COLORADO HOUSING AND FINANCE AUTHORITY
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RURAL RESORT REGION

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Northwest Colorado Council of Governments

Housing Your Workforce

A Resource Guide for Colorado Rural Resort Employers

September 2003

Produced by the Colorado Housing and Finance Authority in conjunction with the Northwest Colorado Council of Governments and the Rural Resort Region

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Preface

In 1996, five Colorado counties (Eagle, Garfield, Lake, Pitkin and Summit) formed the Rural Resort Region (RRR) to address regional issues affecting communities dependent upon resort economies. In January 2002, the Rural Resort Region joined forces with Northwest Colorado Council of Governments (NWCCOG) to form a new working relationship. The new partnership opened RRR's doors to any county or municipal governmental jurisdiction, special taxing district, not-for-profit organization or private business that is interested in the issues addressed by RRR. As a result, RRR has increased from its original five counties to 15 affiliates. The RRR affiliate roster for 2003 includes eight counties (Clear Creek, Eagle, Garfield, Grand, Jackson, Lake, Pitkin, and Summit), five municipalities (Dillon, Fraser, Grand Lake, Leadville, and Silverthorne), Colorado Mountain College, and the Vail Valley Chamber and Tourism Board.

RRR is an issues-based, boundary-less organization that identifies relationships between resort community issues. The group then develops solutions and strategies by building partnerships and coalitions among entities affected by these issues. For 2003, RRR identified mountain workforce housing as its primary focus. At the January 23, 2003, meeting, RRR affiliates created four committees to focus on specific components of the workforce housing issue. Each committee developed a prioritized list of recommendations and options specific to the eight county RRR area, addressing their assigned component of the workforce housing problem. The results were unveiled at the 2003 Summit on Mountain Workforce Housing. Local jurisdictions are encouraged to use any of these recommendations, programs and established partnerships to address their specific housing needs.

One committee specifically set out to create a system to assist employers in determining how to best help their employees with housing. The results are included in this report. The purpose of this report is to give employers within the Rural Resort Region yet one more tool in their battle to recruit and to retain a talented workforce. As businesses within rural and resort areas seek to attract and retain talented workers, they may gain a competitive edge by offering employees some form of housing assistance. This report looks at how to determine employees' needs, what types of programs can be crafted and perhaps most importantly, how to pay for this benefit. The Committee also felt it was important to establish a support system to assist employers once they have determined that they want to implement a housing assistance program. This report also provides all the resources needed for any business within the RRR area to implement a plan.

-The Employers Incentives Committee of the RRR 2003 Housing Initiative

Executive Summary

This report, *Housing Your Workforce*, is a guide for Rural Resort Region employers who are feeling the impact of the affordable housing shortage and are looking for ways to address this complicated issue.

Introduction – Provides background information on the region including information on population, job growth and commuting times.

Chapter 1 – **Assessing Employees' Housing Needs and Employee Retention Issues** - helps employers assess their workforce's housing needs. It identifies information that could be used in a survey or focus group to help employers really understand the housing issues facing their employees.

Chapter 2 – **Employer Assisted Housing Programs** - defines employer-assisted housing, divided by the various types of programs that businesses use, including down payment and rental assistance. It also includes examples of housing-assistance programs used by employers nationwide.

Chapter 3 - **Assessing What the Workforce Can Afford** - shows employers how to evaluate what their workforce can afford to pay for housing so to determine the type and amount of housing assistance benefit that will truly help the workforce. This chapter includes a chart of median single-family home and condominium prices and one- and two-bedroom average rents for each county in the rural resort region. It compares these prices to what median household income for the counties and employees earning between $10 and $20 per hour can realistically afford.

Chapter 4 – **Paying for Housing Assistance Benefits** - looks at where a company can find the money to pay for housing assistance benefits, focusing specifically on the real costs of turnover and comparing them to housing assistance costs. A real-life example that breaks down turnover costs is part of this chapter.

Chapter 5 - **The Tax Benefits of Housing Assistance Programs** - looks specifically at the tax benefits employers who institute housing benefit programs may expect to enjoy.

Chapter 6 - **Examples of Employer Assisted Housing Programs** - provides examples of housing assistance benefit programs currently used by a number of employers.

Chapter 7 - **Housing Assistance Program Administration** – Describes services that employers can use to assist with implementation of housing assistance programs.

The "sources" page not only gives credit for the information contained herein, it also offers additional resources to employers.

Introduction

It is important to employers to recruit and retain the best quality employees in today's labor market. Initiating a housing benefit program is one way to achieve these goals. This report provides both general and specific information about workforce housing programs, including why there is a need, examples of employer-assisted housing programs already in place and the benefits of such programs to both employers and employees.

Housing: Challenges and Opportunities

In 2000, NWCCOG produced a report on employer assisted housing based on a series of four focus groups held with employers in the area. Then, as now, employers expressed great concern about the lack of affordable housing options for their employees and directly related these problems to their recruitment and retention efforts.

One of the biggest challenges that a worker faces when coming to Colorado's resort region is finding housing he or she can afford. The single seasonal worker has more flexibility and can usually find a place to live by staying with a friend or renting a room in someone's house. It is the worker with a family that has been squeezed out of the housing market. In order to be successful, however, employers know they must be able to attract workers from different kinds of households.

The purpose of this publication is to give employers in the Rural Resort Region the type of information they need to help recruit and retain capable employees of all backgrounds. There are a number of trends that are prevalent in this area which make recruitment and retention a challenging proposition for both employers and employees.

