191,376
Phoenix	100.7	96.9	107.3	$671	$200,414

Source: ACCRA Cost of Living Index, 2001

Measuring Housing Affordability

Each year, the Division of Housing presents data to illustrate how Coloradans in various job categories fare in today's housing market. These are common, statewide job categories essential to the well being of Colorado communities. They include a retail salesperson, dental assistant, truck driver, elementary school teacher and state patrol officer. This year, an SSI recipient has been added to the chart to illustrate the great difficulty persons living on fixed disability incomes have in finding affordable housing. The analysis shows the average, statewide annual wage for the job categories, calculates an affordable rent for this income level and displays affordable home prices.

Table 2 shows the elementary school teacher and the patrol officer can afford the statewide average rent of $753 per month. The person on SSI can afford a rent payment of $89 per month (12 percent of the statewide rent); the retail sales person can afford a rent of $442 (59 percent of the statewide rent); and the dental assistant can afford

■ Table 2: Occupations and Affordable Prices

Occupation	Income	Month Hsg Allowance	Affordable Purchase Price	% of Avg Home Price	Affordable Rent	% of Avg Rent
SSI Recipient	$6,144	$154	$19,755	12%	$89	12%
Retail Salesperson	$20,290	$507	$65,238	39%	$442	59%
Dental Assistant	$24,440	$611	$78,581	47%	$546	73%
Truck Driver	$31,030	$776	$99,770	60%	$711	94%
Elementary School Teacher	$38,560	$964	$123,981	75%	$899	119%
Patrol Officer	$40,880	$1,022	$131,440	79%	$957	127%

AFFORDABLE HOUSING IN SHORT SUPPLY

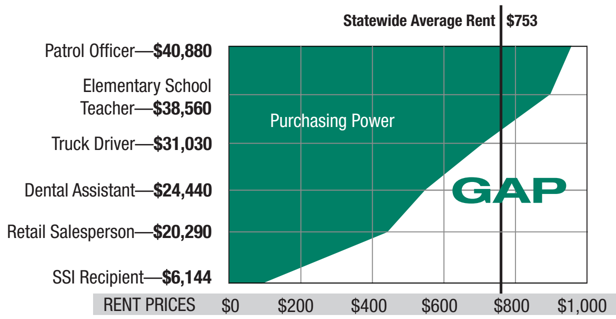
The national association of homebuilders produces a quarterly housing opportunity index for major metro areas. The index tracks the share of homes affordable to households earning the median family income in that city. The following are the national rankings of Colorado cities and cities in surrounding states for the first quarter of 2001. The rankings are out of 181 metro areas. The higher the score, the lower the affordability of homes for sale to those with the median income.

Kansas City	111
Boulder/Longmont	**128**
Salt Lake City	131
Albuquerque	132
Colorado Springs	**133**
Denver Metro	**140**
Phoenix	145
Fort Collins/Loveland	**147**
Pueblo	**149**
Greeley	**168**

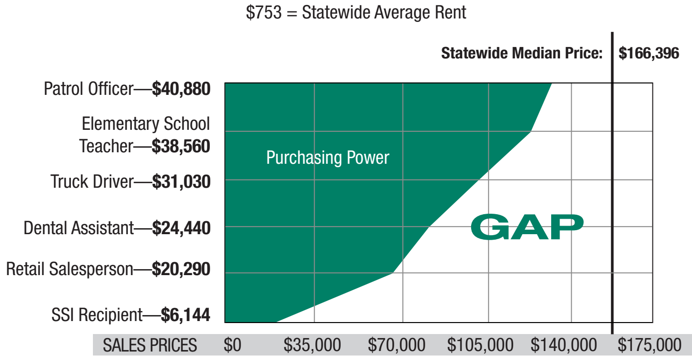
a rent of $546 (73 percent of the statewide rent). As was the case last year, none of the persons earning these wages could afford to purchase the average priced home with a price tag of $166,396.

Although persons in these job categories would not be able to purchase a home, favorable interest rates have reduced the total household income needed to purchase the average home to $43,127 compared to $55,500 last year. Graphs 4 and 5 illustrate the gap between these incomes and median statewide housing costs.

■ Graphs 4–5: The Affordability Gap



Colorado Affordability Gap 2001
Rent vs. Purchasing Power
$753 = Statewide Average Rent



Colorado Affordability Gap 2001
Price vs. Purchasing Power
$166,396 = Statewide Median Price

Jobs/Housing Demand Analysis

The issue of housing affordability is deeply entwined with transportation costs. In many areas of Colorado, people are moving farther away from employment sectors to find an affordable place to live. While the housing product may be less expensive, this trend causes family transportation costs to increase. The ACCRA Cost of Living Index shows that Denver's transportation index is higher than surrounding cities.

Many areas serve as "bedroom communities" for employment centers where housing costs prohibit workers from living. Rents in areas such as the Denver Tech Center are not affordable to the office worker making $10.00 to $12.00 an hour. The average two bedroom rent in southeast Arapahoe County was $1,013 per month in the second quarter of 2001, and $1,142 per month in northern Douglas County.[20]

Vehicle-miles-traveled (VMT) measures the totality of travel on our roadways. The Denver Regional Council of Governments reports VMT grew by about 4.7 percent in the Denver metro area. This statistic exceeds population (2.3 percent) and employment (3.5 percent) growth between 1960 and 1997. Fifty-eight percent of work trips to the Denver central business district in 1997 came from the suburban areas of the region.[21]

The Department of Local Affairs Demography Section produces labor force estimates to count the number of workers commuting into and out of a county each day. These numbers help paint a picture of the imbalance between housing and jobs in some Colorado counties. The data estimates of commuters include seasonal workers in tourist areas of the state. While some people choose to live in outlying areas because of amenities not offered near their place of work, many others are commuting farther to secure more affordable housing.

In areas with strong labor demands but unaffordable housing, a Job/Housing Demand Analysis demonstrates labor imbalances by tracking commuters into the region. For example, in Lake County, rents are much lower than in surrounding Summit and Eagle Counties. Summit and Eagle Counties have an abundance of jobs but high priced housing. The commuting patterns in and out of these counties show that Lake County is bearing a large part of Summit County's affordable housing problem. This imbalance is unhealthy for both Lake and Summit counties. Lake County must pay for many of the service needs of Summit county's workforce, while Summit County has trouble attracting workers to lower wage jobs because of the strenuous mountain commute from areas like Leadville.

A recent survey indicates that 53 percent of commuters into San Miguel County live in Ridgeway, Montrose or Ouray (outside San Miguel County). Sixty-two percent of respondents indicated they do not live in San Miguel County because housing is not affordable. Not surprisingly, commuters into the county had incomes less than those of county residents. Only 7.5 percent of commuters had incomes higher than $4,000 per month—compared to 21.0 percent of the county's residents.[22]

Moderate-income renter households looking to purchase a home are often caught up in the "drive 'til you qualify" dilemma. New single family homes and rental housing complexes are being constructed outside incorporated areas and business districts because land is cheaper, design standards may be less strict and the planning process may be shorter.

In Elbert County, an estimated 9,443 persons commute to work outside of the county, while only 373 commute into the county. Elbert County (Colorado's fastest growing county) has become a bedroom community for the Denver Tech center and other southeast I-25 corridor business centers. These commuters are not renting in Elbert County, but purchasing homes. Homes in Elbert County have been cheaper than in neighboring Douglas County, and often come with more land.

Commuting is a financial burden for lower income households. Jobs far from affordable housing can be unattainable for the lowest income households who lack reliable, affordable transportation options. The United States Energy Information Administration survey of households shows low income households drive less fuel efficient vehicles than higher income households, travel fewer miles per year than higher income households, and have vehicle expenses equaling all other household energy expenditures.[23]

More analysis of the Jobs/Housing imbalance must be done at the local level to quantify the impact the lack of affordable housing has on Colorado communities.

Rental Housing Demand

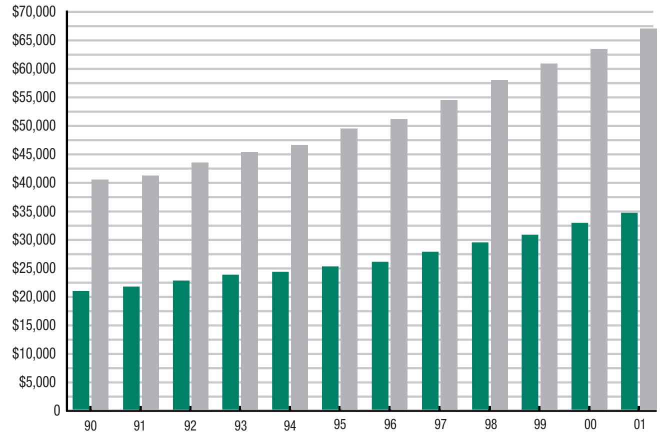
For the lowest income households in Colorado, rising housing costs far exceed increases in income. This band of renter households has not decreased over the past few years as many have stagnant incomes. The number of renter households earning 30 percent or less of the statewide median income in Colorado rose 29 percent (19,318 households) between 1990 and 2001. The number earning 60 percent or less of the statewide median income increased 23 percent during the same time period, for an increase of 32,139 households. The total number of households in the state rose 27 percent during this same time period.[24] Renters at 60 percent or less of renter median income include many disabled persons, elderly people and the working poor.

It is important to note the difference between the area renter median income used in this analysis and the HUD area median income used to qualify households for affordable housing programs. In 1998, the Division of Housing realized that as the incomes of more educated and affluent Coloradans rose at a fast pace, so did the HUD median incomes. The rise in the median income for all households is not an accurate indication of what is happening to the incomes of all Colorado households, especially renters. This is seen in Graph 6. Therefore, the Division commissioned the Center for Business and Economic Forecasting to develop estimates of both renter and owner median incomes by region for the state. The renter median income at the state and local level is much lower than both the HUD median incomes and the homeowner median income reported annually in this study.

This information is unique to the *Housing Colorado* report. To compare, in 2001, 50 percent of the statewide renter median income is 30 percent of HUD's statewide median income. Eighty percent of the statewide renter median income is about 50 percent of HUD's statewide median income.

Table 3 shows the number of very low-income renters at 0 to 30 percent of renter median income in Colorado grew at a faster rate than either the total number of renter households or total households between 1990 and 2001. Elderly renter households also grew at a fast pace of 3.2 percent during the same time period. While the number of single parent renter households was stable, their incomes

■ Graph 6: Change In Median Incomes



Change In Renter And Owner Household Median Income Over Time
Source: Estimates of Households by Income for Colorado and It's Regions 2001, Center for Business and Economic Forecasting for the Division of Housing

Rental Median
Owner Median

■ Table 3: Household Formation and Income Changes

Household Type	New Households 1990–2001	Percent Annual Change 1990–2001	Income Level 2001	Annual Change In Income Since 1990
Renters 0–30% Median Income	19,318	2.9%	$0–$10,337	5.9%
Renters 0–60% Median Income	32,139	2.3%	$0–$20,675	6.3%
Elderly Renters	19,347	3.2%	$18,697 Median	5.0%
Single Parent Renters	1,493	0.3%	$14,628 Median	3.2%
TOTAL RENTERS	**62,170**	**1.2%**	**$34,458 Median**	**5.9%**
TOTAL NEW HOUSEHOLDS IN STATE	**378,627**	**2.7%**	**$56,201 Median**	**7.0%**

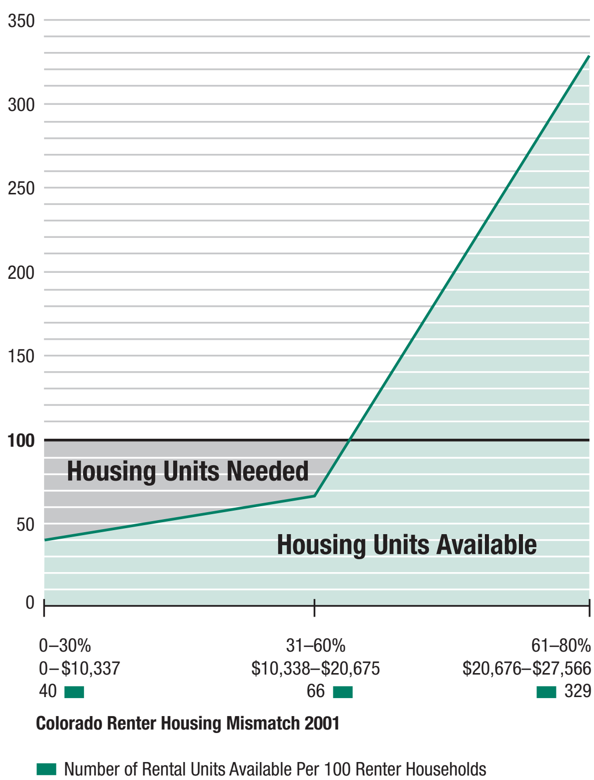
Source: Estimates of Households by Income for Colorado and It's Regions, 2001 grew the least at only 3.2 percent per year. Incomes for single parents and the elderly are quickly falling behind the rest of Colorado households. While household income grew at a rate of 7.0 percent per year in Colorado, renter households did not share equally in this gain and grew at a slower rate of 5.9 percent.

Income disparity clearly emerges when the median incomes of renters and home owners are compared. Graph 6 illustrates since 1990 the median income of owners in Colorado has risen at a much higher pace compared to renters.

Mismatch Ratio

In 1998, the Division of Housing created the "mismatch ratio" to compare the number of available housing units affordable to households at specific income levels to the number of households that can afford that unit. This matrix displays the discrepancy in affordable units available to each income group. This model assumes each household is occupying (or would occupy) a unit in their affordability range. In reality, higher income households will occupy units affordable to households in lower income ranges to save on housing costs, while lower income households may be forced to occupy a unit too costly for them.

■ Graph 7: Colorado Renter Housing Mismatch Affordable Rental Units Available Per 100 Renter Households



In 2001, the supply of rental units affordable to the households at 0 to 30 percent of renter median income declined from last year. For every 100 renter households earning 0 to 30 percent of median income, there were 40 affordable rental units. There were 66 units affordable for every 100 renter households earning 31 to 60 percent of renter median income. This number of available units in this income range increased slightly since last year, most likely reflecting an increase in estimated renter median income due to adjustments made from 2000 census data, and the fact that Colorado did receive an increase in federal Section 8 rental assistance vouchers in the past year.

This year, our analysis shows there are three times the number of rental units compared to renter households for renters at 80 percent of renter median income (50 percent of HUD's median income). There are two reasons why this mismatch ratio is overstated. First, most income restricted rental units developed in the state have rents targeted to households in this income range, though lower income households may actually be living in them. Second, privately held rental units with rents affordable in this range are nicer, bigger, and more desirable to higher income renter households. Most likely, many are occupied by these upper income renter households. Still, the fact that the mismatch is high for this income range and so low for the lower income ranges is an indication that affordable housing providers must strive to develop units for the lowest income households in the greatest need.

Estimate of Annual Need

Since 1998, the Division of Housing has estimated the number of renter households in need of affordable housing and the number of new affordable rental units needed to meet annual demand. This analysis allows the Division of Housing and other affordable housing financiers to identify the greatest housing needs in the state. These annual demand estimates are important at the state and local level for both planning and budgeting processes. Rather than trying to plan production strategies around the total global need for affordable housing, it is best to strategize using an estimate based upon an annual demand, since not all households in need are in the market to move in one year.

The methodology used to estimate the annual demand for new affordable units for two income ranges is illustrated in Table 4. First, the number of rent-burdened households is determined by subtracting the number of rental units affordable to households within an income range from the actual number of households in that income range.

This number is then multiplied by the average monthly turnover rate as reported in the *Denver Metro Apartment Vacancy and Rent Survey* for the second quarter 2001 and the *Colorado Division of Housing Multi-Family Housing Vacancy and Rental Survey* of February 2001. This turnover rate represents the level of market activity for rentals and indicates how many households are in the market looking for an affordable unit at any time.

15,310 Affordable Rentals Needed For Renters at 0–30% Median Income

The number of vacant affordable units is subtracted from the number of households likely to move. A vacancy rate for each range is calculated using data from both the *Denver Metro Apartment Vacancy and Rent Survey* and the *Colorado Division of Housing Multi-Family Housing Vacancy and Rental Survey*. The rate is then applied to the total number of unsubsidized rental units in that range.

A vacancy rate for subsidized units is taken from a sampling of Colorado Housing and Finance Authority financed properties. The difference between the number of low-income households in the market for a rental and the number of vacant units is multiplied by 12 months to determine the annual demand for new affordable rental units in Colorado.

Table 4: Annual Demand for Affordable Units

Annual Demand for Affordable Rentals—Households Earning 0–30% Renter Median Income

Rent Burdened Households		47,598
Turnover Rate	0.0503	2,393
Vacant Units Affordable		1,117
Likely to Remain Rent Burdened		1,276
UNITS NEEDED IN 2002*		**15,310**

Annual Demand for Affordable Rentals—Households Earning 31–60% Renter Median Income

Rent Burdened Households		18,881
Turnover Rate	0.0503	949
Vacant Units Affordable		692
Likely to Remain Rent Burdened		257
UNITS NEEDED IN 2002*		**3,085**

*Based upon 2001 data projection

The total number of rent burdened households earning between 0 and 60 percent of renter median income is estimated to be 66,479. This number is equivalent to last year's figure. However, more very low income households (earning between 0 and 30 percent of renter median income) are burdened than last year. One reason for this increase is due to the fact estimated renter median income for 2001 is substantially higher than the 2000 estimate.

The median income numbers in *Estimate of Households by Incomes for Colorado and Its Regions* report have been revised using new census data documenting the number of owner and renter households in the state. With the increase in renter median income, more very low income renter households with stagnant incomes are now in the 0 to 30 percent category instead of the 31 to 60 percent of median category.

While the total annual demand for units affordable to households earning 0 to 60 percent of renter median income has decreased by 2,539 this year, the bulk of the demand has shifted to the lowest income category. This analysis shows the need for 15,310 new rental units set aside for households earning 0 to 30 percent of renter median income and 3,085 for households earning 31 to 60 percent of renter median income.

The decrease in annual demand is due to a variety of factors. First, the adjustment to median income impacts demand by having more rental units affordable to low income households. Second, vacancy rates increased this year, making more units available. Third, the turnover rate has decreased since last year, which means renters are not moving as frequently as they were the year before. Supply of affordable housing units and opportunities have also increased. Colorado received a large increase in the number of Section 8 vouchers in 2001, and the Division of Housing and our funding partners produced 3,785 new rental units.

Still, it is important to note the number of rent burdened households has not decreased this past year, even with the investment of all state and federal resources. With population growth and rising housing prices, our annual production is keeping the number of households in need from growing. However, the number of households at 0 to 60 percent renter median income in need as a percent of total renter households has increased slightly this year. A softening of the rental market in terms of vacancy rates and increases in capital to construct more affordable housing may allow the Division of Housing and our funding partners to decrease these numbers in the future.

