



COMPREHENSIVE HOUSING AFFORDABILITY STRATEGY FRAMEWORK

— RECOMMENDATIONS BY —

SENATOR BENNET'S

HOUSING AFFORDABILITY

STRATEGY GROUP

JANUARY 2022

Dear Senator Bennet and Senator Hickenlooper:

We write as leaders from across Colorado in local government, higher education, business, and housing who have come together to develop a strategy to respond to our housing affordability crisis.

Our goal in constructing this strategy was to build on Colorado's tradition of public-private collaboration in housing. Our intent was to address housing affordability challenges in a way that would produce meaningful progress and that could feasibly move forward and be applied nationally in this era of divided politics.

The result of our work is the strategic framework to address our housing affordability crisis outlined below.

Though we do not all agree with every suggested action in the framework, and some of us believe we should do more than what is listed here, we think this strategy serves as a significant step forward and we look forward to continuing to work in collaboration.

Our housing supply and affordability crisis in Colorado is affecting everyone—from those experiencing homelessness, to the nurses, firefighters, and teachers who keep our communities running, to the small businesses that serve as the backbone of our state's local economies, and the large corporations that anchor many industries.

We see the symptoms of the crisis everywhere:

- Homelessness increased 2.4% in 2020 and affects nearly 10,000 Coloradans.
- Between 2000 and 2019, rents rose faster than incomes in every Colorado county and city with more than 50,000 residents. Today, more than one-quarter of all households in Colorado are “cost burdened,” paying more than 30% of their incomes in housing costs.
- In our mountain towns, community leaders have found that they are not able to fill the jobs necessary to support their local economies because workers cannot afford to live in their communities. The issue results in reduced operating hours for businesses, lower levels of service in communities, and loss of revenue.

- And, some rural communities in Colorado cannot sustain economic growth because the shortage of housing, coupled with low wages, prevents the relocation of businesses and people to their area.

At the most basic level, the housing crisis is driven by a shortage of affordable and attainable housing. The supply deficit exists because the current system does not have the capacity or adequate tools to handle the scope of need. It is unrealistic to expect the private market to solve this challenge alone, and, due to years of underinvestment, our current system of public support does not have the capacity to fill the gap.

We are desperately in need of an updated and innovative approach that meets our times-- one that brings everyone to table, builds upon existing tools, and readily integrates the new ideas that work.

The following framework outlines a new approach. We used the following principles to guide our thinking in its development:

- **We need everyone working together:** No one sector has the capacity to solve this challenge on its own. We will only address this crisis if leaders from the public, private, non-profit, and philanthropic sectors work together, and in partnership with communities, to create more supply as quickly as possible.
- **Everyone must invest more in building affordable and attainable housing:** Decades of underinvestment has been a significant factor contributing to our current housing crisis. We need to create incentives to spur more private investment and appropriately and robustly fund our system of housing programs and subsidies.
- **We must bring down costs without compromising quality:** We need to integrate and support development of efficiencies, provide more low-interest capital and grant funds (particularly in low-income and rural geographies), and support partnerships that bring down the cost of land. We also need to urge or incent local governments to streamline the development review process, and consider giving local jurisdictions the power to grant property and sales tax exemptions to affordable housing projects.

- **We need to modernize our current system and build in flexibility:** We need to update and simplify our system so that it is easier to use and so it reflects the realities of the current marketplace. In most cases, local leaders and communities know what they need to address the housing challenges in their areas. Whenever practicable, we should be providing local leaders and communities the tools, technologies, and resources they need to help implement solutions they design.
- **We should integrate tools to promote housing stability throughout the system:** We should treat owning, renting, and experiencing homelessness as parts of a continuum, not as challenges different from one another. Homeownership has historically been the primary way households build wealth, and has been key to economic mobility and housing stability—but only for those households who had access to capital. We must rethink our approach so that households have the opportunity to access housing and income support well *before* they are on the brink of an eviction or homelessness.
- **We can't move forward in a meaningful way without working together to face the historic and current discrimination embedded in our housing policy:** We all acknowledge the historic discrimination inherent in our original housing policies and we are committed to working together towards a solution that will level the playing field for BIPOC (Black, Indigenous, People of Color) low-income, and other historically marginalized communities.
- **There is no housing stability without housing sustainability:** Homes can be made more affordable through improvements to energy efficiency, and families in Colorado need homes that can withstand the extreme weather that comes with our changing climate. We must integrate sustainability and climate resilience into everything we do and in a way that supports our climate goals.