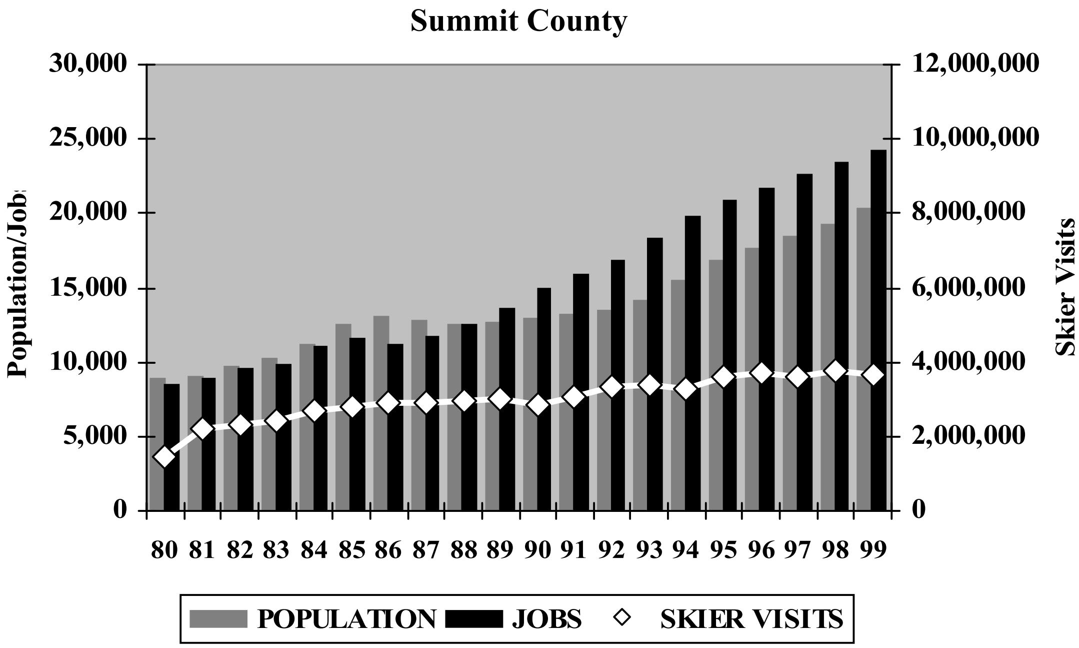
Background

Colorado's resort region has experienced extensive population growth over the past decade, with Eagle and Summit counties experiencing 90% and 83% growth respectively.

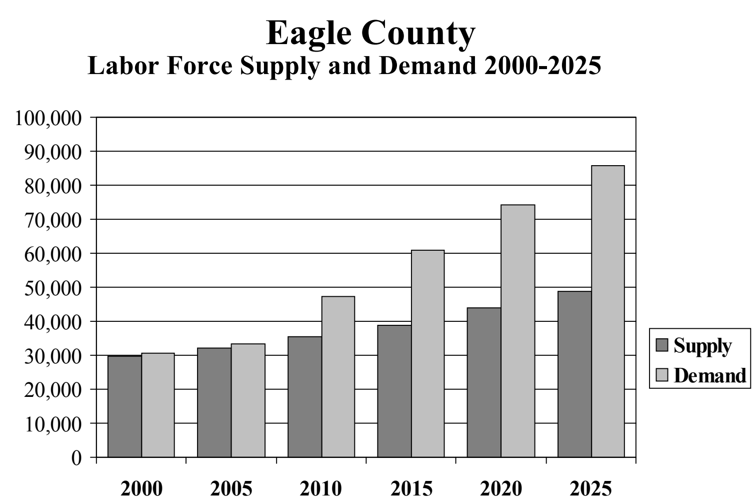
	Population			
County	1990	2000	1990-2000 # Change	1990-2000 % Change
Eagle	21928	41659	19731	90.0%
Clear Creek	7619	9322	1703	22.4%
Garfield	29974	43791	13817	46.1%
Grand	7966	12442	4476	56.2%
Jackson	1605	1577	-28	-1.7%
Lake	6007	7812	1805	30.0%
Pitkin	12661	14872	2211	17.5%
Summit	12881	23548	10667	82.8%
Total	100641	155023	54382	54.0%

The region's economy is based on tourism with the primary economic drivers being the ski industry and second homes. The area has become attractive to second homeowners who purchase vacation homes to use on a part time basis. In an effort to expand their economic high season, the resort industries have begun to offer activities in addition to downhill skiing which attract visitors throughout the year. The result has been a need for workers year-round.

The chart below depicts these trends by showing 20 years of jobs, population growth and skier visits for Summit County. Although skier visits are nearly flat, the population grew at a very fast pace and the job growth throughout the 90's even outpaced the population growth.



Will these trends continue? The tourism economy in the area was seriously affected by the 9/11 terrorist attacks and most of the counties experienced some job losses in 2001 and 2002. The long-term forecast is for the economy to begin to grow again. Overall trends show labor demand exceeding labor supply in Eagle, Pitkin and Summit counties by the year 2010.



Source: Demography Section, Colorado Division of Local Government; 2003

Historically, commuters from neighboring counties have supplied the labor force for counties with a shortage of labor (the chart below shows census information on commuting in 1990 and 2000). Clear Creek and Lake counties have the highest percentages of worker commuting to other counties. Census 2000 information demonstrated that commuting times are getting longer for workers. In Lake County the average commute increased from 27 minutes in 1990 to 36 minutes in 2000.