3,085 Affordable Rentals Needed For Renters at 31–60% Median Income

Homeownership

Colorado's homeownership rate rose to 68.3 percent in 2001 from 68.1 percent in 2000. This is the smallest increase in three years. Prices in Colorado were higher and inventory lower for most of the year, making it hard for many low and moderate income households to afford the move to homeownership. While Colorado's homeownership rate again exceeds the national rate, homeownership rates in surrounding states are once again higher. Only Arizona has a slightly lower rate of 68.0 percent.

■ Table 5: Purchasing Power

Year	80% of Metro Median Income	Affordable Price	Median Metro Sales Price	Interest Rate	% Affordable at 80% AMI
1983	$24,480	$57,160	$95,568	13.23%	60%
1990	$32,000	$94,033	$102,767	10.13%	92%
1996	$42,480	$154,754	$159,329	7.81%	97%
1997	$43,920	$163,442	$169,588	7.59%	96%
1998	$44,560	$174,054	$185,786	7.10%	94%
1999	$46,160	$174,318	$187,900	7.44%	93%
2000	$51,520	$183,438	$195,000	8.05%	94%

The housing sales market in Colorado is softening. Active listings in the Denver market in July were up 38.4 percent over a year ago, showing a softening in the sale of existing homes.[25] Average price increases are expected to slow in the next year as well. Still, single-family residential permits for Denver were up 10 percent in the first six months of 2001; and up 18 percent in Colorado Springs. In the past year, existing home prices increased 11.9 percent in the Denver area.[26] Colorado is still ranked fifth in the nation for house price appreciation according to the Office of Federal Housing Enterprise Oversight's first quarter 2001 index, and average sales prices are not decreasing.[27]

As the sales market eases during 2001, it may become easier for low and moderate income households to purchase a home. As Table 5 shows, the purchasing power of households earning 80 percent or less of the Department of Housing and Urban Development's (HUD) median income in the Denver metro area held steady between 1999 and 2000. While in 1996, a household earning 80 percent of HUD's median income could afford 97 percent of the median single family home price in Denver, the figure dropped to 94 percent in 1998. In 1999, the affordability percentage fell to 93 percent, but climbed again in 2000. Even with interest rate increases during 2000, prices did not increase so much as to negatively impact gains from increased incomes.

In 2000, the household earning $51,520 could afford to purchase a home priced at or below $183,438. The average metro sales price was $195,000. Lower interest rates and a growing inventory of homes on the market across much of Colorado should help moderate income buyers in 2001. Downpayment and closing cost assistance programs as well as low interest mortgages funded by the Division of Housing will help make this possible. The Division of Housing estimates 65,570 renter households earn 60 to 80 percent of HUD's median income in Colorado. Of these households, the Division of Housing estimates that 59 percent (or 38,683 households) would like to become homeowners if they were able to do so. This percent is based upon the 2001 Fannie Mae National Housing Survey. These households are most likely to be the group assisted by public subsidy homeownership programs.

Table 6 shows what households can afford to pay for a home and the inventory of affordable homes listed for sale in Colorado. This list of available homes includes all units, including some that are extremely small or in need of substantial repair.

■ Table 6: Homeownership Opportunities

HUD Income	30% of Income	Affordable Price	Benchmark House	Median Home Price	Affordable Homes Available
Renters at 60% of median income					
$34,620	$10,386	$111,312	$158,215	$166,396	2,268
Renters at 80% of median income					
$46,160	$13,848	$148,417	$158,215	$166,396	4,375

The Division of Housing contracts with Thomas Pickett & Company, Inc. to determine the cost of the "benchmark house" in Colorado. The benchmark house is a typical modest home with 1,300 square feet, three bedrooms and two bathrooms. Tax assessor values and sales prices for all homes sold in 2000 are used in the analysis. A benchmark house cost was established for each county in Colorado. The Colorado Association of Realtors calculates the median home price. The number of affordable homes available was complied from local real estate Multi-List Services and other data from September 2001.

Households earning 60 percent of the statewide median income or less have a $55,084 gap between the median priced home in Colorado and what they can afford. This gap decreases to $17,979 for households earning 80 percent of the median. This gap is larger than it was in 2000 for both groups, and reflects national data on the obstacles to homeownership.

According to the Fannie Mae National Housing Survey, the greatest obstacles to becoming a homebuyer for renters are finding an affordable home and having enough money for a downpayment and closing costs. Fifty-three percent surveyed thought price was an obstacle; while 47 percent thought having cash to close was an obstacle.

One good piece of news is the number of listings in Colorado affordable to households earning 80 percent or less has increased slightly to 4,375. Of these units, 2,268 were affordable to households earning 60 percent of the median or less. Still, considering this is a statewide inventory, it is tough to find an affordable housing unit at these income levels. For more information on affordability at the local level, please request the Division of Housing publication "What's Affordable."

1 Colorado Legislative Council, Colorado Economic Chronicle, August 30, 2001.
2 The Denver Post, "Manufacturing Decline Continues," Lisi de Bourbon, October 2, 2001.
3 The Rocky Mountain Economy, August 2001. HUD Regional Economist.
4 Colorado Department of Labor and Employment, Labor Market Information, 2001.
5 Colorado Department of Labor and Employment, Colorado Labor and Industry Focus, August 2001.
6 Colorado Department of Labor and Employment, Colorado Labor and Industry Focus Economy at a Glance, August 2001; The Conference Board, Consumer Confidence Index, September 25, 2001.
7 Colorado Legislative Council, Colorado Economic Chronicle, August 30, 2001.
8 Colorado Department of Local Affairs Demography Office, Preliminary Population Projections for Colorado Regional Statistical Areas, 2000-2010.
9 Colorado Department of Labor and Employment, Occupational Employment Outlook, 1998-2008.
10 Ibid.
11 Denver Metro Job Vacancy Survey, Colorado Department of Labor and Employment, November 2000.
12 Rocky Mountain Economic Indicator, September 10, 2001, HUD Regional Economist.
13 Housing Trends Update, Rocky Mountain Office of HUD, July 2001.
14 Denver Board of Realtors, Denver Metropolitan Residential Statistics, July 2001.
15 U.S. Housing Markets, Second Quarter 2001, Meyers Real Estate Information, Inc.
16 Colorado Division of Housing, Multi-Family Housing Vacancy & Rental Survey, February 2001.
17 Housing Trends Update, Rocky Mountain Regional Office of HUD, July 2001.
18 Colorado Department of Labor and Employment, Labor Market Information, Denver-Boulder-Greeley Consumer Price Index for all Urban Consumers, July 2001.
19 ACCRA Cost of Living Index, First Quarter 2001.
20 Denver Metro Apartment Vacancy and Rent Survey, Second Quarter, 2001.
21 Travel in the Denver Region, Denver Regional Council of Governments, May 2000.
22 San Miguel Housing Needs Assessment, Rees Consulting, Inc., 2000.
23 Household Vehicles Energy Consumption 1994. DOE/EIA-0464(94). July 1997.
24 Estimates of Household by Income for Colorado and It's Regions, Colorado Division of Housing, November 2001. Prepared by the Center for Business and Economic Forecasting.
25 Rocky Mountain Economic Indicator, Rocky Mountain Regional Office of HUD, September 2001.
26 U.S. Housing Markets, Second Quarter 2001, Meyers Real Estate Information, Inc.
27 Housing Price Index First Quarter 2001, Office of Federal Housing Enterprise Oversight, June 1, 2001.

The Collective Effort

Colorado's affordable housing is developed using a variety of financial resources. This section quantifies the total number of units developed in the past year funded by the Division of Housing and other public financiers. Local affordable housing initiatives are also highlighted. A table detailing the programs, agencies, and funding allocations for all significant federal, state and local programs in the state is located at the end of this publication as Appendix C—*Funding Sources for Affordable Housing*.

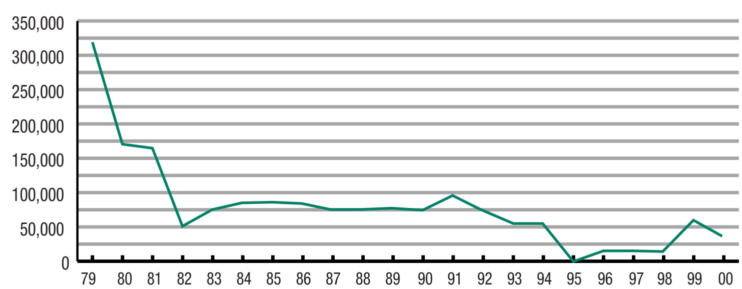
The Division of Housing plays a variety of roles to develop new affordable housing. Division staff works with local governments, local agencies, and other funding resources to determine housing need and feasibility. Using both federal and state funding sources, the Division provides equity and loans to affordable housing projects and programs, and administers Section 8 rental assistance vouchers.

By statute, the Division of Housing is charged with providing affordable housing opportunities throughout Colorado. The State Housing Development Grant Program is a unique resource essential to meeting this mission. Housing Development Grant funding is used statewide to provide equity and loans to a variety of housing projects. These funds are free of federal requirements—this can simplify the housing development process for nonprofit developers. In addition to state efforts, many local governments are enacting policies to increase the supply of affordable housing in their own communities.

Federal funding assistance is unpredictable from one year to the next. Graph 8 shows new federal rental assistance for the nation. Block grant programs providing critical equity to projects have experienced fluctuating funding levels in the past several years. Therefore, it is critical for state and local governments to invest in affordable housing with local resources.

This past year, Colorado's General Assembly and Governor Owens gave the Division a one-time funding increase of $1,970,000 for the Housing Development Grant program. With this increase, the total funding available for this

■ Graph 8: Additional Federal Assistance for New Rental Assistance Units



New Affordable Rental Units
Additional Federal Assistance, By Year, Nationally
Source: HUD Office of Budget
■ Rental Units

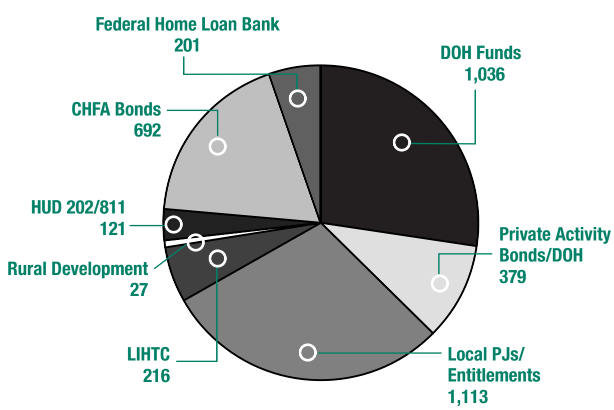
program in 2001 is $4.57 million. It is critical for Colorado to invest state funds to support affordable housing opportunities. The need is great and funding sources are few. The Division of Housing maintains a 12 to 18 month project pipeline—the need for grant and loan funds is nearly $20 million.

Rental Production Impact

Affordable rental housing is the cornerstone of a healthy employment/housing balance. Service and retail workers, office staff and many other critical employees need affordable housing in the community where they work. While rental housing is a stepping-stone to homeownership for many, others will always live in rental housing. Those at the lowest end of the income spectrum (the disabled, elderly on fixed incomes, and low wage workers) will always need a subsidized housing alternative. Others need affordable housing until they gain skills or complete education necessary to move to market rate housing and possibly homeownership.

Graph 9 illustrates the total number of rental housing units produced by the Division of Housing and our funding partners this past year. This is not a listing of each individual agency production for the year, as many financing sources are combined to build or acquire affordable rental units. To properly represent production, the analysis does not double count units between any source—in whole or in part. Any unit produced with state funding is counted under the Division of Housing and is not listed by other funding sources in the project.

■ Graph 9: Rental Production in Colorado



2000 Rental Production in Colorado divided among funding sources

In the past year, state, federal and local funders produced 3,785 rental units in Colorado. This is an 18 percent drop from last year, when 4,636 new units were produced. There are several factors contributing to this decrease:

- Some local governments did not fully utilize federal funding for housing this year, or projects were delayed.
- The cost of land, existing property and construction has increased, while state and federal funding sources have not. Division of Housing research shows projects must leverage more funding from more sources to ensure project completion. Consequently, existing resources are being combined to produce fewer units.
- Additional resources were focused on homeownership assistance to take advantage of falling interest rates and increasing incomes for some employment sectors.

These production figures do not show the impact of the 2001 Division of Housing funding increase, or the implementation of the CHFA state tax credit program. CHFA units included in the production count are those available for occupancy during the past year, not projects that have received a funding allocation. Units receiving the State Low Income Housing Tax Credit will not be occupied for another year or two. The increase in units produced with additional Division of Housing grant funds will be shown in the 2001 report.

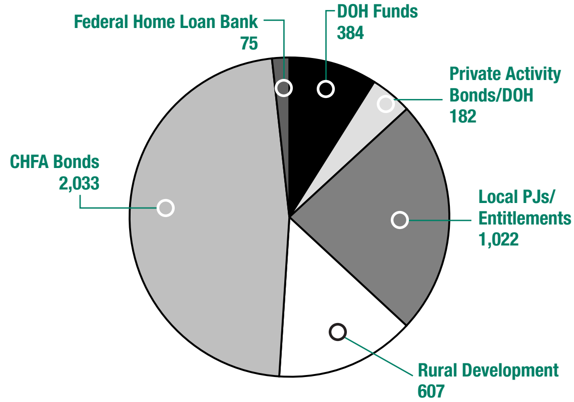
In the past year, 37 percent of all affordable rental units received Division of Housing funding, an increase of 25 percent from last year. In 2000, Division of Housing funded rental projects including:

- Arapahoe Green, a 60-unit rental project in Arapahoe County serving a mix of household incomes. Eighteen units are reserved for those at 30 percent of area median income (AMI), one at 40 percent AMI, 34 at 50 percent AMI , and six at 60 percent AMI.
- The Estes Park Housing Authority purchased a 10-unit rental project to include one 30 percent AMI unit and nine 50 percent AMI units.
- The West Central Housing Development Organization is using Division of Housing funding to construct 66 rental units in Mountain Village outside Telluride. Twenty-eight units will be affordable to those earning 60 percent of AMI.

Homeownership

In the past year, the Division of Housing and our funding partners provided more assistance to homebuyers than last year. Renters with adequate incomes and credit are provided with downpayment assistance and closing cost loans and grants, homebuyer counseling and reduced interest rate loans. This assistance allows renters to afford other costs associated with purchasing a home. Compared to a conventional loan, reduced interest rate loans help renters qualify for increased loan amounts giving them more options in the market.

Graph 10: Homeownership Assistance in Colorado



2000 Homeownership Assistance in Colorado divided among funding sources

Some Colorado developers are building homes with lower sales prices and deed restrictions which ensure long-term affordability. In the past year, the Division of Housing and our funding partners helped 4,303 renter households become homeowners. Each new owner effectively frees up a rental unit for another renter. Since last year, homeownership production increased by 244 households.

This is due to increases in average incomes and falling interest rates in 2001 and increased home prices during 2000 and 2001. During the past year, local governments funded almost twice as many downpayment assistance and closing cost assistance loans than last year. In the past year, many communities focused on homeownership rather than rental production.

As was the case last year, CHFA bond financing provided the largest share of homebuyer opportunities. CHFA loans helped 47 percent of all households served. Thirteen percent were assisted with Division of Housing funding and 24 percent through locally funded programs. Fourteen percent were assisted by Rural Development loans.

The Division of Housing funded the following homeownership programs:

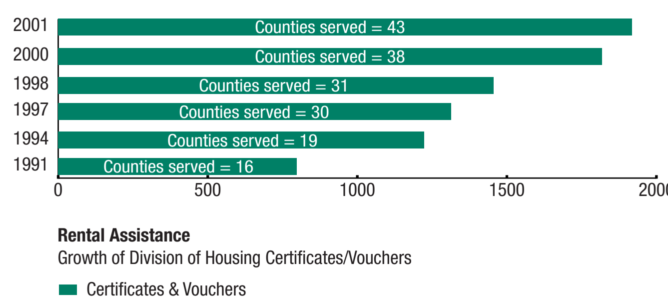
- Summit County Housing Authority developed Gibson Heights, a 38-unit homeownership project affordable to households at 80 percent of AMI.
- Habitat for Humanity received funding to construct 16 single-family homes for households at 50 percent of AMI. These units will be constructed throughout the state.
- The Colorado Housing Assistance Corporation will provide downpayment assistance loans to 25 disabled persons throughout Colorado using Division of Housing funding.
- In Colorado Springs, the Rocky Mountain Community Land Trust is purchasing 23 units to be resold to households below 80 percent of AMI using a land trust model.

Rental Assistance Impact

Rental assistance is critical to house Colorado's lowest income renters. The Section 8 Voucher deep subsidy rental assistance program allows households to pay 30 percent of their income for a rental unit they find on the open market. The program pays the balance of the rent up to a threshold called the Fair Market Rent. The Fair Market Rent is calculated at 40 percent of all rents in a given county. Colorado now has 25,857 vouchers in the state. While vouchers are key to serving households with the lowest incomes, it is difficult for families to find landlords willing to take vouchers. A mix of rental assistance and new affordable rental housing units are needed to keep up with affordable housing demands.

In Colorado, local housing authorities administer most voucher programs. Currently, the Division administers 1,923 vouchers for 43 counties in the state. The Division also provides administrative dollars to local housing authorities administering Family Self Sufficiency (FSS) programs. These programs provide supportive services and financial assistance for families moving beyond public housing assistance. The Division helps agencies develop FSS action plans, pays administrative fees and funds service coordinators. Families in FSS establish escrow savings accounts. These accounts can be used for educational or housing expenses—including the downpayment for a home.

Graph 11: Rental Assistance



Rental Assistance
Growth of Division of Housing Certificates/Vouchers

The Division of Housing also helps Section 8 Voucher holders qualify for homeownership. The Division of Housing Section 8 Homeownership Program was adopted in April of 2001. Homeownership assistance offers a new and special housing option for families receiving Section 8 tenant-based assistance through the Division.

Participating families are permitted a housing allowance equal to the Section 8 payment standard for their community. This allowance can cover the cost of their mortgage principle, interest, taxes and insurance, utilities and homeowner association dues. Families are responsible for paying 30 percent of their income for these expenses and any additional costs over the Section 8 payment standard.

Local Housing Program Impact

Because affordable housing is critical for a healthy local economy, more local governments have implemented affordable housing policies. The following paragraphs detail the provisions of local initiatives.

City of Boulder

The City of Boulder has a package of local ordinances, incentives and funding streams to increase affordable housing options. The City of Boulder inclusionary zoning program requires 20 percent of all new residential development be permanently affordable. Developers can choose to develop on-site or off-site affordable units, donate land for affordable development, or pay cash in lieu. It is anticipated this program will result in the development of 60-100 permanently affordable units annually without public subsidy.

