

Colorado Tenant Equity Vehicle A Proposed Approach to Enacting Proposition 123

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COLORADO IS FACING AN AFFORDABILITY CRISIS

The post-pandemic era has been a time of adjustment for Colorado and other states. It is a time of uncertainty, with higher inflation and increased supply chain issues. This uncertainty has exacerbated the existing housing affordability crisis in Colorado: **only 40,000 of the 325,000 total units Colorado needs to stabilize housing prices are built each year.** Approximately 256,000 of those units are needed for extremely low and very low income households. In response, the State passed Proposition 123, which establishes a statewide affordable housing fund that promises to increase access to housing by retaining 0.1% of the State's existing income tax revenue to generate roughly \$300M annually for affordable housing programs.

As housing costs increase, homeownership and the wealth-creation opportunities that come with it become further out of reach for many households. So, as part of Proposition 123, a **Tenant Equity Vehicle (TEV)**, or Trust Fund, will be funded through program earnings to support **renter wealth creation** throughout the State. The TEV will be the first state program of its kind implemented in the United States

However, the structure of the TEV has yet to be established, so in the last quarter of 2023, the **Neighborhood Development Collaborative (NDC)** convened various stakeholder meetings with affordable housing experts, resident services experts, and State entities to gather perspectives on the TEV program.

After combining these expert perspectives with insights gained from external research, **NDC proposes a hybrid wealth creation program that provides residents with monthly cashback and an annual profit share from portfolio-wide capital events** in order to balance the twin goals identified by stakeholders of increasing short-term financial stability and maximizing long-term wealth creation. In our proposed model, we emphasize simplicity to create a program that residents understand and that the State can stand up quickly.

Monthly Cashback

- Provides residents with consistency and real cash at known intervals
- Monthly cashback provides benefits from Day 1, without a long waiting period for an equity event to generate returns for the State
- All current residents in an eligible project are TEV-eligible, with a 1-year vesting period before any accrued funds can be cashed out
- Residents receive a specified cashback (rebate) on rent payments

Annual Profit Share

- All projects in the TEV portfolio contribute to profit share funding¹
- All current residents in an eligible project are TEV-eligible, with a 1-year minimum residency requirement
- All funding eligible for the profit share is disbursed in the same year it is realized (i.e., excess debt interest + equity events)
- Residents can withdraw funds at will (after vesting) or defer funds for a given length of time

This model will likely **require collaboration between State agencies and specialized 3rd party operators**, and aims to maximize financial prosperity and wealth creation for residents while balancing administrative complexity across the State.

Ultimately, we are confident that this model maximizes financial prosperity and wealth creation for residents while creating minimal administrative complexity for the State and affordable housing developers.



INTRODUCTION AND CONTEXT

Colorado's affordable housing shortage is severe. The State suffers a shortage of 124,000 rental units for extremely low-income households whose incomes are at or below the U.S. poverty guideline. This correlates to 78% of these households experiencing a severe cost burden. More than half of Colorado renters are "housing cost burdened," spending 30% or more of their income on shelter. And it will only get worse over time unless dramatic action is taken.

The State's most severe housing shortage is in Denver, the capital city. It ranks as the 13th-highest shortage city – one of the nation's most critical – with 70,000 total missing units (for Denver alone) from those necessary to stem the housing shortage tide. This is an uphill struggle, especially considering that, on average, only 40,000 units are built annually in the entire State of Colorado. This is a small number of units compared to the roughly 325,000 total units Colorado needs to stabilize housing prices.

If Colorado continues its current trajectory, the median monthly rent will reach \$2,700 within a decade. For the average renter, this monthly rent will require an annual income of \$106,000. This problem is exacerbated by the fact that metropolitan Denver showed a 30% increase in homelessness from 2022–2023, with two in five of the homeless experiencing homelessness for the first time.

Additionally, the lack of access to homeownership opportunities for the vast majority of renters means that many families are permanently barred from the equity-based wealth creation opportunities that higher income residents rely on. Without tenant equity programs, this imbalance is unlikely to self-remedy through the market. It is this specific wealth-access inequity problem that the Proposition 123 TEV program seeks to address and this white paper seeks to inform.

Proposition 123

Coloradans responded to the housing affordability crisis by passing Proposition 123, which provided unprecedented funding to solve the affordable housing crisis. If appropriately managed, the funds alleviate Colorado's housing issues by retaining 0.1% of the State's existing income tax revenue. **This move will generate roughly \$300M annually for programs focused on combating the affordable housing crisis.**

The Proposition funnels funds into the following programs, administered by the Colorado Office of Economic Development and International Trade (OEDIT) and the Colorado Housing and Finance Authority (CHFA).

LAND BANKING

This program will provide grants totaling \$27M to \$45M² for local governments and forgivable loans for eligible non-profits with a demonstrated history of providing affordable housing. The funds must be used to acquire and preserve land for affordable for-sale or rental housing. Details for the program are currently being developed.

CONCESSIONARY DEBT

This program provides debt and financing totaling \$27M to \$63M³ to for-profit, non-profit, and government entities to deliver affordable housing investment for qualified renters:

- Multifamily Finance: Debt financing for low- and middle-income multifamily rental developments
- Low-Income Housing Tax Credit (LIHTC) Gap Finance
- LIHTC Pre-Development Finance

Each targeted group will obtain the financing and credits through State agency administered processes.

EQUITY FINANCE

This program, totaling \$72M to \$126M,⁴ is designed to provide “below market rate” investments in low- and middle-income multifamily rental developments or affordable housing projects. A tenant equity vehicle will be funded for residents in these properties through program earnings.

The tenant equity vehicle is the focus of this whitepaper.

Tenant Equity Vehicles

BACKGROUND ON TEVS

The TEV radically attempts to break typical on-again, off-again renter cycles by giving renters access to homeowner-like wealth generation. In a typical rental scenario, renters have significantly less wealth than homeowners of comparable income levels, due to fewer “forced savings” mechanisms,⁵ they receive none of the upside of the appreciation of a property, and it can be difficult to make progress towards owning their own housing.

Tenant equity vehicles are a tremendous step forward in assisting renters by generating renter wealth through monthly cashback annual profit sharing or other mechanisms that provide a return to renters in good standing in developments financed through the State’s equity program. This return helps renters accrue real savings with the opportunity to exit the renter cycle and become homeowners.

