Schedule 13

Funding Request for the 2013-14 Budget Cycle

Department: Department of Local Affairs

Request Title: Additional Affordable Housing Units

Priority Number: R-1

Dept. Approval by: Bruce Eisenhauer 11/01/2012
Date

OSPB Approval by: 10/26/12
Date

☑ Decision Item FY 2013-14
☐ Base Reduction Item FY 2013-14
☐ Supplemental FY 2012-13
☐ Budget Amendment FY 2013-14

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	6
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
Total of All Line Items	**Total**	36,884,430	-	36,884,430	2,000,000	2,000,000
	FTE	-	-	-	-	-
	GF	-	-	-	2,000,000	2,000,000
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	-	-	-	-	-
	FF	36,884,430	-	36,884,430	-	-
(3) Division of Housing, Low Income Rental Subsidies	**Total**	36,884,430	-	36,884,430	2,000,000	2,000,000
	FTE	-	-	-	-	-
	GF	-	-	-	2,000,000	2,000,000
	GFE	-	-	-	-	
	CF	-	-	-	-	-
	RF	-	-	-	-	-
	FF	36,884,430	-	36,884,430	-	-

Letternote Text Revision Required? Yes: ☐ No: ☑ **If yes, describe the Letternote Text Revision:**

Cash or Federal Fund Name and COFRS Fund Number:

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? Yes: ☑ No: ☐ Not Required: ☑

Schedule 13s from Affected Departments:

Other Information:

DEPARTMENT OF LOCAL AFFAIRS

FY 2013-14 Funding Request
November 1, 2012

John W. Hickenlooper
Governor

Reeves Brown
Executive Director

Signature 11/01/2012
Date

Department Priority: R-1
Additional Affordable Housing Units

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
Additional Affordable Housing Units	$2,000,000	$2,000,000	0.0

Request Summary:
The Department of Local Affairs is requesting $2,000,000 General Fund for FY 2013-14 and ongoing to finance the development of 1,200 new rental units per year, of which 800 will be affordable units. Over the past five years, the average annual production rate of new affordable rental units is 1,600; this investment would increase the annual production by an additional 2,400.

Problem or Opportunity:
Currently in Colorado, there are 142,940 renter households that pay 35% or more of their household income for housing and also earn a household income of $20,000 per year or less. Exacerbating the problem, new construction is not keeping up with household formation and consequently rental rates have risen to unaffordable levels. For example, since 2007 there have been 74,000 more households formed than there have been new rental units built.

In prior years, Private Activity Bonds (PAB), issued by both local governments and state authorities, were a major resource offering tax exempt permanent financing for affordable multifamily housing. Since 2008, this major source of financing has not been available to Colorado developers resulting in the loss of production and construction jobs. In 2011 Colorado received a PAB of $477 million. These bonds are used for single-family and multifamily mortgages, student loans, agricultural loans, and industrial development bonds. The following table shows the amount of bonds issued for the past five years. These bonds must be issued within three years or the bonding authority is lost. Beginning in 2009 Colorado began losing tax exempt bond authority.

Private Activity Bonds Issued and Lost (in millions)

Year	2007	2008	2009	2010	2011
Total Annual Allocation	$404	$413	$444	$452	$477
Bond Issues / Carry forward	$308	$382	$425	$313	$357
Multifamily Bonds Issued	$96	$31	$3	$16	$135
PAB Bonds Lost	$0	$0	$16	$124	$108

There is currently a two year waiting list for pending projects of $570 million for rental and homeowner development; however, since 2008 the use of the Private Activity Bond program to develop workforce housing has dramatically curtailed. Impacted by the national real estate market, investors see multifamily rental housing as a high risk investment. The Colorado market is relatively more stable, but continues to be impacted by the national issues. As a result, in 2011 $108 million in PAB authorization available to fund affordable housing projects went unused and has been returned to the U.S. Treasury.

The loss of this funding impacts the production of affordable workforce housing, affordable housing for persons on very low fixed incomes, in addition to the jobs and tax revenue.

Based on a recent study by the National Association of Home Builders (see Exhibit D), building 1200 housing units results in the following economic development benefits during the construction phase:

- $133 million in local income;
- $14 million in revenue from local sales, use and property taxes; and
- 1,617 jobs.

After this initial year of construction the annual long term benefit is:

- $24 million in new personal income;
- $3.4 million in revenue from local sales, use and property taxes; and
- 270 permanent jobs.