Boulder waives excise taxes for all projects exceeding inclusionary zoning requirements. For each additional permanently affordable unit, the tax is waived on two units. The City also provides growth management exemptions for developers providing at least 35 percent permanently affordable units or mixed use developments including residential units.

The Boulder City Council committed general funds for the next six years to support affordable housing initiatives. These funds are in addition to proceeds from developer payments in lieu or the CHAP program (a tax revenue based program generating approximately $1,200,000 a year).

Town of Grand Lake

The small town of Grand Lake is addressing its shortage of housing for seasonal summer workers. The town has begun assessing an estimated $1.00 per square foot charge on all new construction within the town. The fee is ratioed to the International Conference of Building Officials (I.C.B.O.) building valuation index for various kinds of construction. Proceeds support affordable housing initiatives. The town exempts single family residences less than 800 square feet or multi-family residences less than 400 square feet from the fee.

This past year, the Grand Lake city council became an affordable housing provider. The town leased 12 summer rental units and subleased them to local businesses for their employees. Rents were affordable, and businesses were required to pay a $300 one-time fee into the town's affordable housing fund. The town is exploring the purchase of this property to make the units permanently available.

The Mile High Housing Fund

Members of the Metro Mayors Caucus in the Denver area are working to create a regional affordable housing trust fund to provide loans to affordable housing projects in the region. The fund is being capitalized from unexpected refunds of Coors Stadium Bonds. This fund will provide short-term loans for development and preservation of affordable housing, including gap financing and predevelopment financing for projects.

Trust funds will be targeted to households earning 80 percent or less of AMI. Projects serving very low income households will be encouraged to apply. Individual cities included in the refund may either grant their refund to the trust or loan it for four years as seed money. To date, the City of Denver, City of Northglenn, City of Arvada, City of Lakewood, City of Englewood, and City of Glendale and City of Lonetree are participating. Other jurisdictions are considering contributing their refunds and have until November 1, 2001 to do so.

A full listing of federal, state, and local affordable housing funding resources can be found in the end of this document as Appendix C.

Healthy Communities, Stable

Because of recent growth trends, many communities have shifted their focus from attraction and retention of jobs and businesses to creating a balance between existing housing units and new residents and industries. This focus on greater balance has uncovered the fact many communities lack housing affordable to their workers. To respond to this lack of worker or primary housing, communities have been working with developers to diversify their mix of housing.

A survey conducted by the Douglas County School District revealed that fewer than 20 percent of school district employees live in Douglas County.[1] This is not surprising given the average rent in Douglas County is $1,044, while the average wage for the educational services sector is $29,582. A person earning this wage should spend no more than $740 for monthly housing expenses.

The Division of Housing recommends communities conduct a Jobs/Housing Demand study to determine the extent to which workers commute in and out of the community to employment. If more workers are entering the community than living in the community, certain disparities develop between regions. One region ends up paying for services associated with the other region's workforce.

While the economy is experiencing a downturn, the need for affordable housing in communities throughout Colorado will not be reduced. In fact, if unemployment continues to rise, the need for affordable housing will increase significantly.

Housing Development has been a consistent feature of Colorado's economy. Building permits for single-family development have increased 10.2 percent in the past year (from 10,710 to 11,805). During the same period, multifamily housing permits have increased 26.9 percent (from 4,864 to 6,174). Housing development has a direct impact on the economy. According to the National Association of Homebuilders, the construction of 1,000 single-family homes generates 2,448 full time jobs and over $79 million in wages. The construction of 1,000 multi-family units generates 1,030 full-time jobs and over $33 million in wages.[2]

To maximize the positive economic impact of housing, communities must provide housing for a variety of residents earning a variety of wages. The cost of housing has risen dramatically in the past few years—in 1998 the average home in Colorado sold for $136,578, in 2001 that figure has increased to $265,255. The cost increase has affected the rental market as well. Rents in the Denver metro market have increased 103 percent in the past eleven years. These trends have priced many out of the market.

The most challenging problem facing the state is to provide housing for those earning less than 30 percent of renter median income. Approximately 47,598 households in Colorado are rent burdened in this income category. Overall, the percent of very low-income renters in need of affordable housing has increased from 52 percent in 1998 to 60 percent in 2001. At the same time the number of units available to this group has decreased. In 1998, there were 48.3 units for every 100 renters earning less than 30 percent of renter median income. In 2001, the ratio has fallen to 40.3 units for every 100 households. Who are these people and what are the factors contributing to their inability to increase their incomes?

Colorado's problems in this area are not unique. National statistics reveal that renters in this income category are increasing in number and facing shrinking

Debra Jacks

affordable housing stock.[3] Those with incomes below 30 percent of the area median income include persons with disabilities, elderly persons on fixed incomes, persons receiving welfare benefits, and the working poor.

Persons with Disabilities

Persons with disabilities are included in this income category because they have fixed incomes and need affordable, accessible housing. Because they have special needs regarding accessible design, the supply from which these individuals can choose is very small. Supplemental Security Income (SSI) benefits are $6,144 per year—this equates to 18 percent of renter median income for the state. Providing affordable housing for people in this category is a persistent problem that will be exacerbated by the impact of the Supreme Court decision, Olmstead v. L.C. This decision requires states to place people with mental or physical disabilities "in the most integrated setting appropriate to the needs." Thus, a number of people housed at state institutions will be looking to move into community-based settings.

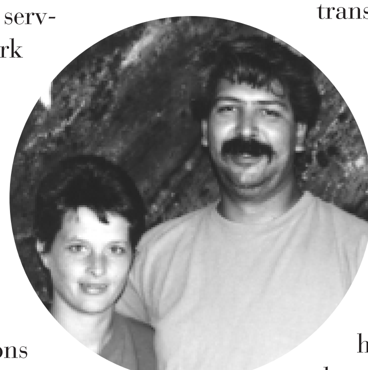
Elderly Renters

Many elderly persons are included in this income category because they live on fixed incomes. In some cases, the elderly need housing design modifications (similar to those necessary for persons with disabilities) to age in place. According to estimates from the State Demographers Office, the senior population will increase by 33,961 persons between 2001 and 2005.[4] The median renter income for seniors in Colorado is $18,697. This income is approximately 54 percent of the renter median income for the state.

Persons Receiving Welfare Benefits

Approximately 10,768 families receive welfare cash benefits from the state of Colorado. While welfare roles are declining, the need to provide comprehensive services to those transitioning from welfare to work still remains. Welfare cash benefits are minimal—a single parent with two children would receive $356 per month.[5] This equates to 12 percent of the renter median income in Colorado. The purchasing power of families receiving welfare benefits continues to decline, as the benefit standards have not changed since 1988.

To provide housing for these populations requires deeper public subsidies, longer-term management commitments and additional services enabling residents to function independently.



Gonzales Family

The Working Poor

The working poor have a different set of issues affecting them. While overall wealth has increased for our nation, a segment of the population continues to struggle and lose ground in the fight against poverty. Several factors have contributed to this income inequality including the relative decline in unskilled wages and the increase in single-parent families.[6]

Debra Jacks and her three children are an example of a family struggling to maintain financial stability. Debra's husband walked out and left her to provide for her young family alone. For a short time she and her girls were living in a homeless shelter owned by Access Housing. The family's stay at the shelter was short lived (only 30 days) and Access Housing was able to provide the family with a Section 8 Voucher. Although Debra is now working as a receptionist, the family still teeters on the brink of homelessness because they lack the financial resources to pay for their expenses.

Debra works part time making $8.00 per hour. She has a Section 8 housing voucher, receives food stamps, Medicaid benefits, and childcare benefits from the Child Care Assistance Program (CCAP). Her rent and utility expenses total $100 per month—this is $846 dollars less than she would pay on the open market. Even with this combination of income and benefits, Debra's monthly income falls short of her expenses by $300. Transportation is the most costly item in the family's budget. By spending over $450 dollars per month, Debra is able to provide her own transportation.

Unfortunately, Debra's situation is not unique. Many single parents struggle to achieve self-sufficiency under extreme circumstances. The lack of job skills, reliable transportation, and childcare make it very difficult to increase family income.

Even two parent families struggle to emerge from poverty and instability. Edward and Gylinda Gonzales are working hard to rebuild their lives after losing their home in 1998. To secure shelter following the loss, they stayed with several friends and spent some time living in a van. Fortunately, for the past 17 months they have lived in affordable housing. Edward and Gylinda admit they can finally "see the light at the end of the tunnel." They are Welfare to Work recipients with a Section 8 voucher from the Colorado Coalition for the Homeless. Both Edward and Gylinda are in training programs—he as an electronics technology engineer and she as a certified nursing assistant.


Prestel Family

Gylinda is working as a nurse assistant while Edward completes his training. For the Gonzales family and their three children, access to housing combined with social services has provided a bridge for the family during this transition from homelessness to stability. However, the family still struggles financially. Although their household expenses are less than a family without housing assistance, their family income falls short of meeting their expenses by over $350 per month. In time, this disparity may diminish if they can increase their earning potential by upgrading their skills. Until that point, the family relies heavily on the services offered by the Colorado Coalition for the Homeless. By having access to the Section 8 Voucher, the family pays $729 less for rent than they would in the open market. This cost savings allows the family to pay for two cars—transportation necessary to get them to and from training, work, and their son's frequent medical appointments.

To respond to the needs of the working poor, multiple policy choices are available including job training programs to increase wage earning potential, cash and program support to offset child care, transportation or housing expenses, as well as an increase in the supply of affordable housing units. It is obvious that many forms of subsidy may be necessary to address the root causes of poverty.

Family Budgeting

Discussions of affordable housing often focus on the percent of income used to pay for housing—the standard adopted by HUD is 30 percent. Recently, the Colorado Fiscal Policy Institute established a new standard to gauge the adequacy of income to meet basic family needs. This standard is called the Self-Sufficiency Standard and was calculated for each county in Colorado.[7]

Using this standard, a single parent with two children (an infant and preschooler) must earn a wage of $19.51 per hour to pay for housing, childcare, food, transportation, health care and taxes. In this budget, housing costs make up approximately 21 percent of the total budget while childcare demands 32 percent of the income.

The Division of Housing interviewed several affordable housing residents to compare their family budgets to the Self-Sufficiency Standard, and to determine the impact affordable housing has on family stability, community involvement and upward mobility.

Families living in affordable rental units pay less for housing than allocated in the Self Sufficiency Standard budget. They also pay less for childcare. The reduction in these two budget items allows these families to spend more on transportation, establish savings accounts, upgrade their training and spend more on food.

Often the provision of affordable housing provides a family with increased stability, access to better jobs or services, and the ability to save money. For Bonnie Prestel and her two children, access to affordable housing and support from Greccio Housing Unlimited have substantially improved their lives.

Bonnie was on track to becoming an urban nomad—she moved three times in three years, looking to find a way to make ends meet. Fortunately, she found Greccio housing in Colorado Springs. Greccio placed her in a home where she has been living for the past seven years. Over that time, Bonnie has opened a savings account, bought a car, joined the YMCA and participated in community life by volunteering at her children's school and serving on the board of directors at Greccio. Prior to moving into affordable housing, Bonnie was working two jobs and had no health insurance. Now Bonnie works as a volunteer coordinator and has increased her salary by $10,000 in the past year. Overall, Bonnie contends that having safe, stable, affordable housing has given her the opportunity to improve her family's financial situation and strengthen her family.

The Prestel family spends $253 less on housing than if they were renting in the open market. When compared to the Self-Sufficiency Budget, the family spends less on childcare, food, and healthcare. So although the Self-Sufficiency budget estimates that a family must make $15.13 per hour to achieve financial stability, the Prestel family has achieved this goal on a wage of $10.42 per hour.


Darlis Anderson

Darlis Anderson found herself living in a home unable to afford the payments on a salary of $18,000 per year. She became connected with Rocky Mountain Mutual Housing and found an affordable rental home. She is a medical office manager and her salary exceeds the Self-Sufficiency standard by almost $6.00 per hour. Her rent is $115 less than she would be charged in the open market. In the past six years she has rebuilt her life, her career and her affiliation with her community. According to Darlis, "affordable housing helps create a lifestyle of independence – it helps build self esteem and self reliance." Since living in her affordable rental, she has updated her computer skills, changed jobs, increased her salary, purchased a reliable car, and serves on the Board of Directors for Rocky Mountain Mutual Housing Association.

Frances Rodriguez-Gomez

For some, issues of poverty are complicated by substance abuse. Frances Rodriguez-Gomez watched helplessly as her life fell apart following the death of her husband. She became homeless, lost her daughter to foster care and became a substance abuser. Frances was living in motels until she connected with the Family Tree/Women in Crisis transitional housing program.

Since living in Family Tree, she has quit her job as a waitress and become a customer service representative for RTD. This job provides health insurance—a key component to self-sufficiency. She has been reunited with her daughter, is taking money management classes through Consumer Credit Counseling, is able to pay for therapy appointments, has been given a car through Family Tree and has established a saving account. Frances believes that living in affordable housing has, "kept me strong, kept me motivated."

Frances is paying $613 per month for housing expenses. This is $153 less than the same apartment would cost in the private market. When compared to the Self-Sufficiency standard, Frances is making sixty-five cents more per hour. Her budget for housing, food and health care is also less than the Self-Sufficiency budget. This gives Frances more flexibility in her budget and greater freedom to pay for unanticipated expenses or further education.

While affordable housing alone cannot address all the needs a family may have, access to affordable housing can be the stabilizing factor allowing people to access additional services and support networks. The foundation is affordable housing—it is the first building block for people to create their own success stories.

Cynthia Merritt

Cynthia Merritt and her two children lived for 11 years in affordable rental housing before making the transition to purchase a home. While this transition did not happen quickly, it has given Cynthia a, "great sense of accomplishment knowing I am paying for my own place." Over the 11 years Cynthia lived in affordable housing, she was able to establish a savings account. That savings, combined with a deferred downpayment loan from Eagle County, allowed Cynthia to purchase a home in Gypsum. Cynthia is living the American dream—she has stable job as a property manager and a good wage that allows her to support a $1,282 monthly mortgage payment. She has been able to put down roots in the county where she works and where her children go to school.

From a policy perspective, affordable housing needs range along a continuum. At one end of the continuum is the need for emergency shelter beds while at the other is market-rate homeownership. In between lie the need for transitional housing, affordable worker rentals, market-rate rentals and subsidized homeownership.

After examining the examples above, it is clear that each household has a unique set of issues placing them in need of affordable housing. In each case, one factor remains clear: access to affordable housing serves as the foundation for rebuilding or improving their lives. Without housing, these families would not be able to build the web of social support necessary for their security and prosperity. The non-profit agencies that assist people to find housing do more than place a roof over their heads—they provide social services, community support and encouragement.

Table 7: Housing Savings

	Actual Housing Cost	Market Rent In Area	Family Savings	Actual Housing Cost As % Of Budget	Market Rate Housing As % Of Budget
Jacks	$100	$946	$846	14%	137%
Gonzales	$209	$938	$729	18%	81%
Prestel	$515	$768	$253	28%	42%
Anderson	$586	$701	$115	23%	28%
Rodriguez-Gomez	$613	$766	$153	27%	34%s

1 "Where to House the Workforce?" The Denver Business Journal. March 16, 2001.
2 National Association of Home Builders. "Housing's Direct Economic Impact."
3 U.S. Department of Housing and Urban Development. "Rental Housing Assistance—The Worsening Crisis." Office of Policy Development and Research, March 2000.
4 State Department of Local Affairs Demography Section Population Projections 2001–2005.
5 AFDC Standards of Assistance Chart. Effective January 1, 1988. Colorado Department of Human Services
6 John Sidor, Draft Copy of *The Marginalization of Housing and Community Development*. The Helix Group. 2001 pp-.5-6.
7 Diana Pearce and Jennifer Brooks, *The Self-Sufficiency Standard for Colorado: A Family Needs Budget*. Colorado Fiscal Policy Institute, August 2001.

Managing Growth and Keeping

Any policy discussion of affordable housing or growth includes the topic of regulation. This section will examine the fiscal impacts of growth upon six diverse communities and look at the issue of impact fees in Colorado; examine a sampling of municipal, county, and special district development fees; compare how these fees have changed over the last three years; catalog municipal survey results to determine land use planning, comprehensive planning, and affordable housing policies; and summarize the Division of Housing effort to identify and mitigate the economic impacts of local land use regulations on affordable housing developments funded by the division.

Fiscal Impacts of Growth on Affordable Housing

Although growth management has been the catchphrase for all the ills affecting Colorado, it has very limited application for policymaking bodies. Poll after poll has shown that the negative effects of growth—not growth itself—are what cause Coloradans' angst. Coloradans are enjoying the economic prosperity of the times. They want to maintain a healthy job market—they just do not want to sit in traffic on their way to work, and they want growth to pay its own way.

When interviewed, Colorado citizens have sent fairly consistent messages: reduce traffic congestion, keep housing affordable and reduce school overcrowding. Most Coloradans favor policies that address these issues as opposed to policies that place limitations on economic expansion or job growth.

The political polling agency of Floyd Ciruli Associates conducted research about Colorado's growth. Citizens continually express a desire to solve key growth-related issues such as traffic congestion while at the same time maintain the State's healthy economy. "The downsides of growth have caused most Coloradans to demand solutions to slow and manage growth, not end it and risk losing its prosperous offshoots."[1] The answer for local governments, then, is to find the balance point.

Many types of community infrastructure are affected by growth, including parks, swimming pools, recreation programs and facilities, schools, libraries, town halls and museums. Citizens often complain of long lines where none existed before, or public school classrooms with too many children per teacher or too little space. For example, the Douglas County School District estimates they will need seven new elementary schools, two new middle schools and one new high school to meet five year projected enrollment needs.[2] The pace of growth often makes coordinating solutions a daunting process.

State and local governments are trying to respond to issues raised by their citizens. Local governments have the very concrete task of estimating water, sewer and road capacity in the face of population growth. Population expansion places an incremental demand on services and plant capacity, and costs communities more than they may glean in revenues to offset that expansion. The price of growth is high, and local governments have limited ways of recouping these costs. Local governments often impose development fees (which include building permit fees, plan check fees, use taxes, exactions, excise taxes and impact fees) to recover costs associated with growth. The most widely used method is to charge fees based proportionally on the effects growth has on community infrastructure. These fees, known as "impact fees," are assessed on the construction of new homes, and they raise significant questions: "How much does growth really cost? How well are our communities creating and retaining affordable housing as growth does occur?" and "Who pays for growth and through what means?"

Impact Fees

Because of the many planning terms involved in the development process, it is important to begin with a definition of impact fees. A report prepared in Minnesota[3] reviews the principles and national practices of impact fees and provides the following definition:

> "…impact fees are charges levied against new development in order to generate revenue for funding the capital improvements necessitated by that development. Impact fees range from several hundred dollars to thousands of dollars per house, dwelling unit, or building. They should not be confused with subdivision *exactions* that require developers either to 'dedicate' land for public use or contribute cash in lieu of land for the purchase of land and facilities perceived to be necessary by local governments. As a fundamental tool, impact fees are broader and more flexible than subdivision exactions. Impact fees can be levied on various types of development, including subdivision, condominium, commercial and industrial projects. Unlike subdivision exactions, impact fees can be used to fund the construction of off-site facilities."