Percent Commuting out of County

	Out of County			
County	**1990**	**2000**	**1990**	**2000**
			% of Total	**% of Total**
Eagle	2291	3814	17.4%	15.2%
Clear Creek	2182	3131	51.6%	56.4%
Garfield	3155	5954	21.4%	26.4%
Grand	313	893	6.8%	12.2%
Jackson	33	55	4.1%	7.0%
Lake	1276	2065	42.7%	52.1%
Pitkin	697	841	8.5%	8.9%
Summit	528	915	6.1%	5.7%

Why are workers commuting in such numbers and over such great distances? In large part it is because they cannot afford the housing prices in the communities where the jobs are. In 2001, the Northwest Colorado Council of Governments conducted a Cost of Living Study for five counties and three towns. The study showed that housing prices (rental and ownership) by themselves are driving the high cost of living in the area. The chart below shows these percentages compared to national averages. Profiles 1 and 2 are renters and 3 and 4 are owners. (For copies of these and other studies referenced, please go to the NWCCOG web page at www.nwc.cog.co.us)

Comparison of Local Housing Costs to National Average

	Profile # 1	Profile # 2	Profile # 3	Profile # 4 *
Location:				
Eagle County	158.8%	158.5%	353.3%	177.4%
Garfield County	121.8%	121.4%	230.7%	128.7%
Grand County	130.2%	129.9%	186.8%	111.3%
Pitkin County	272.5%	272.4%	819.0%	512.0%
Summit County	159.4%	158.5%	270.8%	119.8%
Basalt	190.8%	190.9%	258.1%	172.1%
Frisco	168.7%	168.0%	214.7%	124.1%
Silverthorne	129.2%	128.5%	191.3%	96.2%
Standard City US	100.0%	100.0%	100.0%	100.0%

This year, NWCCOG has conducted the 2003 Mountain Resort Homeowners Survey. The survey studied homeowners (both local and second homeowners) in the four counties of Eagle, Grand, Pitkin and Summit. Of the individually-owned housing units in these four counties, 60% are owned by people who maintain their primary residence outside the county where the home is located.

Some of the main findings of the study are the links between the effects on overall housing prices and the jobs generated by second homes. This combination promises to increase the need for more workforce housing options in the future.

Why provide Employer Assisted Housing Options?

Employer-assisted housing can:

- Improve recruitment
- Decrease turnover and associated costs
- Decrease recruitment/retraining costs
- Improve employee morale
- Reduce loss of productivity and need for overtime as a result of employees covering vacancies
- Provide positive PR for company

Chapter 1

Assessing Employees' Housing Needs and Employee Retention Issues

Employers who are considering a housing assistance benefit for their employees should first assess the level of workforce interest in such a benefit. A focus group or employee survey is a good way to start exploring employees' wants and needs in this area. These can be conducted by an internal human resources department or by an employers' group like Mountain States Employers' Council. In companies that do not have a human resources department, the manager or owner can conduct a formal or informal survey. The primary goal is to gather information.

Creating an Employee Survey

When creating a survey, an employer should focus on the workforce's current and anticipated needs. Although each survey should be tailored to the workplace and workforce, knowing the following will be helpful to employers considering a housing assistance benefit:

1. How interested are employees in housing assistance as compared to other benefits? Ask employees to rate the importance of benefits offered by the company. Examples might be:
   a. Comprehensive health and hospitalization plan
   b. Retirement pension plan
   c. College education reimbursement plan
   d. Child care/nursery school program
   e. Other benefits specific to your company

2. Probe the barriers to employees' ability to afford housing, for example:
   a. Lack of down payment for a house
   b. Lack of first month's rent and/or security deposit
   c. Lack of relocation funds
   d. Lack of available/affordable rental housing in the community
   e. Lack of available/affordable single-family housing in the community

3. Determine employee preferences regarding different types of housing assistance, such as:
   a. A down payment loan that is interest-free for five years
   b. A five-year forgivable down payment loan (20 percent forgivable for each year of employment tenure)
   c. An employer-guaranteed mortgage loan. Also:
      1. Are workers interested in a guaranteed loan willing to trade off an annual wage increase to obtain benefit?
      2. Are workers interested in a guaranteed loan willing to trade part of health care coverage to obtain benefits?
   d. Group mortgage discount on closing costs
   e. Group mortgage discount on mortgage rate
   f. Low-rate mortgage, with appreciation on the house shared with employer
   g. Rental assistance (e.g. first month's rent and security deposit)
   h. Monthly lease with employer (i.e. employer rents unit for employees)

4. Try to uncover any additional incentives that might attract employees to live nearer work, for example:

    a. Mortgage rate buydown
    b. Down payment assistance
    c. Rental assistance
    d. Assistance with closing costs

Such surveys are generally conducted in a confidential manner. If an owner plans to present survey results to staff, he or she should be sensitive to the how they are presented and work with human resources, if possible, to ensure that employee confidentiality is maintained.

Working with Human Resources

Companies with human resource departments should use them to assist with the process of formulating and implementing an employer-assisted housing benefit program. This department can be critical in determining the appropriate needs assessment tool for a particular company's culture. In addition to helping with the assessment tool, human resources staff is aware of recruitment and/or retention problems, which will help formulate an effective housing benefit.

Chapter 2

Types of Employer Assisted Housing Programs

This chapter describes several types of employer-assisted housing programs. Some companies combine several to meet their employees' specific needs in the best possible way.

Chapter 6 offeres real-life examples of these programs in place throughout the nation and in Colorado.

