

# **Affordable Housing Permanent Fund**

## **Presentation to INC July 9, 2016**

- The Need for More Affordable Housing
- 2013-16 Progress
- Permanent Fund Concept Development
- Stakeholder Engagement and Public Awareness
- Revenue
- Expenditures
- Oversight
- Next Steps

- Rapid population growth
- Housing supply unable to keep pace with demand
- Denver housing prices rising at twice the national rate
- Rents have increased 30-35% since 2010
  - Jeopardizes market-rate affordable units
- 4K units could lose affordability protections in next 5 years
- Increasing gentrification and concentration of poverty
- Federal funds are declining
- 87,000 households 0-80% AMI are housing cost-burdened

- 2013-16 Steps to Address Affordable Housing
  - Issued 3x5 Challenge
  - Issued “Housing Denver,” five-year strategic plan
  - Created \$10M Revolving Loan Fund utilizing 2014-15 GF dollars
  - Allocated \$8M to Affordable Housing from General Fund in 2016
  - Launched 250-unit SIB program for chronic homeless
  - Adopted construction defect ordinance
  - Hosted 2015 & 2016 Housing Summits
  - Strengthened City’s Affordable Housing Preservation Ordinance



# Concept Development, Stakeholder Engagement, Public Awareness

- Established Permanent Fund Working Group
- Significant financial modeling by BMO and consultant
  - Led to \$15M/year and 6,000-unit goals
- Rigorous vetting of a dozen funding sources
  - Led to two preferred options: property tax and development fee
- Numerous one-on-one and small group meetings
- Significant media coverage
  - Denver Post, DBJ, Westword and neighborhood newspapers
- Monthly Stakeholder Committee meetings starting in Sept 2015
  - Developers, service providers, finance experts and many others
- Informational presentations to Council Committee
- Public Meeting No. 1 at East High School in April (350 attendees)

- Two revenue sources would be effective 1/1/17
  - Property tax (less than 1 mill)
  - Development fee (simple “flat” structure, no fee higher than \$3/sf)
- Goals:
  - At least \$150M in first 10 years (6,000 housing units)
  - 50 percent from development fee
  - 50 percent from property tax
- Why these two sources?
  - Fair, balanced, equitable and communitywide approach
  - Relies on long-term stability of property tax
  - Captures revenue during economic upcycles from development

- Cost of 0.5 mill on median single-family home (\$300,000)
  - \$12 per year
- Cost of 0.5 mill on every \$1 million of commercial value
  - \$145 per year
- Cost of \$1/sq ft fee on new 2,500 sq ft home
  - \$2,500
- Cost of \$2/sq ft fee on new 25,000 sq ft commercial bldg.
  - \$50,000

- One-time fee on new construction, new sq footage & intensified uses
  - Payable at time of building permit approval
  - For residential, IHO would no longer apply to new projects but there would be build option under the development fee
- Court-tested methodology established “legally justified maximum fee,” draws nexus from development to jobs to housing need
  - Nationally respected consultant David Rosen & Associates (DRA)
  - 2 Technical Advisory Groups (residential & commercial developers)
- Second phase of analysis: Feasibility Study
  - Shows at what threshold a fee tips a project into a financially infeasible position based on ROE analysis



# Development Fee Comparison to Peer Cities

- Proposed fees lowered even more based on additional input and analysis, including comparison to fees in peer cities:
  - San Diego           \$0.80 – \$2.12/sq ft
  - Sacramento           \$0.50 – \$2.58/sq ft
  - Boston               \$8.34/sq ft
  - Boulder               \$0.09 – \$9.53/sq ft
  - Seattle                \$5 – \$17.50/sq ft
  - San Fran              \$16.01 – \$24.03/sq ft

- Permanent Fund will provide flexibility to create, preserve and rehab affordable housing units based on conditions in rental, homeownership and real-estate markets.
- Income Limits
  - Rental Housing: Up to 80% AMI (\$64,100 for family of four)
  - For-Sale Housing: Up to 100% AMI (\$80,100 for family of four)
  - Homeownership: Up to 120% AMI (\$96,120 for family of four)
    - Programs include down-payment and mortgage assistance
- Other
  - 8% administrative cost cap
  - Some funds for supportive services