Closer to home, a 1999 Colorado publication found that "In Colorado, the most common tools used to achieve this goal are land dedication, improvement dedication, fees-in-lieu of dedication, and development impact fees, all of which shall collectively be referred to as exactions."[4] For the purposes of this report, the term impact fee will be used to describe the wide span of development fees.

As federal spending on community infrastructure declined in the 1980s and 1990s, leaders of local governments looked for alternative sources to finance public facility expansion necessitated by growth. These public officials turned to impact fees for a variety of political and economic reasons, but impact fees gained favor because they pay for infrastructure associated with new development without raising taxes. These fees also shift the payment burden to those residents directly benefiting from growth. When impact fees are applied to affordable housing, however, they become a barrier to affordability.

The most common impact fees are charged for sewer, water and storm drainage, but the use of impact fees by municipalities has expanded to include the following:

- Water Plant
- Wastewater Plant
- Storm Drainage
- Mass Transportation Facilities
- Streets
- Bridges
- Utility Undergrounding
- Street Lighting
- Law Enforcement Facilities, Equipment and Training
- Fire Protection Facilities, Equipment and Training
- Urban Landscaping
- Parks and Recreation Facilities
- Low and Moderate-Income Housing
- General Government
- Open Space Acquisitions
- Libraries
- Cultural Facilities
- Museums
- Public Facilities
- Schools
- Trails

These fees represent a cost of a community's infrastructure not physically tied to development, but for which diminished service or plant capacity attributable to the development will occur.

The Town of Milliken, provides an example of a community facing the task of funding growth. In 1993, this small Weld County farming community had a population of 1,600. As the state's economy picked up steam and new residents flocked to Colorado, potential homeowners were willing to drive farther to work in order to attain certain community amenities and price advantages. In many cases these workers sought a small town, rural atmosphere. Additionally, in the early 1990s, housing was less expensive in rural areas like Milliken because land was less costly and local governments charged fewer fees.

Table 8 (shown on the following page) is the housing starts for Milliken from 1993 to 2001. These seven hundred forty-two (742) new housing units have the potential to boost Milliken's population to 2,975 persons by the end of 2001.

Table 8: Housing Starts for Milliken

1993	1994	1995	1996	1997	1998	1999	2000	2001
9	18	37	42	37	141	158	150	150 forecast

During the first years of a growth spurt, a community may have enough residual service and plant capacity to absorb additional housing units. At some point, however, the community must resize its infrastructure to meet the incremental demands created by growth. With water plants, wastewater treatment plants, and sanitation systems, bonds may be issued based upon the system user fees, per voter approval.

For general governmental infrastructure—police, streets, fire, parks and recreation, library and administrative services a general obligation bond may gain voter approval, but depending upon a city's existing indebtedness, there may be restraints on the size of a bond issue before it reaches the voters. The need for infrastructure and service expansion continues to grow with the population. If a bond issue is financially or politically constrained, a municipality must look at other sources to fund the infrastructure. Milliken is one of the Colorado communities that has turned to impact fees.

Milliken has little commercial property and depends heavily on property taxes. In FY 2000, the Milliken Town Council instituted the following general fund impact fees to pay for growth: trails and open space, park development fee, public facilities infrastructure, police infrastructure, streets, drainage, and administrative infrastructure. These fees were anticipated to raise $437,500 in FY 2000 and $817,500 in FY 2001, with per unit costs of $5,150. Combined with existing fees for raw water purchase and sewer system development, the cost per new housing unit is $19,450. When all other development fees are included (i.e., building permits, use taxes, tap fees, meter purchases and school fees) the total per unit cost is $29,796. Impact fees and other development fees are charged to the developer or the project, but are ultimately passed on to the owners of new units.

Across Colorado, in both large, urbanized communities and small, rural communities, growth is changing the landscape, much as it has done in Milliken. When considering the loss of potential homebuyers to the market due to development fees of any kind, consider the following statistics. Colorado Division of Housing analysis indicates that as home prices rise by $5,000, 12,439 households are disqualified from the housing market because of insufficient income to quality for a loan. With a $10,000 increase, 18,959 households are unable to afford a home, and a $15,000 increase precludes 25,077 households from buying a home. With a $30,000 increase in purchase price, 42,603 households will be unable to purchase a home.[5]

Table 9: Purchase Price/Households Excluded from Purchase

Increase in Purchase Price					
$5,000	$10,000	$15,000	$20,000	$25,000	$30,000
Cumulative Number of Households Unable to Purchase Homes					
12,439	18,959	25,077	33,532	37,325	42,603

Impact fees contribute to the inability of potential homebuyers to enter the housing market. A report on impact fees published in Minnesota found that "impact fees will place greater burdens on developments that contain low and moderate income housing. A flat fee for a single-family residence with three bedrooms, for instance, will be a greater burden on a $50,000 house than a $150,000 house."[6] In economic terms, the increased fees stifle the ability of households to attain affordable housing.

Communities are grappling to use the few tools available to them. But what are the fiscal effects of growth, and are impact fees the best solution?

Fiscal Impact Analysis of Six Colorado Communities

Fiscal Impact Analysis holds service levels constant to determine the economic, capital and demographic impacts of growth.[7] This report uses Fiscal Impact Analysis to examine six diverse municipalities experiencing significant population increases: Aurora, Breckenridge, Grand Junction, Milliken, Pueblo, and Sterling. Throughout this process, it is important to be aware of two issues affecting revenues and spending in Colorado communities.

The Gallagher Amendment eased the property tax burden placed on residential development because, over time, residential property values tend to escalate beyond commercial or industrial properties. As a result of adjustments, nonresidential properties pay a higher share of a community's general government infrastructure and services than do residential properties.

The Taxpayer Bill of Rights (TABOR) Amendment constrained overall revenues (including property tax) to a factor of inflation plus local population increases, unless a community specifically holds an election seeking voter approval to retain excess revenue.

Methodology

Assumption 1. Service levels are constant. Fiscal Impact Analysis examines the impacts of growth by holding service levels constant, i.e., a local government will continue to provide the same frequency of services from one year to the next. For example, refuse collection in a community takes place once a week. As growth occurs, it is assumed that this level of service (once a week) will continue rather than increasing the number of times per week that refuse is collected. By holding service levels constant, changes in cost from one year to the next can be attributed to population growth.

Assumption 2. Broad service functions of government found in the general fund are not typically on a "pay-as-you-go" basis, and increases in the general fund from year to year are attributable to growth.

Assumption 3. The ratio of the current value of residential property to the current value of all property in a community can be used to estimate those revenues produced by residents and those expenditures attributable to residential development.

Assumption 4. Budgetary information is used for FY 2001 since the year is not ended and audited financial statements are not available at this time. It is assumed that there is a high degree of correlation between budgeted and actual revenues and expenditures.

Step 1. Determine the ratio of residential property to all property at market rates. Using the *Thirtieth Annual Report - Division of Property Taxation 2000*, all classifications of property were brought to current value by dividing the nonresidential property by .29, and residential property by .0974. Residential and nonresidential current values were then totaled. The proportion of market value residential property to the market value of all properties yields the approximate percentage of residential property in the given municipality.[8]

Step 2. Determine the portion of property tax assessed to residential development vs. the portion borne by nonresidential property. Residential assessed valuation divided by total assessed valuation yields the percentage of property taxes contributed by residential development.

Step 3. Determine the proportion of residential revenues. Line item general fund revenues are examined to identify and segregate revenues and expenditures clearly attributable to residential development and those clearly attributable to commercial or other nonresidential development. General fund revenues and expenditures are multiplied by the percentage determined in Step #1 to determine proportional share. Property tax revenues are multiplied by the percentage in Step #2. Residentially derived revenues are then totaled.

Step 4. Determine the proportion of residential expenditures. Multiply the percentage from Step #1 by each expense category. Add together all residential expenses.

Step 5. Compare Residential Revenues to Residential Expenditure to understand how existing and new residential housing contributes to the local government's ability to pay for costs in the community.

(1) City of Aurora—As a large suburban community adjacent to unincorporated areas of both Adams and Arapahoe Counties, Aurora has room to grow, and has been expanding in both geographical size and population at a rapid pace. According to the analysis performed, new and established residential housing in Aurora produces approximately 65 percent of revenues needed to pay for residential services. Residential expenditures are approximately 76 percent of the general fund budget (See budget on the following page). This information provides evidence that residential development—both new and existing—does not pay for itself. As a result, Aurora has begun to utilize impact fees to cover infrastructure costs including water transmission development, sewer interceptor development, storm drainage, traffic impacts and parks and recreation impacts created by new residential development. These fees are assessed on a per acre basis rather than a per unit basis. When all other development fees are aggregated (including building permits, use tax, and school fees), it is estimated the cost per unit is $15,207.

Aurora acknowledges residential development is expensive, and the city is considering whether to expand impact fees as a way to ensure new residential development "pays its own way."

(2) Town of Breckenridge—Breckenridge is a mountain resort community expecting up to 270 new housing starts during FY 2001. However, Breckenridge is a community of many second homes and part-time homeowners, and caution must be used in viewing data on expenses. The Fiscal Impact Analysis reveals that Breckenridge receives approximately $14,274,434 (71 percent of total revenue) in income from residential sources. The town spends $15,582,644 (78 percent of total expenditures) to provide services to its residential population. Overall, Breckenridge spends approximately seven percent more on residential development than it derives in residential revenues.

Breckenridge is one of the few municipalities to implement a real estate transfer tax prior to TABOR (it is therefore "grand fathered in"). The real estate transfer tax will provide an estimated $2.5 million in FY 2001—an increase of $1 million from FY2000. Without these revenues, Breckenridge would experience greater difficulty responding to the costs of growth.

(3) **City of Grand Junction—**As a large western slope community with a mild climate, Grand Junction attracts retirees from across the country as well as those seeking an active, outdoor lifestyle. Grand Junction is working to keep its infrastructure ahead of the growth curve, and has planned several capital construction projects for this purpose. This expansion includes a three-to-five lane corridor from Highway 50 to Interstate 70. In the 2001 budget, general fund revenues attributable to residential development ($23,313,551) are insufficient to pay for residential expenditures ($23,786,242). This is an indication that residential development is not paying for its costs.

Grand Junction charges new developments a traffic impact and a parks and recreation impact fee to offset costs. Grand Junction will collect $500 per single-family unit through its Traffic Impact Fee and $250 per unit for its Parks and Recreation Impact Fee for a total of $750 per single-family unit. When all development fees are included, the total is approximately $7,920 per unit.

(4) **Town of Milliken—**The Town of Milliken relies more heavily on property taxes than other Colorado communities as it has a small amount of commercial property. The town is situated in an agricultural region, and is not adjacent to a major highway or interstate. Nonetheless, Milliken has experienced a high growth rate and has established impact fees as a means of recouping the costs of growth. Fiscal Impact Analysis of the town's 2001 budget reveals residential revenues generated $2,101,655 (85 percent of total revenues) while residential expenditures totaled $2,520,005 (86 percent of total expenditures).

The town expects 150 new units to be built in 2001,

Table 10: Determination of Residential Revenues and Expenses—Aurora 2001

Step 1: Determine Proportion of Residential Property to Nonresidential Property

Market Rate Residential Property	$10,295,232,854
Divided by Market Rate for all Taxable Property	$13,613,240,061
	76%

Step 2: Determine Portion of Property Tax Attributable to Residential Use

Assessed Valuation of Residential	$1,002,755,680
Divided by Assessed Valuation all Property	$1,964,977,770
	51%

Step 3: Determine Residential Portion of Revenues

Revenues Attributable to Residential Property Tax (51%)	$9,334,224
Sale Tax (76%)	$80,097,346
Specific Owner Tax (76%)	$2,216,583
Use Tax Autos (76%)	$8,414,850
Use Sale Building Materials (76%)	$6,194,169
Other Taxes (76%)	$1,044,956
TOTAL TAX ATTRIBUTABLE TO RESIDENTIAL	**$107,302,128**
Charges for Services (76%)	$4,051,134
Fines for Forfeitures (76%)	$2,732,933
Intergovernmental (76%)	$8,259,447
Licenses and Permits (76%)	$5,157,368
Transfers (76%)	$228,000
Other Revenues	$2,306,159
TOTAL RESIDENTIAL REVENUES	**$130,037,169**
ALL REVENUES	**$201,264,036**
PROPORTION OF REVENUES THAT ARE RESIDENTIAL	**64.6%**

Step 4: Determine Proportion of Expenditures that are Residential (See Step 1 Above) 76.0%

Multiply Budget Expenses by Residential Portion

General Government	$ 37,063,991	76%	$28,168,633
Public Safety	$ 80,094,198	76%	$60,871,590
Public Works/Engineering	$ 16,787,893	76%	$12,758,799
Parks & Open Space	$ 14,729,853	76%	$11,194,688
Library and Recreation Services	$ 10,175,614	76%	$7,733,467
Neighborhood Services	$3,814,008	76%	$2,898,646
NonDepartmental	$42,232,920	76%	$ 32,097,019
TOTAL RESIDENTIAL PORTION EXPENDITURES			**$155,722,843**

Step 5. Compare Residential Revenues to Residential Expenditures. If Revenues do not meet expenditures then residential development does not pay for itself.

Residential Revenue	$130,037,169 (64.6% of total revenue)
Residential Expenditures	$155,722,843 (76% of total expenditures)

Residential Revenues do not meet Residential Expenditures.

and early indications are that building permit costs and development fees will actually produce more income than necessary to cover the costs of growth. For FY 2002, the town *anticipates reducing impact fees* so builders will continue to consider Milliken as an affordable community in which to do business. For a town with few opportunities to garner sales tax but with tremendous growth, impact fees are one of the few financing solutions available. Milliken has learned, however, that impact fees drive up the cost of housing. Communities need to finance infrastructure growth, but they must remain affordable to remain competitive.

(5) City of Pueblo—As the largest community in Southeast Colorado, Pueblo is an employment and service hub for surrounding areas. Pueblo's economy was once centered on the steel mill industry, but reductions in that industry have created a significant unemployment rate. To combat economic decline, Pueblo updated its infrastructure and improved its cultural and community resources—including the Riverfront Project and the historic train depot commercial area.

Fiscal Impact Analysis of the town's 2001 budget reveals the ratio between residential revenues and residential expenditures is 73 percent (or $44,437,579) to 76 percent (or $46,366,301) respectively. Existing and new residential development does not generate sufficient revenue to pay for the provision of services. Pueblo does not currently use an impact fee.

(6) City of Sterling—A small city on the eastern plains of Colorado, Sterling is the site of a new State Correctional Facility. Anticipating new employment opportunities, the community planned to upgrade its museum and general government infrastructure. The correctional facility has been constructed, but is not operating at capacity. Thus, new infrastructure has been provided, but anticipated revenues have not been collected. It is likely residential revenues will continue to lag behind residential expenditures until full employment is attained at the facility. Sterling imposes development fees for water and sewer system costs. Fiscal Impact Analysis shows that residential revenues ($6,059,284) lag behind residential expenditures ($7,810,026) by $1.7 million.

For a complete Fiscal Impact Analysis for the communities profiled above, please contact the Division of Housing.

Cost of New Units

The table below presents the calculated 2001 general fund expenses for new housing units in the communities included in the fiscal analysis. This analysis, coupled with predictions of future housing units and the Consumer Price Index (CPI), could be used to estimate 2002 growth-related expenses within the general fund for each locale. Of the communities examined, only Milliken predicts future housing starts in formulating its budget.

■ Table 11: Cost of New Units

Jurisdiction of New Units	Number of Units		Average Persons Per Household		Per Capita Cost of Growth		Total Cost of Growth
Aurora	2,200	x	2.60	x	563	=	3,220,360
Breckenridge	270	x	2.16	x	6,471	=	3,773,887
Grand Junction	323	x	2.23	x	567	=	408,404
Milliken	150	x	3.33	x	887	=	443,056
Pueblo	750	x	2.44	x	633	=	1,158,390
Sterling	13	x	2.34	x	676	=	20,564

Formula for Per Capital cost equals residential portion of expenditures divided by 2000 population for each community

Summary

The Fiscal Impact Analysis demonstrates residential development has unanswered impacts on the local governments' budgets. Because state and federal revenues available to pay for infrastructure costs are declining, local governments are searching for new methods to pay for the growth occurring in their communities. Impact fees are the newest addition to the set of municipal tools used to ensure new residential development pays its proportional share of infrastructure and service costs. However, the consequence of these additional fees is increased costs to renters and homebuyers. Developers may be discouraged from building low- and moderate-income housing and concentrate on more expensive housing units. It is becoming exceedingly difficult for local governments to both recoup costs of new development and keep housing stock affordable.

If economic conditions change and revenues decline, cities may be forced to deplete reserves to fund existing service levels. Or municipalities may expand the number of impact fees to meet current year costs for the incremental increases in residential units.

