DENVER
HOUSING STABILITY

Affordable Housing Fund (DRMC Chapter 27 Article V) Policy Review

December 2021

What is the Affordable Housing Fund (AHF)?

Denver's Affordable Housing Fund (AHF) represents the first dedicated source of local funding to support affordable housing development, preservation, and programs. Prior to creation of the AHF, Denver primarily invested federal funds toward housing, though the city started allocating one-time funds through annual budget appropriations including a $3 million contribution in 2014, a $3 million contribution in 2015, and an $8 million contribution in 2016. Created in 2016 and doubled in 2018, the Affordable Housing Fund is resourced through property tax, a per square foot fee on new development called a "linkage fee," sales tax on recreational marijuana, and the General Fund. It is administered by Denver's Department of Housing Stability (HOST) and provides approximately $30 million annually to help address Denver's affordable housing needs.

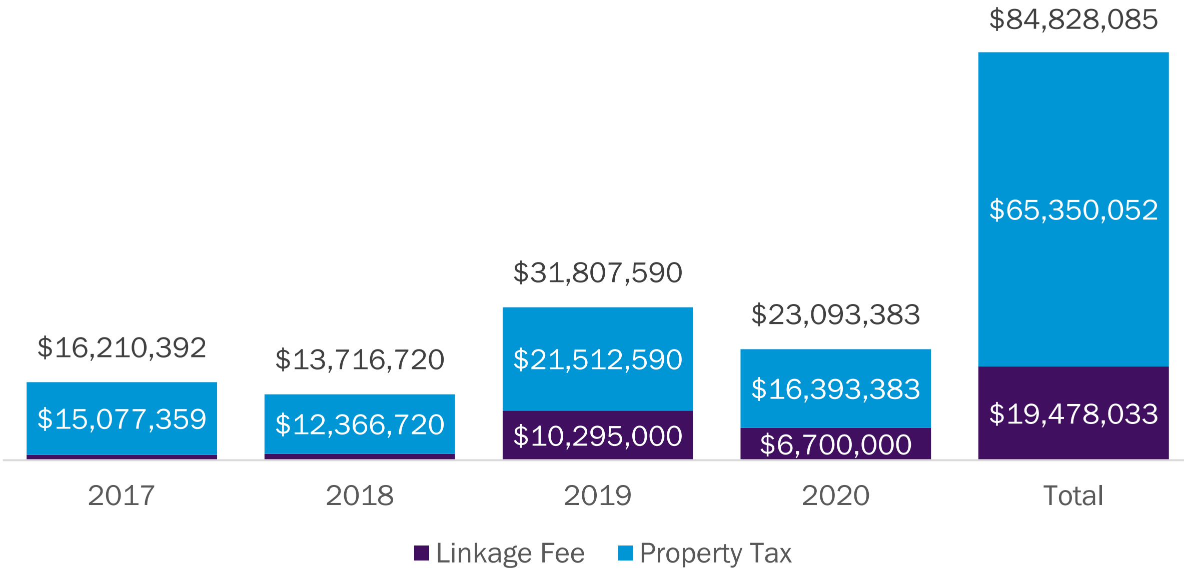
Eligible uses include the production and preservation of rental, homeownership, and supportive housing as well as programmatic supports such as homebuyer assistance and other services. Prior planning efforts, captured in Housing an Inclusive Denver, found that the creation and preservation of affordable housing was the most critical use for this resource, though some level of programmatic supports have been supported by the fund each year since adoption. This plan also prioritized the funds toward households with the greatest needs, focusing 20-25% of the funds on deeply affordable rental (at or below 30% of the area median income) and 20-25% of the funds on homelessness.

How much funding has it created?

Since 2017, $84,828,085 million has been allocated to the Housing Division and the Department of Housing Stability (HOST) for the AHF.[1] In 2018, the annual allocation for AHF was doubled. Since 2017, $65,350,052 has been invested in affordable housing unit creation and preservation, $19,478,003 on programs.