However, Colorado is pushing beyond familiar ground — no major precedents exist for a tenant equity vehicle of the same size or scale. There are some existing models in Colorado, through organizations such as Weave Social Finance and Enterprise Community Partners, but these are relatively nascent and small in comparison to the estimated scale of the Colorado TEV program (approximately ~1-2k units per year, depending on uptake of Proposition 123 equity financing, size of projects funded, etc.).^{6,7}

TEV FUNDING

The State of Colorado funds the tenant equity vehicle using excess State returns on Proposition 123 equity and debt programs. These programs provide debt and/or equity financing for the creation of affordable housing units. Any interest from the concessionary debt program and any excess returns from the equity program are then used to fund the TEV.

[Exhibit 1](#) provides an illustrative view of how funding moves through a tenant equity vehicle. Funding from annual taxes is used to finance affordable housing projects through equity investment and concessionary debt. The tenant equity vehicle itself is funded via two mechanisms: interest on the concessionary debt and any of the state’s excess equity returns above and beyond their initial return.

It is important to note that, under this illustrative model, the state’s initial investment into a debt or equity program is reinvested into additional housing units via future debt and/or equity deals. The TEV is funded solely through any excess returns (e.g., interest on loans). Additionally, this illustration does not reflect any developer investment or external financing into these projects, which may occur depending on the specific project financials.

[Exhibit 2](#) provides an illustrative example of how this reinvestment results in cumulative growth of the Proposition 123 and TEV funding pools.⁸

Exhibit 1: Illustrative TEV Cashflow, Assuming a Portfolio Approach

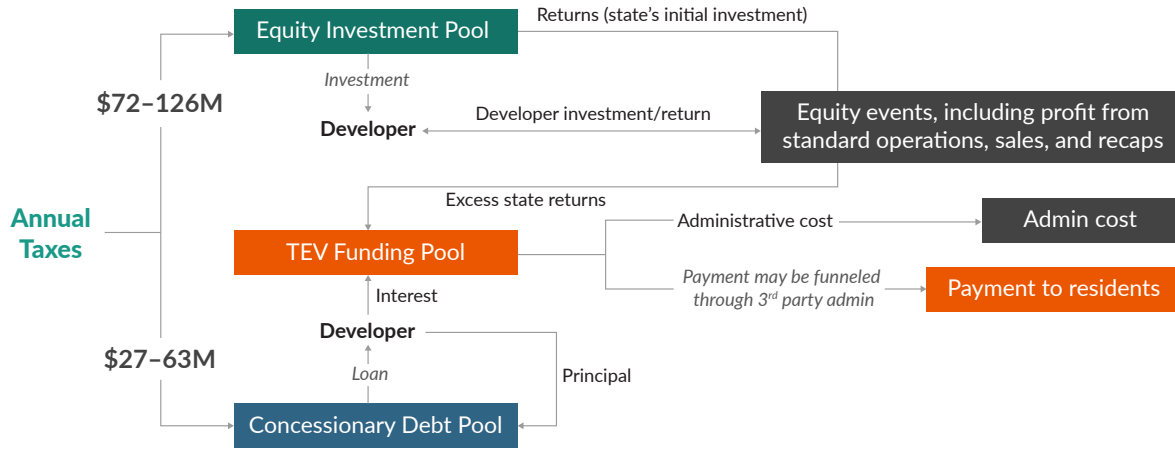
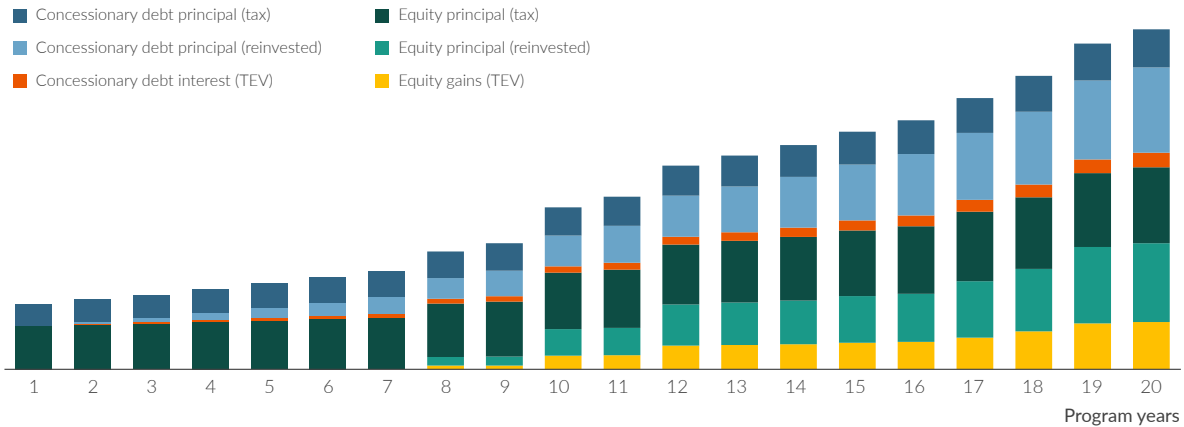


Exhibit 2: Illustrative Proposition 123 Annual Funding Pool





TEV Program Guiding Principles

We relied on three guiding principles to support conversations and decision-making on the proposed TEV design:

1. Creates **positive resident outcomes** that
 - a. **Maximize financial prosperity** and wealth creation for residents
 - b. Create **economic flexibility** for residents
 - c. **Minimize any adverse impact** on eligibility for safety net programs
2. Supports adoption of equity financing that:
 - a. Produces a **low administrative burden** for developers and property managers choosing equity financing
 - b. Creates a **sustainable developer rate of return**
3. Provides ease of administration for the State that:
 - a. Manages a **simple structure across diverse regions**
 - b. Creates outsourcing opportunities to **benefit from external expertise**
 - c. Produces an **adaptable, iterative structure** while avoiding adverse outcomes

TEV Guiding Framework

We identified ten key questions to consider and answer to define the proposed TEV program design. Throughout this document, we use this framework to discuss various aspects of designing a TEV program. However, it is important to note that some answers may not be mutually exclusive – for example, the number of residents eligible for the TEV may impact the design of payments.