<u>Home Ownership</u>

National studies consistently show that homeownership is a high priority for many Americans. In fact, the National Housing Survey, conducted annually since 1992 by Fannie Mae, reports that each year Americans equate homeownership with security. These findings also illustrate that Americans are willing to make tradeoffs to own a home.

Following are some ways that employers can help their workforce buy homes.

Down Payment Assistance

- <u>Forgivable Down Payment Loans</u>
  An employer advances funds for a down payment to an employee. The employer forgives the loan on a pro rata basis annually in return for the employee's completion of an identified length of service at the company. The loan may or may not have an interest component.

- <u>Mortgage Loan Guarantees</u>
  The employer promises to pay the lender all or part of a loan amount still owed if the employee defaults on the loan. Because this guarantee reduces a lender's risk, down payment requirements can be reduced or waived. A Mortgage Loan Guarantee program can be structured in a variety of ways in order to retain the employee, i.e. if the employee does not stay with the company for a specified number of years, s/he must pay back the loan within a certain amount of time. The employers secured interest in the property should cover any default. Also, the employer can establish a loan loss reserve fund as an investment – all principal and interest not used to pay the mortgage can be returned to the employer.

- <u>"Soft" Second Down Payment Mortgages</u>
  Employers arrange for below-market rate second mortgages that may be used for down payments in exchange for employer-administered payroll deductions and/or loan guarantees.

- <u>Transaction Cost Assistance</u>
  Employers help employees with expenses related to closing costs. This can be accomplished through volume discount programs in which a lender or broker reduces fees or points in exchange for a certain level of business.

Other assistance

- <u>Custom Banking/Savings Plans</u>
  Employers provide employees help in buying a home through automatic withdrawals for mortgage payments or attractive loan features in a company's savings plan.

<u>Rental Assistance</u>

For a variety of reasons, home ownership is not a good choice for many families. For this reason, employers assist their staff in finding safe, affordable, and comfortable places to rent. According to the Housing Collaborative consultants, who survey employers around the country, rental housing assistance is used more frequently than other employee assisted housing benefit. These consultants also find that rental assistance increases the number of job applicants.

Following are some ways that employers can help with the costs of apartments.

- <u>Initial rental costs</u>
  Employers provide employees with rental assistance for the initial deposits required by landlords.

  Employee's tax considerations. Amounts paid to an employee directly or to a third party for the benefit of an employee must be included in the employee's taxable income, which includes rental subsidies. In this case, IBM provides federal, state and local tax assistance to its employees.

- <u>Relocation Assistance</u>
  Employers provide a variety of services to offset relocation costs such as temporary housing, placement services, moving costs and/or car rental.

  Employee's tax considerations. Employer should consult with human resources or legal staff for specific regarding the tax consequences of relocation assistance.

- <u>Master Leases</u>
  An employer provides an apartment building owner a guarantee that a certain percentage or number of rental units will be leased to its company employees. Because the building owner can plan for a lower vacancy rate and guaranteed income on a portion of the units, he or she can reduce the monthly rent charged for each unit.

Employer's tax considerations for all housing assistance programs: There are no rules that specifically refer to the income tax treatment of employers who provide mortgage assistance to employees. As a general rule, employers are allowed to deduct amounts paid to employees as compensation. If the employee must include the amount in her or her income, then the employer is allowed the tax deduction.

Amounts paid to an employee directly or to a third party for the benefit of an employee must be included in the employee's taxable income. This includes down payment assistance, amounts received as mortgage interest subsidies and payment used to "buy down" a loan interest rate.

Every employer-assisted housing program throughout the country and in Colorado is unique because it is designed to meet a particular company's need. There is a nationwide employee-assisted housing program offered by Fannie Mae through participating lending institutions and employers. This program provides a menu of employer- assisted housing products. Since it began offering this program in 1991, 1,000 employees have participated in the Fannie Mae program.

Chapter 3

Assessing What the Workforce Can Afford

Creating an effective housing assistance program involves looking at the local real estate market to determine what the workforce can—or cannot—afford. This enables employers to implement a program suited to employees who live in that market.

For example, offering one-time rental assistance of $400 may not be enough of an incentive to a potential employee if the typical area landlord is charging $500 for the first month's rent plus a security deposit. And in large number of rural resort areas, Garfield and Pitkin counties in particular, it is standard that landlords ask for first and last months' rent plus a security deposit. The total up-front costs for an employee to move into an apartment near work could be more than $1,500. To be effective, a company's housing benefit needs to bridge the **affordability gap**, the gap between what the employee can afford and what the market is charging, especially for lower-wage employees, thereby making it worth their while to apply for or accept a job offer from the company.

Using the chart on the next page (which covers the rural resort region), employers can assess the type and what amount of housing assistance would help their employees bridge some or all of the housing affordability gap. The median sales price figures are from the Colorado Association of Realtors 2002 Housing Statistics. The average rents, which come from the Colorado Division of Housing Multi Family Vacancy and Rental Survey (February 2003), are for one-bedroom, one-bath and a two-bedroom, one-bath units and do not include utilities.

