HOUSING, NEIGHBORHOOD SERVICES & REDEVELOPMENT POLICY COMMITTEE

April 6, 2023

Members Present: *Council Member, Chair Crystal Murillo*
Council Member, Juan Marcano

Others Present: Mattye Sisk, Adrian Botham, Tim Joyce, David Rosen, Andrea Amonick, Odie Anya, Andrea Wright, Angela Garcia, Daniel Brotzman, Scott Campbell, Sarah Carroll, Joseph DeHerrera, Emily Fuller, Emma Knight, Daniel Brotzman, Omar Lyle, Alicia Montoya, Nora Lake Brown, Mindy Parnes, Jessica Prosser, Jeannine Rustad, Saadia Aurakzai-Foster, Roberto Venegas, Sandra Youngman,

WELCOME AND INTRODUCTIONS

Council Member Murillo welcomes everyone to the meeting.

MINUTES

March 2, 2023 minutes will be put on next month's agenda to review and gain approval.

ANNOUNCEMENTS

Odie Anaya was introduced as the new Homeless Outreach Supervisor. Andrea Wright was introduced as the new Youth Violence Prevention Program Coordinator.

NEW ITEMS

4.a Affordable Housing Funding Recommendations- David Paul Rosen &Associates

Summary of Issue and Discussion

Alicia Montoya, the Housing and Community Development Manager, presents an update on the Housing Strategy. She mentions the Housing Needs Assessment is being done with David Paul Rosen & Associates (DRA). The Housing Strategy was adopted in December 2020 with 12 goals to implement, including creating revenue or financial resources to bring and create more housing units in Aurora. A deficit of 7,500 units was identified, which is now between 7,500 and 8,500 units due to the pandemic and continuous growth of the population. Grant 1271 was applied for through the Department Of Local Affairs (DOLA), and the funds are being utilized to hire DRA with a 25% match to come up with innovative housing strategies to create affordable housing.

Nora Lake-Brown and David Rosen from DRA continue the presentation. Nora states DRA was retained by the city to conduct a scope developed in consultation with city staff, including:

- A brief update on housing needs, market conditions, and the affordability of market rate housing in Aurora.
- A detailed economic look at the cost to develop new housing in Aurora and comparing that with the rents and sales prices that low and moderate income households can afford to pay.
- A review of how the city has been using its existing housing revenues to produce or preserve affordable housing in Aurora.

- An examination of ongoing and new leveraged sources of financing from the state of Colorado and other sources that can be used to make Aurora's financial resources go further.

The main focus is on identifying and evaluating potential new local funding sources and regulatory approaches to increase affordable housing production in the city.

The housing affordability gap analysis compares the cost of developing market rate housing with affordable rents and sales prices in Aurora. The gap represents the value of incentives or subsidies that are required to make different types of housing affordable to Aurora households. There are gaps for home ownership in Aurora, starting at 100% of area median income, which is about $112,000 for a family of four, and below for single family detached and single family attached homes, and 80% of area median income and below for townhome and stacked flat condominiums.

For rental housing, there are gaps for market rate rental at about 80% of the Area of Mutual Interest (AMI), which is $89,000 for a family of four. For apartments developed with surface parking, because of the higher cost, the gap started 100% AMI and below for structured parking. The market will not produce housing for Aurora households below these income levels without assistance due to the costs of developing housing.

The housing strategy in 2020 found a need for 7,500 rental units for households earning less than $25,000 per year. Housing & Urban Development (HUD) Comprehensive Housing Affordability Strategy (CHAS) data also shows that there are 12,000 renter households at 50% of AMI and below – that's approximately $58,000 for a family of four that pay more than 50% of their income on rent. Those are considered severely cost burdened by HUD.

Aurora has been successful in leveraging its limited existing financial resources to maximize the production of affordable rental units. The greatest leverage is provided for affordable rental housing serving households from 30% to 80% of area median income through the use of low income housing tax credits and tax exempt bonds.

There are a number of financing sources that are typically required to make a private activity bond and 4% tax credit project feasible. There are several different projects with and without state credits, which are another leverage source, which help close the gap for family housing. There is also permanent supportive housing, which has even greater subsidy needs due to the lower income targeting and higher service requirements. Aurora has been successful in leveraging its funds so that its city subsidy in these projects ranges from $9,000 to $13,000 for the tax credit family units and about $28,000 for permanent supportive housing units. The additional amount of general fund revenues and $3 million in American Rescue Plan Act (ARPA) funds over the last several years has enabled Aurora to assist a pipeline of about 1,900 units over the 2021 to 2023 three-year period. There are another 1,000 units in the pipeline, including projects that have not received all the funding they need.