In addition, the development of permanent housing for persons with disabilities or homeless persons produces substantial public savings for medical, mental health, criminal justice, and human service subsidies. When stable housing is available: lower recidivism rates are achieved; lower Medicaid subsidies and reduced mental health hospital admissions are experienced; and, with an affordable place to call home, greater performance in school by previously homeless school children results. Based on current Division of Housing demonstration programs, the Department has established the following goals for the impacted population: Recidivism rate below 40% after 3 years, an increase of school attendance/grades of 60% for homeless school children; Reduction in state hospital admissions by 60%. See Exhibit A Housing Cost/Benefit.

Brief Background:
Over the last five years, the affordable housing gap continues to widen. This gap will continue to grow given that rents are increasing at 3% annually while renter incomes are projected to remain flat. The statewide rental vacancy rate is 5.1%, which is a twelve year low, and the average statewide rent of $914 is a 4.7% increase this past year. Adding to this concern, over the past decade rents have increased 37% in contrast to renter incomes which have only increased 6% during this time period. See Exhibit B for details.

Proposed Solution:
The additional $2 million in housing grants will increase the production of affordable housing by 800 units annually. These funds will be invested in workforce housing by leveraging the Private Activity Bonds and increasing housing for the disabled and homeless. These subsidized amounts will serve to reduce the loan to value ratio and allow a more affordable rent to those with annual household incomes of $20,000 or less.

Alternatives:
The Department continues to apply for additional federal grants to increase the production of affordable housing units. While the Department has received funding to house persons with disabilities and homeless veterans, the level of federal grant awards are insufficient to meet the present need for affordable housing units.

Anticipated Outcomes:
Outcome goals include:

- *Recidivism rate below 40% after 3 years*

For parolees diagnosed with co-occurring mental illness and substance abuse, the recidivism rate over four years is 71%. The Department's goal is to reduce the recidivism rate to 40%. The source of the recidivism rate is monthly reports provided by the Department of Corrections and the Mental Health Center of Denver Research Institute and the 2011 Department of Corrections Statistical Report.

- *Improved Grades and Attendance for Homeless Children*

The Next Step program in Grand Junction, which provides housing and services for otherwise homeless families with school aged children, demonstrated improved school attendance for 50% of the children, and improved grades for 60% according to data from the Mesa County School District 51. In addition, housing these homeless families also enabled parents to improve their employment status and income as 46% of the participants secured employment according to Mesa County Workforce Center, and 41% were able to increase their wages. These improvements in academic achievements are consistent with the 2009 University of Minnesota Study, Academic Achievement of Homeless and Highly Mobile School Children.

- *Reduction in state mental hospital admissions*

The cost savings for reduction in the admission rate of behavioral health patients is reported by the Centennial Mental Health Center and the Colorado Department of Human Services. Patients admitted to the Pueblo State Hospital cost $1,000 per day for an average stay of 5 days (source: Colorado Dept. of Human Services). The addition of 6 beds to the 11 existing beds in Centennial is expected to reduce the number of persons they refer to the state facility by 60%.

The Department's goal is to replicate these results through the development of 800 additional affordable housing units in Colorado per year. Without increased funding, the number of households that can achieve these results will be limited. See Exhibit A for details on annual goals.

Funding this request will also provide an economic development benefit of an additional 1,617 construction jobs; and 270 permanent maintenance, property management, security, social work, and other related real estate jobs. Additionally, skilled labor is attracted to communities with an increased availability of affordable workforce housing and reduced pressure for labor rates. Availability of affordable housing is a major asset in attracting new businesses to Colorado communities.

Assumptions for Calculations:
Unit subsidies vary depending on the rent levels and debt structure and will range from $2,000 to $7,000 per unit. The Department anticipates that the majority of projects will be for mixed income housing and will require minimal subsidy, so uses an average subsidy of $2,500 for this request.

The projected number of housing units is based on historic data, proposed projects, and type of leveraged financing. Properties financed by PAB are mixed income and the minimum number of affordable units required is set by the U.S. Tax Code at 40% of the total. However, the Department's goal for the number of affordable units constructed with the requested funding is two thirds, or 67%. Based on an average $2,500 per unit subsidy, the total requested $2.0 million investment will allow for the construction of 800 additional affordable rental units per year.