[1] Prior to the creation of HOST, the Affordable Housing Fund was managed by the Housing Division within Denver Economic Development and Opportunity.

Figure 1. Affordable Housing Fund Allocation by Source, 2017 – 2020



Note: Amount for linkage fee was $1,133,033 in 2017 and $1,350,000 in 2018. The Property Tax portion includes General Fund and recreational marijuana use sales tax in years when those funds were allocated.

What outcomes has it achieved?

From 2018 to 2020, $122,393,656 dollars of the HOST budget, which includes the AHF, were allocated across the priority areas identified by Housing an Inclusive Denver. After this three-year period, allocations were on track with priorities for homeownership and 31-80% AMI Rental. A larger than anticipated portion of funding was allocated to homelessness, and a smaller proportion than planned was allocated to rental units affordable to households at or below 30% of AMI.

Figure 2. 5-year Allocation Goals and Actuals, 2018-2020

Priority Area	5-Year Allocation Goal	2018-2020 Funding Allocation Actuals
Homeownership	20-30% of funds	$26,024,968 (21%)
31-80% AMI Rental	20-30% of funds	$30,894,218 (25%)
At or below 30% AMI Rental	20-25% of funds	$15,013,057 (12%)
Homelessness	20-25% of funds	$50,461,413 (41%)

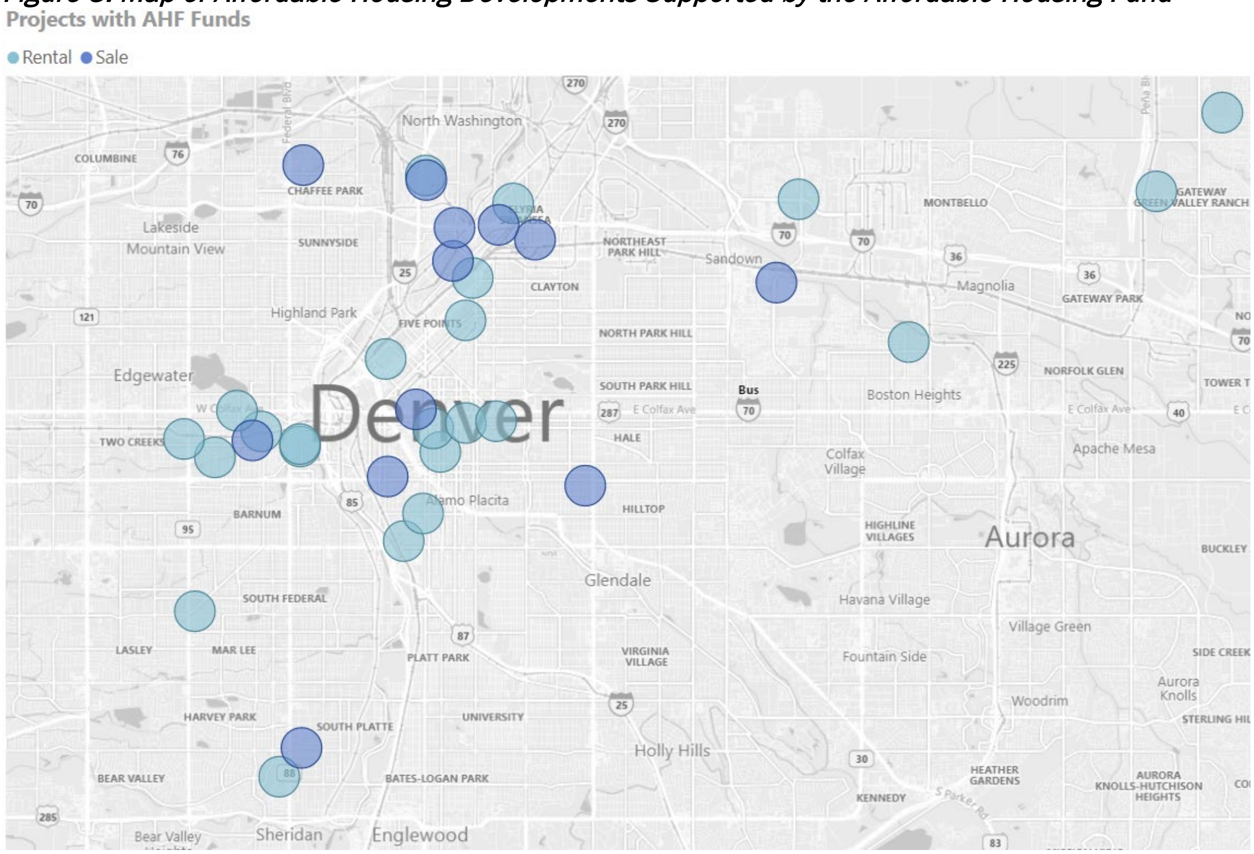
AHF dollars specifically have helped support a range of housing development, preservation, and programmatic investments. In line with planning priorities to focus these funds on housing stock, 76% of the funding was spent on projects, and 24% was spent on programs. These investments have positively impacted our community in many ways.