- Leverage new and existing expertise to create competitive programs and streamlined investment decisions:
  - Dedicate some existing OED staff to Permanent Fund deployment
  - Hire new OED, CPD and CAO staff
- Streamline investments & create competitive opportunities:
  - Transition from rolling applications to semi-annual competitive application aligned with CHFA's tax credit process
  - Create an online shared application for LIHTC developments for CHFA, CDOH and OED
  - Create RFP process to invite and incentivize new innovations
  - Develop online term sheets for greater transparency

# Restructured Affordable Housing Advisory Committee

- A key part of the new Affordable Housing Permanent Fund would be the restructuring of the Mayor's Affordable Housing Advisory Committee. The new Committee would be formalized in ordinance and would:
  - Recommend goals, objectives and policies to inform affordable housing budget priorities annually
  - Recommend goals, objectives and policies to inform 3- to 5-year strategic plans for the Fund, including goals for mix of:
    - AMI ranges
    - Rental and homeownership
    - Supportive services
    - Land banking

# Affordable Housing Advisory Committee

- The Committee also would:
  - Review semi-annual and annual performance and outlook reports
  - Recommend:
    - New programs
    - Metrics to be tracked
    - Community engagement strategies
    - Housing priorities, including geographic priorities
    - Methods to leverage and maximize dollars
    - Annual budget priorities

- Ex-Officio Members (serving by virtue of title & office)
  - Mayor’s Office Representative
  - Executive Director of the Office of Economic Development
  - Executive Director of Community Planning and Development
  - City & County of Denver Chief Financial Officer
  - City’s Top Homelessness Official
  - Executive Director of the Denver Housing Authority
  - Executive Director of Denver Urban Renewal Authority
  - Executive Director of the Colorado Housing and Finance Authority
  - Executive Director of the Colorado Division of Housing

- Appointed by Mayor
  - Housing finance expert
  - Homeless provider
  - Community Housing Development Organization
  - Impacted community rep (e.g. resident of deed-restricted housing)
  - Major employer
  - Private-sector, market-rate real estate industry representative
  - For-profit affordable housing developer
  - Non-profit affordable housing developer
  - At-large community member
- Appointed by Council
  - Member of Denver City Council
  - Affordable housing advocate
  - At-large community member

# Advisory Committee

## Additional Info

- Body would:
  - Be staffed by OED
  - Meet monthly in publicly noticed and open meetings
    - Minutes would be recorded and published online
- Members would be subject to City's Code of Ethics and Conflict of Interest policies
- Most members would serve staggered two-year terms