The requested subsidy lowers the loan to value ratio of a Private Activity Bond, risk is reduced and interest rates (cost of borrowing) are lowered. The housing crisis reduced the prevailing value of real estate. The values are increasing slowly, but not to the level that the Loan to Value is attractive to bond investors. Combined with these subsidies and other tax incentives this request will permit the return to the level of investment in 2007. See Exhibit C for details.

The economic development benefits are confirmed by the results of the April 2012 National Association of Home Builders Study on the Economic Impact of Developing Subsidized Housing in Metro Denver.

Consequences if not Funded:
Without an increase in the supply of affordable housing units, the numbers of homeless individuals will increase, the percentage of household incomes that are used for rent will continue to increase, and the social costs will increase for those without stable housing.

Affordable housing is a key component in the state's economic development competitiveness. A continued shortage of affordable housing and high rents will negatively impact the ability of Colorado communities to remain attractive to companies looking for affordable workforce housing. Additionally, Colorado will likely realize the following consequences if the request is not funded:

- Increased social, medical, criminal justice, mental health costs due to unstable housing conditions;
- Increased homeless, over-crowding, and domestic violence;
- Loss of tax exempt bonding authority and corresponding loss of construction and real estate jobs stemming from not developing needed housing units in local communities; and
- Loss of property tax revenue resulting from not being able to attract, house, and retain the community workforce.

Impact to Other State Government Agency:
N/A

Cash Fund Projections:
N/A

Relation to Performance Measures:
The Division of Housing Performance Measure for 2012 is to produce 1,600 new affordable housing units. This request will increase annual production to 2,400.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:
N/A

Current Statutory Authority or Needed Statutory Change:
242-32-721, no other statutory change required.

EXHIBIT A

Housing Cost/Benefits

Over the last five years there have been a number of studies that have targeted housing assistance to homeless and disabled individuals. The studies have identified the results of stable housing on the public cost of medical care, mental health therapy, academic achievement, prison recidivism, and personal income from wages and public benefits. The following is a summation of these studies and the subsequent results the Division of Housing has demonstrated following the recommendations of these national studies.

In 2006, the Colorado Coalition for the Homeless completed a cost benefit analysis of their Housing First program. With the approval of their Housing First residents they measured medical, mental health, detox, jail records to determine the actual costs and their income records. The measurement included cost from the last two years of homeless compared to the following two years of being housed. The results of CCH study, Cost Benefit Analysis and Program Outcomes follow:

- Emergency Room cost reduction 72.95% CCH
- Emergency Room savings per person $31,545 for 24 months
- Detox costs were reduced by 76%
- Homeless shelter costs were reduced by $13,600 per person.
- Net savings of providing Housing First is $4,745 in the first year.
- The average monthly income of a Housing First resident increased from $185 to $431 in two years.
- 50% of the 150 residents surveyed had improve health status, and
- 43% have improved mental health status, 15% have decreased their substance abuse

In 2009, the University of Minnesota and the Public Schools released a report entitled Academic Achievement of Homeless and Highly Mobile Children in an Urban School District. Based on the findings of this report the Division of Housing partnered with the Grand Junction Housing Authority to create the Next Step program. The Next Step program provides permanent housing with supportive services for homeless school children and their families. The following are the results of the study:

Comparison of academic achievement of 102 children ages 6 to 11,

Subjects	Housed Children	Homeless Children
Reading	75.5%	48%
Spelling	72.4%	50%
Arithmetic	53.6%	21.7%

Grand Junction Next Step program

For the past two years the Division of Housing together with the Grand Junction Housing Authority partnered with Mesa County school District 51 and the County Department of Human Services to offer permanent housing and supportive services to homeless school children and their families. The social outcomes of the Next Step program are improved school attendance, improved scholastic performance, reduced classroom interruption and behavioral problems, and a reduction in family mobility. Of the 108 children, comprising 41 families, results show a substantial increase in academic performance and an increase in household income and employment.

- 61% of the participating children increased grades
- 52% increase attendance
- 46% of the adults in these households secured employment
- 25% of the households after 18 months have moved from transitional to permanent housing

Second Chance Program

In 2011 the Pew Center on the States released the report, The State of Recidivism. Although Colorado was one of three states not participating in the study, the results demonstrated the importance of permanent housing in reducing prison recidivism. In addition to the community corrections support for discharges inmates and job training and employment, permanent housing was identified as a major factor in the reduction of recidivism.