PROGRAM FINANCIALS

1. TEV Pool Content: *What is the expected TEV funding year over year?*
2. Management Approach: *What are the differences in management approach for the portfolio versus individual projects?*

TEV STRUCTURE

3. Resident Eligibility: *Who is eligible for the TEV?*
4. Payment Design: *How will resident payments be designed?*
5. Resident Responsibilities: *Are there responsibilities that must be met to receive funds?*
6. Adverse Consequences: *Does the TEV structure impact the tenants' existing security net benefits?*

ADMINISTRATION AND IMPLEMENTATION

7. Administration: *Who will administer funds?*
8. Implementation: *Who will implement and operate the TEV program on a day-to-day basis?*

SUCCESS MEASUREMENT

9. Key Performance Indicators (KPIs): *What metrics define success?*
10. Methods of Measurement: *How will KPIs be measured?*

LEARNINGS FROM EXISTING PRIVATE-SECTOR TEVS



Although there are no major precedents for a public tenant equity vehicle of the same size or scale as Colorado's program, there is still much to learn from existing TEV programs.

Case studies reveal key characteristics shared by multiple programs while other characteristics that differ significantly by program. These findings provide an important foundation for our perspective on the TEV design.

- Funding mechanisms differ by program based on investor strategy
- Some programs are structured around an organization's entire portfolio of housing properties (a portfolio approach) while others are structured around a single project (a project approach)
- TEV programs typically target individuals earning 60% to 120% of the AMI, but all residents in applicable projects are eligible for TEV
- Vesting is rarely required for monthly cashback programs, but some programs do require a minimum length of stay for profit share eligibility
- Monthly cashback programs (if offered) are typically 2% of monthly rent, and are treated as a rebate on rent paid in accordance with the lease agreement
- Profit sharing occurs annually or at building sale (i.e., during an equity event) and residents can usually withdraw funds at will
- Residents have few basic responsibilities in most cases (e.g., timely rent payment, and compliance with their lease agreement, keeping their unit in working order)
- TEV administration is typically handled by the funding entity, but implementation is often outsourced to a 3rd party
- Key Performance Indicators (KPIs) focus on resident adoption of the program, retention, monthly occupancy, and fund use, and are typically tracked through building management software and/or resident surveys

Appendix A contains additional details around existing TEV programs.



PROPOSED TEV PROGRAM FOR COLORADO

Summary

The objective of our proposed TEV program is to maximize financial prosperity and wealth creation for residents, maximize developer adoption of the program, while creating minimal administrative complexity for the State. To achieve this goal, we propose a hybrid approach to Colorado's tenant equity vehicle that balances short-term financial stability and long-term wealth creation for Colorado residents through **a monthly cashback program** (to provide consistent funding at known intervals) and **an annual profit share** (to create opportunities for wealth sharing).

Monthly Cashback

- Provides residents with consistency and real cash at known intervals
- Monthly cashback provides benefits from Day 1, without a long waiting period for an equity event to generate returns for the State
- All current residents who are in compliance with their lease agreement in a Prop 123 equity-funded project are eligible for TEV cashback, with a 1-year vesting period⁹ before any accrued funds can be cashed out
- Residents receive a specified cashback (rebate) on rent payments made in accordance with their lease agreement

Annual Profit Share

- All projects in the TEV portfolio contribute to profit share funding
- All residents in a Prop 123 equity-funded project are eligible for profit sharing with a 1-year minimum residency¹⁰
- All funding eligible for the profit share is disbursed in the same year they are realized (e.g., excess debt interest + equity events)
- Residents can withdraw funds at will (after vesting) or defer funds for a given length of time

Program Operations

This hybrid approach requires an integrated approach between all organizations involved in administering the funds or supporting day-to-day operations.

- Organization managing the equity and debt funding (e.g., OEDIT, CHFA) manages the administration of all TEV funding
- Program oversight is managed by the funding organization (e.g., OEDIT, CHFA), but day-to-day operations are outsourced to 3rd party/parties due to specialized capabilities and economies of scale
- Implementation and operations partner(s) to provide regular reporting to the funding organization on program progress, including key metrics such as wealth generated, number of units/residents enrolled in the program, etc.

Details on this proposed model and the associated rationale are presented in the following section.

Hybrid Approach to Wealth Creation

Research demonstrated three primary renter wealth creation models in the market today: a monthly cashback model, an equity or profit share model, and a hybrid model that blends the two together. Exhibit 3 outlines some key differences between these models.

On one end of the spectrum, a monthly cashback model provides financial stability at predictable intervals but does not support the creation of long-term wealth proposed by Proposition 123.

At the other end, an equity or profit share model supports the creation of long-term wealth, but at the expense of predictable and stable short-term funding for residents. As a result, profit-share only models run the risk of greater resident turnover than the hybrid model because residents may not see the benefit of remaining in the project.

In comparison, a hybrid approach to the TEV balances short-term financial stability with long-term wealth creation. It offers a mix of predictable funding (monthly cashback) and unpredictable funding (profit share), while simultaneously building financial stability and longer-term wealth for residents.

Exhibit 3: Renter Wealth Creation Models¹¹

Three renter wealth creation models:	Monthly cashback <i>Monthly cashback at a fixed value (dollar amount or percent of rent)</i>	Monthly cashback + profit share <i>Monthly cashback AND pay-outs from equity events (e.g., sale, recap)</i>	Equity/profit share <i>Pay-outs from equity events (e.g., sale, recap)</i>
Predictable funding	●	●	●
Builds financial stability	●	●	●
No adverse impact on benefits ¹¹	●	●	●
Builds long term wealth	●	●	●

Recommendation
Details on monthly cashback and profit share programs follow

Legend: ● Yes ● Mixed Impact ● No

Shared Characteristics Between Cashback and Profit Share Models

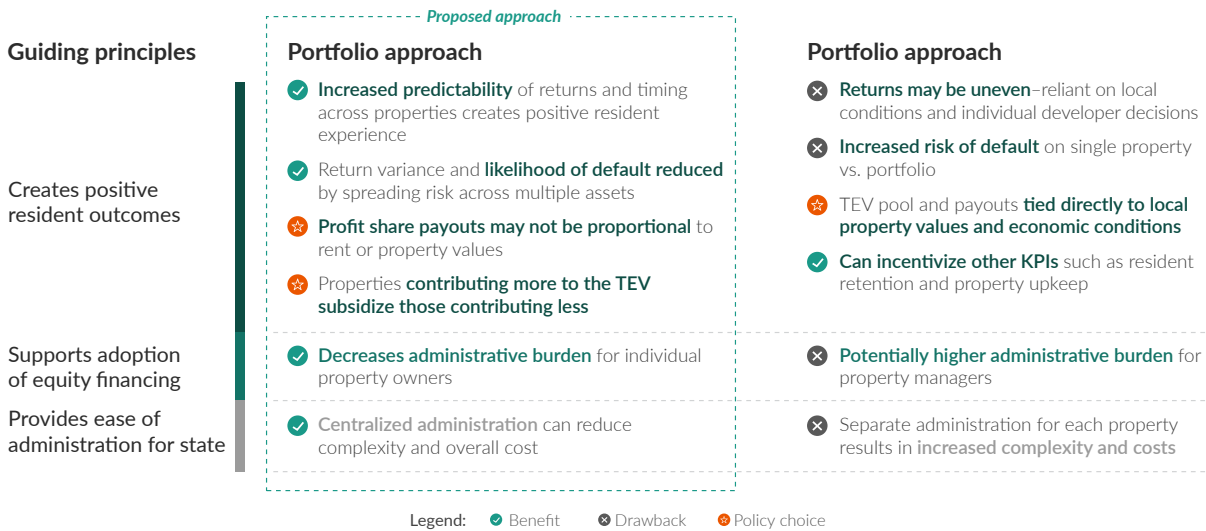
Given this hybrid approach, the cashback and profit share programs have some characteristics that are shared between the two types of models: management approach, resident eligibility, and resident responsibilities.

