

Proposition 123: Dedicate Revenue for Affordable Housing Programs

Placed on the ballot by citizen initiative • Passes with a majority vote

1 **Proposition 123 proposes amending the Colorado statutes to:**

- 2 • set aside a portion of annual state income tax revenue for affordable housing
3 programs;
4 • exempt that money from the state’s revenue limit, thereby reducing the
5 amount of money collected above the limit that is returned to taxpayers; and
6 • establish eligible uses for this money.

7 **What Your Vote Means**

YES 8 A “yes” vote on
9 Proposition 123 sets aside
10 money for new affordable housing
11 programs and exempts this money from
12 the state’s revenue limit.

NO A “no” vote on Proposition 123
means that state revenue will
continue to be spent on priorities as
determined by the state legislature or
returned to taxpayers, as under current
law.

13

Summary and Analysis for Proposition 123

1 **What does the measure do?**

2 The measure sets aside a portion of annual income tax revenue from the state
3 General Fund, up to 0.1 percent of taxable income each year, for affordable
4 housing programs administered by the state Office of Economic Development
5 and International Trade (OEDIT) and the Colorado Department of Local Affairs
6 (DOLA). This amount, which the measure exempts from the state’s constitutional
7 revenue limit, is estimated to be \$145 million in state budget year 2022-23 and
8 \$290 million in state budget year 2023-24 and beyond. The measure specifies
9 the uses for the dedicated funds, including:

- 10 • grants and loans to local governments and nonprofit organizations to
11 acquire and preserve land for affordable housing development;
- 12 • assistance to develop affordable, multi-family rental housing;
- 13 • equity investments in affordable housing projects, including a program to
14 share home equity with tenants;
- 15 • home ownership programs and down payment assistance for first-time
16 homebuyers;
- 17 • a program addressing homelessness through rental assistance and
18 eviction defense; and
- 19 • grants to increase the capacity of local government planning
20 departments.

21 The measure requires that this funding add to, and not replace, existing state
22 funds spent on affordable housing.

23 **What is affordable housing?**

24 The measure defines affordable housing based on two factors: household
25 income and housing costs. For certain programs, a household’s income is
26 compared to the area median income, or the midpoint of what households in a
27 specific area earn. As defined in the measure, affordable housing means
28 housing for renters making up to 60 percent of the area median income, or
29 homeowners making up to 100 percent of the area median income. Some of the
30 new programs may benefit households at higher income levels. Table 1 shows
31 examples of area median income for several areas in Colorado.

1 **Table 1**
 2 **Examples of Area Median Income in Colorado for a Four-Person Household**

Area (County or Metro Area)	Median Income	60% of Median
Boulder County	\$125,400	\$75,200
Denver-Aurora-Lakewood	\$117,800	\$70,700
Mesa County	\$83,500	\$50,100
Pueblo County	\$68,600	\$41,200
Alamosa County	\$53,400	\$32,000

Source: FY 2022 Rounded MFI Estimate, U.S. Department of Housing and Urban Development.

3 For a housing unit or project to qualify as affordable housing, housing costs must
 4 not exceed 30 percent of the household’s income. Housing costs typically
 5 consist of rent or mortgage payments, but may include other costs such as
 6 utilities.

7 **What is the state currently doing to support affordable housing?**

8 The state partners with local communities to increase and preserve Colorado’s
 9 affordable housing stock, manage rental assistance vouchers, and address
 10 homelessness. The DOLA serves households with varied income levels and
 11 circumstances with grants and loans to provide developers, community
 12 organizations, public housing authorities, and local governments with money to
 13 acquire, modernize, and build housing and to assist buyers with down payments
 14 for homes. The current budget for the department’s affordable housing initiatives
 15 is about \$200 million, about half of which is from state sources, with the rest
 16 coming from federal sources.