First, the Affordable Housing Fund has helped expand Denver's supply of affordable housing. The fund has supported 2,939 homes in communities across the City (see Figure 3), including 2,508 newly created homes and 431 preserved affordable homes.[2] One example project is the purchase of the land and provision of services for the Brothers Redevelopment Valor on the Fax project at 7900 East Colfax, serving 72 formerly homeless households.[3] Another recent project is St. Francis Center's

[2] Homes in this context is used to describe both rental and for sale homes.
[3] Valor on the Fax also received funding from Denver's allocation of the HOME Investment Partnerships Program from the U.S. Department of Housing and Urban Development to for development costs.

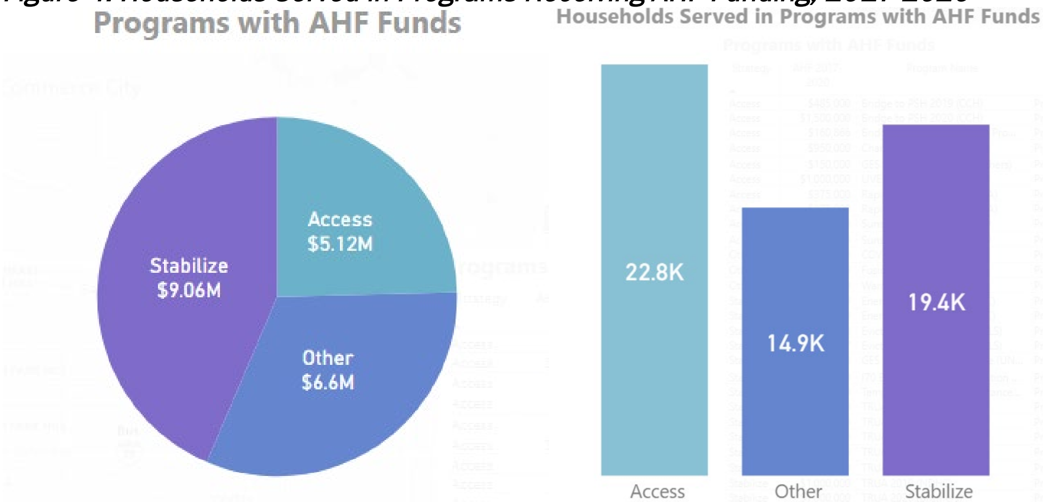
Warren Residences, the renovation of a church to provide housing to 48 formerly homeless individuals. The AHF supported the purchase of the land (DHA Delivers for Denver), renovation for creation of units, and the provision of services. A third project is Fusion Studios by Colorado Coalition for the Homeless (CCH), the renovation of a 139-unit hotel to provide housing to formerly homeless individuals. Property tax revenue was used for both acquisition (DHA Delivers for Denver) and supportive services.