Local Government Fees

The most common fees charged by local governments in the past four years are fees for water and sewer plant investment, open space acquisition and recreation facilities. There is a growing array of fees for community amenities such as libraries, museums, general government facil-

Table 12: Change in Development Fees 1998–2001

Urban Communities

Community	1998	2001	Net Change	Fee Revision
Adams Co.[1]	9,138	13,849	4,711	Increased water & sewer
Arapahoe Co.[2]	17,458	19,583	2,541	Increased water fee
Arvada	13,824	23,867	10,043	New Fees for Transportation, Open Space & Schools
Aurora	12,776	15,207	2,431	Overall increase in fees
Boulder	16,495	19,087	2,592	Increase Sewer/ Excise Tax
Boulder Co.[3]	14,790	9,994	4,796	Decrease In Water & Sewer fees Change
Colo. Springs	9,164	12,634	3,470	Increase in all fees
Denver	7,205	17,120	9,915	Increases in Water & Sewer fees
Douglas Co.[4]	15,346	17,884	2,538	Increase Water/ Sewer/Bldg.
El Paso Co.[5]	12,337	12,337	0	
Grand Junct.	6,345	7,920	1,575	Increase in Traffic/ School/Bldg.
Greeley	8,353	10,563	2,210	Increase in Water/ Sewer fees
Jefferson Co.[6]	8,469	8,850	381	Increased Traffic/ Building
Lakewood	10,735	11,868	1,133	Increase Building Permit
Larimer Co.[7]	6,145	6,145	0	
Longmont	15,912	18,071	2,159	Increase in Traffic & Park/Rec fee
Loveland	12,836	16,685	3,849	Largest Increases: Sanitary Sewer, Storm Drainage, and Park & Rec.
Mesa Co.[8]	4,728	10,364	5,636	Increase in Water/ Bldg. Permit
Pueblo	5,515	7,721	2,206	Increase Park/Open Sp/Use
Pueblo Co.[9]	4,075	6,575	2,500	Increase in Sewer
Weld Co.[10]	15,194	17,549	3,030	Increase in Water & Sewer Fees
Westminster	15,808	18,506	2,698	Incr. Water/Sewer/ Pks/Sch
Urban Mean	**11,052**	**13,745**	**2,693**	**6.0% Annual Increase**

Rural Communities

Community	1998	2001	Net Change	Fee Revision
Alamosa	6,123	6,123	0	
Canon City	6,617	7,942	1,325	Fee Increase for Building Permits & New Fee for Plan Check and Review
Durango	9,266	9,642	376	Increase Traffic Impact/School
La Plata Co.[11]	6,182	6,182	0	
Eagle	10,043	10,463	420	Increase in Bldg./ Plan Ck Fee
Eagle Co.[12]	13,391	19,551	6,806	Increase in Water/ Sewer/Bldg.
Fort Morgan	7,735	9,004	1,269	Increases in Water Tap Fee
Kiowa	6,893	9,339	2,446	Storm Drainage, Bldg. Permit
La Junta	2,925	3,820	895	Increase in Building Permit Fee
Las Animas Co.[13]	7,144	8,894	1,750	Increase Water Fees
Montrose	6,950	7160	210	Increase in Building Permit
Montrose Co.[14]	7,187	7,887	700	Increase in Water
Morgan Co.[15]	7,065	8950	1,885	Increase in Water District Fee
Trinidad	7,139	6,343	-796	Reduction in Building Permits
Rural Mean	**7,476**	**8,864**	**1,188**	**4.0% Annual Increase**

1. Adams County - South Adams Water & Sewer
2. Arapahoe County - Cherry Creek Valley Water & Sewer
3. Boulder County - Hoover Hill Water & Sewer
4. Douglas County - Pinery Water & Wastewater
5. El Paso County - Academy Water & Sewer
6. Jefferson County - West Jefferson
7. Larimer County - Spring Canyon Water & Sewer
8. Mesa County - City of Grand Junction/Ute Water Conservancy District, Fruitvale Sewer
9. Pueblo County - Avondale Water & Sewer
10. Weld County - Dacono Water & Sewer
11. La Plata County, El Rancho Florida Metro District
12. Eagle County - Eagle River Valley Water & Sewer
13. Las Animas County - City of Trinidad
14. Montrose County - Tri County Water & West Montrose Sanitation
15. Morgan County - Morgan County Quality Water & Municipal Sewer

ities, police and fire infrastructure and transportation. In the future, telecommunication infrastructure may be added to the list of public charges. While these fees are created for valid reasons, they are passed on to housing units and consequently increase the cost of housing.

The Division of Housing has surveyed the development fees of twenty municipalities and their corresponding county or special districts for the past four years. Exhibit A lists the types and amounts for each of these jurisdictions. Overall, a number of communities approved minor fee increases in the last year, while some substantially increased development fees. Fee increases are generally limited to paying infrastructure costs—not administrative costs of building inspections and plan reviews. Table 12 compares development fees for the last four years and provides justification for fee increases. Fees are calculated for a single-family home with a value of $100,000.

Development fees for urban and rural counties combine county fees and special district fees. In unincorporated areas, special districts provide water and sewer services. In some areas water and sewer services are provided by one special district. In other areas, each service has a distinct special district.

The City of Arvada added a $3,033 fee for transportation impacts, schools, and storm drainage. Grand Junction now calculates its traffic impact fee on a per lot basis—$500 per single-family home. Grand Junction also added a school impact fee of $292. Mesa County now charges a building permit fee of $436. In previous years, Pueblo reported the lowest fee package among the urban communities. Pueblo is now collecting a one percent construction materials use tax within the county in addition to the City's use tax.

In Eagle County (served by the Eagle River Water & Sanitation District) water and sewer fees continued to increase. In most rural communities, development fees increased slightly. Morgan County's water tap fee increased by $625.

Comprehensive Local Government Planning

Local comprehensive land use plans and capital construction plans implement a community's long-term vision. This strategic planning process is critical to eliminate regulatory barriers. Community development patterns are identified and corresponding infrastructure requirements prioritized. The increasing demand for affordable housing requires that communities identify sufficient developable land with appropriate zoning and with access to utilities and transportation. Local governments are positioned to institute changes to create an adequate supply of land.

The Colorado Division of Housing surveys municipalities and counties annually to determine the number of communities with comprehensive land use plans and to identify various elements of those plans. Exhibit B summarizes the results of this year's survey.

The Division received 140 surveys from a total of 263 municipalities. This year 10 additional jurisdictions (for a total of 148) have incorporated comprehensive land use plans into their community's planning and budgeting procedure. The most prevalent features of these plans include:

■ Table 13: Comprehensive Plan Features

Plan Element	Number of Communities
Parks & Recreation	100
Transportation	84
Housing	86
Public Facilities	84
Water Supply	75

The housing elements of most comprehensive plans address location, density, affordable housing criteria, waiver or fee-reduction policies, affordable housing subsidies and general guidance. Only one community uses forecasts of new housing starts as part of the budgeting process. Yet, new units will have a significant impact on infrastructure and services. By forecasting and conducting a Jobs/Housing Demand analysis, jurisdictions will gain an understanding of housing needs. The adoption of affordable housing policies supported by comprehensive planning prepares communities to increase their affordable housing supply.

At least 106 communities have adopted affordable housing policies. Many communities have attracted new housing development in the last year. Others have policies to preserve existing affordable housing. These include waiver or rebate of development fees, inclusionary zoning, and expedited review and permitting processes. They may also include local financial investment.

An additional survey was mailed to 20 counties and their corresponding county seats to glean more in-depth information about zoning, subdivision, building code, and administrative regulations. The Division of Housing received 13 responses from municipalities and nine from Counties.

When asked if standards are relaxed for the development of affordable housing, 15 jurisdictions indicated "no" and seven indicated "yes," (primarily in regard to density and payment of fees). Planned Unit Developments are one method used to modify or relax standards.

Of the respondents, thirteen jurisdictions use impact fees, while nine do not. As staff in one county noted, state law precludes impact fees in counties and statutory municipalities at the present time. The most common impact fees for home rule municipalities include: streets, schools, water plant, drainage and parks and recreation.

Three jurisdictions have inclusionary zoning ordinances. One community indicates it has an inclusionary zoning *policy*. Only three communities have set-aside funds to reimburse enterprise funds (water and sewer) for waivers of plant investment fees for qualifying affordable housing projects.

Division of Housing Production for Fiscal Year 2001

The Division of Housing approved funding for 31 multifamily rental projects this past year. These projects (located in both urban and rural housing markets) included acquisition, rehabilitation, and construction of new rental housing. The Division also invested in regional single-family housing rehabilitation and down payment assistance for first-time homebuyers. Because multi-family rental properties come under the greatest pressure within local regulatory structures, the following analysis will review Division efforts to form partnerships with local communities to solve complex financial and regulatory problems.

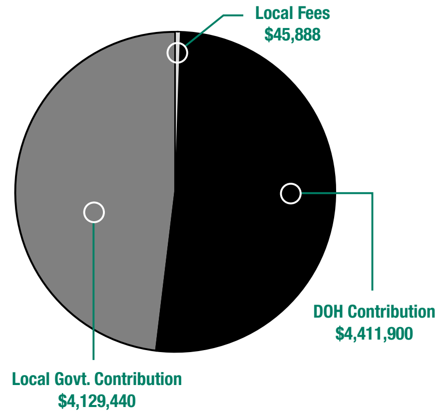
The Division of Housing underwriting process minimizes the public subsidy (loans, grants, letters of credit) required for project feasibility. Several factors are examined to reduce the public subsidy level: development cost, return on investment, operating expenses, and regulatory cost. Division staff members negotiate with developers and local government staff to lower regulatory cost and increase financial support of local governments. Negotiations are made with housing developers on hard and soft construction cost, financing cost and return on investment.

The greatest cost flexibility is often found in land cost and local government fees. These costs can often make or break a project. By limiting overall cost, lower rents can be charged to tenants, thereby benefiting persons with the lowest incomes and greatest needs. These efforts typically yield a $2,460 per unit annual rent savings to individual households.

Exhibit B summarizes 31 multifamily rental projects funded by the Division of Housing this past fiscal year. The following tables and charts compare the amount of local fees, local government investment, and the Division's investment.

For the 18 rental acquisition and rehabilitation properties, the Division invested $4,411,900. This compares to the local government investment of $4,129,440 and local fees totaling $45,888. In most cases, existing properties are subject to building permits fees. Those fees are waived or rebated to the project. All but four of these properties were located in urban front-range communities.

■ Graph 12: Aquisition/Rehab: Subsidies & Fees



Graph 12 compares the sources of public investment to acquire and rehabilitate rental properties. The minimal amount of local fees were charged for building permits issued for the rehabilitation work.

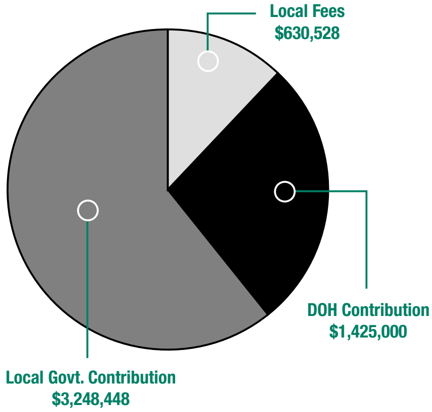
Accompanying the investment data in Graph 12 is the following Table 14, which summarizes data from the past four years regarding project cost, state and local public subsidy, and local fees. The local government contribution ($4,129,440) has declined compared to last year.

■ Table 14: Acquisition with Rehab (Statewide)

	1998	1999	2000	2001
Number of Projects	10	18	17	18
Total Project Cost	27,423,016	53,328,876	47,433,638	41,263,334
DOH Subsidy	894,000	2,860,430	3,753,728	4,411,900
Local Gov't Contribution	1,253,820	3,754,852	4,948,494	4,129,440
Cost of Local Fees	101,868	256,958	2,594	45,888

The number of new rural projects declined this year. Over the past four years, the Division has financed construction of 31 new rental projects in rural communities. The Division is cautious not to saturate the housing rental market in the state's smaller towns. The rural housing strategy includes an aggressive single-family rehabilitation program and first-time homebuyer assistance.

Graph 13: Rural/New Construction



Graph 13 demonstrates an increasing local government commitment to invest limited resources in affordable housing. The Graph demonstrates that in rural new construction local government investment exceeds the Division's investment.

The following Table 15 shows this investment has increased over the last four years. Local investment offsets the cost of local fees and reduces overall project cost. In high cost rural markets, land must be donated by local government or leased at a nominal rate for development to succeed.

Table 15: Rural Development/ New Construction 1998–2001

	1998	1999	2000	2001
Number of Projects	10	13	5	3
Total Project Cost	23,559,703	23,027,054	15,305,163	19,035,997
DOH Subsidy	3,492,700	3,511,590	1,634,000	1,425,000
Local Gov't Contribution	402,455	1,555,352	1,198,597	3,248,448
Cost of Local Fees	425,279	728,422	754,375	630,528

The Division of Housing approved funding for 758 new urban rental units. These rental units included housing for families, assisted living and independent living apartments for seniors, and housing for developmentally disabled persons. There has been a significant increase in the Division's urban community investment and a substantial increase in project cost. According to the Division's needs analysis, more households are in need in the larger communities. Affordable housing for persons with special needs is a growing demand throughout the state, especially in urban communities. This specialized housing will increase overall project cost and public subsidy in future years.

Graph 14 shows the local government contribution for urban, new construction is slightly less than the state's investment, and local government fees have increased substantially.

Graph 14: Urban/New Construction

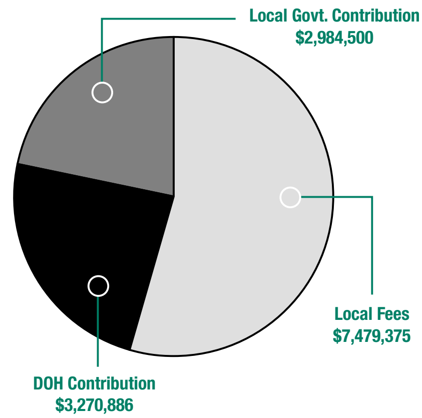


Table 16 shows the cost of construction this year totals almost $80 million. Local fees accounted for nine percent of total cost. In 1998, local fees comprised 5.1 percent of the total cost; in 1999, 4.6 percent; in 2000, 3.8 percent.

Table 16: Urban Development/ New Construction 1998–2001

	1998	1999	2000	2001
Number of Projects	11	4	11	10
Total Project Cost	24,166,357	15,628,668	51,834,379	79,226,645
DOH Subsidy	1,401,500	715,000	2,862,600	3,270,886
Local Gov't Contribution	2,181,820	1,411,000	3,960,820	2,984,500
Cost of Local Fees	1,238,073	715,125	1,974,656	7,479,375

Conclusions: Financing the Costs of Growth in Colorado

The Division of Housing works with local governments, developers, and other funding agencies to minimize housing costs and to maximize local participation. The Division also initiates discussions with local elected leaders and planning and development staff to provide input and assistance with affordable housing issues.

Residential development does not pay for itself, and local jurisdictions use existing funding tools to pay for growth in their communities. At best, existing tools create a patchwork of confusing, complex funding that tends to increase the cost of new housing units. New and more comprehensive tools could be considered as ways to fund community infrastructure.

To keep Colorado's economy healthy and to provide adequate employment opportunities, the direct correlation between employment and housing should be acknowledged. A housing shortage increases prices, compounding an already expensive market. The lack of housing is severe, particularly for those making 30 percent or less of area median income. The scarcity of housing affects all employment sectors including health care and hospitals, retail trade, government, industry, telecommunications, and manufacturing. As local governments work to attract employers to their communities, they may wish to undertake a Jobs/Housing Demand analysis to better understand the type and number of units needed to satisfy the workforce.

Local governments view impact fees as an essential tool to finance growth. A concern, however, is the growing demand for amenities such as museums, stadiums, airports and cultural complexes. As the list of services and infrastructure gets longer, impact fees render new housing units more and more expensive. Impact fees capture only a portion of the total cost, and there is a need to explore alternative funding tools. Local governments should consider exempting affordable housing from payment of impact and other development fees.

As local governments increase funding for affordable housing, the state should also expand the resource base. When possible, it is better to spread the costs of growth throughout the community and not confine the burden to the sector selling, buying and building new homes. There is an array of tools available to facilitate adequate housing and to enable local governments to find alternative ways to finance the cost of growth. Such tools may require a change in statutory or constitutional provisions in order to be implemented in Colorado. These tools are used in other states including ones with voter-imposed limits on tax increases. Examples are discussed below.

Transfer Taxes

In 1992, the Taxpayer's Bill of Rights (TABOR) amendment was passed. TABOR specifically prohibits new or increased transfer taxes on real property. However, communities with pre-existing real estate transfer taxes have fared better in paying for additional infrastructure and service costs attributable to growth. For example, Breckenridge expects to have 270 new housing starts in 2001—a significant number for a community of 2,408 persons. Total general fund revenues in Breckenridge, including $2.5 million generated by the real estate transfer tax, closely matched total general fund expenditures. The real estate transfer tax may be a viable way to fund infrastructure costs, and could be implemented to exclude home sales below a certain threshold e.g., $125,000 or less.

Annexation Fees

Annexation fees are applied differently in some other states than in Colorado. Municipalities here have utilized the annexation fee strictly to pay for the administrative costs associated with the annexation process, while municipalities in other states use annexation fees to broaden the mix of those reimbursing the city for the costs of development using the following rationale.

Unimproved land situated outside of a municipality has relatively low value. At annexation, the land value increases. At the point of subdivision and infrastructure improvements, property values increase dramatically because there is market demand for improved lots. Under the current system, the developer incurs a variety of fees and assessments as the project proceeds through the planning process, but the landowner enjoys a windfall profit due to the value added to the land.

The following chart is an excerpt from a study in Oregon demonstrating how value is added to a parcel of land through the development process.[9] While Colorado communities do not have urban growth boundaries, municipal borders in Colorado are well defined and the annexation process here is assumed to create similar results.

The scenario takes an 11-acre parcel of land outside of the boundaries of a municipality. The value to the property owner without annexation and infrastructure improvements is $16,678. At the point of annexation, the value of the parcel increases to $70,000—four times its original worth. The landowner has created a windfall profit simply through the annexation process at very little risk, other than the cost of the land. It is at this stage that an annexation fee could be assessed on that windfall profit, thus assisting the municipality in paying for growth. This action helps level the playing field so not just the owner of the improvements absorbs the cost of growth (and ultimately the new units), but all the parties in various land use transactions share this cost.

The value of land continues to increase as the developer buys, plats and improves the land, but so does the risk. Ultimately the builder creates the new units for potential homeowners and the land use transactions conclude.

■ Table 17: Increase in Property Valuation Through Development Process

Responsible Party	Development Activity	Value Per Acre
Property owner with 11 acres outside of urban growth boundary		16,678
Property owner with 11 acres inside urban growth boundary and city limits	Annexed land to urban growth boundary and to incorporated city	70,000
Developer	Buys land, plats into subdivision, constructs improvements	154,350 (3.43 lots x 45,000)
Homebuilder	Buys lot(s) and builds house	617,000 (3.43 lots x 180,000)
Homebuyer	Buys completed house with lot	

As illustrated above, annexation, subdivision and zoning create impacts to a local government. The landowner takes the profit at the point of sale (usually contingent upon subdivision approval), but contributes nothing towards incremental infrastructure costs. By collecting a fee *on the value added to annexed properties*, a per acre annexation charge serves both as a means to fund new infrastructure costs and to bring the landowner into the mix of those sharing the costs. An annexation fee will not increase the actual purchase price of a residence; it will decrease the windfall profit of the property owner. The market will determine the value of the unimproved land, based on supply and demand.

Local Gasoline Tax

As growth occurs in Colorado communities, traffic circulation slows as roadways become clogged. There is both a business and personal cost in fighting traffic congestion. In many cases, bridges, overpasses, travel lanes and other infrastructure are overburdened or insufficient. Travelers begin to seek ways around natural and man-made barriers, further complicating traffic flows, affecting neighborhoods, businesses and ultimately requiring attention and expenditure of resources by local jurisdictions.

The costliest infrastructure for local governments is the expansion of roads, highways, bridges and overpasses. In fact, because of growth, this is a priority in Colorado. Since Highway Users Tax Funds (HUTF) and other funding sources for roads are small compared to the needs, local governments are forced to spend large sums of general fund money on roadways through either repayment of general revenue bonds or on a pay-as-you-go basis. If roads and traffic improvements could be financed in new ways, these same dollars now consumed by traffic needs could be spent on improving the other local government infrastructure impacted by growth.