17 Since 2021, the state has allocated over \$1.2 billion from the federal American
 18 Rescue Plan Act (ARPA) of 2021 for affordable housing and services that
 19 address housing insecurity, lack of affordable and workforce housing, or
 20 homelessness. These are one-time funds that will be spent over the next several
 21 years specifically on:

- 22 • emergency rental assistance;
- 23 • homeowner mortgage assistance;
- 24 • tax credits for developers;
- 25 • housing and infrastructure; and
- 26 • other housing solutions, such as manufactured homes.

27 **How do the programs created by Proposition 123 work?**

28 The measure creates the following programs with a focus on higher density,
 29 environmentally sustainable projects serving households with a range of income
 30 levels. For projects to qualify for funding, the local governments where the
 31 projects are located must commit to increasing affordable housing by 3 percent
 32 each year and create a fast-track approval process for affordable housing
 33 projects. If a local government chooses not to meet these requirements, or if it

1 fails to achieve its affordable housing goals, projects in that municipality or
 2 county will be temporarily ineligible for funding from these programs.

3 Table 2 describes each proposed program, including the state agency that
 4 oversees it and the amount of money the program will receive based on the
 5 estimated \$290 million set aside in state budget year 2023-24. Note that
 6 programs overseen by OEDIT are run by a third-party administrator. A range of
 7 funding is available for these programs, as shown in the table. Some of the
 8 money for each program will be used for administrative expenses.

9 **Table 2**

10 **Programs and Estimated Funding Created by Proposition 123**

Land Banking	OEDIT	\$26.1 million - \$43.5 million
Provides grants to local governments and loans to nonprofit organizations with a history of providing affordable housing. The funds help buy land for affordable housing development.		
Affordable Housing Equity	OEDIT	\$69.6 million - \$121.8 million
Invests in new and existing low- and middle-income, multi-family rental units. Provides renters living in these units for at least a year with a share of the money made on the development, called a tenant equity vehicle. This money may be used for the renters' future purchase of a home, such as a down payment.		
Concessionary Debt	OEDIT	\$26.1 million - \$60.9 million
Finances new and existing low- and middle-income multi-family rental units, projects that qualify for federal low-income housing tax credits, and modular and factory-built housing manufacturers.		
Affordable Home Ownership	DOLA	up to \$58.0 million
Offers down payment assistance to first-time homebuyers. Makes grants or loans to nonprofits and community land trusts to support home ownership, and to mobile home owners' associations to help purchase mobile home parks.		
Homelessness	DOLA	up to \$52.2 million
Provides rental assistance, housing vouchers, and eviction defense to people experiencing, or at risk of experiencing, homelessness. Makes grants or loans to support new and existing supportive housing for people experiencing homelessness.		
Local Government Capacity Building	DOLA	up to \$5.8 million
Provides grants to local governments to support their planning departments in processing land use, permit, and zoning applications for housing projects.		

11 *OEDIT is the Office for Economic Development and International Trade.*
 12 *DOLA is the Department of Local Affairs.*

13 **How does the measure affect TABOR refunds?**

14 The income tax revenue that is set aside under the measure is considered a
 15 voter-approved revenue change and is therefore not subject to the state's
 16 constitutional revenue limit, also called the Taxpayer's Bill of Rights (TABOR)
 17 limit. TABOR limits state government revenue to an amount adjusted annually
 18 for inflation and population growth. Revenue collected under the limit may be
 19 spent or saved. Revenue collected over the limit must be returned to taxpayers
 20 unless voters approve a measure allowing the government to keep it.

1 In years where state revenue exceeds the TABOR limit, the measure reduces the
2 money returned to taxpayers by the amount of income tax revenue that that the
3 measure allows the state to keep. In years where state revenue is below the
4 TABOR limit, the measure does not impact TABOR refunds, but may reduce the
5 amount of money available for the rest of the state budget. In this case, the
6 measure allows the state legislature to reduce part of the new funding to the
7 affordable housing programs to balance the state budget. The state currently
8 expects to return money collected above the limit through at least the 2023-24
9 budget year.