The Division of Housing together with the Department of Corrections is administering the Colorado Second Chance Program. The current recidivism rate for dual diagnosed (severe mental illness and substance addictions) ex-offenders is 71% based on the Department of Corrections 2011 Statistical Report. The current recidivism rate for residents of the Second Chance Program is 39% after two years. Our goal is less than a 40% rate after three years. The total cost of the Second Chance program is $24,485. The average cost of incarceration is about $38,000. The results of the program follow:

Of the 64 participants in the program 25 have returned to Corrections for parole violations, but only 6 were incarcerated due to criminal activity.

- 5 successfully completed parole and all continue therapy with their mental health centers
- 16 have secured their permanent disability benefits
- 3 are employed
- 4 are attending community college

EXHIBIT B

Financing Profile

The following charts summarize the financing sources for two affordable housing developments in Colorado. The first summary is in Westminster. The financing source for this development uses Private Activity Bonds. This property is an acquisition with substantial rehabilitation of mixed income apartment complex. The second property is Denver Senior Gardens. This property is also an acquisition of a Grand Junction Next Step program.

This example is for an existing apartment complex that was converted to be affordable. It is 100% affordable, which requires additional subsidies to reduce rents affordable to seniors on fixed incomes. The primary source of financing for this property is Low Income Housing Tax Credits. Today the limited number of PAB bonds issued is for existing properties acquired, renovated and converted to affordable housing. This will not keep up with demand; new construction is needed.

Funding Comparison of Tax Credit 9%- PAB Housing			
Financing Source	**Total Source**	**% of Financing**	**Per Unit**
Westminster Commons			130
First Mortgage	$7,441,000	44	$57,238
LIHTC	$4,731,633	28	$36,397
Federal/State/City Gap Funds	$750,000	4	$5,769
Soft Funding	$3,899,600	23	$29,997
Total Cost	**$16,822,233**		**$129,402**

Funding Comparison of Tax Credit 4%- PAB Housing			
Financing Source	**Total Source**	**% of Financing**	**Per Unit**
Denver Senior Gardens			100
First Mortgage	$3,400,000	24	$34,000
LIHTC	$7,314,958	52	$73,150
Federal/State/City Gap Funds	$725,000	4	$5,577
Soft Funding	$2,596,996	19	$25,970
Total Cost	**$14,036,954**		**$140,370**

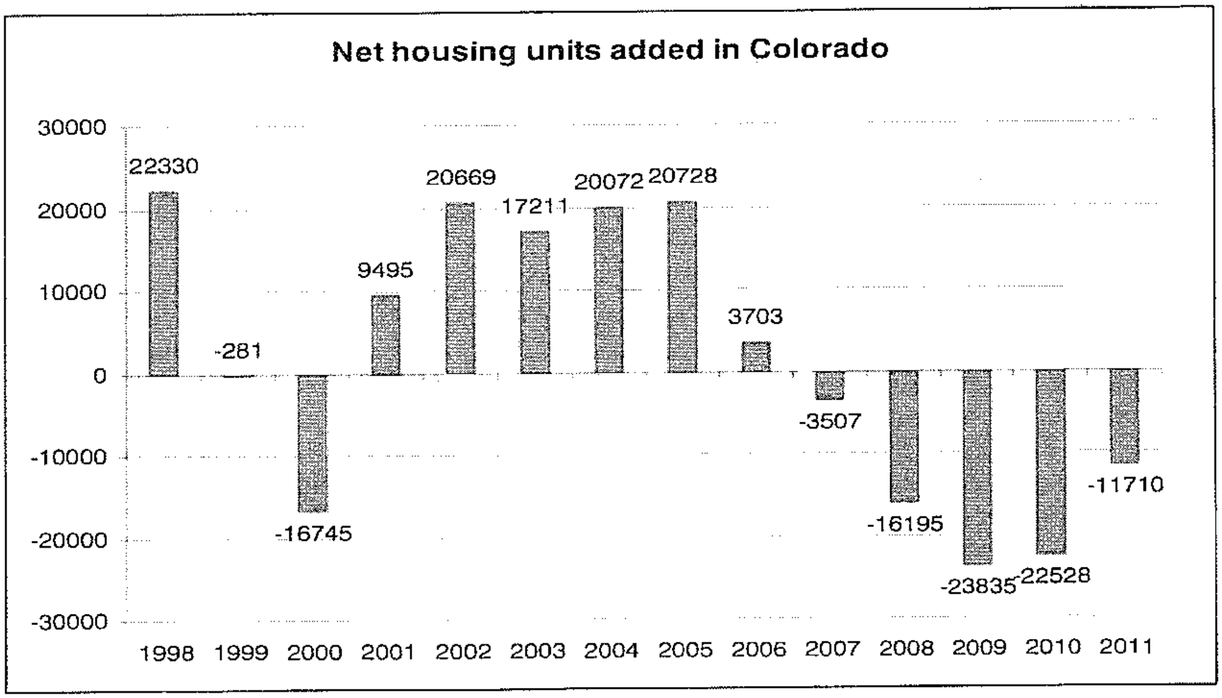
* Soft funding includes deferred developer fee, seller take back notes, owner equity and cash flow during construction.