In at least six other states, cities and counties are allowed to impose a local gasoline tax for road improvements and infrastructure, and this tax is collected at the point of sale and remitted in the same manner as sales taxes. For example, Illinois state statutes allow a county retail sales tax on gasoline (between two and four cents per gallon) collected monthly by the state from the retail outlet and remitted back to the county on a quarterly basis, less an administrative fee.[10] A home rule municipality in Illinois may impose a retail sales tax on gasoline at the point of sale. These local gasoline taxes help jurisdictions to pay for road improvements and infrastructure.

Hawaii allows a gasoline tax for both county and municipal levels of government. An advantage of a local gasoline tax is that it captures tourism dollars that help to pay for the costs of local roads traveled by those tourists.[11]

Infrastructure Financing

Local governments and the State could provide a cost-effective resource to finance storm drainage, water systems and local governmental infrastructure impacted by growth by creating an infrastructure bank funded by existing pooled resources. Loans to development entities could be repaid through development and user fees collected on that infrastructure from the residents in the housing.The local government would enter into joint ventures with private developers willing to include modest housing within larger developments.

Existing loan and grant programs could be used to provide credit enhancements and credit buy-downs to lower the carrying cost of the infrastructure investments until developments come on line. A win-win system is created to enhance local communities and preserve the state's strong economy.

1 Ciruli Associates, 1999. "Growth, Transportation and Public Opinion," [Online] Available: http://www.ciruli.com/archives/fca-growth.htm
2 Douglas County School District 2000 Annual Report
3 Adams, J., 1999. *Development Impact Fees for Minnesota? A Review of Principles and National Practices.* Center for Transportation Studies.
4 *Colorado Land Planning and Development Law*, 1999, pp. 66-77.
5 Colorado Division of Housing Analysis 2001
6 Adams, J., et al, October 1999. *Development Impact Fees for Minnesota? A Review of Principles and National Practices.* Center for Transportation Studies.
7 Holzheimer, T., 1998. "How Has Fiscal Impact Analysis Been Integrated Into Local Comprehensive Planning? Case Studies of Howard County, Maryland and Loudoun County, Virginia. [Online] Available: http://www.asu.edu/caed/proceedings98/holz.html.
8 The Division of Property Taxation cautions that some nonresidential revenues will differ from the multiplier of 29%, but deem the difference to be immaterial for this purpose.).
9 Carson, R. H., "Paying for Our Growth in Oregon, 1998.
10 State of Illinois, Department of Revenue
11 State of Hawaii, Department of Revenue

Focus on the Future

Although the health of the state budget combined with economic downturns is forcing policymakers to reexamine issues of growth, the need for affordable housing remains. The Division of Housing has shown that during these times of economic expansion, the need for affordable housing for those earning less than 30 percent of renter median income continues to grow. If the economy should slow, the need for affordable housing will become even greater—especially for homeless and transitional housing.

The task of solving Colorado's affordable housing crisis becomes daunting when the housing need is quantified in its totality—52,696 units will be needed in the next five years. However, the development systems in place can begin to address this need incrementally with great success. Although funding is critical, money alone will not solve the problem—the capacity of existing developers must be expanded to meet growing housing needs, and policies must be reexamined to determine their impact on the cost of housing.

To combat steep increases in land and construction costs, the state, communities and housing developers must find alternative methods of reducing overall housing costs. Streamlining the development process, providing stable funding sources and reducing impact fees will all positively impact affordable housing development. Since funding is in short supply, methods of reducing overall development costs must be seriously examined.

The Division of Housing with its funding partners propose to meet 10 percent of the annual housing need for the next five years. This goal includes the production of 2,643 affordable worker rentals, 2,380 deep subsidy rentals/transitional housing units, 100 homeless shelter beds and 5,416 homebuyer opportunities. This will require production to expand by 3,371 units per year.

By embracing a common goal, housing developers, state policymakers and local leaders can clearly focus on solving the affordable housing problem. This goal provides a long-term measure of accountability for the General Assembly and citizens to gauge the success of their investment in affordable housing. Goal setting attracts future development partners by providing a measure of their contribution to the overall solution. Finally, clear goals increase the ability of the state and local communities to educate the public about the housing need.

The Division of Housing cannot work in isolation to accomplish this goal. It will require the commitment of the General Assembly, local governments, developers, the private sector and citizens. To assist in framing the solutions to the affordable housing problem, the Division has developed a series of recommendations to address several existing barriers to affordable housing.

Affordable Housing Funding

To increase the funding available for affordable housing, the Division recommends the General Assembly consider the following:

- Establish a $5 million appropriation for the Affordable Housing Grants and Loans line item in the Division of Housing Budget for five years to achieve the goal of meeting 10 percent of the housing needs in the state in five years.
- Establish a dedicated revenue stream to capitalize a state housing trust fund; and
- Provide a five-year extension for the Colorado Low Income Housing Tax Credit.

The lack of funding for affordable housing is the single greatest impediment to meeting the state's affordable housing need. Affordable Housing developers will expand their efforts (and risk pre-development capital), if they can be assured of consistent funding streams. The Affordable Housing Grants and Loans line item is one of the few funding sources to provide equity to projects. This equity reduces the amount of debt a project must acquire and allows developers to target lower income households.

The housing trust fund could be capitalized with state revenue surpluses or documentary fee increases on the sale of real estate. In time, the fund would provide a substantial source for affordable housing equity capital that need not add pressure to the state general fund budget.

The Colorado Low Income Housing Tax Credit is an innovative state financing tool. Of the $10 million in tax credits provided for the first two years of operation, over $7.1 million has been allocated to date. Data from other state programs, as well as the Federal Low Income Housing Tax Credit program, has shown the value of tax credits increases over time as developers become more sophisticated about using the program.

Infrastructure Funding

In addition to increasing the funding sources for affordable housing, the Division of Housing recommends that the state and local governments provide alternative ways to fund infrastructure development. The goal would be to reduce impact fees while increasing funding available to extend water systems and other infrastructure, for new residential development. Possible actions include:

- Exclude affordable housing from amenity-driven impact fees (library, parks, open space etc.), but maintain payment of life/safety fees (water, sewer, emergency services, transportation etc); and
- Create a State Infrastructure Bank with existing pooled resources to assist local governments and developers in financing adequate infrastructure for modest detached and attached housing developments.

The Division of Housing has shown that the cost of residential growth creates significant impacts on local budgets. The creation of a state infrastructure bank would allow communities to apply for funding from the Department of Local Affairs, develop partnerships with special districts, and expand infrastructure to accommodate residential development. The equity would allow the community to float a bond to be repaid with assessments on finished lots. This model would allow local governments to actively respond to growth needs within the community without adding additional impact fees or negatively impacting the local budget.

Increasing Development Capacity

In addition to increasing the state role in affordable housing, local governments and the private sector must change their roles to increase affordable housing production. The private sector and employers should consider the following:

- Provide housing counseling services (eviction/foreclosure prevention, budget counseling etc.), help for emergency rental assistance/mortgage assistance and referral services to community resources through Employers' Employee Assistance Programs (EAPs);
- Call on private sector developers to form joint ventures with charitable groups to increase production; and
- Encourage employers to contribute to the charitable housing organizations to assist in stretching scarce operating and program resources.

The state and local governments could serve an important role in educating local firms about the benefits of affordable housing. Local governments have an additional role to play in responding to the issue of increased land costs.

Land Use and Zoning

Rapid inflation of land costs has contributed to the state's affordability problems. Local government actions have a profound impact on land costs through planning and zoning policies and regulations. In a regulated market, artificially created shortages of buildable land contribute to a price structure that indicates market imbalances. Colorado's current fiscal policy environment creates disincentives for local governments in their attempts to provide government services and facilities for new residents. Local governments should consider the following:

- Encourage local planning and zoning bodies to provide an adequate supply of properly zoned land to address both the affordable rental and homeownership needs of the employees working in the community; and
- Encourage a Jobs/Housing Demand analysis in Comprehensive Plans developed by municipalities and counties.

To address issues of economic and community development, housing must be available where there are jobs. The Jobs/Housing Demand analysis will give communities the ability to do better long range planning for employer recruitment and internal analysis of planning and zoning to ensure adequate land for both rental and ownership.

NIMBY (Not In My Backyard)

The provision of housing along the entire continuum need not be in conflict with environmental, transportation or quality of life values. The commitment to improving the status of affordable housing in Colorado need not negatively impact neighbors willing to be educated on the benefits of having a community's primary workers share in their sense of place and community. To this end the Division of Housing recommends:

- Create a private sector-sponsored media campaign to educate the public on the benefits of higher-density development, living close to employment, using mass transit, NIMBY, the affordable housing need (i.e. "The Face of Affordable Housing").

Transportation

All too often employers and local governments have pursued economic expansion opportunities without considering the capacity of local housing infrastructure. Often land use decisions result in commuter gridlock on corridors linking employment centers with residential areas. In markets with high land and infrastructure costs, the solution to affordability necessitates building a greater number of dwellings on available parcels bordering employment centers. The Division of Housing recommends local communities facing these issues consider the following:

- Provide local density bonuses to encourage the development of higher density rental and for sale units within three miles of employment centers; and
- Provide local density bonuses and expedited approvals for transit-oriented developments along the I-25 light rail corridor.

Federal Government Support

Colorado is facing many affordable housing issues today because the Federal Government is no longer the primary source of capital to house the nation's poorest citizens. Public housing construction and operating programs have become a thing of the past. The Section 8 Voucher program has replaced the Public Housing Model but lacks funding to meet the needs. Funding for new Section 8 rental opportunities is unpredictable. Recently, one year's budget created 70,000 vouchers while the next years provided for only 38,000 vouchers. In the early 1970s Congress made a commitment to address the needs of those with incomes less than 30 percent of the median. However, today, the critical demand in most states (including Colorado) still comes from the lowest income groups. For these reasons, the Division of Housing recommends the following:

- The General Assembly could send a joint resolution to Congress requesting a clear statement of the Federal goal for addressing the shelter needs of the poorest households. State and local affordable housing efforts are hampered by the fact the scope of the Federal commitment is difficult to determine; and
- Citizens could encourage Congress to support Federal appropriations for housing development. Programs worthy of support include: The Community Development Block Grant, HOME, the Federal Low Income Housing Tax Credit Program and the Private Activity Bond Program.

Intergovernmental Coordination

The Federal government requires states and entitlement communities to submit investment plans for the use of resources provided by the Federal government. These plans are useful in identifying needs and determining priorities for investment. Often smaller local communities (not required to complete such plans), lack detailed information on their housing needs. Regional planning becomes more critical as growth pressures increase. Therefore, the Division of Housing recommends the following:

- Encourage communities over 10,000 population to prepare a Local (in some cases regional) Housing Assistance Plan to apply for State or Federal funds administered by state agencies or state chartered authorities. Local Housing Assistance Plans would be reviewed for consistency with regional and state plans. Conversely state and regional plans should be formulated to complement local needs so that a bottoms-up approach is used in planning.

Conclusion

The Division of Housing and the State Housing Board believe it is possible to make an impact on the problems of affordable housing. Because neither housing, nor market economics nor the complexities of growth are under the control of one sole entity, the solution must be a collective one. Government officials, developers, human service workers or simply concerned citizens will have to compromise to identify new solutions to this problem.

The methodology of the Division of Housing has been to clearly define the housing need, quantify existing production, identify barriers and set goals for future production. The objective for 2001-2002 may be a modest short-term goal. However, in five years policymakers will be able to see real progress as incremental but significant changes are made over that time.

Housing Colorado: Funding Sources for Affordable Housing

*All Figures listed are the current funding year.

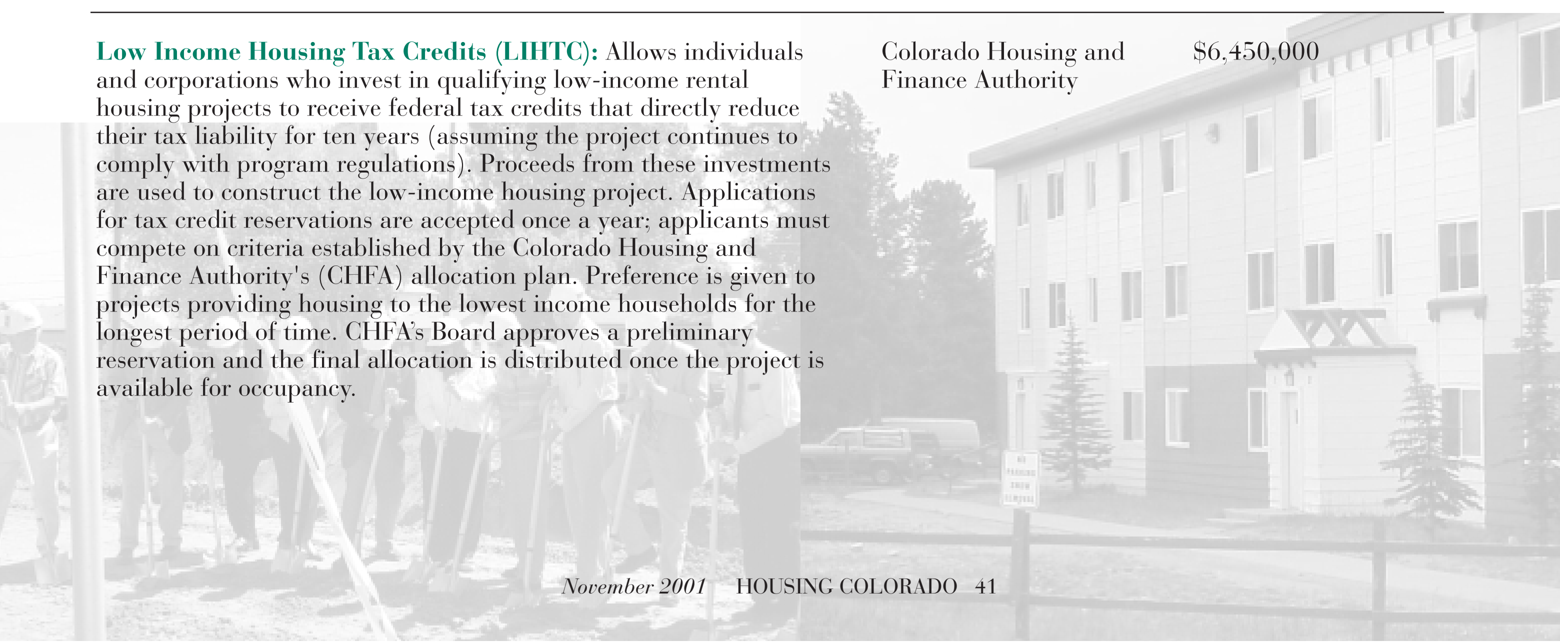
Program Name and Description	Administering Agency	Funding Allocation, FY01
Emergency Shelter Grants (ESG): Provides grants on a formula basis to states and local governments for operating costs, essential services, and homeless prevention activities. Includes financial assistance to families who have received eviction notices or notices of termination of utility service. The states can distribute ESG assistance directly to private nonprofit organizations, if local governments certify the project. Homeless day shelters and drop-in centers are also eligible for funding.	Colorado Division of Housing	$943,000
	City of Colorado Springs	$111,000
	City of Denver	$409,000
HOME Investment Partnership Program: Provides competitive funding to local government, non-profit, and private developers for acquisition, rehabilitation, new construction, and tenant-based rental assistance. All activities require a 25% non-federal match. Ninety percent of rental units produced must benefit families with incomes at 60% or below area median income. One hundred percent of funds invested in homebuyer programs must benefit families with incomes equal to or less than 80% of area median income. There is a 15% set-aside for Community Development Housing Organization (CHDO) activities. These activities include acquisition, construction and rehabilitation in which the CHDO is the owner, developer or sponsor; as well as project-specific technical assistance, site control loans, and predevelopment loans.	Colorado Division of Housing	$7,766,000
	Aurora, Boulder, Colorado Springs, Denver, Ft. Collins, Greeley, Lakewood, Pueblo, Pueblo County, Adams County, Arapahoe County and Jefferson County	$11,916,000
Community Development Block Grant (CDBG): Provides funding by competitive application process to eligible local governments for acquisition, rehabilitation, new construction, homebuyer assistance, public services and facilities, and related administration costs. Local entitlement funds are awarded to non-profits and/or local municipalities.	Colorado Division of Housing	$3,725,417
	Arvada, Aurora, Boulder, Colorado Springs, Denver, Ft. Collins, Grand Junction, Greeley, Lakewood, Longmont, Loveland, Pueblo County, Adams County, Arapahoe County and Jefferson County	$31,653,000
Colorado Division of Housing Grant Program (DOH Grants): Provides funds for acquisition, rehabilitation, and new construction through a competitive application process. The State Housing Board reviews applications monthly. A $1 per $1 match is required. Applications are reviewed for management capacity, project impact on need, project feasibility, and benefit to very low and low-income persons.	Colorado Division of Housing	$4,570,000

Program Name and Description	Administering Agency	Funding Allocation, FY01
Colorado Division of Housing administers a short-term loan fund called the **HOME Investment Trust Fund (HITF)**. The primary use of these funds is to provide short-term loans to assist public housing authorities, non-profit corporations and local governments in developing housing for low and moderate-income persons. These loan funds can be used for land acquisition, professional fees, materials and/or labor associated with rehabilitation or new construction. Currently, the fund is capitalized at 1.9 million. The HITF is funded with state general fund dollars and also exists to provide federal matching fund requirements for Title II of the National Affordable Housing Act.	Colorado Division of Housing	$1,900,000
Private Activity Bond Program: Uses proceeds of tax-exempt bond issues to fund construction and permanent loans to construct or acquire/rehabilitate rental housing for low income households, mortgage revenue bonds, mortgage credit certificates, industrial development bonds and other non-housing related uses. It is generally required that loans be insured or guaranteed by a third party such as FHA or FNMA. Applications are taken by local municipal, county housing or finance offices, the Colorado Housing and Finance Authority or the Department of Local Affairs. Before a project may proceed, official action must be taken by the local elected governing body to allocate bond issuing authority for the loan. Actions are taken by the CHFA Board monthly and by local issuers more frequently.	Colorado Department of Local Affairs	$268,828,813
HomeStart Plus Program: By issuing taxable bonds, CHFA is able to offer competitive interest rates and up to 2% cash assistance to qualified moderate income borrowers to assist in making homeownership a reality. This program is available to borrowers who meet the eligibility requirements of first time homeownership and limitations in income. There are no maximum purchase price requirements. Funds are released monthly, on a first-come, first-served basis for use by participating lenders.	Colorado Housing Finance Authority	$75,000,000
Housing Opportunity Fund Program: This program provides long-term financing for housing facilities for households with very low incomes and/or special needs who need non-traditionally designed housing or services in addition to housing. Such households include the frail elderly, developmentally or physically disabled, chronically mentally ill, homeless families, troubled children, and victims of domestic violence. CHFA financing is available primarily to nonprofit corporations and local public housing agencies. Funds are also used provide to homeownership loans to households with very low incomes and/or special needs.	Colorado Housing Finance Authority	$4,100,000
501(c)(3) G.O. Bond Program: To offer construction and permanent financing for private and public nonprofit organizations providing housing to meet a wide variety of rental housing needs. CHFA requires a minimum of 25% to 45% low- and very-low-income occupancy for the term of the loan. The program generally serves the need for small loans (e.g. $100,000 to $1,000,000).	Colorado Housing Finance Authority	$7,000,000