HOUSING AFFORDABILITY VS. ACTUAL MEDIAN SALES PRICES AND AVERAGE RENTS BY COUNTY

	HOME OWNERSHIP			RENTAL HOUSING			
COUNTY or CITY	MEDIAN HOUSEHOLD INCOME	AFFORDABLE SALES PRICE*	MEDIAN SALES PRICE**	WORKER HOURLY WAGE	WORKER ANNUAL INCOME	AFFORDABLE RENT***	AVERAGE RENT**** 1BR/1BA 2BR/1BA
CITY OF VAIL	$56,680	$158,945	$510,230 House	$10	$21,000	$525	$714 $992 Eagle County
			$284,848 Condo	$15	$31,500	$788	$714 $992 Eagle County
				$20	$41,500	$1,037	$714 $992 Eagle County
GRAND COUNTY	$47,759	$133,929	$272,917 House	$10	$21,000	$525	Unknown
			$155,667 Condo	$15	$31,500	$788	Unknown
				$20	$41,500	$1,037	Unknown
CITY OF ASPEN	$53,730	$150,673	$502,083 House	$10	$21,000	$525	$852 $1028
			$368,333 Condo	$15	$31,500	$788	$852 $1028
				$20	$41,500	$1,037	$852 $1028
CITY OF GLENWOOD SPRINGS	$43,934	$123,202	$221,354 House	$10	$21,000	$525	$593 $691
			$189,333 Condo	$15	$31,500	$788	$593 $691
				$20	$41,500	$1,037	$593 $691
SUMMIT COUNTY	$56,587	$158,685	$322,902 House	$10	$21,000	$525	$661 $801
			$200,000 Condo	$15	$31,500	$788	$661 $801
				$20	$41,500	$1,037	$661 $801

* Figure based upon standard underwriting guidelines using qualifying ratios of 29% to 41% of gross income, assuming no debt, an interest rate of 6.5% and a 30-year fixed-rate mortgage. This figure includes estimates for taxes and mortgage and hazard insurance. It also assumes a good credit history and rating. It does not include any required down payment or closing costs. These costs typically add an additional 2%. All figures are estimates only. The actual amount for which a borrower may qualify may be different.

** Colorado Association of Realtors 2002 Housing Statistics

*** Colorado Division of Housing Multi Family Vacancy and Rental Survey (February 2003)

**** The affordable rent uses 30% of gross income for rent as a suitable method to compute household affordability based upon standards from the rental housing industry for the public sector. This methodology has also been adopted by private ownership of multi-family housing as well.

HOW TO USE HOUSING AFFORDABILITY CHART

The housing affordability chart is a guide to help employers gain familiarity with the housing market(s) in which their employees live, or want to live. Because the home prices are based on 2002 figures (the most recent available), these prices may be somewhat lower than current home prices. Nonetheless, the prices are a good baseline for employers assessing their companies' need for a housing benefit.

If a company in Summit County, for example, is having difficulty recruiting and retaining employees who earn $10 per hour, or $21,000 annually, this chart gives the employer some insight into the problem. An affordable rent for a $10/hr. employee in Summit County is $525. By comparison, the average one-bedroom, one-bath apartment in Summit County rents for $661--$136 more than the affordable rent for that employee.

Combining this information with responses to the employee survey presented in Chapter 1, employers can craft the most appropriate and beneficial housing assistance program for their employees. For example, if the employee survey shows that living near work is important to employees and that rental assistance would be an incentive for them to do so, the employer could then analyze the company's budget (taking into consideration turnover and recruitment costs as addressed in Chapter 4) and formulate an appropriate housing benefit. Perhaps $100 per month in rental assistance would be a large step in combating the recruitment problem for this Summit County company. Another approach might be to help employees with the one-time cost of a security deposit plus the first month's rent. If the survey showed that the initial move-in costs were a barrier to living near work, the one-time payment by an employer of $661for the first month's rent, $661 for last months rent, plus $661 for a security deposit, might provide the incentive an employee needs to join the company. When compared with turnover costs, $1,983 may be a reasonable investment.

Similarly, employers should consider down payment and/or closing cost assistance for homeownership, if a survey indicates that homeownership is a priority for employees and that the down payment is a barrier to this goal. Referring again to Summit County on the previous chart, the employee making the median household income, $56,587, could afford to buy a home that costs $158,587. However, the median sales price of a condo in Summit County is $200,000, which is $41,413 more than what this employee can afford based on income.

If this employee wants to buy a $200,000 condo in Summit County, the optimal level of assistance would be approximately $41,413. Many companies, however, may not possess adequate resources to provide this level of assistance to their workforce. Given such budgetary limits, combining down payment assistance, with other assistance such as interest rate reduction or a soft second mortgage forgivable over a period of years (on the condition that the employee remains with the company) may prove an effective solution. In addition, CHFA, Fannie Mae, and others partner with lenders around the state who can work with employers to customize a homeownership assistance program.

Chapter 4

Paying for Housing Assistance Benefits

After a business has identified employer-assisted housing as a priority, the next step is to determine how to finance such a benefit. Because housing benefits help reduce the costs associated with recruiting, retention and turnover, finding the money (or paying for the benefits) may be easier than many business owners expect.

Labor Turnover Costs

According to the Society for Human Resources Management's report, *Employee Turnover: Analyzing Employee Movement out of the Organization*, "Employee turnover is a longstanding managerial concern. When an employee leaves an organization, the organization usually experiences substantial costs. Costs to the organization may include decreased productivity, costs of hiring a new employee, increased training time, recruitment fees and other indirect costs. Other turnover consequences relate to the smoothness and continuity of organizational operation, employee morale, and the difficulty of replacing the departed employee. As a result, organizations are concerned about monitoring turnover behavior."

Turnover costs can be a serious problem affecting employers in every industry in the resort area. In a recent survey of industries in the resort area, the annual average turnover percent was 21.4% (The percent turnover is calculated by the total separations divided by the average number of employees during a period of time.)

To better understand the impact these turnover costs have on employers, the following examples illustrate the costs to employers recruiting for vacancies at the $15/hour job, $20/hour job and a job above $20/hour.