Figure 3. Map of Affordable Housing Developments Supported by the Affordable Housing Fund



The AHF has also supported services to 6,305 households through programmatic investments that help residents maintain stable housing, including temporary rent and utility assistance (TRUA), eviction legal assistance, supportive services in supportive housing, community navigation, home sharing, and others.

Figure 4. Households Served in Programs Receiving AHF Funding, 2017-2020



The TRUA program has supported 3,229 households across Denver since its inception in late 2017 through 2020. TRUA was launched in November 2017 to provide short-term rent and utility assistance to households who were facing an unexpected financial hardship. While TRUA can serve households with incomes at or below 80% of the Area Median Income (AMI), most of the households served are below 30% AMI and live in neighborhoods vulnerable to involuntary displacement. TRUA also serves a higher proportion of Black, Indigenous, and People of Color (BIPOC) households compared to Denver's population. In 2020, HOST worked with UC Berkeley's People Lab and Denver's Office of Social Equity and Innovation on a targeted mailer campaign to test different outreach messaging and found a significant increase in applications from households who received postcards with destigmatized language. Furthermore, the program has worked closely with community partners to reduce barriers in accessing the program including increasing language access and removing burdensome documentation requirements. The program was able to readily expand in response to the COVID-19 crisis when requests for assistance went up by 270%.

The fund has also helped to expand the supply of supportive housing in Denver. It created a new funding stream for supportive services, which are often difficult to finance. For example, this funding helped to support the City's first 15-year supportive services contract at Fusion Studios, the aforementioned conversion of a 139-unit hotel to a supportive housing project. HOST provided $600,000 for services over 15 years ($287 per unit per year). This contract set the baseline for the City's subsequent funding of long-term supportive services contracts funded by general fund, including Warren Residences ($1M), Charity's House ($950,000), and Legacy Lofts ($750,000). The ability to make long-term investments in supportive services at supportive housing projects ensures that 393 formerly homeless households have the support they need to remain housed.

To further bolster the overall housing supply and supportive housing in particular, the City worked with DHA to establish the DHA Delivers for Denver (D3) intergovernmental agreement in 2018. The agreement committed the property tax portion of the AHF to develop 2,500 affordable housing units. Of those, 1,300 units are to be developed under DHA's pipeline and 1,200 are to be developed by partners under land lease with DHA land ownership to ensure perpetual affordability. Of those 1,200 units, 50% must be affordable at 30% AMI, targeted for supportive housing units. So far, funds have been used to acquire 10 sites located throughout the City. At those sites, 187 units are operational, 98 are under construction, 110 are in the financial development stage. The acquisition pipeline is set to meet the 1,200 goal and exceed the required number of units affordable at 30% AMI. On the DHA pipeline, the 1,300 units are spread over 11 sites in the Sun Valley and Westridge neighborhoods. Four of these sites are complete, three are under construction, and four are under design. The investment in D3 has accelerated Denver's pipeline of affordable housing, especially supportive housing serving residents experiencing homelessness.

Component Sources of the AHF

The Affordable Housing Fund was first available in 2017. It was originally funded by two sources: (1) the linkage fee, a fee associated with new development to help mitigate new residential and non-residential development's impact on the city's affordable housing needs, and (2) property tax, a more broadly applicable tax that shared the commitment to affordable housing across residents and business owners in Denver. Together the two sources were expected to generate approximately a total of about $15 million annually on average. Eligible uses for each are specified in the Denver Revised Municipal Code and summarized in figure 5 below. Because the linkage fee would apply to new projects, the revenue generated from that source was expected to grow over time. To achieve the goal of $15M annually, the City contributed General Fund resources in the early years of the fund to help fill the gap between initial linkage fee collection and the goal of $15M available annually.