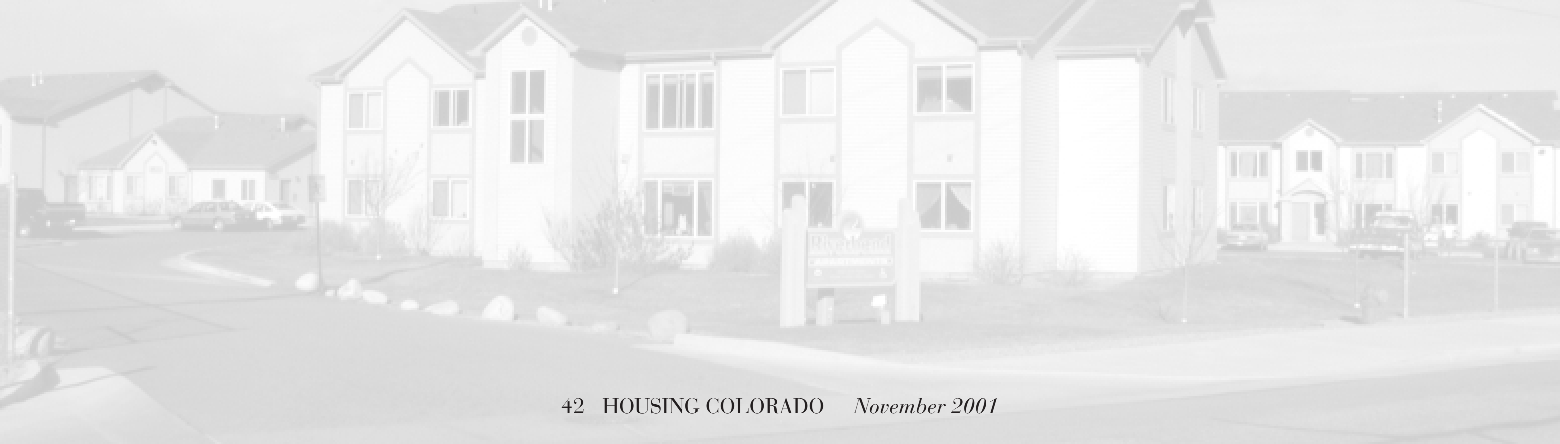
Program Name and Description	Administering Agency	Funding Allocation, FY01
Small Affordable Rental Transactions (SMART) Program: Provides permanent financing of $1 million or less for rental housing developments. The program will finance acquisition or new construction, for either profit motivated or not-for-profit developers. The housing must offer at least 20% low-income units. The intent is to provide a streamlined financing vehicle at a moderate cost for small properties.	Colorado Housing Finance Authority	$7,742,000
CHFA Housing Fund Program: Short-term (maximum two years) interim loans for non-profit or public housing authority borrowers for pre-development costs, acquisition or construction of low- and moderate income housing; both rental and homeownership permanent financing must be committed by CHFA or some other source.	Colorado Housing Finance Authority	$1,800,000
Federal Home Loan Bank Board Affordable Housing Program: Provides loans to finance the purchase, construction or rehabilitation of rental and single family housing in which at least 20% of the units will be occupied and affordable for very low-income households for term of loan. Priority is given for using existing HUD/RTC or other government-owned properties and for the involvement of nonprofit organizations and/or housing authorities or other government entities.	Federal Home Loan Bank	$3,566,543
RD Direct Home Ownership Loan Program (502): Provides individuals or families with direct financial assistance from the Rural Housing Service in the form of an affordable interest rate home loan. Most loans are made to families with incomes less than 80% of the median county income. Direct loans can be used to purchase an existing home or construct a new home.	U.S.D.A. Rural Development	$14,200,000
RD Home Ownership Loan Guarantee Program (502): Guarantees loans made by private lenders should the borrower default on the loan. An individual or family may borrow up to 100% of the appraised value of the home—eliminating the need for a down payment.	U.S.D.A. Rural Development	$33,500,000
RD Very Low Income Housing Repair Loans and Grants (504): Provides loans of $15,000 and grant of up to $5,000 to very low-income homeowners for repairs, improvements to modernize their dwelling or removal of health and/or safety hazards. Homeowners must have incomes below 50% of area median and be unable to obtain an affordable loan elsewhere. Grants to homeowners 62 or older may be used only for repair of safety and health hazards.	U.S.D.A. Rural Development	$551,000

Program Name and Description	Administering Agency	Funding Allocation, FY01
RD Farm Labor Housing Loans and Grants (514/516): Provides loans/grants to build, buy, improve or repair housing for farm laborers, including persons whose income is earned in agriculture. Funds can be used to purchase or lease a site; to construct housing; to pay fees; to purchase durable household furnishing; and to pay for construction loan interest. Farmers, farm associations, family farm corporations, Indian tribes, non-profit, public agencies and associations of farm workers are eligible for these loans/grants. Loan terms are 33 years at 1% interest. Grant may be obtained for up to 90% of development costs. The remaining 10% is usually covered through a Section 514 loan.	U.S.D.A. Rural Development	$0
RD Rural Rental and Cooperative Housing Loans (515): Provides direct loans to finance rental or cooperatively owned housing designed for very low, low and moderate income families, the elderly, and disabled. Funds may be used to construct new housing or to purchase and rehabilitate existing structures for rental purposes. Congregate housing for the elderly, disabled, and group homes for developmentally disabled are authorized. Funds may also be used to purchase or improve land. This program enables low-income families or individuals to reside in RD rural rental, cooperative or farm labor housing without paying over 30% of their income for rent. RD pays the difference between the tenant's contribution and the monthly rental rate, including utilities and services. Rental contracts between RD and the owner are for five years and are renewable. In new projects, 95% of those assisted must have very low incomes. In existing projects, 75% of those assisted must be very low income.	U.S.D.A. Rural Development	$1,000,000
RD Self-Help Technical Assistance Grants (523): Provides administrative funding to organizations sponsoring self-help housing development. Under self-help, a group of families jointly contribute labor to build their own homes, which are financed under Section 502. Applicants must show that their organization has the ability to supervise a project or that they will receive assistance from a group having this ability. Contracts are normally for two years.	U.S.D.A. Rural Development	$1,300,000
HUD Supportive Housing Program: Promotes the development of supportive housing and services, including innovative approaches to assist homeless persons in the transition from homelessness and to enable them to live as independently as possible. Funds may be used for the acquisition, rehabilitation, new construction, leasing, and operating costs of supportive housing or service provision; costs of services in supportive housing; or costs of supportive services provided to homeless persons who do not reside in supportive housing. States, local governments, other governmental entities, Native American Tribes, private nonprofit organizations, and community mental health associations that are public nonprofit organizations are eligible to compete for grant funds through a national selection process.	U.S. Department of Housing Urban Development	$8,811,467 (FY00)

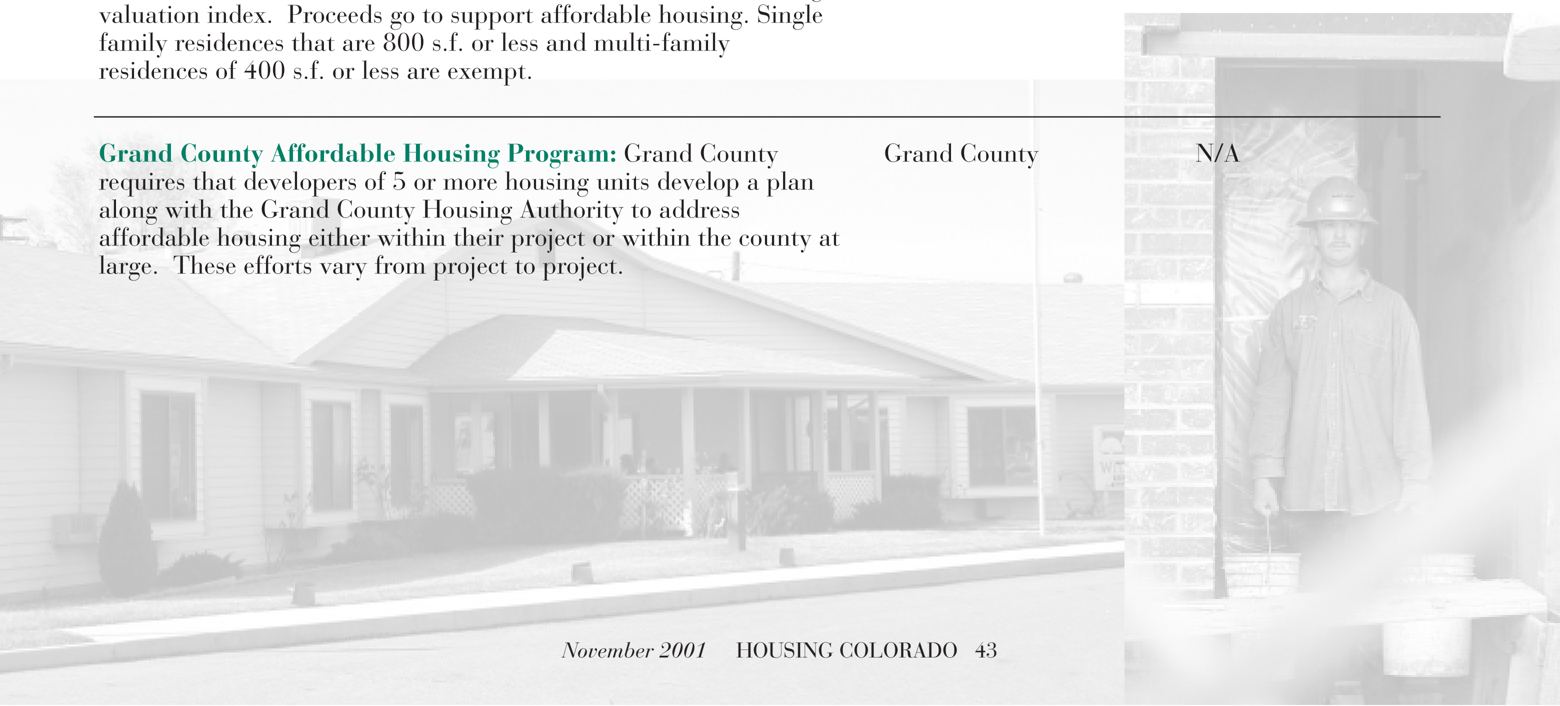
Program Name and Description	Administering Agency	Funding Allocation, FY01
Section 8 Certificates and Vouchers: Provides tenant-based subsidies for rents paid by low and very low income households. Tenant payments are based upon income. Section 8 rental subsidies cover the difference between tenant payments and the unit's market rent.	Colorado Division of Housing/Other Housing Authorities	$142,320,978
Housing Opportunities for Persons with AIDS (HOPWA): Provides resources and incentives to devise long-term comprehensive strategies for meeting the housing needs of persons and their families with acquired immunodeficiency syndrome (AIDS) or related diseases. The program authorizes grants for a range of housing assistance and supportive services for low-income persons with AIDS or related diseases.	City of Denver Colorado Division of Housing (balance of state)	$1,281,000 $1,370,000
HUD Supportive Housing for Elderly Persons (Section 202): Funds capital advances bearing no interest based on development cost limits published periodically in the Federal Register. Repayment of the advance is not required as long as the housing remains available for occupancy by very low-income elderly persons 62 years of age or older for at least 40 years. The program will also fund project rental assistance to cover the difference between the HUD-approved operating cost per unit and resident payments. New construction, rehabilitation, and acquisition for group homes and independent living facilities are all eligible activities.	U.S. Department of Housing Urban Development	$16,043,667
HUD Supportive Housing for Persons with Disabilities (Section 811): Funds capital advances bearing no interest based on development cost limits published periodically in the Federal Register. Repayment of the advance is not required as long as the housing remains available for occupancy by very low-income persons with disabilities for at least 40 years. The program will also fund project rental assistance to cover the difference between the HUD-approved operating cost per unit and 30% of the resident's adjusted income. Development methods that are eligible are new construction, rehabilitation, acquisition for group homes and independent living facilities.	U.S. Department of Housing Urban Development	$2,162,064
Low Income Housing Tax Credits (LIHTC): Allows individuals and corporations who invest in qualifying low-income rental housing projects to receive federal tax credits that directly reduce their tax liability for ten years (assuming the project continues to comply with program regulations). Proceeds from these investments are used to construct the low-income housing project. Applications for tax credit reservations are accepted once a year; applicants must compete on criteria established by the Colorado Housing and Finance Authority's (CHFA) allocation plan. Preference is given to projects providing housing to the lowest income households for the longest period of time. CHFA's Board approves a preliminary reservation and the final allocation is distributed once the project is available for occupancy.	Colorado Housing and Finance Authority	$6,450,000



Program Name and Description	Administering Agency	Funding Allocation, FY01
State Low Income Housing Tax Credits (LIHTC): Allows individuals and corporations who invest in qualifying low-income rental housing projects to receive state tax credits that directly reduce their tax liability for ten years (assuming the project continues to comply with program regulations for the 15 year term). Proceeds from these investments are used to construct the low-income housing project. Applications for tax credit reservations are accepted once a year; applicants must compete on criteria established in the Colorado Housing and Finance Authority's (CHFA) allocation plan. Preference is given to projects providing housing to the lowest income households for the longest period of time. CHFA's Board approves a preliminary reservation and the final allocation is distributed once the project is available for occupancy.	Colorado Housing and Finance Authority	$5,000,000
El Paso County Housing Trust Fund: Provides loans and grants to local non-profit agencies to finance hard costs associated with the development or acquisition of affordable housing.	El Paso County Office of Economic Development and Public Finance	$4,000,000
Garfield County Affordable Housing Program: Requires all new developments to make 10% of units affordable to families with incomes equal to or less than 80% of county median income. The program is voluntary at this time.	Garfield County Housing Authority	N/A
Aspen/Pitkin Housing Fund: Provides funding for land acquisition, construction, redevelopment and renovation. The Aspen/Pitkin Housing Office is charged with eliminating the land cost component of development to the greatest extent possible, and developing deed restricted rental and ownership units for local residents and workers. The Fund is financed by a real estate transfer tax (1% of sales price) and by a 0.45 sales tax.	Aspen/Pitkin Housing Office	$4,864,000
Fort Collins Housing Trust Fund: Provides funding for affordable housing projects eligible under CDBG guidelines.	City of Fort Collins	$671,915
Longmont Affordable Housing Fund: Requires affordable housing set-asides or in lieu of payments for new development on land annexed into the city. Ten percent of units built on land five acres or larger must be made affordable through rents or purchase price to households at or below eighty percent of area median income. Annexations of between five and 10 acres can pay a predetermined amount per unit "in lieu of" actual development.	City of Longmont	N/A

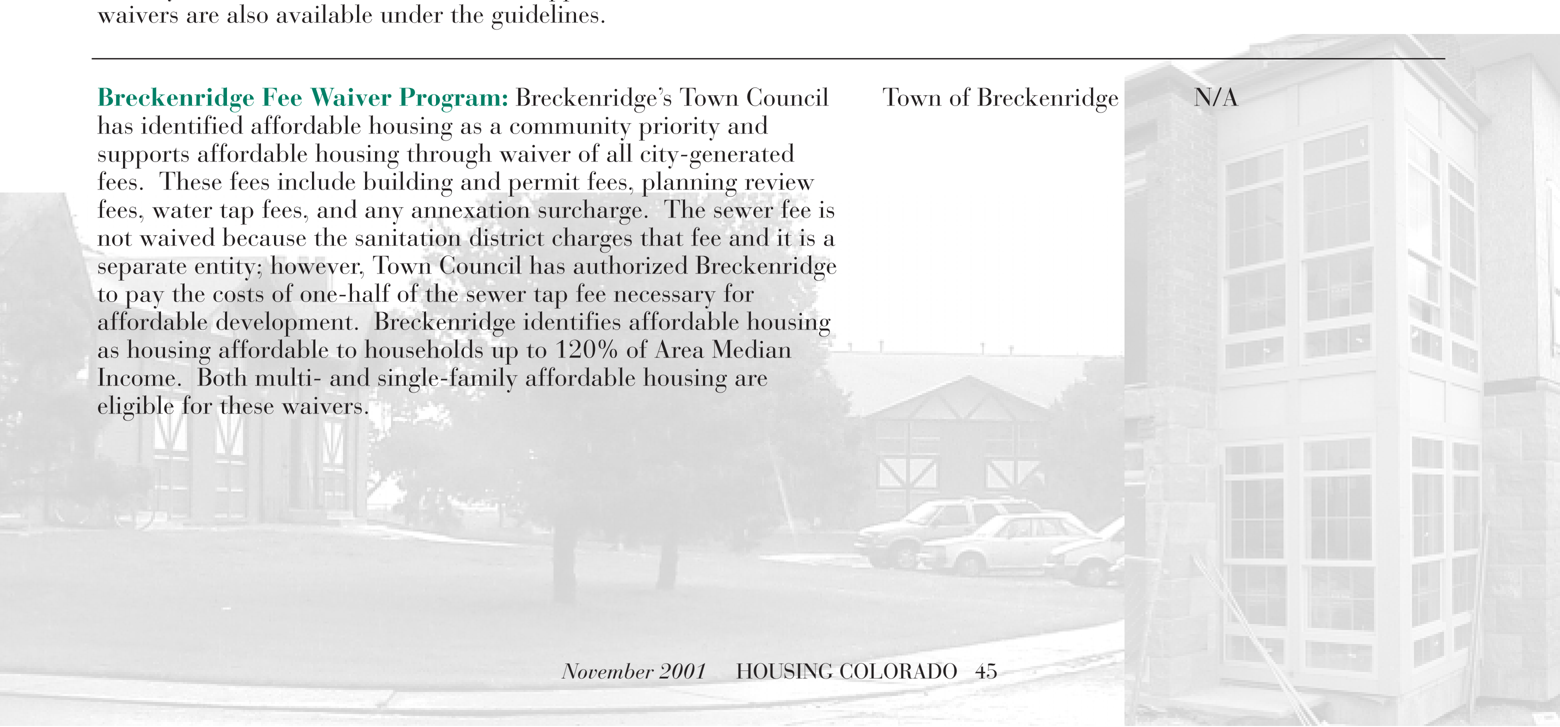


Program Name and Description	Administering Agency	Funding Allocation, FY01
Denver Skyline Trust Fund: Provides funding for down payment assistance loans. The fund was established in 1985 with $11 million in proceeds from land sales within the urban renewal district of the 16tth Street Mall. Activities funded must comply with CDBG guidelines.	City of Denver	$3,310,101
Denver Neighborhood Housing Fund: Provides 5% interest rate pre-development loans, bridge loans and property acquisition and construction loans to non-profit developers. Loans may be used to develop home ownership or rental projects targeting low and moderate-income families.	City of Denver	$6,250,000
Winter Park Affordable Housing Program: The town of Winter Park assesses a $3.00/sq. ft. charge on each new development in the town. Proceeds go to support affordable housing within the town. Builders of single units can apply for exemptions from the Grand County Housing Authority. Developers of larger projects can work with the City Council to provide affordable units in lieu of the fee.	Town of Winter Park	$100,000
Frasier Affordable Housing Program: The town of Frasier assesses a fee on all habitable construction. The fee is used to mitigate the housing need created by the new development. Developers can also choose to enter into an agreement with the town to build affordable units within their development. Proceeds go to support affordable housing.	Town of Frasier	$30,000
Granby Affordable Housing Program: The Town of Granby requires that developers of housing in town develop a plan to provide affordable housing in the community.	Town of Granby	N/A
Grand Lake Affordable Housing Program: The town of Grand Lake assesses an estimated $1.00/sq. ft. charge on all new construction in the town. The fee is ratioed to the I.C.B.O. building valuation index. Proceeds go to support affordable housing. Single family residences that are 800 s.f. or less and multi-family residences of 400 s.f. or less are exempt.	Town of Grand Lake	$18,000
Grand County Affordable Housing Program: Grand County requires that developers of 5 or more housing units develop a plan along with the Grand County Housing Authority to address affordable housing either within their project or within the county at large. These efforts vary from project to project.	Grand County	N/A