Finally, the group recognizes the urgent importance of specific solutions for Coloradans currently experiencing homelessness, some of which are included in the recommendations offered in this framework but some of which were not explored by this particular roundtable (such as emergency

shelter or outreach and emergency support services). While a comprehensive set of homelessness resolution strategies is beyond the scope of this group's task, we fully support and prioritize solutions for individuals and families experiencing homelessness. As housing is the ultimate solution to homelessness, we hope that the recommendations here will help to create systems and resources to ensure that many people experiencing homelessness today will be able to obtain safe, affordable housing.

Thank you and we look forward to continuing our partnership.

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RECOMMENDATION 1: INCREASE HOUSING SUPPLY

We must work together to increase the supply of homes where people need them and at prices they can afford. Our strategy must include a combination of incentives and tools to encourage new development, promote the rehabilitation of existing property, and enable the preservation of affordable and attainable housing already in the marketplace.

ACTIONS:

Bring more private and non-profit developers into the business of building new affordable and attainable housing where it is needed most, with:

- ❖ New tax incentives targeted towards making investing in affordable and attainable housing projects attractive for private-sector partners, including businesses;
- ❖ The expansion of existing tax incentives, including more incentives to develop workforce housing in communities facing a serious supply gap; and
- ❖ New financing tools, incentives, and programs that make affordable housing projects competitive in a fast-moving housing market.

Put more public dollars to work for affordable and attainable housing, by:

- ❖ Increasing funding for the programs that work so that more qualifying projects and qualifying families have access;¹
- ❖ Maintaining the flexibility within housing programs allowed during the pandemic to ensure ease of use and reduce barriers to access;
- ❖ Providing housing choice vouchers to all eligible households;

¹Programs that are working include: private activity bonds; the Low Income Housing Tax Credit (LIHTC); Capital Magnet Funds; HOME Investment Partnerships Program funds; Emergency Solutions Grants; Homelessness Assistance Grants; Community Development Block Grants (CBDG); U.S. Department of Agriculture (USDA) programs (Rural Development, Rural Housing Assistance, and Farm Labor Housing Grant programs); and Department of Housing and Urban Development (HUD) programs (Supportive Housing for the Elderly and Supportive Housing for Persons with Disabilities programs).

- ❖ Reforming the allowable uses of funding streams such as Community Development Block Grants (CDBG) to better support housing;
- ❖ Reducing the 50% test for private activity bond-financed developments to 25%;
- ❖ Considering a modification of LIHTC regulations to close the qualified contract loophole;
- ❖ Appropriating funding to cover the administration and operational costs for housing programs; and
- ❖ Ensuring states have tools such as Essential Function Bonds to allow for community owned redevelopments.

Create and expand programs to pull more existing property into the affordable and attainable home market, including:

- ❖ New incentives for property owners who pull short-term rentals back into the long-term rental pool;
- ❖ Incentives to drive a preference to the construction or retention of affordable housing as primary residences (versus second homes or short-term rentals) in areas where there is a supply gap; and
- ❖ Creation of a toolkit of tax incentives specifically targeting adaptive reuse of underutilized commercial or government-owned buildings. For example, local communities could provide first right of refusal to affordable housing developers/providers for commercial/properties on the market.

Protect and bolster our “naturally occurring affordable housing” stock, through:

- ❖ Operating support and financial products for non-profit, private partners, and communities to purchase naturally occurring affordable housing and keep it affordable over the long-term; and
- ❖ More aggressive and targeted lending programs at the federal level to help owners cap rents for existing apartment stock (such as longer loan terms, lower rates, or higher loan-to-cost ratios) and make acquisition of small- and medium-sized affordable rental properties feasible.

Work together to reduce the cost of housing construction and homeownership. through:

- ❖ Reduce the **cost of land** with:
 - Expanded opportunities for private developers, private property owners, businesses, non-profit organizations, and higher education institutions to make land available below market value for affordable and attainable housing construction; and
 - Expansion of programs and partnerships that support the commitment of publicly owned land and buildings for development into affordable and attainable housing.