In terms of going forward and the city's production capacity with its existing resources, the city gets about $1.1 million in HOME funds each year, which has an $15,000 average subsidy, assists about 70 tax credits or can assist about 70 tax credit units per year. The city also gets the private activity bond cap. This year will be $23.5 million and that will assist about 150 tax credit units per year at $150,000 per year average bond amount. In terms of a one-time resource, there are three sites considered suitable for low income rental housing, comprising 10.43 acres altogether, which could accommodate about 626 multifamily rental units at a 60 unit per acre density.

In addition to the private activity bonds that the city gets, Colorado Housing and Finance Authority (CHFA) has an additional bond cap that is very competitive. The Aurora projects have been successful in receiving allocations from CHFA as well as from the city. The state tax credit helps provide that subsidy to fill the gap, which was extended in 2018 for five more years through 2024 at $30 million per year. That will end after 2024 unless extended further. The Colorado Department of Housing has HOME funds and other sources of subsidy, and recent Aurora projects have been successful in receiving an average of about $20,000 per unit from those sources. The statewide Affordable Housing Fund, created by Initiative 108, will provide approximately $270 million in revenue for affordable housing for the state in FY 2023/2024, and that can be used to assist rental housing up to 60% of area median income and owner housing up to 100% of area median income. The source is flexible and can be used for land banking, equity investments, concessionary debt, and affordable home ownership. It could help the city with affordable home ownership and preservation of existing rental units as well as new rental construction. It requires the city to commit to increasing affordable housing units by 3% per year.

DRA is examining other revenue sources and techniques that the city could employ to increase its affordable housing production over those levels allowed by its existing resources. The DRA is currently evaluating sources, including the Incentive Zoning Ordinance which provides voluntary incentives for affordable units that developers provide. Another source is inclusionary housing which requires developers to build affordable units or to provide other satisfactory alternative compliance options. DRA is also considering fee waivers, as water and sewer tap fees are high in Aurora making it beneficial to provide waivers for those fees. However, these waivers do require a source of revenue in order to repay the fees or to pay the fees to the water and sewer jurisdictions. DRA are looking at residential and nonresidential linkage fees. These are development impact fees that are levied on residential or nonresidential development based on a nexus analysis that examines the cost of providing affordable housing for lower income employees that are generated. The demand of which is generated by new residential and nonresidential development. There are a range of funding sources the city could use that require voter approval. Some techniques commonly used for affordable housing are real estate transfer tax, generally at 1% of the transfer value, an excise tax on construction materials, a dedicated sales tax, a portion of which would be dedicated to affordable housing, and a dedicated property tax.

Over the next month, DRA will be completing an evaluation of these potential sources and coming up with recommendations for those that best fit Aurora. DRA will include projections of the potential revenue or housing production from each of these potential sources or techniques.

Other recommendations DRA is developing relate to the preservation of existing rental housing. There are a number of particular tax credit projects, both acquisition rehab and new construction rental projects, that are coming upon 30 years, the end of their compliance period. If in for-profit ownership, they may be at risk of conversion to market rate, something the city should examine. The city has done partnerships with Elevation Community Land Trust for acquisition of single family homes, which is worth considering continuing as a partnership. Reducing entitlement and permanent processing times and making them more predictable would help both market rate and affordable housing deals. Some cities offer fast track processing for affordable housing projects, which is an option for Aurora. Internal and external accessory dwelling units can provide small increments in terms of development of new housing units in the community. Another possibility is income restrictions for some communities to make them affordable. DRA would look at the unrelated parties rule and how that affects housing. In terms of affordability, DRA wants to make sure the city gets the maximum term of affordability when it puts in subsidies into affordable housing projects. Similarly, DRA recommends ground leasing of city-owned sites for rental development to provide the city maximum control over those sites for the long term. Construction defects regulation, which certainly had been a barrier to the construction of new condominium units, and then a property tax exemption for affordable housing.

Alicia asks Nora to return to the chart with all the different options to make sure Council Members know all the different options being considered. Jessica Prosser, Director of Housing and Community Services, mentions the slide is hard to read in detail, but the charts summarize all the information. She adds that they will provide this chart along with more details. She mentions that there is proposed legislation happening around affordable housing, with some things in the study being directly or tangentially related to that, which interrupts the timeline of the project. She recommends waiting until June to see how that legislation plays out before bringing anything to Study Session. CM Murillo supports this recommendation and requests the item be brought back to the May HORNS meeting.

David mentions Aurora has done a good job of leveraging State resources for its affordable housing production, but there is a gap with leveraging outside resources and the remaining unmet need in the city. One way to think about these policy options would be to understand quantitatively how far State resources can go, in particular, whether it's the Housing Trust Fund or CHFA or the Colorado Department of Housing Funds. One area where Aurora has suffered in State resources is a higher value, low income housing tax credit Federal program administered by CHFA called the 9% Low Income Housing Tax Credit Program. Aurora has failed to achieve awards of any such 9% credits over the last five years. This is largely because the allocation formulas for that competitive program disadvantage the city. The 9% credit estimates the cost of development in Aurora for housing products today as well as the income levels that the market is currently serving and those income levels below what the new production capacity could be from each program. These policy choices should be considered ahead of the coming June Study Session. He says it is worth weighing the number of units that could be produced under each option and the impacts on various stakeholders in the community to help guide decision making.

