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Blueprint for Opportunity

No. 13

Implementation Memo

TO: Governor-elect Ritter
Members of the 66th Colorado General Assembly

FROM: The Bell Policy Center – Ashlee Elliott, Public Policy Fellow

DATE: December 4, 2006

**RE: Implementing Bell's Blueprint recommendation No. 13
to use a housing trust fund to increase affordable housing.**

In the 2006 Blueprint for Opportunity, the Bell Policy Center recommends:

Use a housing trust fund to increase affordable housing.

Colorado should work with federal, local and private partners, and it should greatly increase its own investment so Colorado's housing trust fund can provide a level of assistance that will truly make a difference for low and moderate-income families seeking affordable housing. Ultimately, the state government and its partners should collectively provide at least \$25 million annually to the fund. (See *Blueprint*, page 21)

This memorandum briefly discusses the issues surrounding this proposal, describes steps for implementing it, outlines some of the factors to consider and lists sources for additional information and resources.

If you are interested in pursuing this issue further, we are prepared to work with you. Please contact the author of this memo directly at (303) 297-0456 or fellow1@thebell.org, or Rich Jones, director of policy and research, at (303) 297-0456 or jones@thebell.org.

Overview of the issue

Affordable housing is no longer a problem just for Colorado's low-income residents. It's now affecting Colorado's working and middle class residents. In 2001, 38,700 families earning \$34,620 to \$46,160 per year that were interested in buying a home could not find one in their price range.¹ Purchasing a home in some Colorado communities is out of reach for many school teachers and police officers. Home ownership in Colorado among the working class fell from 60 percent in 1978 to 51 percent in 2003.² In addition to being unable to purchase a home, the Colorado Blue Ribbon Panel on Housing reported that 134,359 households in Colorado are rent-burdened, paying more than 30 percent of their income on rent.³

This lack of affordable housing has a ripple effect on all Coloradans. Studies show that when families move frequently to find affordable housing, children often perform poorly in school and are more likely to drop out.⁴ "Drive 'til you qualify" means low-wage workers are more likely to commute long distances, resulting in family stress as well as traffic congestion and air pollution. High housing costs drive up Colorado's cost-of-living and make it less attractive for economic development.

Colorado is one of 12 states that does not have a publicly supported housing investment fund. (The term "trust" has been dropped because such a fund is not truly a "trust fund," and the word "trust" has caused some confusion about the true nature and function of these funds.) Creating and fully funding such a fund would provide



incentives to build more affordable housing and to maintain and rehabilitate existing affordable housing.

According to the Colorado Housing Trust Fund Impacts Study, putting \$26.5 million each year into a housing fund will stimulate substantial economic growth.⁵ Annual investments in the fund are projected to create 3,400 new housing opportunities and 3,200 new jobs. In addition, formerly rent-burdened families would have on average an extra \$2,460 to spend on goods and services and the resulting economic activity would produce over \$26 million in tax revenues.⁶

Investment in affordable housing would trigger significant economic opportunities as well as social and community benefits for Coloradans. Approximately 3,330 very-low, low- and moderate-income households will have access to decent and affordable housing, creating stable living situations.⁷ Families will be able to make easier transitions from welfare to work and build wealth through home equity.

Implementation steps

The legislature must take three actions to create and fund a housing investment fund.

- **The legislature should create a housing investment fund to promote affordable housing.** HB05-1331, which was passed by the legislature but vetoed by the governor, could serve as a good model.
- **The legislature should identify one or more ongoing funding sources for the housing investment fund.** Other states have used numerous mechanisms to fund their state level housing investment funds, including interest on state funds, interest on real estate escrow accounts, grants and donations, document recording fees, bond proceeds, interest on security deposits and unclaimed property funds.⁸ It is important we commit state money to the housing inventory fund.

In 2003, Colorado's Housing Investment Fund Coalition suggested a small increase in the real estate documentary fee for real estate transactions paid to the county clerk

and recorders office.⁹ Currently, 1 cent out of every \$100 in value is paid to the clerk's office. Under the coalition's proposal, this fee would increase by 4 cents for residential transactions and by 1 cent for commercial transactions, with the additional revenue going to the Housing Investment Fund. For example, a \$200,000 residential transaction would produce \$100 in fees: \$80 would go to the housing investment fund and \$20 would go to the county clerk and recorders office. Certain funding mechanisms may require a vote of the people.

- **The legislature should increase state appropriations to the Division of Housing for affordable housing and rebuild its current appropriation of \$1.4 million back up to the \$4.6 million it received in 2002.** Keeping and increasing this line item gives the Division of Housing flexibility to help meet Colorado's affordable housing needs by funding projects that may not meet the criteria for federal funding. For example, federal housing funds can only be used once on an affordable housing project. If a project needs an infusion of money to be completed, the state can step in to supplement the federal funds already received.¹⁰ The state affordable housing funding is discretionary and allows the Division of Housing to address unanticipated housing needs.

Factors to consider

In the 2005 legislative session, HB05-1331 would have created the Colorado Home Investment Fund.¹¹ It passed the legislature, but was vetoed by Gov. Owens, who expressed these concerns about the bill:¹²

- It did not clearly define what constitutes a household.
- If the housing board size is to be increased, justifications for this need to be included and the fiscal implications on the Department of Local Affairs taken into account.
- The bill should have included guidelines for how fund dollars will be used or allocated for pre-development purposes.

The Colorado Blue Ribbon Panel on Housing has extended its Housing Finance Task Force to determine a reliable and continuous funding source for a housing investment fund.¹³

Information and resources

Colorado Housing Investment Fund Coalition.

☞ www.colohousingfund.org

Colorado Housing Trust Fund Impacts Study: Final Report, Economic & Planning Systems, Inc., 2002.

☞ <http://www.coloradohousingtrustfund.org/facts/Economic%20Impacts%209-24-02.pdf>

Colorado Blue Ribbon Panel on Housing: Final Report, March, 2006.

☞ www.ahsfc.org/media/docs/BlueRib_Final_Housing.pdf

Colorado Division of Housing.

☞ www.dola.state.co.us/doh/Index.htm

Housing Colorado, Fact Book, 2007.

☞ www.housingcolorado.org/images/uploads/452c59bc52df3.pdf

End notes

¹ Final Report: Colorado Housing Trust Fund Impacts Study. Report prepared by Economic and Planning Systems, Inc., for Colorado Housing Fund Coalition. (2002).

² Housing Colorado, Fact Book, 2007.

³ Colorado Blue Ribbon Panel on Housing: Final Report, March, 2006.

⁴ Final Report: Colorado Housing Trust Fund Impacts Study.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Personal communication with Britta Fischer, spokesperson for Colorado Housing Investment Fund Coalition, Oct. 20, 2006. For more information on financing, contact her at (720) 255-9838.

¹⁰ Personal communication with Justin Marks, policy analyst, Colorado Division of Housing.

¹¹ HB05-1331

☞ http://www.leg.state.co.us/clics2005a/csl.nsf/fsbillcont3/71A1A2DFF00BD5B087256FA5000129E4?open&file=1331_enr.pdf

¹² Press release, Gov. Bill Owens, June 1, 2005.

☞ <http://www.colorado.gov/governor/press/june05/hb1331.html>

¹³ Personal communication with Britta Fischer (end note 9).