Management Approach

There are two typical approaches to program management: a portfolio approach and a project approach. At a high level, these approaches differ in how funding is allocated to residents. Do residents only receive cashback and profit share for their specific building (the project approach), or should the funds be aggregated and shared at a state level (the portfolio approach)?

Exhibit 4 compares a portfolio approach and a project approach across our three guiding principles. **We found that a portfolio approach provides increased predictability for residents and decreased administrative burden at both the project- and state-level;** however, the portfolio approach requires that a policy choice be made because properties that contribute more to the TEV would subsidize those who contribute less. Additionally, relevant parties would need to validate that a portfolio approach fits with statute language: *“The program shall include a tenant equity vehicle, meaning, in projects funded by the program residents who reside in the project for at least one year shall be entitled to a share of equity growth in the project.”*¹²

Exhibit 4: Comparing a portfolio vs. a project approach



Resident Eligibility

There are three key policy choices to consider in determining eligibility for the tenant equity vehicle: if there should be an AMI requirement, a tenancy requirement, and/or a resident term requirement. [Exhibit 5](#) provides an analysis of each of these and the associated impact on the TEV program.

We recommend an approach where all current residents are eligible for participation in the TEV program after one year of residency. We recommend this approach primarily due to ease of administration, as added complexity such as AMI thresholds and including former residents could significantly increase the resources needed to administer the TEV. **However, an important nuance with the one-year residency requirement that we recommend is that residents can accrue funds throughout that first year of residency, but can only access the funding at the 12-month mark in order to provide residents benefits of the TEV as soon as possible.**¹³

Exhibit 5: Resident Eligibility Policy Choices

Choice	Options	Cashback recommendation	Profit share recommendation
AMI requirement	All residents eligible	Simple to administer and fair to all residents in property	Simple to administer and can create solution for lower AMI residents via payment design
	Only residents below AMI threshold eligible	Although provides equality-based solution, adds complexity to administration	Complex to administer, but allows greater focus on those of greatest need
Tenancy	Current residents only	TEV must include current residents	Simple to administer, especially with portfolio-based annual payment model
	Include former residents	Cashback only applicable to residents paying rent	Increases complexity to administer, but has trade-offs with managing differing resident returns
Resident term	Resident funds accrue, but are vested for 1 year	Vesting period accounts for residency requirement while still accruing benefits	Per statute, residents must live in unit for 1 year to share in equity, but accrual accounts for different rent terms if profit share event only happens once per year
	Residents start accruing funds at 1 year	Not ideal for residents, but allows for program flexibility	Statute provides clear language around 1-year residency requirement

Legend: ■ Recommended □ Not Recommended

Resident Responsibilities

There is a wide range of resident responsibilities across different renter wealth creation models, ranging from timely rent payment to robust, high programming models. Our perspective is that minimal resident responsibilities (i.e., **timely rent payment, lease compliance**) maximizes program simplicity while addressing program intention. The program, as recommended, is simple to explain to residents and is easier to manage than a program with robust requirements.

Rent payment only: Timely rent payment and lease compliance – Recommendation

- ✔ Simple and easy to implement
- ✘ Does not take full advantage of customizable options for each site
- ☆ **Cashback:** Some payment required to legally receive cashback rewards¹⁴
- ☆ **Equity share:** Unclear if rent payment is required, likely depends on design

Limited programming: Timely rent payment, limited programming (eg., building meetings)

- ✔ Increased benefits to residents
- ✘ Requires additional education programs, increased personnel
- ☆ **Cashback & profit share:** Additional responsibilities may not fit intention of legislation

High Programming – Alternative approach

Key: Timely rent payment, meeting attendance, family coaching

- ✔ Can result in strong community opt-in, safety, and high demand
- ✘ Case studies have shown difficulties for residents in fulfilling duties with work¹⁵
- ☆ **Cashback & equity share:** Additional responsibilities may not fit intention of legislation

Legend: ✔ Benefit ✘ Drawback ☆ Policy choice

Monthly Cashback Program Specifics

A monthly cashback component as part of the TEV program is crucial to the program’s success. While there are specific considerations for designing a monthly cashback program and several common monthly cashback models are available to consider, we recommend an opt-out program with a 1-year vesting requirement that provides a specified cashback amount on rent payment, accrued from Day 1.

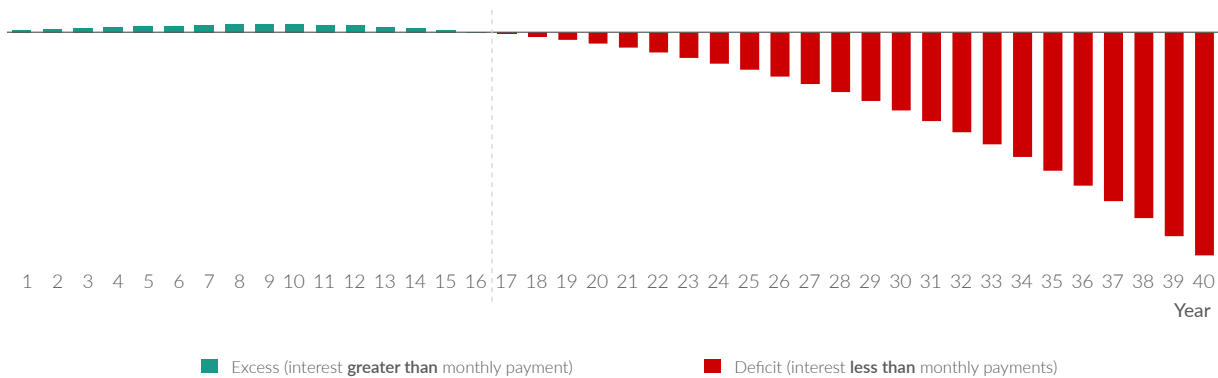
TEV pool content

We recommend leveraging concessionary debt as a stable source of immediate funding for cashback, especially given the longer time horizon before any equity events may be realized.