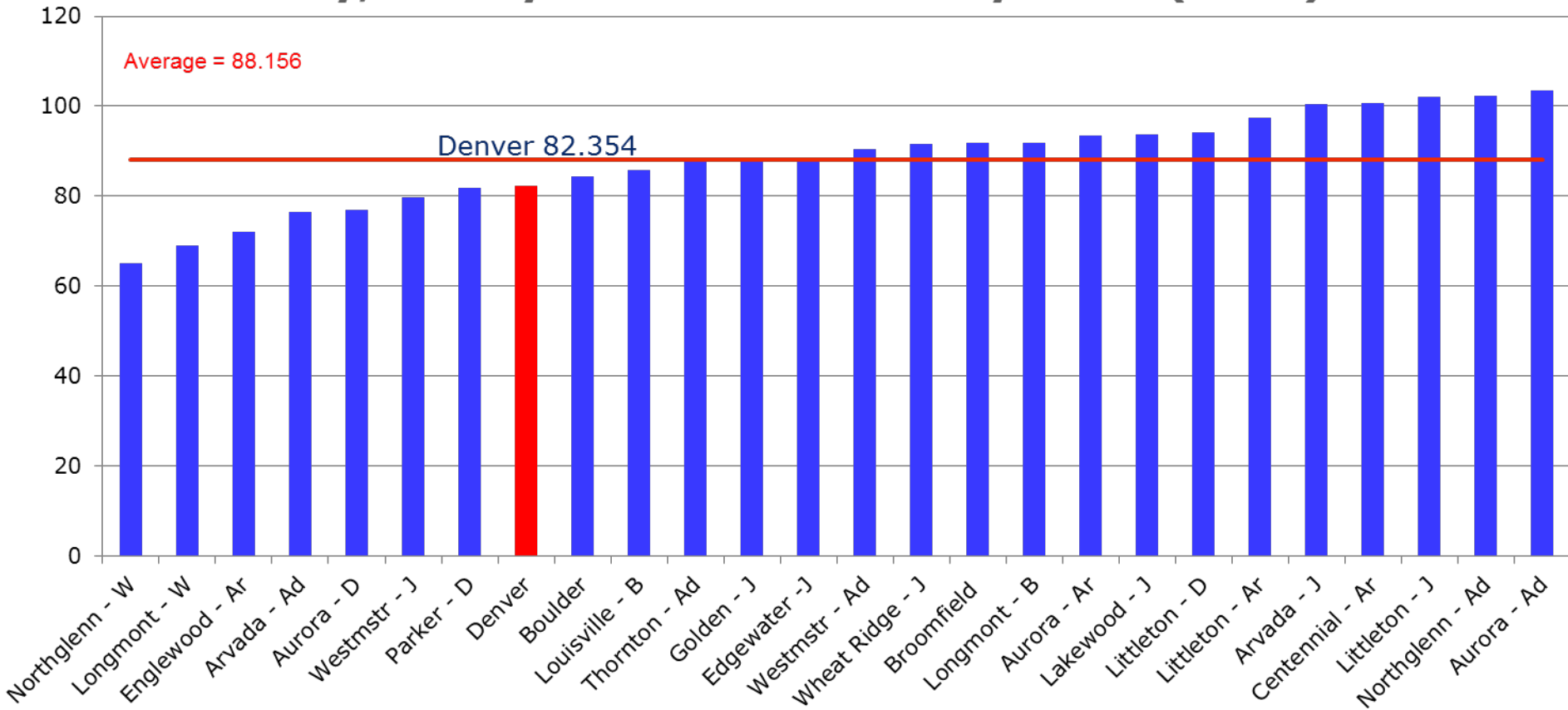


- City Council will continue to approve annual affordable housing budget line item
  - There will be some reflection of goals in the budget process
- Council will continue to approve contracts above \$500,000

- Do other cities in the metro area impose development fees?
  - Yes
- Will this hurt Denver’s ability to compete?
  - No. Out of 26 metro area jurisdictions, Denver ranks:
    - **7th lowest** on combined city and county sales tax rate
    - **8th lowest** on county property tax mills
    - **5th lowest** on sales, property, other taxes as a % of total income
- How long have you been working on this?
  - We’ve spent a year working openly with stakeholders, experts, consultants and the public to arrive at this proposal.

# Denver's Tax Rates are Competitive

## City, County and School Mill Levy Rates (2015)



Highest and Lowest Residential Property Taxes among Largest U.S. Cities  
(Lincoln Institute of Land Policy, June 2016)

Rank	\$300,000 Home	Tax
1	Bridgeport, CT	\$11,634
2	Aurora, IL	\$11,630
3	Detroit, MI	\$11,427
4	Newark, NJ	\$9,137
5	Milwaukee, WI	\$8,392
49	<i>Denver, CO</i>	<i>\$1,985</i>
50	Cheyenne, WY	\$1,956
51	Washington, DC	\$1,867
52	Boston, MA	\$1,499
53	Honolulu, HI	\$765

Highest and Lowest Commercial Property Taxes among Largest U.S. Cities  
(Lincoln Institute of Land Policy, June 2016)

Rank	\$1,000,000 Property	Tax
1	Detroit, MI	\$49,502
2	New York, NY	\$47,472
3	Chicago, IL	\$43,249
4	Minneapolis, MN	\$39,047
5	Milwaukee, WI	\$34,360
18	<i>Denver, CO</i>	<i>\$28,758</i>
46	Long Beach, CA	\$13,500
47	Las Vegas, NV	\$13,473
48	Raleigh, NC	\$12,472
49	Virginia Beach, VA	\$12,364
50	Seattle, Washington	\$10,508



# Impact Fees in Metro-Area Cities

Development impact fees are a common source of revenue for jurisdictions across metro Denver, funding public investments such as affordable housing, transportation, parks and public schools.