- ❖ Cut the **cost of capital**, through:
 - Increasing access to favorable interest rates or grants for construction projects related to creating or maintaining affordable and attainable housing stock; and
 - Increasing reduced-cost mortgage products for essential workers with low interest rates and long repayment terms; and
 - Create a targeted 401(k)-type program that provides a tax incentive for organizations that provide a match to employee contributions that are specifically for the purchase of a home, subject to income and other limitations.

- ❖ Reduce **construction costs** through:
 - More integration of efficiencies—such as modular housing and innovative construction approaches;
 - Federal incentives that encourage local governments to standardize building codes to the latest energy and performance standards and adopt cost-saving design standards, including allowing modular homes; and
 - Expanding the construction workforce through incentives and workforce training programs meant to bring more workers into construction trades.

- ❖ **Expediting the approval** of affordable and attainable housing projects, through:
 - Creating new federal incentives, modeled after Colorado's new Housing Development Incentive Grant Program, to motivate state and local governments to streamline zoning requirements,

eliminate other regulatory roadblocks, and expand opportunities for affordable housing development; and

- Standing up new sources of trusted technical support where communities can find expertise and advice to allow for expedited review of potential housing projects.

RECOMMENDATION 2: UPDATE OUR HOUSING SYSTEM

We must modernize our current housing system to meet the realities of the current housing market, to address historic discrimination, and to ensure resilience in a changing climate.

ACTIONS:

Simplify federal housing programs so that they are easy to access, to use, and to implement, through:

- ❖ Streamlining programs so that resources are provided directly to eligible households where possible. For example, we could consider piloting a “renter’s credit” that gives an advance tax credit to income-eligible individuals in place of the housing voucher they would otherwise receive;
- ❖ Creating a common regulatory framework to govern all of the different federal housing programs; and
- ❖ Simplifying and streamlining federal and state programs so that they allow affordable housing projects a competitive place in the local market.

Allow local leaders more flexibility to respond to the housing needs in their communities:

- ❖ Consider establishing a federal funding stream for housing that allows local control over eligibility criteria, payment standards, and lease terms. The flexible funding should be quick to access and allow the local entity seeking the funds to design projects based on the most pressing local housing needs;

- ❖ Provide access to low-cost capital and grants that support the building of smaller, affordable properties to allow developers working across smaller communities the flexibility to bundle a number of projects ;
- ❖ Consider giving local housing authorities greater flexibility to specify limits on Area Median Income (AMI), Fair Market Rents (FMR), and loans where federal measures do not adequately ensure home access for the workforce or where program limits need to be higher than current programs due to local market conditions;
- ❖ Allow more entities to qualify for federal funding sources, especially in communities with limited capacity for program management or development. For example, we could allow entities providing affordable and attainable housing—such as co-ops, Community Development nonprofits, small scale builders, community land trusts, and potential self-build homeowners—to qualify for federal funding sources directly; and
- ❖ Streamline the property tax exemption process so that entities other than local public housing authorities automatically qualify.

Work with BIPOC, low-income, and other historically marginalized communities to update housing programs so that we address historic discrimination and current inequity. We should:

- ❖ Conduct a nationwide study with a focus on federal housing programs and private lending algorithms to uncover systemic issues and approaches that are enabling continued inequity in housing;
- ❖ Continuously review all federal programs and policies to ensure that they do not have a negative impact on historically marginalized populations;
- ❖ Work together to meaningfully address historic discrimination or inequities in housing choice, particularly for communities in geographic areas where housing discrimination was actively perpetuated through redlining, blockbusting, restrictive covenants, direct discrimination, and similar actions;
- ❖ Make changes to federal programs already known to have a disproportionate impact on historically marginalized populations, including consideration of:
 - The implementation of a national source-of-income anti-discrimination protected class requirement;

- Eliminating the use of student loan debt in Federal Housing Administration (FHA) and Veterans Affairs (VA) loan criteria;
- Allowing transitional housing, multigenerational housing, communal housing, and shared ownership projects to qualify for federal housing resources; and
- Allow federal block grant programs to employ targeted and increased down payment assistance to communities of color, and revise the Government Sponsored Entities (GSEs) underwriting standards to reduce discrimination in underwriting; and
- ❖ Require developers receiving a government incentive through a federal housing program to take proactive and measurable steps to ensure access to those projects for people with language barriers and disabilities.