Program Name and Description	Administering Agency	Funding Allocation, FY01
City of Boulder Housing Fund: The Boulder City Council has committed general funds for the next six years to support affordable housing initiatives.	City of Boulder	$360,000
Boulder Community Housing Assistance Program (CHAP): Provides funding for the creation of housing affordable to households earning between 30 and 60% of the area median income. Eligible activities include new construction, land banking, and acquisition and rehabilitation of current housing stock. To maintain long-term affordability, low-income housing covenants are placed on both home ownership and rental properties. These covenants cap incomes of future buyers or renters. The fund is capitalized through proceeds from a .8 mill levy property tax and the Housing Excise Tax on new commercial/industrial and residential development. Since 1992, CHAP funds have been allocated along with federal HOME and CDBG funds through the Boulder Housing Funding Program.	City of Boulder Division of Housing	$1,200,000
City of Boulder Inclusionary Zoning Program: The City of Boulder requires 20% of all new residential development to be permanently affordable. Developers have options including onsite development of affordable units, off-site development of affordable units, donations of land off site for affordable development, or payment of cash in lieu. It is anticipated that this program will result in the development of 60-100 permanently affordable units annually without a public subsidy investment.	City of Boulder	$450,000
Boulder Tax and Fee Waivers: The City of Boulder waives excise taxes for all projects that exceed the inclusionary zoning requirements. For every extra permanently affordable unit beyond the requirement, the tax is waived on two units. The City also exempts developers who provide at least 35% permanently affordable units or a mixed use development including residential units from their growth management system.	City of Boulder	N/A
Boulder County Multi-Family Acquisition Program: Boulder County allocates a minimum of $200,000 of general funds each year to the Boulder County Community Services Housing Department to acquire multi-family properties. $750,000 was allocated between 2000-2001.	Boulder County	$200,000
City of Loveland Affordable Housing Incentives: The City of Loveland offers a variety of incentives to developers and builders of affordable housing within Loveland. These include fast track development review for qualified projects, modification of the development standards, a use tax credit, and density bonuses for qualified projects.	City of Loveland	N/A

Program Name and Description	Administering Agency	Funding Allocation, FY01
The City of Aspen Fee Waiver Program: The City of Aspen provides waivers of water tap fees, building permit fees and plan check fees for deed-restricted affordable housing properties. These include rental and ownership units restricted under agreement with the Aspen/Pitkin Housing office.	City of Aspen	N/A
The Town of Crested Butte Fee Reduction Program: The Town of Crested Butte has a reduced fee basis for water and sewer taps for deed-restricted affordable units. These include rental and ownership units restricted under agreement with the town or the Gunnison County Housing Authority.	Town of Crested Butte	N/A
The City of Durango Fee Waiver Program: The City of Durango reviews affordable deed-restricted rental and ownership projects which request fee waivers, according to established guidelines. Project review fees can be waived and water and sewer tap fees deferred until unit occupancy. Cash contribution may also be made based on availability of City funds.	City of Durango	N/A
The Town of Snowmass Fee Waiver Program: The Town of Snowmass Village provides waivers of water tap fees, building permit fees and plan check fees for deed-restricted affordable housing properties. These include rental and ownership units restricted under agreement with town or the Aspen/Pitkin Housing office.	Town of Snowmass Village	N/A
The City of Steamboat Springs Affordable Housing Guidelines: The City of Steamboat Springs reviews affordable deed-restricted rental and ownership projects which request concessions, according to established guidelines. Building permit fees can be waived or deferred until occupancy or initial sale, and water and sewer tap fees can be waived or deferred until unit occupancy or initial sale. Density bonus, code variance, fast track approval, and use tax waivers are also available under the guidelines.	City of Steamboat Springs	N/A
Breckenridge Fee Waiver Program: Breckenridge's Town Council has identified affordable housing as a community priority and supports affordable housing through waiver of all city-generated fees. These fees include building and permit fees, planning review fees, water tap fees, and any annexation surcharge. The sewer fee is not waived because the sanitation district charges that fee and it is a separate entity; however, Town Council has authorized Breckenridge to pay the costs of one-half of the sewer tap fee necessary for affordable development. Breckenridge identifies affordable housing as housing affordable to households up to 120% of Area Median Income. Both multi- and single-family affordable housing are eligible for these waivers.	Town of Breckenridge	N/A



■ Exhibit A: Municipal/County Development Charges 2001

Single family residence, within the municipality where it applies, with Actual Construction Costs of $100,000

Community	Water $	Sewer $	Traffic Impact $	Storm Drainage $	Park/ Rec $	Fee in Lieu of Land Dedication		Other $	Building Permit $	Plan Check $	Municipal/ County Use Tax on Construction Materials		Total $
						Park/ Open Space $	School $				%	$	
Alamosa	1,500	1,000	0	0	0	1,875	0	0	499	249	2%	1,000	6,123
Arvada*	8,915	2,475	3,033	0-4, 181	1,000	4,000	3,020	0	969	470	3.21%	1,605	23,867
Aurora*	7,121	2,620	125	258	300	1,000	333	0	900	675	3.75%	1,875	15,207
Boulder*	4,359	1,329	1,634	821	1,852	0	1,425	4,594	994	249	3.26% .35%	1,830	19,087
Canon City	2,762	1,500	0	0	500	0	0	*	887	557	2-1.5%	1,750	7,942
Colo. Springs*	3,921	910	0	1,600	0	846	728	3076	503	0	2.10%	1,050	12,634
Denver	9,800	5,000	0	0	0	0	0	*	920	0	3.5%	1,750	17,120
Durango	4,283	1,535	922	0	0	300	322	0	990	0	2.5%	1,250	9,642
Eagle*	2,400	3,500	922	0	0	0	0	0	994	646	4%	2,000	10,463
Fort Morgan	5,744	1,200	0	0	0	0	0	0	560	0	3%	1,500	9,004
Grand Junction*	1,000	750	500	0	225	0	292	1,545	600	0	2.75% 2.00%	2,375	7,920
Greeley	4,470	1,948	575	500	630	0	0	200	640	100	3.0%	1,500	10,563
Kiowa*	3,200	3,000	0	800	0	0	500	250	994	645	0%	0	9,339
La Junta	500	300	0	0	0	0	0	0	895	0	3.25% 1%	2,125	3,820
Lakewood	5,290	2,870	0	0	750	0	1,133	0	803	522	1%	500	11,868
Longmont*	7,610	3,000	641	50	2,300	0	615	1,029+	767	384	2.95% .40%	1,675	18,071
Loveland*	3,600	1,400	1,814	1.580	1,438	0	688	1,265	2000	1000	3% .8%	1,900	16,685
Montrose*	1,420	2,320	0	0	0	0	0	0	994	497	3% 1%	1,929	7160
Pueblo*	2,527	640	0	0	0	1,600	0	0	655	49	3.5%	1,750	7,221
Trinidad*	1,601	1,500	0	0	0	0	0	0	994	248	4%	2,000	6,343
Westminster	9,212	2,330	0	0	1,462	1,381	876	*	982	638	3.25%	1,625	18,506
Adams	South Adams Water 8,058	South Adams Sewer 3,058	0	0	0	0	0	1,093+	994	646	0	0	13,849
Arapahoe*	Cherry Creek Valley Water 10,500	Cherry Creek Valley Sewer 1,095	750	900	0	710	806	0	640	355	0	0	19,583
Boulder	Hoover Hill Water District 2,000	Hoover Hill Sewer District 2,000	0	0	0	No fee for SFR	No fee for SFR	5,150+	669	0	.35%	175	9,994
Denver	See City of Denver												
Douglas	Special District (S.D.) 6,750	S.D. 4,429	0	S.D. 632	0	formula	formula	4,073	1500	0	.5%	500	17,884
Eagle	Eagle River W&S 8,445	Eagle River W&S 5,276	1,600	varies	varies	varies	varies	2,590	994	646	0	0	19,551

1. Arapahoe County –Uses urban averages
2. Arvada – Sewer, Arvada Tap Fee = $1100, Metro Wastewater Fee also collected $1375; Storm Drainage ranges from 0-$4181 depending on drainage basin; Plan Check Fees are 65% of building permit; Use Tax for one-half of valuation x.3.21%.
3. Aurora – assumes 6 housing units per acre; fee in lieu of park land: estimate 6% or 1,000; fee in lieu of land: estimate 2%, or $333, traffic impact: $600 per acre.
4. Boulder – Other Fees, Energy Code Calculation fee $28.75; Curb and sidewalk fee $80 assumes 75 ft. running length; permit for ROW $30; Trench excavation $60, assumes 75 ft. running length; Street, parking or alley $90; Valve box and valve $60; Fitting $30; Electrical permit $44; Fee for electrical labor, installation and materials $44; mechanical permit $17.20; Plumbing fee $59.40; Land use regulation use review fee$1350 Floodplain development permit $750; Development Excise Tax, $4594.

■ Exhibit A: Municipal/County Development Charges 2001 (continued)

Single family residence, within the municipality where it applies, with Actual Construction Costs of $100,000

Community	Water $	Sewer $	Traffic Impact $	Storm Drainage $	Park/ Rec $	Fee in Lieu of Land Dedication: Park/ Open Space $	Fee in Lieu of Land Dedication: School $	Other $	Building Permit $	Plan Check $	Municipal/ County Use Tax on Construction Materials %	Municipal/ County Use Tax on Construction Materials $	Total $
Elbert (No report)	Special District, municipality or well	Special District, municipality or septic	0	0	0	0	0	55	638	415	0	0	1,108
El Paso (No report)	Academy W&S 4,000	Academy W&S 5,000	0	183 to 1,232	No fee for SFR	No fee for SFR	102-169	1,057+	379	0	1%	500	12,337
Jefferson	Special District 2,500	Special District 2,575	1,426	0	0	formula	formula	1,105+	994+	0	.5%	250	8,850
La Plata	El Rancho Florida Metro District 5,303	El Rancho Florida Metro District lagoons	0	0	0	0	60-150	180+	639	0	0	0	6,182
Larimer	Spring Canyon Water 4,000	Spring Canyon Sewer 1,500	pending	Municipal Rate	0	320	varies on area	0	varies w/project	0	.65%	325	6,145
Las Animas (No report)	Special District 4,400	City of Trinidad 3,000	pending	0	0	0	varies on area	*	994	0	1%	500	8,894
Mesa	City of Grand Junction 1,000 Ute Water Conservancy District 5,000	Fruitvale Sewer Dist. 1000	0	0	0	0	0	1,928+	436	0	2%	1,000	10,364
Montrose	Tri-County Water 3,000	West Montrose Sanitation District 2,000	860	0	part of fee in lieu	27	53	393	639	415	1%	500	7,887
Morgan	Morgan Co. Quality Water District 5,385	Municipal Sewer 1,200	BOCC	0	0	0	0	2,265	100	0	0	0	8,950
Pueblo	Avondale Water District 3,500	Avondale Sewer District 1,500	0	0	No fee for SFR	No fee for SFR	No fee for SFR	895	655	25	0	0	6,575
Weld	Dacono 9,425	Dacono Special District 4,070	0	0	0	0	0	2,879+	887	288	0	0	17,549

5. Colorado Springs – Engineering Fees $45, Subdivision Inspection Fee, $45; Scenario from municipality's documentation, $2559 Total Other: $3076.
6. Grand Junction – Traffic Impact - $500 per lot; Added School fee in Lieu of Land.; Building permit charge $600, based on 1200 square feet. Other fees: site plan review $100; preliminary plan $600, final plan $740, utilities composite, $25; off-site improvements $40, final inspection, $40.
7. Kiowa – Added Storm Drainage Fee, $800; Added Building Permit, $994 and Plan Check, $645.
8. Longmont – Water, Assumes 8,000 sq. ft. Lot, Formula is $3360 +$.41 per sq. ft of lot + $970 surcharge., Added Traffic Impact Fee, increased Use Tax.
9. Loveland – All fees are reviewed annually; Water fee , $2520 + Raw Water, $1000; traffic impact (low density)$2229; Parks and recreation includes parks, $1436, recreation, $799 and trails $24; building permit fee includes structural permit, electrical permit; mechanical permit, plumbing permit; other development fees: PIF electrical $150; CDF fire protection,$403, CDF law enforcement, 136; library, $228; museum, $223 general government, $485.
10. Mesa County now charges a building permit fee of $436.
11. Montrose – Use Tax decreased by .5%
12. Pueblo (City) Use Tax on Construction Materials: City now collecting an additional 1% for County.
13. Trinidad – Use Tax is 1% for the County and .5% for the City.
14. Eagle County – Eagle River Water & Sanitation District: Water $2.70 x 1200 sq. ft. (assumed) =$3,240; Sanitation 1.59 x 1200 sq. ft. (assumed) = $1,908.

■ Exhibit B: Summary of DOH Funded Projects (FY01)

New Construction Projects

Project	Ttl Cost	No. of Units	Per Unit Cost						
			Land	Hard Cost	Soft Cost	Financing Cost	Public Fees	Local Gov't Contribution	+/-
Prairie Mesa Estates	3,287,133	38	13,250	86,717	22,854	6,382	4,898	700	-4,198
Fox Meadow	13,038,023	138	5,254	75,701	18,077	6,204	7,907	382	-7,525
VOA Montrose	3,414,962	40	6,250	46,440	5,940	0	2,075	6,250	+4,175
Aspen Meadows	4,927,329	50	4,000	78,729	19,818	5,960	7,237	7,189	-48
Hope – The Point	8,805,322	65	6,748	109,225	21,944	14,039	1,688	10,738	+9,050
RMMHA – Belle Ck.	17,044,404	156	7,051	87,011	22,248	17,638	12,730	1,282	-11,448
Sheridan Ridge (Uptown)	9,874,598	65	10,462	125,050	26,867	9,004	12,882	8,769	-4,113
Town Center Sr.	7,816,144	88	7,224	68,976	19,844	6,657	9,044	0	-9,044
CARE Housing	4,034,915	36	6,333	90,566	21,515	881	8,000	12,500	+4,500
Arapahoe Green	8,041,352	60	13,883	111,872	22,150	6,012	6,560	5,063	-1,497
Ft. Collins Sr. Housing	5,225,198	60	8,333	78,355	8,732	6,382	10,472	4,167	-6,305
Mountain Village	12,333,902	68	35,514	129,970	15,885	13,606	5,891	43,662	+37,771
Child & Migrant Services	419,360	40	1,650	7,945	889	0	0	0	0

Rehabilitation Projects

Project	Ttl Cost	No. of Units	Per Unit Cost						
			Bldg. Acq.	Hard Cost	Soft Cost	Financing Cost	Public Fees	Local Gov't Contribution	+/-
Boulder County Housing	2,732,350	36	7,292	74,735	15,064	0	708	1,325	+617
College Overlook Apts.	1,059,400	24	0	37,520	6,621	1,112	100	1142	+1,042
VOA Family Motel	2,352,750	47	50,059	46,505	3,553	1,266	106	15,957	+15,851
CCH Central YMCA	14,003,366	226	24,115	51,704	10,258	8,618	0	3,319	+3,319
TUP Ronald McDonald	1,100,000	16	60,625	61,294	7,456	5,627	0	14,063	+14,063
Historic Georgetown	380,550	2	37,500	53,359	10,067	2,513	9,675	8,900	-775
The Willows (N2N)	569,536	11	45,000	47,994	3,782	455	0	10,000	+10,000
Develop. Pathways	885,731	12	31,250	66,676	7,135	0	296	296	0
A Woman's Place	617,110	37	0	15,114	1,565	0	482	4,568	+4,086
Estes Park Apartments	441,500	10	46,667	42,100	2,015	25	0	2,500	+2,500
Atlantis: 1500 Hooker	3,318,746	46	33,696	64,619	7,528	6,647	0	15,712	+15,712
Valley Assisted Living	1,029,100	14	22,857	52,250	16,543	833	0	0	0
West Pikes Peak	724,047	22	26,136	2,950	3,203	621	0	11,818	+11,818
Sawatch Range	5,847,585	162	24,074	6,930	2,382	2,710	0	142	+142
Normandy Apartments	2,121,635	42	44,047	47,485	3,031	598	119	6.277	+6,158
EFFA Apartments	990,675	12	79,167	81,667	890	181	0	833	+833
Pinewood Apartments	2,684,253	23	116,707	114,167	2,540	537	0	32,608	+32,608
Ft. Collins H.A.	405,000	6	66,666	66,666	833	181	0	7,166	+7,166

Colorado Division of Housing

Housing Colorado: The Challenge for a Growing State

November 1, 2001

Supporting documents for this report may be obtained from:

Gigi Garcia
303-866-2033
1313 Sherman Street, Room 518
Denver, CO 80203

Included as attachments to this report are:

- Estimates of Income for Colorado Households
- Housing Needs Inventory and Analysis
- Cost of Housing Analysis for Colorado Counties
- What is Affordable in Your Community
- Fiscal Analysis Budgets for Municipalities:
  Aurora, Breckenridge, Grand Junction,
  Milliken, Pueblo, Sterling
- Surveys of Municipalities

The entire report and attachments are also available, along with other affordable housing information at the Division of Housing website:
www.dola.state.co.us/doh/index.htm

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