In FY 2013-14 the funding demand for DOH funding subsidy exceeds $30 million. This is based on a pipeline of 78 projects. Without funding, these projects do not move forward. This further exacerbates the gap in Colorado of affordable housing units to the number of families needing an affordable home. In addition to the demand for more affordable housing, real estate construction is an increasingly important job generator given the impact the housing crisis has had nationally and in Colorado. The total development cost for these 78 projects is nearly half a billion dollars. Based on the conservative estimates of the national Home Builders study of Metro Denver, this represents the creation or maintaining of 5,595 jobs.

EXHIBIT C

Market Demand

The following chart demonstrates the net demand for new housing. Also included is a summary of the current rent and vacancy conditions. Factoring income the affordability gap is growing given the lack of growth in incomes.



- From 2002 to 2005, there were 78,000 more units produced than households formed. From 2008 to 2011, there were 74,000 fewer units produced than there were households formed.

- In spite of lackluster income and employment growth, Colorado's population continues to expand as a result of natural population increases and net migration. More than 30,000 households were formed each year in Colorado during the years of 2008, 2009 and 2010; all of which were years of recession or declining employment. This suggests a strong foundation for continuing household formation in Colorado.

- Poor economic conditions lead to muted household formation numbers, so as employment slowly improves, household formation will continue to grow placing greater pressure on the existing housing stock. The existing numbers of household formation are quite high given the non-robust housing situation, so pent-up demand will become more apparent in case of more robust employment growth.

- Due to a lack of new housing stock, the average rent continues to grow in Colorado. The average rent in Colorado was $942 during the second quarter of 2012, which was up 7.4 percent over the second quarter of 2011. Rent growth is significantly exceeding official inflation estimates of 2 to 3 percent. (Source: The Vacancy and Rent Survey by Ron Throupe, Ph.D at the University of Denver.)

- Rent growth and lack of units affects the lowest income residents the most. Using estimates from the American Community Survey, there are approximately two low-income households for every unit affordable at their income level.

- Across all income levels and markets, vacancy rates in Colorado continue to be low. The statewide apartment vacancy rate in Colorado during the second quarter of this year was 4.9 percent. This is the lowest vacancy rate recorded since 2001. (Source: The Vacancy and Rent Survey by Ron Throupe, Ph.D at the University of Denver.)

- New single-family housing production is near 50-year lows in Colorado. Even without adjusting for population growth, single-family housing production is near levels seen during the 1960s. For example, 8,023 new homes were permitted during 2011, which is lower than the 8,080 new homes permitted during 1966. (Source: U.S. Department of Commerce.)

- Although national news stories have covered national trends in which many cities have experienced significant overbuilding, this is not the case in Colorado. Even with elevated foreclosure rates, the demand for single-family housing in Colorado continues at strong levels. The vacancy rate in single-family homes in the metro Denver area was at a very low 2.5 percent during the second quarter of this year. Unlike many states in some parts of the nation, Colorado does not have a large inventory of vacant homes. Home sales continue to grow and home prices are heading up in Colorado. (Source: The Vacancy and Rent Survey by Ron Throupe, Ph.D at the University of Denver, Colorado Association of Realtors, and the Federal Housing and Finance Agency.)

EXHIBIT D

National Association of Home Builders, April 2012

The Economic Impact of Subsidized Housing Programs in Metro Denver, Colorado: Income, Jobs, and Taxes Generated

NAHB, Housing Policy Dept.