To double the fund to approximately $30 million annually in 2018, the City began contributing revenue from a dedicated portion of recreational marijuana use tax and increased the City's contribution of General Fund. Eligible uses for those funds are the same as those for the property tax which was renamed to encompass other local revenue as it is comprised of four component sources. Funds are appropriated annually to the AHF through the City's budget process.

The original ordinance establishing the property tax and linkage fee included a sunset provision such that the ordinance would be repealed on December 31, 2026. When the affordable housing fund was expanded in 2018, the sunset provision was removed from the legislation to support ongoing investment toward the city's affordable housing needs.

Figure 5. Eligible Uses for Component Sources of the Affordable Housing Fund

Component Sources	Eligible Uses
Property Tax and Other Local Revenue Fund DRMC 27-150(c)	• Development and preservation of rental up to 80% AMI • Development and preservation of for-sale up to 100% AMI • Homebuyer assistance up to 120% AMI (incl. DPA & mortgage assistance) • PSH including services (no more than 10% of annual revenue) • Programs for "low-income at-risk" individuals in danger of losing housing, to mitigate displacement, for emergency repairs, or other programs • 8% for admin
Linkage Fee Revenue DRMC 27-150(b)	• "Increase supply" of rental and for-sale up to 80% AMI • Renter assistance programs up to 80% AMI • Homebuyer assistance programs up to 80% AMI (incl. DPA & mortgage assistance)

Linkage Fee

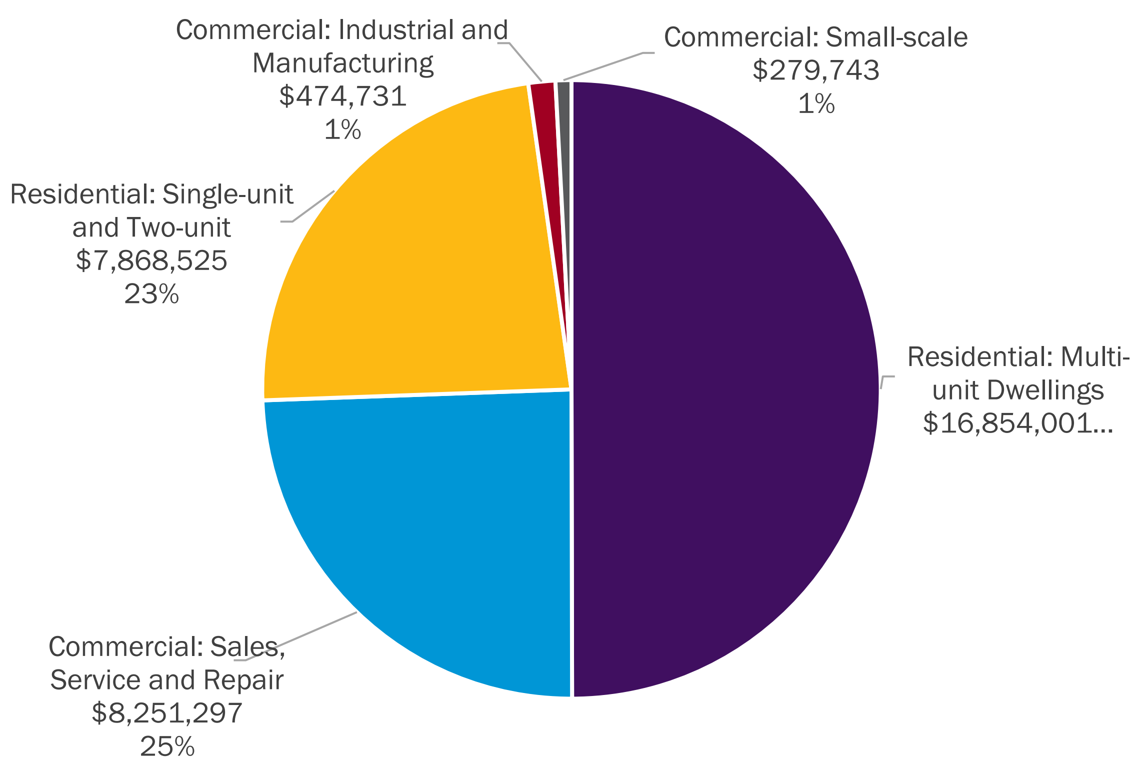
Effective in 2017, the City's Linkage Fee is a per-square foot fee assessed at time of building permit, for all new developments. The fees vary depending on use-type and are increased annually based on inflation as shown in Figure 6. The fees are designed to help offset the housing demand induced by new job creation that results from development. The funds must be utilized by HOST to generate new affordable housing and cannot be spent on services or housing preservation.