The first example of turnover costs associated with a $15/hour job come from CHFA, and illustrates the turnover costs associated with a junior accountant position. The position pays $14 per hour with an annual beginning salary of $26,500 and this position is responsible for the company's accounts payable functions. An accounting degree is desirable but not required, and the applicant must have at least one year of previous work experience. As shown in this example, at least six areas of business operations were measurably impacted by the turnover in this position.

Turnover Costs
Junior Accountant Example

Up Front Turnover Costs

• Vacancy Decreased productivity of existing staff plus cost of temporary help— $15 x 5 weeks x 40 hours/week	$3,000
• Advertising – 5 sites	$1,000
• Hiring Process Screening resumes and processing applicants 3 hours staff time plus 2 hours senior staff time— $25 x 5 hours	$125
Interviewing time of HR senior staff plus two departmental staff (including at least one senior staff)— $34.50 (includes benefits) x 8 hours of staff time per person	$828
If " position is hard to recruit," $500 is paid to referring employee	$500
Total Up Front Turnover Costs	$5,453.00

Initial Productivity Costs (first six months)

- The initial productivity for the first six months (to be as proficient as previous employee) is calculated at 75% efficiency, using an hourly salary of $17.66 per hour (includes benefits) x 173 hours per month x 6 months x 25%:

Productivity Loss $4,582.77

Training Costs

- The third category of turnover costs is the first six months of training. To be proficient in the job, a wide array of training is provided during the first six months. Typical training includes:
  - Orientations
  - Computer technical assistance
  - Supervisor coaching
  - Outside training
  - Inside training
  - Assistance with management systems
  - Assistance with operational systems

Based upon the initial six-month training and orientation period, the above calculations reflect 75% of the entire salary plus benefits as turnover-related costs. The specific training listed above, including additional staff time (e.g. MIS staff), is not included in this calculation. In many companies, a year is considered the typical length of time it takes a new employee to achieve 100% proficiency in a job, depending upon the new employee's skills, abilities and experience. The total recruiting and turnover-related costs illustrated in the junior accountant example equals:

$10,035.77

The second example shows the turnover costs associated with a professional position -- a bank loan officer -- around the $20 per hour or annual salary of $48,000 level. The position has extensive public contact as well as underwriting ability, and requires a four-year college degree.

Turnover Costs
Professional Position Example
(roughly $20/hour)

Up Front Turnover Costs

- Vacancy
  Lost opportunities/Hidden Costs - Revenue lost due to incomplete projects, lost sales, disrupted customer service and other resources filling in while position is vacant, etc.) **Estimate will vary depending on the open position and how long it remains vacant*
  $30, 000*
- Advertising – 5 sites $ 1,000
- Administrative Cost to Process All Candidates
  (Will vary depending on position and number of applicants)
  Total number of administrative hours x average hourly salary plus benefits
  20 x $20 $ 400
- Interview Costs
  Number of interviewers x hours per candidate x average hourly salary plus benefits x number of candidates interviewed
  3 x 2 x $40 x 3

  $ 720

Total Up Front Turnover Costs **$ 32,120**

Initial Productivity Costs (First Year)

- Training
  (Number of months training time in the first year 3 x monthly salary plus benefits $5,200)
  $ 15,600

Total Costs **$ 47,720**

These turnover related costs do not include relocation cost averaging $50,000

Even positions earning more than $20/hour struggle with the cost of housing. These jobs are fairly common in the information technology, biomedical and telecommunications fields, where starting salaries can be around $75,000. The turnover costs of these positions are often higher and can exceed $100,000. Recruiting new hires in these fields may be difficult if your business is in a higher housing cost area. Prospective hires at $75,000 annually could qualify for a mortgage of $237,838 at 7.5% interest. However, this individual would need to put make a downpayment to purchase this home. The down payment required could range from $7,135 to more than $23,000 depending on the type of mortgage loan received.

Weighing the costs

Employer-assisted housing benefits can offset turnover costs while achieving retention and recruitment of employees. For example, if an employer determines that those positions earning less than $15 per hour or up to $31,500 per year are the hardest to fill and retain, he or she can work with the human resources department to determine how much the turnover in these jobs costs the company. The company can then determine what allocation of resources, if any, is necessary. If the company chooses to provide an up-front down payment loan of $5,000, forgivable at a rate of $1,000 per year for five years, the $1,000 per year forgiveness amount would be well below the company's $10,036 turnover costs. This benefit increases employee loyalty because remaining with the company is a requirement of receiving the loan.

This same employer facing the same $10,036 turnover cost may choose to provide a one-time benefit of rental assistance to cover the first and last month's rent. In this case, based on the average market-rate one-bedroom apartment in Summit County, the employer would provide the $661 for the first month's rent plus an additional $661 to cover the last month's rent. The total rental assistance would be a one-time cost of $1,322, far below the $10,036 price of turnover.

As long as housing benefits cost less than turnover, and are a high priority benefit to the workforce, most companies should find that they can afford to offer some sort of housing benefit and, in the long term, save the company money.

Chapter 5

The Tax Benefits of Housing Assistance Programs

Employers who provide housing assistance to employees benefit in the following areas:

- Improved recruitment
- Reduction of hiring and training costs
- A tax deduction on benefits
- Greater employee retention and loyalty
- A cost-effective employee benefit
- Reputation as a family-friendly employer
- Creation of employer goodwill in the community

According to the book *Employer Assisted Housing, A Benefit for the 1990s*, by David C. Schwartz, Daniel N. Hoffman and Richard C. Ferlauto,

> "An employer who decides to offer housing benefits today is likely to find that lenders and builders are interested in sharing the costs and risks of offering the benefit; that non-profit housing organizations and/or labor unions are interested in cooperating with the employer to publicize, administer or otherwise advantage the benefit program; that federal and/or state government officials are interested in providing resources (which can reduce employer's contribution); and the significant and generally positive media attention will accompany the introduction of the program."