CM Marcano asks where the figures come from for the housing affordability slide, saying that market rate owner housing is produced at cost affordable to folks at 100% of the AMI, and then lists $112,000 for a family of four. That is not the median income in Aurora for a family. They are about 10% lower than Denver. Nora responds that they are from the HUD income limits for the Denver-Aurora-Lakewood Metropolitan Statistical Area (MSA). CM Marcano mentions the average was closer to $111,000, but the median is a lower figure. Nora has expressed frustration about using the MSA in the past since they are on the lower end of that statistic. Therefore what is considered 100% AMI through MSA is not accurate for Aurora residents. David agrees that this is a frustration for jurisdictions like Aurora, which are situated in larger MSAs. He mentions this is important for policymaking considerations to know income targeting of revenue sources and land use regulations. The city does not have control over that regulation, but to the extent that it generates its own revenue locally and or imposes land use rules, such as inclusionary housing, on development within the city, Aurora is able to further calibrate those numbers down to better focus on needs. The other thing to keep in mind is where the market is producing units that are affordable both in the owner and the renter frameworks and how far below that to target scarce and local resources to serve those most in need.

CM Marcano expresses concern they are not utilizing good data, saying 80% of AMI for Aurora is actually $15,000 less what was stated in the presentation. Nora explains that for the tax credit program, the rents and incomes are driven off of the MSA data. Actual median household income for Denver-Aurora-Lakewood was $117,800 in 2022. But looking at the income limits for very low income and low income do not track exactly percentage wise. That is where the $111,000 for a moderate income household comes from. There are some differences in going off the median income or going off the HUD income limits, but these are for the MSA and not for Aurora. When considering the tax credit program and state funding programs, they are going to be based on the MSA. CM Marcano repeats that this means Aurora is at a disadvantage, which Nora confirms.

David explains that the mechanism to deeply target beyond the rules used by CHFA, DOH, HUD, and the IRS is to contribute either land or cash subsidy to the transaction. If in the capital stack of affordable rental projects, the city is contributing land, whether it's Colfax or other priority sites that are city owned that have been identified by staff, or by creating a local housing trust fund or another source of revenue, then the city can impose lower limits and still gain the leverage of bonds, tax credits, and state housing trust fund money. The city is more deeply targeting the income. If the city is not contributing anything to the development in the form of land, money, or fee waivers, it could condition a fee waiver by more deeply targeted income rules. A good way to focus tough decision making is on what the city is buying with that capital and land.

CM Marcano and CM Murillo voice their excitement for the work being done on this project and the recommendations to come. CM Marcano asks about construction defects reform mentioning recommendations of construction defects reform in consumer protections for those who purchase properties shoddily built is labeled a high impact recommendation. Nora agrees it is high impact as it would have a significant effect on new condominium construction, stacked flat condominium types, which tend to be less costly to build and more affordable. She doesn't know if DRA is in a position to determine a legislative fix. CM Marcano asks why this would be listed if there was no solution to offer, mentioning there were changes made to make it harder to have fast litigation efforts for very minor things that could be easily fixed, which made no sense to her with her background in architecture, engineering, and construction. This issue keeps coming up and is the reason Aurora does not have condos. CM Murillo expresses support for this point, stating concerns around consumer protection and not wanting to put people in a bad position to expedite development of condos. She asks if it is in the scope of the contract with DRA to contemplate specific points of contention and aggregate what other states have done in best practices to provide a pro and con approach. David responds that DRA has worked with the State and the City and County of Denver for decades on this issue, and he believes DRA could highlight policy tradeoffs between litigation protection and consumer protection. However, he and DRA do not engage in engineering assessments so they could not provide guidance on Building Code and litigation. He believes the 9% low income housing tax program is an area where Aurora can showcase their disadvantage over the years in State's Administration and request reform, including looking for a qualified allocation plan or the Qualified Allocation Plans regulations that CHFA uses. David continues that even after maximizing the leverage of the 9%, the city will still fall short of meeting its needs.

Outcome – Bring this item back to May HORNS meeting.

MISCELLANEOUS MATTERS FOR CONSIDERATION
None.

Updates from Community Members
None.

Next meeting: May 4, 2023
Meeting Adjourned: April 6, 2023 10:45 AM

APPROVED: Crystal Murillo 05/15/2023
Crystal Murillo (May 15, 2023 18:46 MDT)
Committee Chair, Crystal Murillo