Figure 6. Linkage Fee Schedule, October 2021

Project Type	Fee, per square foot
Multi-unit dwellings designed and regulated under the International Building Code	$1.64
Single-unit, two-unit or multi-unit dwellings designed and regulated under the International Residential Code, or any primary residential use other than multi-unit dwellings regulated under the International Building Code	$0.66
Commercial sales, services, and repair	$1.86
Civic, public, or institutional	$1.86
Industrial, manufacturing and wholesale	$0.44
Agricultural	$0.44

As of October 19, 2021, the Linkage Fee has generated $33,728,298 in funding toward the AHF. As shown in Figure 7, half of that amount was generated by multifamily residential developments. After that, the largest contributors were commercial development (25%) and single- and two-unit residential development (23%). Industrial and small-scale commercial developments each generated about 1% of Linkage Fee collections.

Figure 7. *Linkage Fee Collections by Development Type through October 19, 2021.*



The Linkage Fee Rules & Regulations provide several exceptions to the payment of Linkage Fees, including projects with a submitted site development plan prior to December 31, 2016, projects already subject to an affordable housing plan or preexisting contractual agreement, projects with an affordable housing obligation from zoning, subsidized or otherwise restricted affordable housing developments, Accessory Dwelling Units or additions under 400 square feet, among other exceptions. Please see the Linkage Fee website for more detail.

Total exceptions to the Linkage Fee, as of October 19, 2021, were $51,868,338 with the largest exception reason (over 40%) coming from projects with site plans submitted prior to 2017. The next largest category (about 18%) were excepted because of an affordable housing plan or other contractual agreement in place for the development.

In lieu of paying the Linkage Fee, multifamily and mixed-use developments have the option of instead building units on-site through a Build Alternative Plan (BAP). A very small minority of developments have chosen to pursue a BAP, with the vast majority of those concentrated in the 38th & Blake Station Area Overlay, where density bonuses are available for projects incorporating affordable housing units on-site.

Figure 8. BAP Unit Production through October 2021

Location	Number of Projects	Number of Affordable Units Produced
38th & Blake Station Area Overlay	8	109
Other	2	7

Property Tax and Other Local Revenue Fund

Property tax was one of the two original sources of revenue for the Affordable Housing Fund. Together with the linkage fee, these two sources were expected to generate approximately $150 million over a ten-year period. The property tax rate was originally set at 0.5 mills to reach the target amount of funding alongside linkage fee collection. As property values increased, the rate has floated to balance the city's overall property tax impact on residents and businesses while ensuring stable funding for affordable housing. The property tax mill rate is 0.416 in 2021. With the creation of the D3 agreement, the property tax portion of the AHF is provided to DHA to support that initiative.

Policy Review

The City has achieved crucial successes and learned important lessons, particularly regarding the linkage fee, in the five years since the creation of the Affordable Housing Fund.

Successes

As reported above, the Affordable Housing Fund helped create and preserve thousands of affordable homes for Denver residents and served thousands of households with programs to support their housing stability. In addition to these notable impacts, the planning for the use of the AHF, *Housing an Inclusive Denver*, set the direction to prioritize resources toward those with the greatest needs. This includes those at the lowest income levels and residents experiencing homelessness through the creation of supportive housing, including funding for services, and the D3 agreement to expedite that pipeline. This was the first time that the City's housing planning drove resource allocation toward areas of greatest need. That direction set the stage for the Department of Housing Stability (HOST), and that legacy continues in HOST's 5-Year Strategic Plan for 2022-2026.