**Municipal Impact Fees\* in the Front Range**

City	Single Family/Duplex (Per unit)	Multifamily (Per unit)	Assisted Living Senior Housing (Per bed)	Non-Residential (Per Sq Ft)	Mixed-Use
ARVADA	\$1,390.40 - \$1,974.10	\$1,034.40	N/A	N/A	\$922.40
AURORA	\$977.25 - \$1,244.00	\$874.00	N/A	N/A	N/A
BOULDER	\$2,148.00 - \$6,630.00	\$2,563.00 - \$5,695.00	N/A	\$0.04 - \$412.20	N/A
BROOMFIELD	\$2,000.00	\$1,000.00	N/A	N/A	N/A
FT. COLLINS	\$7,136.00	\$28,260.00	N/A	\$6.31-\$13.05	N/A
LAKESWOOD	N/A	\$750.00	N/A	N/A	N/A
LITTLETON	\$3,762.00	N/A	N/A	\$1.81	N/A
LONGMONT	\$7,502.00	\$4,703.00	N/A	\$2.91-\$3.03	N/A
THORNTON	\$1.50/sq ft	N/A	N/A	\$3.00	N/A
WESTMINSTER	\$1,976.00 - \$2,730.00	\$1,346 + \$2,000/per acre	\$429.00	\$2,000/per acre	\$2,000/per acre
LOUISVILLE	\$5,726.00	\$3,149.00	N/A	\$0.50-\$0.70	N/A
LOVELAND	\$13,085.00	\$9,055.00	N/A	\$4.28 - \$8.07	N/A
WINDSOR	\$7,608.00	\$6,976.00	N/A	\$2.84-\$3.48	N/A

\*Represents total impact fees on development type.

# Next Steps

## Tentative Schedule

- July 13: Informational presentation to Council Safety and Well-Being (SWELL) Committee
- July 14: Final Stakeholder Committee meeting
- July 21: Public Meeting No. 2
- July 23: Cabinet in the Community
- Aug: Introduction of ordinance at SWELL Committee
- Aug: Mayor-Council meeting
- Aug: City Council meeting (1st reading)
- Aug: Council mtg (2nd reading)

- Educate CPD customers about new fee and process
- Include housing priorities in 2017 budget process
- Enhance OED staffing
- Create new processes for allocating funds effective 1/1/17
- Nominate and confirm new Advisory Body



## Additional Questions and Discussion

# APPENDIX

## Comparison of IHO Requirement vs. Residential Linkage Fee at \$2 per gross square foot

Neighborhood Scenario	Housing Requirement	5 Story Residential	12 Story Residential*	20 Story Residential*
		300 units 209,500 gsf  Onsite Requirement: 30 units	232 units 304,063 gsf  Onsite Requirement: 23 units	285 units 299,750 gsf  Onsite Requirement: 29 units
<b>LOW</b>	IHO – CIL	\$1,351,053	\$1,369,869	\$1,605,323
	Linkage	\$419,000	\$608,126	\$599,500
<b>MEDIUM</b>	IHO – CIL	\$2,702,100	\$2,739,751	\$3,210,668
	Linkage	\$419,000	\$608,126	\$599,500
<b>HIGH</b>	IHO – CIL	\$3,782,941	\$3,835,652	\$4,494,930
	Linkage	\$419,000	\$608,126	\$599,500



Dedicated 0.5 Mills, Maximize Assessment Years  
\$1.50 Commercial and Res Linkage Fee