Make sure newly built or refurbished housing is sustainable, resilient in a changing climate, and meets our science-based emission targets through:

- ❖ Implementing incentives for new housing projects to take full advantage of technological advancements that provide residents savings on energy and utility costs;
- ❖ Rehabilitating and adding density to existing buildings where possible; and
- ❖ Supporting net zero energy standards for housing built using federal financing and funding resources, and providing funding to help offset those added costs.

RECOMMENDATION 3: IMPROVE HOUSING STABILITY

Our housing affordability strategy must incorporate tools throughout the system to support housing stability for everyone, from those experiencing homelessness to those purchasing their first home.

ACTIONS:

Create a pathway to housing stability for people experiencing homelessness, those in transitional housing, and those leaving institutionalized settings.

- ❖ Provide resources to local communities and their partners for the purchase, acquisition, rehabilitation, re-use, and operation of unused government or commercial properties for shelter, transitional, or long-term housing;
- ❖ Use navigators and new technology to prevent the transition into homelessness from institutionalized settings, such as hospitals, mental health facilities, detox facilities, the criminal justice system, or the foster care system; and
- ❖ Align housing vouchers with funding for the supportive services necessary to lift households out of homelessness and enable them stay stably housed.

Build a system that helps families facing a housing stability emergency in a way that minimizes long-term consequences and enables the family to return to a stable path by taking steps to:

- ❖ Better integrate, update, and adequately fund services so that people facing housing instability can go to one place (such as a HUD-certified housing counseling agency) to find options for legal services, applications for emergency rental assistance, and support for rehousing;
- ❖ Deliver emergency housing and support services *before* families are in crisis, at a speed that meets the need, and with flexibility so families can use dollars where they are most useful;
- ❖ Use navigators and new technology to guide those facing housing instability through the assistance process, especially those facing housing instability for the first time;
- ❖ Build on, improve, and make permanent the emergency housing system put in place in response to the pandemic so that it can serve us in housing emergencies moving forward; and
- ❖ Ensure emergency housing options are available in every community so people may stay near their schools, faith communities, friends, and family in an emergency.

Create a national strategy targeted towards preventing unnecessary evictions, by:

- ❖ Collecting and publishing comprehensive data on evictions and housing instability trends so we can better understand what is happening on the ground and build a system and policies that meets all needs;
- ❖ Making sure tenants have a clear understanding of eviction notice and cure requirements;
- ❖ Providing incentives for landlords who partner with local providers of supportive services in a way that keeps eviction rates low; and
- ❖ Expanding funding for universal legal counsel and diversion programs related to housing stability.

Invest in programs aimed at keeping families in stable housing by:

- ❖ Reversing the years of underinvestment in the housing programs that provide the essential foundation for housing stability;
- ❖ Pairing supportive services dollars with affordable housing development; and
- ❖ Allowing for flexibility so that program dollars can be applied in a way that actually reflects a household's need.

Build stability for households over the long-term through expanding programs that support housing stability and the accumulation of wealth, including:

- ❖ Expand support for promising models to promote long-term affordability and wealth-building, such as community land trusts;
- ❖ Expand down payment assistance programs to include a workable repayment option or a conversion of the down payment loan to equity;
- ❖ Expand rental equity programs where a percentage of monthly rent is placed into escrow for the tenant to use towards home ownership;
- ❖ Study ways to balance preserving housing affordability and allowing the accumulation of wealth through homeownership;
- ❖ Consider creating a new tax credit for homeownership that enables more households to purchase a home;
- ❖ Support ongoing efforts to increase federal investments in public housing,

- ❖ Create a mechanism for public housing authorities to sell public housing units to current residents.

RECOMMENDATION 4: EMBRACE INNOVATION

Our system needs to better support new innovation in affordable and workforce housing and better support bringing working models to scale.

ACTIONS:

- ❖ Create a pathway to support the research, development, piloting, and scaling of new approaches to affordable and attainable, climate resilient, and energy efficient housing;
- ❖ Provide grants that enable projects to address the whole continuum of need at once. Allow funding for those projects span the housing affordability spectrum (permanent supportive housing, 30-60% AMI, 60-120% AMI, for rent, for sale); and
- ❖ Provide low-cost financing and other incentives to increase the energy efficient manufactured/modular/panelized housing industry in order to reduce unit costs and development timelines.