The benefit on the minds on many employers, however, is the tax benefit.

Tax Issues and Benefits

Tax issues may impact how an employer's plan is structured. The Society for Human Resources Management, in their publication *HR Explanation and Advice*, March 6, 2000, provided a general overview of the tax and other legal issues to consider when evaluating the impact of assisting the employee with housing. As stated in Chapter 2, when an employee receives a benefit from the employer in the form of down payment assistance, mortgage interest assistance or rental assistance, the amount of benefit is considered taxable income in the year received. For the employer, the general rule is when the employee receives a benefit that is taxable income, then the employer is allowed the tax deduction. The following table outlines other tax considerations.

TAX CONSIDERATIONS

<table>
<tr><th>TYPES OF HOUSING ASSISTANCE</th><th>EMPLOYEE’S TAX CONSIDERATION</th><th>EMPLOYER’S TAX CONSIDERATION</th><th>EMPLOYMENT TAXES</th><th>ERISA</th></tr>
<tr><td>Employer pays part of the downpayment to purchase home</td><td>Amounts paid to an employee directly or to a third party for the benefit of an employee must be included in the employee’s taxable income in the year received.</td><td rowspan="3">There are no rules that specifically refer to the income tax treatment of employers who provide mortgage assistance to employees. As a general rule, employers are allowed to deduct amounts paid to employees as compensation. If the employees must include the amount in his or her income, then the employer is allowed the tax deduction.</td><td>Fringe benefits (including the cash value of certain types of mortgage assistance to employees) like compensation that is not specifically excluded from the statutory definition of “wages” are treated as “wages” subject to federal income tax withholding, social security and medicare (FICA) taxes, and Federal unemployment (FUTA) tax. The fair market value of non-cash compensation is the amount included in wages and subject to employment taxes.</td><td rowspan="3">Housing assistance may be provided to employees other than from a collectively bargained trust is not subject to ERISA.</td></tr>
<tr><td>Loan Guarantee – employer may guarantee a mortgage loan.</td><td>The employer’s payment must be included in the employee’s taxable income.</td><td rowspan="2"></td></tr>
<tr><td>Mortgage Interest Assistance Employer pays portion of the employee’s interest on mortgage loan.</td><td>Amounts received by the employee as mortgage interest subsidies or as payment to “buy down” a loan interest rate are included in the employee’s income.</td></tr>
<tr><td>Rental Assistance</td><td>The employee who receives rental assistance has taxable income on the amount received.</td><td></td><td></td><td></td></tr>
</table>

Chapter 6

Employer Assisted Housing Programs in Place Nationally and in Colorado

The following are national examples of employer assisted housing programs followed by local examples.

National

Washington University Medical Center
St. Louis, Missouri

Type: Down Payment Assistance

Participation: 20,000 employees

To encourage employees to purchase homes in one of two neighborhoods located near the University and Medical Center

In 1997, Washington University initiated a down payment and closing cost assistance program to encourage employees to purchase homes in two neighborhoods. These neighborhoods are located near the campus and medical center. One neighborhood offers single-family homes that were built during the 1890s and the other has homes built during the 1950s. Both areas provide housing for students and employees.

The University made an open-ended commitment to provide 5% of the purchase price up to $4,000 to assist employees in buying homes in these neighborhoods. In addition, Fannie Mae established a consortium of lenders who offer customized mortgage products for homebuyers. Fannie Mae purchases these loans.

Since the inception of the program, $80,000 has been allocated. Employees taking advantage of the program include medical residents, nursing staff, administrative staff and food service workers. The only requirement is full- or part-time employment by the University. The loan is forgivable over five years. The loan must be repaid if an employee is terminated for cause or sells the home prior to the five-year term.

Select Milwaukee – Walk to Work
Milwaukee, Wisconsin

Type: Down Payment Assistance

Participation: Varies by employer

Primary Goal: Increase home ownership in Milwaukee

Select Milwaukee is a nonprofit organization that administers a down payment assistance program for 14 employers in Milwaukee, ranging from the Sinai Samaritan Medical Center to Northwestern Mutual Life. The companies provide between $500 and $5,000 per employee for down payment, closing and other related transaction expenses.

The smallest employer that participates is a nonprofit with 45 employees. The largest is Milwaukee Public Schools with over 14,000 employees.

The program has been in operation for five years. Select Milwaukee administers the program, including handling inquiries, producing employee information packets, loan processing and buyer education. The organization charges each participating employer an annual fee based on the number of employees in the company. A flat fee of $450 is also collected at loan closing from each borrower. The State of Wisconsin Division of Housing and the City of Milwaukee also support the organization. The Wisconsin Department of Transportation paid for the production of a video about the program since it is aimed at helping employers meet Clean Air Act requirements by reducing the distance traveled between work and home.

Municipal Governments
Baltimore, Maryland
Los Angeles, California

Type: Down Payment Assistance and Housing Counseling

Goal: Increase residency within cities and target essential employees

Municipal governments are employers. They look for ways to help municipal employees buy homes within the city.

Baltimore's program is open to all low- and moderate-income city employees. The city surveyed its workers and found that a significant number of those earning less than $35,000 annually were interested in owning a home in Baltimore. In Los Angeles, the program is focused on public safety employees, police officers, and fire fighters.