## Denver Commercial Nexus Analysis — Legally Justified Fees

NEXUS STEP	OFFICE	HOTEL	RETAIL	WAREHOUSE	MANUFACTURING
SIZE OF PROTOTYPE	75,000 sf	66,700 sf	25,000 sf	250,000 sf	100,000 sf
AFFORDABILITY GAP PER GROSS SQUARE FOOT	<b>\$56.74</b>	<b>\$83.02</b>	<b>\$119.29</b>	<b>\$28.51</b>	<b>\$29.57</b>

## Denver Residential Nexus Analysis — Legally Justified Fees

NEXUS STEP	SINGLE FAMILY (owner)	TOWNHOMES (owner)	12 STORY RESIDENTIAL (owner)	5 STORY RESIDENTIAL (rental)	20 STORY RESIDENTIAL (rental)
AVERAGE UNIT SIZE, BUILDING SIZE	2,800 sf	2,000 sf, 10 units	975 sf, 233 units	747 sf, 300 units	810 sf, 285 units
AFFORDABILITY GAP PER GROSS SQUARE FOOT	\$9.60	\$15.45	\$20.20	\$23.66	\$21.37

# Boston, MA

## Commercial Linkage\*

- **Applicability:** Commercial developments over 100,000 square feet, collected on gross square footage of whole development (excluding parking)
- **Construction Type:** Collected on all new construction, extended/enlarged buildings, substantially rehabilitated buildings
- **Payment:** Phased - due in seven equal installments starting at building permit issuance
- **Inclusionary Policy:** Yes, 10% requirement on all rental and for-sale development
- **Outcomes:**
  - \$134,687,969 collected since program initiated in 1987
  - 10,217 income restricted units built over life of program

Development Type	Required Commercial Linkage Fee
Office	\$8.34 per square foot
Retail	\$8.34 per square foot
Hotel	\$8.34 per square foot
Institutions	\$8.34 per square foot



# Sacramento, CA

## Commercial/Residential Linkage

- **Applicability:** Gross square footage of all commercial and residential development (excluding parking)
- **Construction Type:** Collected on all new construction, addition to existing building, substantially rehabilitated building. Applies to mixed use projects with any combination of above.
- **Payment:** Lump sum at time of building permit
- **Inclusionary Policy:** No, only on large scale developments
- **Outcomes (Commercial):**
  - \$34,162,684 since 1989
  - 3,339 units built over life of program

(Residential) Development Type	Required Commercial/Residential Linkage Fee
Commercial – Office	\$1.84 per square foot
Commercial – Hotel	\$1.74 per square foot
Commercial – Research and Development	\$1.56 per square foot
Commercial – Manufacturing	\$1.15 per square foot
Commercial – Warehouse	\$0.50 per square foot
Residential – Single Family/Duplex	\$2.58 per square foot
Residential – Multi-Family	\$2.58 per square foot





# Berkeley, CA

## Commercial/Residential Linkage

- **Applicability:** Gross square footage of all commercial and residential development (excluding parking)
- **Construction Type:** Collected on all new construction, addition to existing building, substantially rehabilitated building. Applies to mixed use projects with any combination of above.
- **Payment:** Lump sum at time of building permit
- **Inclusionary Policy:** Yes, 20% requirement on for-sale development
- **Outcomes:**
  - More than 6,000 units produced through the City’s Affordable Housing Trust Fund since 1990

Development Type	Required Commercial/Residential Linkage Fee
Commercial – Office	\$4.50 per square foot
Commercial – Retail/Restaurant	\$4.50 per square foot
Commercial – Industrial/Manufacturing	\$2.25 per square foot
Commercial – Hotel/Lodging	\$4.50 per square foot
Commercial – Warehouse/Storage	\$2.25 per square foot
Commercial – Research and Development	\$2.25 per square foot
Residential – Market Rate Rental Unit	\$28,000 per unit