In 1996, the Housing Policy Department of the National Association of Home Builders (NAHB) developed an economic model to estimate the local economic benefits of home building. Although at first calibrated to a typical metropolitan area using national averages, the model could be adapted to a specific local economy by replacing national averages with specific local data fro key housing market variables. The initial version of the model could be applied to single-family, multifamily construction or the combination of the two.

Home building generates substantial local economic activity, including new income and jobs for residents, and additional revenue for local governments. The National Association of Home Builders has developed a model to estimate these economic benefits. The model captures the effect of the construction activity itself, the ripple impact that occurs when income earned from construction activity is spent and recycles in the local economy, and the ongoing impact that results from new homes becoming occupied by residents who pay taxes and buy locally produced goods and services. In order to fully appreciate the positive impact residential construction has on a community, it is important to include the ripple effects and the ongoing benefits. Since the NAHB model was initially developed in 1996, it has been used to estimate the impacts of construction in over 600 projects, local jurisdictions, metropolitan areas, non-metropolitan counties, and states across the country.

The comprehensive nature of the NAHB model requires that the local area over which the benefits are spread be large enough to include the places where construction workers live and spend their money, as well as the places where the new home occupants are likely to work, shop, and go for recreation. In practice, this usually means a Metropolitan Statistical Area (MSA), as defined by the U.S. Office of Management and Budget (OMB). The MSA selected for the study of Colorado's housing market was the Denver-Aurora MSA as a metro area consisting of ten counties (Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park) in Colorado (see map on previous page). In this report, wherever the terms local or Denver are used, they refer to the entire metro area.

This report presents estimates of the local impacts of 809 housing units built in the Denver, Colorado metropolitan area under a subsidized housing program, based on average annual activity in the state under that program over the three-year period ending in 2011. The program is generally similar to the federal Low-Income Housing Tax Credit (LIHTC) program, particularly in the income and cost burden restrictions imposed on the residents, and are analyzed in this report using the version of the NAHB model designed to estimate the benefits of LIHTC construction. The primary difference between this and other versions of the NAHB model is the way the income and spending tendencies of the occupants are estimated.

The NAHB model produces impacts on income and employment in 16 industries and local government, as well as detailed information about taxes and other types of local government revenue. Aggregate results are summarized below. Subsequent sections of the report show detail by industry and type of tax or fee revenue generated.

The estimated one-year local impacts of building 809 subsidized housing units in Denver include
$89.6 million in local income,
$9.2 million in taxes and other revenue for local governments, and
1,078 local jobs.

These are local impacts, representing income and jobs for residents of the Denver-Aurora MSA, and taxes (and other sources of revenue, including permit fees) for all local jurisdictions within the metro area. They are also one-year impacts that include both the direct and indirect impact of the construction activity itself, and the impact of local residents who earn money from the construction activity spending part of it within the local area. Local jobs are measured in full time equivalents—i.e., one reported job represents enough work to keep one worker employed full-time for a year, based on average hours worked per week by full-time employees in the industry.

The additional, annually recurring impacts of building the 809 subsidized units include
$16.4 million in local income,
$2.3 million in taxes and other revenue for local governments, and
180 local jobs.

These are ongoing, annual local impacts that result from the new homes being occupied and the occupants paying taxes and otherwise participating in the local economy year after year. The ongoing impacts also include the effect of increased property taxes, based on the difference between the value of raw land and the value of a completed housing unit on a finished lot, assuming that raw land would be taxed at the same rate as the completed housing unit. In addition these ongoing impacts have been reduced to account for the natural vacancy rate that tends to prevail in multifamily properties (see page 22 of the Technical Documentation).

The above impacts were calculated assuming that new subsidized units built in Denver have an average market value (based on total construction and lease-up costs for an otherwise equivalent market-rate unit) of $163,449; embody raw land valued at $15,367 per unit, require the developers to pay an average of $2,370 in permit and other fees to local governments and incur an average property tax of $222 per year. This information was provided by the Boulder County Assessor's Office, the Boulder County Office of the Treasurer, the Colorado Coalition for the Homeless, the Colorado Department of Local Affairs – Division of Housing, the Colorado Housing and Finance Authority, the Denver County Assessor's Office, the Denver County Office of the Treasurer, the Denver Housing Authority, the Jefferson County Assessor's Office, and the Jefferson County Office of the Treasurer.

Link to report - http://www.housingcolorado.org/images/uploads/4ffdc7bdd65a9.pdf