

Report of the Development Incentives Task Force on the Creation Of a Tiered Development Review Fee Structure for Affordable and Attainable Residential Housing Projects

At the direction of City of Colorado Springs, Chief of Staff, Jeff Greene, a task force convened in May, 2019, to explore the creation of a tiered development review fee structure that would encourage increased production of affordable and attainable housing. Members of the task force included staff from the City Planning & Community Development Department, Colorado Springs Utilities, and the Pikes Peak Regional Building Department. Key stakeholders from the development community included representatives from the Housing & Building Association and Nor'Wood Development. Elected officials included City Council Members Tom Strand and David Geislinger, and Board of County Commissioners member Cami Bremer.

The task force met over the course of three months. Discussion topics included:

- A comparison of household incomes to housing costs in the Colorado Springs metropolitan statistical area;
- The availability of housing supply for a range of household incomes;
- The impact of transportation costs on lower-income household budgets;
- The purpose and outcomes of current incentive programs such as the fee deferral program offered by Colorado Springs Utilities;
- Challenges in the residential home-buying market as a result of escalating home prices and tight mortgage underwriting standards;
- Typical monthly utility costs for various housing types and the impact of utility costs on housing affordability;
- An overview of incentives programs in other metropolitan areas such as Phoenix, Arizona, Austin, Texas, Denver, Boulder, and Longmont, Colorado;
- Overall development costs with a focus on multi-family construction, the percentage of costs represented by development fees, and the role that incentives can play in reaching target affordability goals in the housing market.

Staff from the City of Colorado Springs, Community Development Division, provided data collected from the American Community Survey (ACS), the Colorado Housing & Finance Authority (CHFA), and the Department of Housing & Urban Development (HUD) that indicates a widening gap between housing costs and household income across the Colorado Springs metropolitan area. Increases in single-family home prices combined with steady increases in apartment rents are putting much of the regional housing stock out of reach for lower-income households. With approximately 1/3 of the workforce earning wages of \$14-\$18 hourly,

modestly priced apartments are in short supply and making the transition from renting to homeownership is becoming more difficult.

The data indicates gaps in housing supply for all households earning less than the area median income, as well as increased competition for housing among low wage-earning households in the retail, hospitality, and education sectors. At-risk populations including extremely low-income seniors, the disabled, and individuals and families struggling to exit homelessness also face unique challenges in the housing market. The task force identified the following housing types as a priority need in the region:

- A. Permanent Supportive Housing (PSH), a specialized type of rental housing with rents in the \$400-\$600 per month range;
- B. Work force rental housing with 2BR and 3BR apartments renting for \$800-\$1000 per month or less;
- C. Starter homes at a price point below \$250,000 for moderate-income households seeking opportunities for homeownership.

In order to encourage increased production of housing stock in these price ranges, the task force recommends the following approach:

- Modify the CSU Affordable Housing Development Fee Deferral program to a fee reduction program offering prorated fees tied to the percentage of units meeting the price points outlined above;
- Apply the guidelines for the modified CSU fee schedule to a broader range of project development fees;
- Prioritize affordable housing projects in the development review process in order to reduce the administrative burden associated with securing project approvals;
- Encourage a wider range of housing types by modernizing the land development code and resolving differences between competing land use regulations and construction standards.

In so far as possible, the task force wishes to encourage development of both affordable and attainable housing to address the needs of lower-income households in the region. Affordable housing in this context is defined as housing that does not require more than 30% of household income and is subject to affordability restrictions in the form of long-term rent limits or, in the case of for-sale housing, re-sale to a subsequent low- to moderate-income household. Long-term rent limits and re-sale provisions ensure the continued availability of affordable rental and for-sale units in the community. Attainable housing, by contrast, may meet the target price points outlined above, but would not be subject to long-term rent restrictions or re-sale provisions. The task force anticipates that further discussion will be needed to clarify the

differences between affordable and attainable housing and the ways that each housing type can be encouraged to meet the needs of lower-income households. Staff from the Community Development Division will provide additional information in “HomeCOS: Housing Our Future,” the City’s comprehensive housing plan that will be released later this year.

Throughout the discussions, the task force kept in mind the importance of a tiered fee structure to the desired outcome of increasing production of affordable and attainable housing in the region. Reducing overall development costs by creating and implementing a tiered fee structure is likely to result in increased private sector participation in developments that would not otherwise attract investment. Increased private sector participation demonstrates a clear local commitment to meeting the housing needs of lower-income households and is critical to the success of applications for Low-Income Housing Tax Credit (LIHTC) financing. The LIHTC program is the largest source of financing for affordable housing in Colorado, however, the application process is highly competitive. Each year the number of applications exceeds available resources by approximately three to one. Creation of a tiered fee structure is likely to result in an increased number of awards of LIHTC financing in the region. The economic impacts and long-term benefits of this approach will be evaluated during the implementation phase of the task force recommendations.

The task force recognizes that implementation of a tiered development review fee structure will require action by authorized governing bodies, including Colorado Springs City Council, Colorado Springs Utilities Board, and Pikes Peak Regional Building Commission. Implementation may require changes to City/Utilities codes, changes to the IGA governing the Pikes Peak Regional Building Department, as well as various policy changes to allow fee waivers and reductions. A summary of next steps includes:

1. **Fall, 2019:** Modification of CSU Affordable Housing Development Fee Deferral Program
 - a. Completion of a white paper by CSU staff outlining the modification of the fee deferral program to a fee reduction program;
 - b. Analysis by the Office of the City Auditor of the estimated impacts to CSU revenue;
 - c. Introduction of the modified program to the Utilities Board at a regularly scheduled meeting.
2. **Fall, 2019:** Consideration of the modified fee program for reduction of other development charges including:
 - a. Land Use Review & Engineering
 - b. Development Review Enterprise
 - c. Park Land Dedication Ordinance

- d. Drainage
 - e. Pikes Peak Regional Building Department
 - f. Analysis by the Office of the City Auditor of the estimated impacts from changes to each of the above fees.
3. **Fall, 2019/Winter, 2020:** Creation of a working group made up of representatives from CSU, City Departments, and external stakeholders to address conflicting land development requirements that are affecting affordability.

The task force does not anticipate meeting again. Going forward, City and CSU staff will collaborate on the data analysis and introduction of the modified fee program to the Utilities Board. Using the modified fee program as a template, Planning & Community Development staff will reach out to the Pikes Peak Regional Building Department and internal City Departments to present the modified program and discuss implementation of a tiered fee structure for the remaining development charges. The task force appreciates this opportunity to provide recommendations that will address the need for additional affordable and attainable housing in the region.