For information on those issue committees that support or oppose the measures on the ballot at the November 8, 2022, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

10 **Arguments For Proposition 123**

- 11 1) The measure creates a source of funds to tackle housing issues without
12 raising tax rates, and gives local communities the flexibility to respond to their
13 specific needs. The state and local governments are not doing enough to
14 keep Colorado affordable.
- 15 2) Colorado's housing prices make it too hard for many households to afford
16 rent or to buy their own home. The new programs help Coloradans
17 participate in the housing market now and in the future. Creating more
18 homes will allow residents and essential workers to remain in their
19 communities.

20 **Arguments Against Proposition 123**

- 21 1) Many of these programs do not address the underlying causes of high
22 housing costs. Pumping money into the market may distort it further, and the
23 real beneficiaries will be landlords and housing developers. This is neither
24 the role of government nor the best use of public resources.
- 25 2) The measure is unnecessary and will reduce Coloradans' future TABOR
26 refunds. The state already provides resources to support affordable housing,
27 including over \$1 billion in federal stimulus funds allocated in recent years.
28 This measure diverts money away from the state's budgeting process—
29 money that goes toward priorities as determined by the legislature through
30 deliberation and consultation with stakeholders and constituents—and
31 instead sets aside money in a fund with fixed uses.

32 **Fiscal Impact for Proposition 123**

33 Proposition 123 increases state government spending by transferring money
34 from the state General Fund to pay for affordable housing programs. While the
35 measure does not change state revenue, it reduces the amount returned to

1 taxpayers in years when state revenue is over the TABOR revenue limit. These
2 impacts are discussed below. The state budget year runs from July 1 through
3 June 30.

4 **Transfers of state funds.** Proposition 123 transfers an estimated \$145 million
5 in the 2022-23 budget year and \$290 million in the 2023-24 budget year and later
6 years. These amounts are divided between programs in the Office of Economic
7 Development and International Trade, which receives 60 percent, and the
8 Department of Local Affairs, which receives 40 percent.

9 **State spending.** The money transferred under Proposition 123 is required to be
10 spent for affordable housing programs and for administration of those programs.
11 Programs are funded the year after the transfer occurs. For example, the money
12 transferred in the 2022-23 budget year pays for programs in the 2023-24 budget
13 year, and so on.

- 14 • **Office of Economic Development and International Trade.** Sixty
15 percent of total transfers are paid to the Affordable Housing Financing
16 Fund, estimated at \$87 million in the 2022-23 budget year and \$174
17 million in the 2023-24 budget year. Money in the fund is spent for the
18 land banking program, the affordable housing equity program, and the
19 concessionary debt program. A third party administrator is allowed to
20 keep 2 percent of funds for its administrative costs.
- 21 • **Department of Local Affairs.** Forty percent of total transfers are paid to
22 the Affordable Housing Support Fund, estimated at \$58 million in the
23 2022-23 budget year and \$116 million in the 2023-24 budget year.
24 Money in the fund is spent for the affordable homeownership program,
25 the homelessness program, and the local capacity development program.
26 The department is allowed to keep 5 percent of funds for its
27 administrative costs.

28 **Taxpayer impacts.** Proposition 123 will decrease the amount to be returned to
29 taxpayers for years when state revenue is over the TABOR revenue limit. Any
30 money left over at the end of the fiscal year remains in the fund rather than be
31 returned to taxpayers. Based on forecasts from June 2022, Proposition 123 is
32 expected to decrease the amount returned by \$145 million in tax year 2023 and
33 \$290 million in tax year 2024. The impacts on taxpayers depend on how this
34 money would be returned. Based on the number of income tax returns for tax
35 year 2018, Proposition 123 is estimated to decrease the amount returned by \$43
36 per taxpayer in tax year 2023 and \$86 per taxpayer in tax year 2024.