Re-examining the Linkage Fee through Expanding Housing Affordability

The Linkage Fee has been in effect since January 1, 2017 and has served as a crucial funding source for the development of new income-restricted for-sale and rental units throughout the city. After assessing the first five years of implementation of the Linkage Fee program, the City has identified potential improvements to make the program even more effective. Through the Expanding Housing Affordability project, and the associated Feasibility Analysis completed by a third-party consultant, staff in HOST and CPD are proposing a number of updates to the Linkage Fee, which are summarized below:

- Implementing a Mandatory Housing requirement such that all multi-unit residential developments of 8 units or more will be required to include a percentage of income-restricted units within the development. The Linkage Fee would no longer apply to these developments.
    - Applicants will also have the option to pay a fee-in-lieu or negotiate an alternative agreement with HOST, but these options will both be structured to promote the inclusion of units in most new multifamily developments.

- Increasing the Linkage Fees for all small-scale residential and non-residential developments, informed by Feasibility Analysis findings.
    - Proposed linkage fees, while higher, are still below what was found to be feasible and in line with what other jurisdictions, both in Colorado and nationwide, are charging.
- Adding in geographic variation for the Commercial, Sales, Services, and Repair use category for high-cost markets (those in the highest quartile of land costs and achieved rents).
    - The Feasibility Analysis found that developments in these markets can support slightly higher fees than those in the balance of the city.

- Adding a two-tiered fee for small-scale residential (single-unit, two-unit, and multi-unit under 8 units) such that smaller, more attainable housing units, defined as those with less than 1,400 square feet per unit, will be charged a lower linkage fee than larger homes.

- Adding additional threshold requirements for an Implementation Effective Date to be processed under current Linkage Fees, including a timeline to receive final Site Plan approvals by a date certain.
    - In the initial implementation of Linkage Fee, applicants needed only to submit a Concept Site Development Plan to be "grandfathered" and not pay the Linkage Fee. There was no requirement that those projects continue to progress toward Site Plan approval, which resulted in a large number of exemptions and lost Fee revenues for the City.

If adopted, these new policies are anticipated to be far more successful in creating affordable units in mixed-income developments throughout the City, which is an outcome that has been very limited under the Linkage Fee ordinance alone over the last five years.

Other Lessons Learned

Other lessons have been learned in addition to those related to the linkage fee.

- **Cap on services for supportive housing:** The ordinance limited the amount that could be spent on services associated with supportive housing to 10%. While this funding allowed the

City to launch supportive services gap financing, HOST learned that need for these dollars outpaced the amount available within the cap. Fortunately, the Homelessness Resolution Fund, established in November 2020 through ballot measure 2B, assisted with accelerating the supportive housing pipeline. The Homelessness Resolution Fund is expected to provide about $40 million annually to serve residents experiencing or exiting homelessness and can be used for services within supportive housing. With this new resource, HOST is better able to meet the needs of the supportive housing pipeline.

- **Limited funding available for programmatic investments:** Through the Housing an Inclusive Denver planning process, the AHF was prioritized for development and preservation of affordable homes. Less emphasis was placed on programmatic investments. While programmatic dollars have been used to establish critical services like TRUA, available funding is limited, and those programs have not been able to be scaled to the meet community needs. During the COVID-19 pandemic and as part of federal and City economic recovery plans, federal dollars have been available for rental assistance. However, these resources are time limited. To better meet the needs of Denver residents and support residents' choice in when they move or remain in their homes and neighborhoods, HOST will be exploring other revenue sources for housing stability investments.