However, the interest gained from the concessionary debt program is insufficient in the long-term to ensure cashback program stability. As an illustrative example, Exhibit 6 shows that over the long term, based on 2% cashback as a percentage of rent and a 12% Compound Annual Growth Rate (CAGR) of eligible units, deficits may occur after approximately 15 years. The funding deficit is due to rental income growing faster than interest income.

For the program to retain solvency, the administration must either reduce cashback payments (e.g., from 2% to 1%) or leverage funding from the equity program to finance the cashback program. In either scenario, the average amount received by a resident would likely remain equal – the difference is when and how those funds are received.

Exhibit 6: Long-Term Deficit Predictable Without Cashback Adjustments or Additional Funding



Payment design

Rebates such as cashback must be in exchange for a good or service, versus a cash equivalent.¹⁶ In the case of the tenant equity vehicle, the cashback is considered a rebate on the resident’s rent payment. However, the exact amount of cashback offered to residents will need to be determined based on any additional tax or income considerations and the concessionary debt forecast. The cashback amount likely cannot exceed the amount of rent paid, and any additional thresholds would need to be validated by appropriate counsel. Additionally, the State would need to consider how many residents are eligible and what the total TEV funding pool is for that year to determine an economically viable cashback approach.

Finally, decisions will need to be made regarding whether cashback will be a flat amount per unit or a percentage based on the amount of rent paid. Common models leverage a percentage-based approach (e.g., 2% back on rent), but the State may decide that a flat amount per unit is preferred.

- **Percentage of Rent Based Cashback Approach Considerations:** The benefit of a percentage approach is that it compensates each tenant equally in proportion to the rent they pay—at the cost of granting higher-income tenants who pay more in rent a higher dollar amount. This makes the system “fair” but slightly regressive.

- Flat Cashback Approach Considerations: The benefit of a flat cashback approach is that in giving every tenant an equal dollar amount it has a greater impact on the lowest income tenants—at the cost of paying tenants with higher rents less in proportion to what they pay in rent. This makes the system “unfair” but slightly progressive.

However, because tenants pay different rents based not only on income but also on unit size (number of bedrooms. Etc.) – it’s not necessarily the case that higher-income tenants would earn more under a percentage of rent system – families with the same Area Median Income levels as single tenants with lower rents would benefit in a percentage-based system and be slightly penalized in a flat cashback system. Therefore, **we recommend that the cashback program be based on the “percentage of rent” approach.**

Adverse consequences¹⁷

In existing renter wealth creation models, cashback in exchange for rent payment has historically been treated as a rebate and not income.¹⁸ Under these models, the cashback amount may not impact a residents’ eligibility for safety net benefit programs. However, this would need to be validated by appropriate counsel, especially for those residents who utilize housing vouchers to ensure that the cashback does not impact eligibility for these benefits.

Monthly cashback summary

Characteristic	Recommendation
Program Financials	
1. TEV pool content	Initial funding sourced from concessionary debt interest, but longer-term solution needed when interest payments cannot fund cashback program
2. Management approach	Portfolio approach
TEV Structure	
3. Resident eligibility	All current residents eligible, with 1-year vesting period required before residents can cash out funds that accrue from Day 1
4. Payment design	Percentage or flat-based rebate on rent, exact amount to be determined based on funding and demand forecasts
5. Resident responsibilities	Timely rent payment
6. Adverse consequences	To be validated by appropriate counsel, but existing TEV programs utilize cashback to avoid adverse consequences

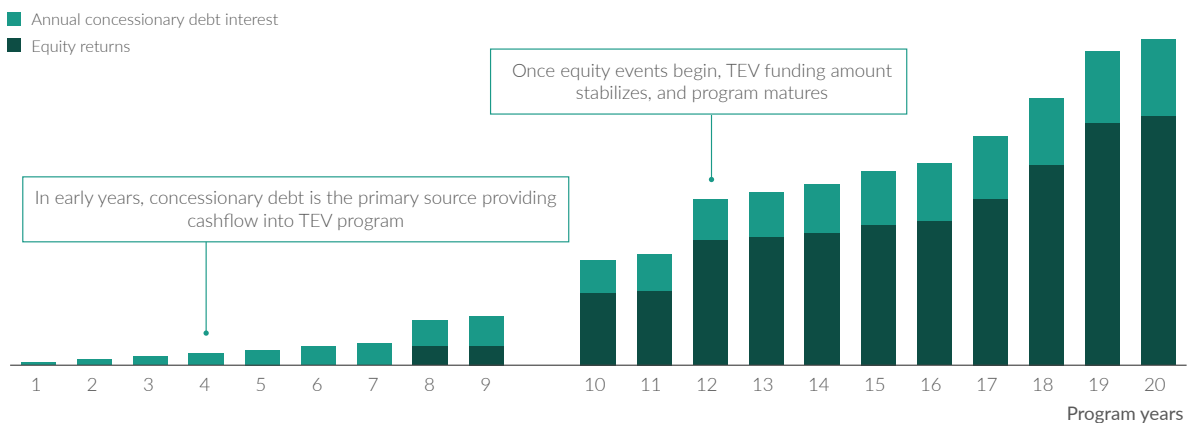
Profit Share Program Specifics

The objective of the Colorado TEV program is for renters to benefit from property appreciation. However, a key challenge with an equity-based approach is managing the significant difference in TEV cash flows between early and later years due to the timing of equity events. Our proposed model reflects a design that takes this into consideration.

TEV Pool Content

As mentioned, the TEV Program will likely see significant differences in TEV pool cash flows between early and later years due to the timing of equity sales. As shown in Exhibit 7, the concessionary debt interest is the primary source of cash flow into the TEV program in early years. Once equity events begin, the majority of the TEV funding pool is driven by those equity returns. This creates a disparate experience for residents eligible for the TEV in early years versus later years.

Exhibit 7: Illustrative TEV Funding Pool Across Colorado Portfolio¹⁹



Payment Design

To address this funding gap, we have identified two options for structuring the profit share program.

