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Fiscal Note

Drafting Number: LLS 22-0809 **Date:** March 21, 2022
Prime Sponsors: Rep. Mullica; Lynch **Bill Status:** House Business
 Sen. Bridges; Woodward **Fiscal Analyst:** Elizabeth Ramey | 303-866-3522
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Bill Topic: THE INNOVATIVE HOUSING INCENTIVE PROGRAM

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input checked="" type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> Statutory Public Entity

This bill creates a program within the Office of Economic Development and International Trade to provide grants or loans to new or existing businesses that develop new types of innovative housing. It requires a one-time fund transfer and will increase state expenditures until funds transferred to support the program are used.

Appropriation Summary: No appropriation is required. See State Appropriations Section

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 22-1282

		Budget Year FY 2022-23	Out Year FY 2023-24	Out Year FY 2024-25
Revenue				
Expenditures²	Innovative Housing Incentive CF	\$13,350,800	\$13,324,600	\$13,324,600
	Centrally Appropriated	\$19,504	\$19,504	\$19,504
	Total Expenditures	\$13,350,800	\$13,324,600	\$13,324,600
	Total FTE	1.0 FTE	1.0 FTE	1.0 FTE
Transfers	Cash Funds ¹	(\$40,000,000)	-	-
	Innovative Housing Incentive CF	\$40,000,000	-	-
	Net Transfer	\$0	-	-
Other Budget Impacts				
		-	-	-

¹ The fiscal note assumes that funding will be transferred from the Affordable Housing and Home Ownership Cash Fund. This fund consists of federal American Rescue Plan (ARPA) Act funds.

² The Innovative Housing Incentive Cash Fund is continuously appropriated to OEDIT. The timing of expenditures may differ from this estimate, which assumes that transferred funds will be spent evenly over three years.

Summary of Legislation

This bill creates a program in the Office of Economic Development to provide grants or loans to new or existing businesses with fewer than 500 employees that develop new housing through modular housing designs, prefabricated, panelized construction, 3D printed designs, kit homes installed on foundations, or manufactured housing. The office will develop the rules and regulations for the program in consultation with affected parties and may contract with one or more third-party agencies to administer the program.

The grants are limited to 20 percent of capital expenditures and must be at least \$50,000, except in coal transition communities, where grants must be at least \$75,000. These grants may be used for working capital operating expenses, which may include payroll, inventory, or materials. Grants may also be awarded as a performance-based or per-unit incentive with OEDIT designing and implementing the rules for the incentive program.

The bill outlines possible eligibility rules for awarding loans to privately-owned housing factories, including the percentage of housing to be developed in the state, willingness to dedicate a portion of its production for purchase by a non-profit or public agency at a reduced price, and others. OEDIT may contract with a third-party entity to administer the loan program, including the Colorado Housing and Finance Authority.

The bill creates the Innovative Housing Incentive Program Fund and transfers \$40 million to the fund on July 1, 2022. Money in the fund is continuously appropriated to OEDIT, and up to 2 percent of the fund may be spent on administration costs. Lastly, the bill outlines reporting requirements that require participating businesses to report certain information to OEDIT by September 1 of each year, and OEDIT must prepare a report by November 1 of each year for the General Assembly.

State Transfer

In FY 2022-23, the bill transfers \$40 million to the new Innovative Housing Incentive Program Cash Fund. The source of the funds is not specified in the bill. It is assumed that funding will be transferred from the Affordable Housing and Home Ownership Cash Fund. The fiscal note will be updated if a different fund source is identified.

State Revenue

The bill potentially increases state revenue to the new Innovative Housing Incentive Program Cash Fund from gifts, grants, or donations; however, no sources have been identified. Gifts, grants, and donations are exempt from TABOR revenue limits.

State Expenditures

The bill increases state expenditures by \$40.0 million in OEDIT, paid from the continuously appropriated Innovative Housing Incentive Program Cash Fund. While the bill does not specify a deadline by which program funds must be spent, for informational purposes, the fiscal note assumes that money transferred to the fund will be evenly spent over a three-year period from FY 2022-23 to FY 2024-25. Expenditures are shown in Table 2 and detailed below.

**Table 2
 Expenditures Under HB 22-1282**

Cost Components	FY 2022-23	FY 2023-24	FY 2024-25
OEDIT			
Personal Services	\$105,653	\$105,653	\$105,653
Operating Expenses	\$1,350	\$1,350	\$1,350
Capital Outlay Costs	\$6,200	-	-
Accounting and Procurement	\$17,800	\$17,800	\$17,800
Travel	\$6,000	\$6,000	\$6,000
CHFA Contract and Loan Management	\$75,000	\$75,000	\$75,000
Salesforce Development	\$20,000	-	-
Housing Grants / Loans	\$13,099,293	\$13,099,293	\$13,099,293
Centrally Appropriated Costs ¹	\$19,504	\$19,504	\$19,504
Total	\$13,350,800	\$13,324,600	\$13,324,600
Total FTE	1.0 FTE	1.0 FTE	1.0 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

²

Innovative housing incentive grants and loans. After accounting for administrative expenses, about \$39.3 million will be available to provide grants and loans under the new program. Assuming spending is disbursed evenly over a three-year period, about \$13.1 million in grants and loans will be issued each year. The timing of grants and loans may vary.

OEDIT administration. OEDIT will have various costs for staff to oversee the program. These costs are listed in Table 2 and described below.

- *Staff.* OEDIT will require 1.0 FTE for a program manager to oversee the program, contract with CHFA, and report to the General Assembly, among other duties. Personal services, operating and capital expenses for this staff are listed in Table 2.
- *Accounting and procurement.* OEDIT will have costs to maintain and update its software and procurement processes on a yearly basis in order to track and evaluate program spending. The fiscal note estimates a cost of \$17,800 per year to cover these expenses.
- *Travel.* The program manager for OEDIT will be expected to recruit new businesses to the program and is estimated to have approximately \$6,000 in travel expenses each year.

- *CHFA contract and loan management.* The fiscal note estimates that approximately \$75,000 annually will go towards CHFA's administration costs.
- *Salesforce Development.* The office will utilize an in-house salesforce platform to manage and oversee the grant and loan program. These costs are estimated at \$20,000 in the first year only.
- *Centrally appropriated costs.* Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills rather than in this bill. These costs, including employee insurance and supplemental employee retirement payments, are shown in Table 2.

Department of Local Affairs. DOLA is responsible for regulating many housing entities that would benefit from the new grant and loan program. To the extent that the bill spurs activity among home builders and manufacturers regulated by DOLA, workload will increase to oversee and review the projects' design plans, construction, and compliance with applicable codes. The fiscal note assumes that this work does not require additional appropriations. However, should the additional housing units generated by the bill exceed DOLA's capacity, additional resources will be requested through the annual budget process.

Statutory Public Entity

It is assumed that CHFA, a statutorily created public entity, will be contracted by OEDIT to manage the Innovative Housing Incentive Program grants and loans. Any administrative costs incurred by CHFA will be addressed in the contracting process with OEDIT.

Effective Date

The bill takes effect upon the signature of the Governor or upon becoming law without his signature.

State Appropriations

The Innovative Housing Incentive Program Cash Fund is continuously appropriated to OEDIT and thus, does not require an appropriation.

State and Local Government Contacts

Colorado Housing and Finance Authority
Information Technology
Local Affairs

Governor
Law