- **Challenges to expanding supply of deeply affordable units:** While *Housing an Inclusive Denver* intended for 20-25% of funding to go toward rental units affordable to households at or below 30% of the area median income, a smaller portion of funding has been allocated in this way. These units are more expensive and, therefore, require a larger financial commitment the City and other funding partners. Additionally, deeply affordable units often require ongoing rental assistance. While DHA and Colorado Division of Housing provide rental assistance vouchers to some units, these programs are not scaled to meet the need.

- **Limited pipeline for family units:** Developing affordable units for families that have more bedrooms has been a consistent challenge. Most households in Denver include 2 or fewer members, incentivizing the market to focus on smaller units. However, this leaves a critical need for families unmet. Further, units with 2 or more bedrooms are dramatically more expensive than one bedrooms or studios, and there has been a tradeoff between 30% AMI units and larger bedroom sizes. HOST has demonstrated success in achieving larger bedroom sizes at AHF-funded projects at the Rose on Colfax, Denver Housing Authority D3 projects in Sun Valley, Pancratia Hall, and Clara Brown Commons. Consistent with HOST's five-year strategic plan, the Housing Opportunity team is exploring options to incentivize the development of family-sized units.

- **Scarcer development options in areas of opportunity:** While HOST has sought to create affordable housing in high opportunity neighborhoods, achieving this goal has been impacted by several factors. For example, higher costs of land make it more difficult for developers to charge more affordable rents or sell at affordable prices, without other financing. Single family zoning precludes denser and more cost-effective development options. Low-Income Housing Tax Credit regulations around qualified census tracts may also preclude funding projects in these areas. Community resistance to affordable housing in their neighborhoods also creates barriers to projects' ability to move forward. Expanding Housing Affordability offers a solution to integrate affordable housing citywide. Other innovative approaches may be needed to further expand supply.

- **Challenges with preservation:** The AHF has provided funding to help preserve both homeownership and rental affordable housing in Denver. However, HOST's ability to realize preservation opportunities has been challenged by a number of factors, including the competitive real estate market. The preservation ordinance establishes timeframes in which steps must be taken in a preservation deal but have been difficult to execute. Additionally, more partnerships are needed to meet the timing and financial requirements of acquisition. Preservation deals also often lack the other sources of leverage that are common in development deals, where HOST funding makes up 5 to 6% of the overall project costs. HOST will be working to update the Preservation Ordinance to align this work with long-term affordability goals and priorities for preservation as part of its Five-Year Strategic Plan.

- **Benefits of coordinating with Denver Economic Development and Opportunity (DEDO) funding to expand amenities:** Through the AHF, HOST has been able to invest in properties jointly with DEDO to fund both housing and community development at the same location. These projects have been able to meet a number of community needs simultaneously. For example, at the Rose on Colfax (8315 East Colfax) DEDO is funding some of the build out of the Early Childhood Education center. Further, DEDO funded the construction of the new market in Sun Valley, co-located with a D3 funded housing project. There are opportunities in the pipeline, including at 4995 Washington (CDBG-funded acquisition) and future D3 sites to seek DEDO funding of community-serving amenities to enhance the impact to community

- **Housing Advisory Council shift to Housing Stability Strategic Advisors:** As part of updates to the ordinance to create the Department of Housing Stability, HOST updated its approach to its publicly appointed advisory board. The Housing Advisory Committee (HAC) was 23-member body that advised the Mayor on issues of housing and the investment of the AHF. With the creation of HOST, that group was disbanded and replaced by the Housing Stability Strategic Advisors (HSSA). The group is comprised of 11-members, 5 appointed by City Council and 6 appointed by the Mayor. Members have lived or professional expertise in affordable housing, involuntary displacement and gentrification, and homelessness. The HSSA advises the Executive Director of HOST.

Conclusion

HOST is grateful to the community for the investment of nearly $85 million of local resources toward meeting one of our community's most pressing challenges: affordable housing. The Affordable Housing Fund has achieved important successes for our community, and the work continues. Paths forward to address the challenges and lessons learned in this work are described in our Five-Year Strategic Plan and will be further specified in annual action plans.