Approach 1 (Recommended Approach)

This approach allows residents to cash out profit share at any time after vesting, but the amount accrued will depend on the TEV pool value in the same year as vesting. We recommend this approach as it is straightforward, which strengthens resident communications, and provides ease of administration to the State.

How it works	Considerations
<ul style="list-style-type: none"> Residents accrue portfolio equity for each year of tenancy, vesting after 1 year 	<ul style="list-style-type: none"> Approach provides flexibility to tenants by allowing annual cash outs
<ul style="list-style-type: none"> Accrual value depends on TEV value each year and the number of units participating 	<ul style="list-style-type: none"> Approach minimizes complexity by not having to track former residents
<ul style="list-style-type: none"> Residents can cash out anytime, including a choice to defer cashing out if desired. 	<ul style="list-style-type: none"> Residents in the early years, when TEV is primarily debt-funded, are likely to receive less than residents participating in equity events later
<ul style="list-style-type: none"> Former residents are not eligible (i.e., upon leaving unit, residents are paid out cash value of profit share) 	<ul style="list-style-type: none"> Will need to determine mechanism for income deferral (if applicable)

Approach 2

The second approach allows residents to accrue profit share, but they are not able to cash out until a predetermined time (e.g., an equity event). Once equity events begin across the portfolio, residents would be able to cash out at any time (per Approach 1). This approach is significantly more complicated to both residents and the State, which is why we do not recommend it at this time.

How it works	Considerations
<ul style="list-style-type: none"> Residents accrue portfolio equity for each year of tenancy, vesting after 1 year. 	<ul style="list-style-type: none"> Approach provides no flexibility for early tenants but allows for potentially greater payouts
<ul style="list-style-type: none"> Residents in early years accumulate equity value for eventual equity sales 	<ul style="list-style-type: none"> Potentially long timeframe before equity events will occur
<ul style="list-style-type: none"> Can cash out after first equity event 	<ul style="list-style-type: none"> Initially, the administration would need to track former residents
<ul style="list-style-type: none"> Residents have the choice to defer cashing out, if desired 	<ul style="list-style-type: none"> Approach is confusing to residents
<ul style="list-style-type: none"> Once equity events become regular, program switches to Approach 1 	<ul style="list-style-type: none"> Will need to determine mechanism for income deferral (if applicable)

In addition to determining the overall structure of the equity program, the State will also need to make policy decisions on how to equitably distribute funds. There are 3 preliminary options for distributing funds, but the Advisory Committee we consulted preferred distributing by rent or unit size:

1. Distribute by AMI Level: Individuals and families at lower AMI levels receive higher percentages of profit share funding.

- Greater disbursements to lower-AMI households may push these households over benefit cliff risk
- Former residents, if included, may have different AMI levels than when they lived in the residence
- AMI may not be able to be included as a distribution criterion from a legal perspective²⁰

2. Distribute by rent or unit size (Recommended by Advisory Committee): Residents with greater unit size (bedrooms) or rent payments receive higher profit share funding.

- Need to understand impact on individuals in lower AMI bracket
- If legal limitations exist on distributing by family size/AMI, unit size may be a proxy
- need to gauge what information could be appropriately shared with third parties

3. Distribute equally: Each unit receives an equal share of equity funding.

- Less complex than other options, but may be considered less equitable (i.e., same share of equity regardless of need)

Adverse consequences

Any annual payments related to profit share may impact safety net benefit eligibility for some residents.²¹ The scale of this challenge is dependent on the average building AMI that receives Proposition 123 equity funding, but some steps can be taken to mitigate this before any profit sharing program is operational:

1. Create system for residents to opt into receiving profit share funds (potentially separate from cashback)
2. Implement financial education to inform residents of potential impact on benefits before choosing to cash out funds
3. Determine if payouts can be placed in tax-deferred accounts (e.g., 401K) that do not impact income or asset thresholds
4. Consult legal or tax counsel to determine how annual payment could count towards benefits (income and/or asset thresholds)

Annual profit share summary

Characteristic	Recommendation
Program Financials	
1. TEV pool content	Funding sourced from equity events (e.g., sales, recaps, etc.)
2. Management approach	Portfolio approach
TEV Structure	
3. Resident eligibility	All current residents eligible, with 1-year vesting period required before residents can cash out funds
4. Payment design	Current residents can receive funding after vesting is complete, former residents are not eligible. Exact amount to residents based on portfolio performance.
5. Resident responsibilities	Timely rent payment
6. Adverse consequences	To be validated by appropriate counsel, will need to determine mechanism for deferral and potential implication on income/asset thresholds

Program Operations

In parallel with program design, the TEV program must also consider how to operate. For a program like the TEV, we consider fund administration to be distinct from overall program operations given the interdependence of fund administration with the overall Proposition 123 programs.

When considering program operations, we see two main archetypes in the market: (1) a single organization manages the entire program, or (2) parts of the program are outsourced to relevant 3rd parties. For Colorado's TEV program, we recommend a selective outsourced approach because it balances appropriate government oversight with speed to market and core capabilities. This recommendation arises from analysis of six key considerations: necessary capabilities, integration, speed to market, economic viability, risk management, and the scale of the vendor market.

PROGRAM ADMINISTRATION

Given its integration with Proposition 123 funding, we believe that the State is better positioned than 3rd party organizations to administer funds related to the TEV program. The State, through its agencies, has extensive experience in funding housing programs and in dealing with the myriad of Government rules and regulations related to the distribution of tax-payer funds.

- **Necessary capabilities:** Colorado already oversees government affordable housing programs, though housing-related 3rd parties may also be experienced if they manage private funds or donations
- **Integration:** With government oversight of all Proposition 123 programs, we believe that there will be large synergies from administration of all programs that would not exist with a 3rd party administrator
- **Speed to market:** Given its similarity to existing programs, the government is likely to rollout administration faster due to its experience with the scale and familiarity with program goals
- **Economic viability:** Government agencies already scaled to administer at a state-wide level, likely exhibiting greater cost efficiencies than smaller 3rd parties
- **Risk management:** Risks inherent to programs for vulnerable communities are likely limited by in-house government oversight
- **Vendor market:** Numerous players available, but TEV concept is nascent enough that scale has only been demonstrated in adjacent programs

PROGRAM IMPLEMENTATION

When considering the scope of the TEV program, there are multiple roles that would need to be filled to ensure a successful operation. These roles may include, but are not limited to, a State representative, a TEV operations oversight, a financial platform, financial educators, and building managers.