# Aspen, CO

## Commercial/Residential Linkage\*

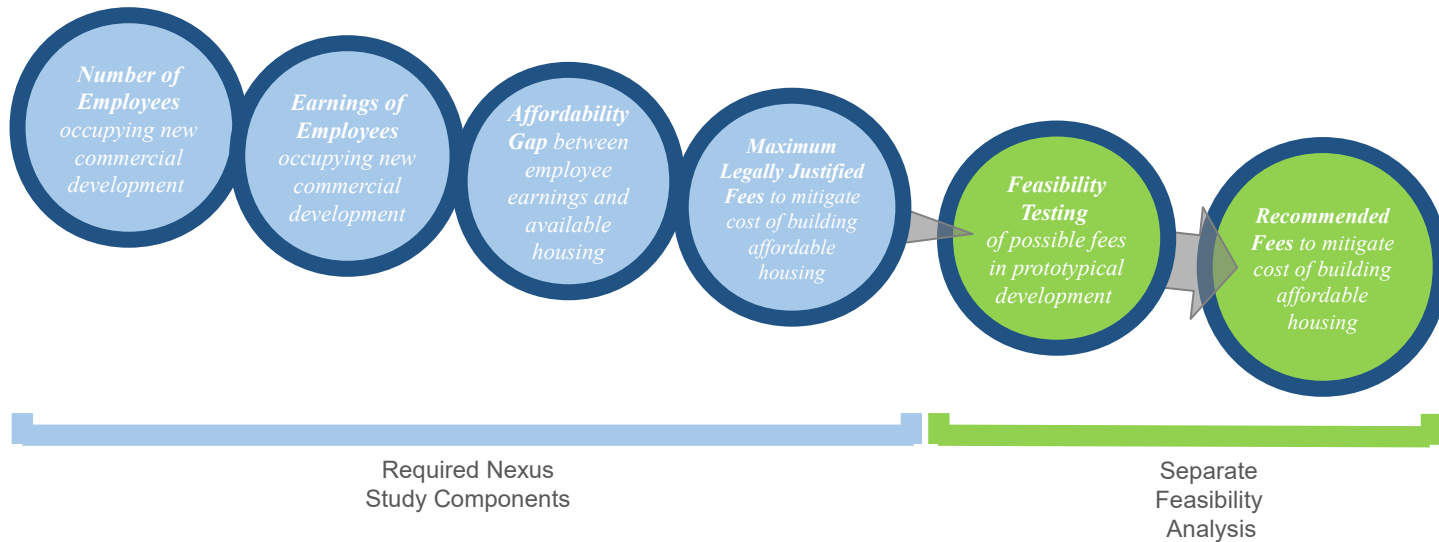
- **Applicability:** Gross square footage of commercial development above 1,000 square feet, net square footage of all residential development. Must mitigate for 60% of employees generated. Fees vary by development type and location, but up to around \$250K per employee mitigated.
- **Construction Type:** Collected on all new construction, demolition and replacement of existing buildings, additions to existing buildings, substantially rehabilitated buildings.
- **Payment:** Lump sum at time of building permit
- **Inclusionary Policy:** Blended
- **Outcomes:**
  - More than 2,800 units created by Aspen-Pitkin County Housing Authority since 2005

Development Type	Required Commercial/Residential Linkage Fee
Commercial - Commercial Zone Districts	4.7 employees per 1,000 sf of net leasable space
Commercial - Lodge Commercial Zone Districts	4.7 employees per 1,000 sf of net leasable space
Commercial - Ski Base Commercial Zone Districts	4.7 employees per 1,000 sf of net leasable space
Commercial - Mixed Use Commercial Zone Districts	3.6 employees per 1,000 sf of net leasable space
Commercial - Service/Industrial Zone Districts	3.9 employees per 1,000 sf of net leasable space
Residential - Studio/One Bedroom	1.25 employees
Residential - Two Bedroom	2.25 employees
Residential - Three Bedroom	3.00 employees
Residential - Each Additional	.5 employees

\*Aspen also receives local housing funds through a sales tax and a real estate transfer tax



# Commercial Linkage Fee Analysis



# Residential Linkage Fee