Given the wide range of skills needed, third-party operators may be better positioned to execute day-to-day implementation of the TEV program given their native capabilities. Third-party operators often have the technology for executing at scale and are generally more adaptable and expedient than utilizing State resources.

- **Necessary capabilities:** Colorado possesses many implementation capabilities, but likely not with the sophistication and expediency of more-technical 3rd parties across all potential roles (Exhibit 8)
- **Integration:** 3rd parties experienced in specialized functions will have greater integration with those roles, but the State possesses more integration with government programs
- **Speed to market:** Some 3rd parties have shown success at scale, suggesting ease of rollout on statewide level compared to a novel government program
- **Economic viability:** 3rd parties potentially commercially scaled to administer at state-wide level, State lacks scaling given dissimilarity of TEV from current offerings
- **Risk management:** Risks to vulnerable communities limited by in-house oversight. With use of 3rd parties, would also need to consider a white label offering to prevent perceived State endorsement of commercial offering
- **Vendor market:** Limited players available and few at scale, further research required

Exhibit 8 illustrates how a Colorado agency could manage all the roles needed to implement a TEV program, but there may be specialized skillsets that can be utilized instead via a third party.

Exhibit 8: Implementation Approaches Utilizing 3rd Parties

Roles could be filled by CO agency

Category	Example Activities	CO Agency (OEDIT, CHFA)	TEV Ops. Oversight	Financial Platform	Financial Educators	Building Manager
Implement TEV	Decide eligible projects, distribution of funds	✓				
	Prepare and distribute materials for resident education on TEV	✓	✓		✓	✓
	Solicit resident participation in program (if opt-in)			✓		✓
	Prepare and maintain resident management software to track TEV eligibility	✓		✓	✓	✓
	Establish method for delivering tenant cashback and profit share payment	✓		✓	✓	
	Determine auxiliary benefits/financial education offered	✓			✓	✓
Day-to-day operations	Maintain platform/process for pay delivery	✓		✓	✓	
	Provide residents with cashback and profit share	✓		✓	✓	
	Administer additional benefits/financial education programs	✓	✓		✓	✓
	Track eligibility for benefits as appropriate	✓	✓	✓	✓	
Success measurement	Collect quantitative metrics for KPIs			✓	✓	✓
	Design and distribute resident surveys	✓	✓			✓
	Analyze KPIs and surveys to assess program	✓				

✓ Possible responsibility ■ Recommended responsibility

MEASURING SUCCESS

It is imperative to define what TEV success looks like and how it should be measured as part of overall program design. We believe that a successful TEV program should look at quantitative, investigative, and qualitative measures to understand the full scope of the program.

- **Quantitative:** Adoption (number of units and/or number of residents), occupancy rates, turnover rates, average tenancy of resident, amount of wealth generated via program
- **Investigative:** How funds were used by residents, where residents moved after residing in TEV program (e.g., outcomes)
- **Qualitative:** Resident satisfaction, resident sense of autonomy or ownership

These measures can be largely captured via property manager reporting, especially those quantitative measures related to tenancy. However, resident surveys would likely be required to collect the investigative and qualitative measures recommended. Although these surveys would be more difficult to manage, the focus on resident experience is crucial for understanding program success.



This whitepaper proposes a hybrid approach to the TEV Program to maximize resident wealth and minimize administrative burden. The monthly cashback portion of the program provides residents with consistent cash returns at known intervals while the annual profit share creates opportunities for greater wealth sharing. We believe that our proposed model maximizes financial prosperity and wealth creation for residents while creating economic flexibility. Our proposed operational model optimizes for program simplicity and organizational capabilities by leveraging the expertise of 3rd parties where appropriate, thus supporting a low administrative burden for developers and the State and creating an adaptable and iterative structure.

Immediate next steps are focused on laying the groundwork for the TEV program while the funding mechanisms are implemented. We recommend that the program design is finalized, and all program details are communicated by the end of March 2024, with the cashback and profit sharing programs kicking off once residents begin residing in TEV project. Appendix B provides additional detail around open questions to answer prior to TEV implementation.

- **Resolve open questions** on the TEV structure, such as:
 - Determine if cashback can be earned on housing vouchers
 - Determine if cashback or profit share impacts income or asset limits for safety net programs
 - Finalize any policy-related specifics for program
- **Determine the TEV management approach**, any 3rd parties, if applicable
 - Determine organization for TEV program administration
 - Identify must-have versus nice-to-have capabilities for 3rd party organizations
 - Choose appropriate 3rd party organizations via State procurement regulations
- **Communicate program specifics** to all applicable stakeholders
 - Create communication plan for socializing TEV program with all stakeholders
 - Create summary document(s) of TEV program specifics. Separate documents may be needed based on stakeholder group in question
 - Publish and socialize summary documents, as applicable
- **Implement cashback program** in line with the first residents becoming eligible
 - Communicate TEV requirements to all applicable 3rd parties
 - Compile educational resources to increase program adoption
 - Create feedback mechanisms and regular touchpoints between all organizations involved in TEV program
 - Develop KPI reporting norms and/or survey materials
- **Implement profit share program**
 - Determine how residents will receive profit share disbursement
 - Determine potential inheritability of profit share
 - Finalize resident deferral options and rules



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NDC sincerely appreciates the input from the following organizations and experts whose invaluable insights have shaped this recommendation. While we have worked to integrate their thoughts and opinions, the ultimate responsibility for this project's recommendations belongs to NDC.

- Boulder Housing Partners
- Enterprise Community Partners
- Financial Health Institute
- Foothills Regional Housing
- Gary Community Ventures
- Gates Family Foundation
- Headwaters Housing Partners
- Housing Colorado
- Maiker Housing Partners
- Mercy Housing
- Thrive Economics
- Tierra Colectiva Community Land Trust
- Weave Social Finance



CHAI (Colorado Housing Accelerator Initiative) - Weave

CHAI is a housing investment portfolio managed by Weave Social Finance (Weave) that comprises 8 projects and 436 units. The CHAI-Weave program has a 2-year record of accomplishment. Funding for CHAI's tenant equity vehicle is driven by debt interest returns and equity returns over the investors' expected rate of return. Resident eligibility averaged 71% of the AMI overall, and all residents in the applicable projects were eligible for the TEV. The CHAI-Weave projects have no individual vesting requirements, but new projects do not qualify for profit share during their first year (CHAI utilizes a portfolio approach). This program pays 2% cashback monthly to renters, and the annual profit share is determined annually by the Advisory Committee. Residents are required to pay their rent on time to qualify for the cashback and profit-sharing programs.

From an operational perspective, Weave administers the overall portfolio fund while the financial platform is outsourced to a fintech company (Stake). Weave's and Stake's efforts are complemented by building managers who provide on-site administrative and support services. The building managers also track the programs' metrics and KPIs and handle any resident surveys and other communications.

Enterprise Community Partners

Enterprise Community Partners created a Renter Wealth Creation Fund that offers monthly cashback and project-based profit-sharing for long-term residents. The profit sharing is funded by individual projects for all current and former residents, at the time of an equity event for that specific project (returns over a specified amount returned to investors).

Resident eligibility averages 75% of the AMI overall, and all residents in the applicable projects were eligible for the TEV. Enterprise does not require vesting for cashback, but does require a 4-year minimum residence for participation in an equity event. This profit share is adjusted for the number of years in residence. The program also pays a monthly 2% cashback to renters with timely rent payments.

Enterprise administers the overall fund at a centralized level but makes profit share decisions on a project-by-project basis. Stake manages the financial platform, and building managers assist by providing on-site administrative and support services, including KPI data collection, measurement, and resident communications.

Cornerstone Renter Equity

Cornerstone is a Cincinnati-based housing portfolio of 4 projects and 100+ units that has operated a highly involved grassroots renter equity program with a focus on long-term equity. Although it is unclear how Cornerstone directly funds the TEV, it manages program financials on a portfolio basis.

The units are designed to support the low-income working class, and all residents in Cornerstone's properties are eligible for the TEV. The payment design provides for up to \$130 per month in equity credits after a 36-month vesting period, and residents must pay rent on time, participate in community meetings, and appropriately maintain the property to maintain eligibility. Residents can withdraw funds once annually, unless otherwise requested. Cornerstone also makes low interest loans available to its residents.

Administration of the TEV program is unclear, but the properties did show a 70% decrease in moves compared to similar non-equity housing with approximately \$30k in annual rewards and rebates. Residents used these funds most commonly for bills, Christmas, and food. Performance is tracked through building manager software and surveys. As in other examples, building managers provide on-site administrative and support services, and handle communications with residents.

APPENDIX B

| SUMMARY OF OPEN QUESTIONS



Exhibit 9 highlights a summary of open questions that need to be answered and policy choices to determine the final TEV program. Each question and choice must be weighed carefully, and **all decisions should be considered against guiding principles and the potential impact on low AMI residents.**

Exhibit 9: Summary of Open Questions

	Open program design questions	Policy choices and administrative decisions
Immediate considerations	<ul style="list-style-type: none"> Can cashback be earned on housing vouchers? Can residents accrue funds during 1-year vesting period that are only accessible after 1-year resident requirement has been met? 	<ul style="list-style-type: none"> Are there specific operational roles that need to be prioritized for program implementation (e.g., financial platform, financial educators, etc.)?
To resolve before program launch	<ul style="list-style-type: none"> How may cashback and profit-sharing impact income or asset limits for safety net benefit programs? Can program be built to allow residents to defer profit share funding? <ul style="list-style-type: none"> Can deferred funds appreciate in an investment account? Are there restrictions around when a resident must “cash out” deferred funds (e.g., moving out of state)? Are deferred funds inheritable? 	<ul style="list-style-type: none"> Will the State build all operational capabilities in-house or use 3rd parties? <ul style="list-style-type: none"> How may this choice differ based on operational role? If using 3rd parties, what are the non-negotiable considerations (e.g., white label products only)? What is the monthly cashback the TEV program can support? <ul style="list-style-type: none"> Is it a flat amount or percentage of rent? How should the profit share funds be allocated among units (e.g., by unit size, equal across all, etc.)?
To resolve after program launch		<ul style="list-style-type: none"> How will the long-term deficit of the concessionary debt interest versus the cashback program be addressed (e.g., by using funds from equity program or reducing the monthly cashback amount)?



APPENDIX C | REFERENCE SOURCES

The list below represents the reference sources utilized in developing this whitepaper.

- Affordable Housing Financing Fund
- Colorado Coalition for the Homeless
- Colorado Housing Accelerator Initiative
- Colorado Proposition 123 (HB 23-1304)
- Cornerstone Renter Equity
- Enterprise Community Partners
- Gates Family Foundation
- Local Housing Solutions
- Metro Denver Homelessness Initiative
- National Low Income Housing Coalition
- Rocky Mountain Institute
- University of Chicago
- University of North Carolina
- Weave Social Finance
- Zillow



1. Some approaches (e.g., synthetic equity instruments) are being studied that could change the timing of distribution to residents; the impact of these approaches should be considered against TEV guiding principles and tested with developers
2. Estimates for the amendment's second fiscal year, actual annual proceeds will depend on economic conditions and TABOR refunds
3. Ibid.
4. Ibid.
5. Americanprogress.org
6. Based on organization websites (e.g., CHAI, Weave, Cornerstone, and Enterprise) and interviews
7. Developer adoption of the equity program will determine the amount of funding distributed, what types of projects are financed, number of units involved in TEV program, etc.
8. Size of Proposition 123 and TEV funding pools depends on many variables, such as: estimated tax income, TABOR refunds, types of projects funded, concessionary loan terms, timing of equity events, etc.
9. Based on interpretation of statute language: "...tenants who reside in the project for at least one year shall be entitled to a share of the equity growth in the project..."
10. Ibid.
11. Potential impact on safety net benefits and income implications to be validated by independent, appropriate legal/tax counsel
12. Proposition 123 (HB 23-1304)
13. Interpretation of 1-year vesting requirement to be validated by appropriate legal counsel
14. Potential impact on safety net benefits and income implications to be validated by independent, appropriate legal/tax counsel
15. Based on organization websites (e.g., CHAI, Weave, Cornerstone, and Enterprise) and interviews
16. Potential impact on safety net benefits and income implications to be validated by independent, appropriate legal/tax counsel
17. Ibid.
18. Enterprise Community Partners, Colorado Housing Accelerator Initiative
19. Size of Proposition 123 and TEV funding pools depends on many variables, such as: estimated tax income, TABOR refunds, types of projects funded, concessionary loan terms, timing of equity events/payout, etc.
20. To validate with appropriate legal counsel
21. Potential impact on safety net benefits and income implications to be validated by independent, appropriate legal/tax counsel