Both programs offer housing counseling and down payment assistance. In both cities eligible employees had to provide $1,000 of their own savings. The City of Baltimore provided a match of up to $2,500 and a $7,500 deferred loan. Los Angeles provided a $10,000 down payment assistance loan and access to below-market mortgage revenue bond financing.

Coastal Housing Partnership of Santa Barbara
Santa Barbara, California

Type: Favorable interest rates

Goal: To provide favorable-interest-rate financing for employees purchasing homes in high priced real estate markets

In Santa Barbara, California, a consortium of 15 public and private employees joined forces with a local lender to aid their employees in purchasing homes in a high-priced real estate market. This consortium, called the Coastal Housing Partnership, worked out an agreement with a local lender to secure favorable financing for their employees in return for certain corporate banking arrangements.

Employees of participating companies are eligible for an 80% loan from the lender at a favorable interest rate. In addition, the lender makes a second mortgage to the employees at a rate two points above the cost of funds with one point. In effect, employees have a 90% mortgage with a reduced interest rate, but were required to have a 10% down payment. In return, employers in the Partnership have established certain banking relationships with the lender. This model is attractive to employers because it requires no outlay of cash. The other concern, besides the size of the down payment, is there were no incentives for the employee to remain with the employer. However, this example shows that individual employers working together can negotiate favorable loan products with lenders.

Stanford University
Palo Alto, California

Type: Down payment assistance

Participation: 100 to 120 employees annually

Goal: Increase faculty and staff retention by enabling employees to purchase housing locally

Located in one of the highest-cost housing areas in the country, Stanford University has developed programs to assist the faculty and staff in their efforts to purchase homes near the University. Stanford began its programs in the early 1980s and now offers three that can be used independently or in conjunction with the others. These include:

- Down payment assistance. Up to 10 % of the purchase price of a home as well as pre-paid interest (points) can be covered with a second mortgage provided at rates which are comparable to the 10-year federal treasury note rate.

- Cash supplements for mortgage payments. The assistance equals approximately 8 % of the employee's annual salary. The supplements are provided on a decreasing scale from the first year for a maximum of nine years.

- Interest-only loans for up to 50 % of the purchase price of a home. These loans are provided at a 3.5 % interest rate and do not require payment on the principal. The equity gained upon resale is shared proportionately between the faculty member and the University, based on the dollar contribution of each at the time of purchase.

Gateway 2000
North Sioux City, South Dakota

Type: Master Lease

Gateway 2000, in North Sioux City, South Dakota, master leases 20 apartment units and owns six townhomes near its facility. These units are provided to new employees and contract consultants, and are completely furnished including kitchenware and cable TV. The employees reimburse the company for rent but do not have to cover deposits or utilities. The goal of the program is to reduce stress and increase productivity of new employees. On average, employees stay in the units for two to six months. Since housing availability is limited in the area, it allows the company to attract mid- and upper- level employees from elsewhere by giving them time to find or build homes. The employees are able to move their families with them and to live in comfortable units while they search for homes. Most of these employees ultimately purchase homes priced around $250,000.

The cost to the company of about $120,000 per year is less than the cost of having employees stay in hotels on a long-term basis. The company started the program in 1992, and is now considering contracting with a property management company to administer the program.

The company does not use any specific eligibility criteria but will attempt to house any employee who needs assistance.

IBM
San Jose, California

Type: Rental Assistance

IBM's office in San Jose, California, was having difficulty recruiting employees because of the shortage of affordable housing in northern California. In response, the company implemented a pilot housing assistance program of up to three years of rental assistance for employees permanently relocating to northern California. When units rented fit within the program parameters (e.g. in one of 26 northern California counties), the company pays the difference between the rent charged and 28 percent of the household gross income.

Colorado

Intermountain Rural Electric Association (IREA)
Sedalia, Colorado

Intermountain Rural Electric Association (IREA), located in Sedalia, Colorado, required certain employees, including linemen, to live within a 20-mile radius of headquarters. Because of the high cost of housing in the area, it was difficult for employees to satisfy this requirement. In response, the company developed a down payment assistance program, wherein IREA pays up to 10 % of the purchase price toward down payment, while the employee is required to put down a minimum of 3 %. If the employee leaves the company for any reason, s/he is required to reimburse the company.

National Center for Atmospheric Research and the University Corporation for Atmospheric Research (NCAR/UCAR)
Boulder, Colorado

The National Center for Atmospheric Research and the University Corporation for Atmospheric Research (NCAR/UCAR) in Boulder, Colorado has a number of visiting scientists and other professionals who work or come to the facility for educational purposes. Their tenure at the facility usually lasts less than one year. To incentivize candidates to come to the center, relocation assistance is offered. NCAR/UCAR spends an estimated $6,000 per employee for moving expenses. This does not include the cost for trips to locate a home, although these expenses are covered based on individual departmental budget availability. NCAR/UCAR also has negotiated an agreement with a moving company for improved rates.

In addition, the agency's housing office has established a network of small apartments and rooms located within the homes of local residents that are available for visiting staff rental. The temporary housing is furnished and can be rented for up to $600 per month. The employee pays these costs; however, the service places visiting staff in a residence.

Eagle River Water & Sanitation District
Vail, Colorado

The Eagle River Water & Sanitation District, located in Vail, Colorado was having difficulty recruiting and keeping employees because of the shortage of affordable housing in the resort community. In response, the company implemented a housing assistance program in 1998. The program includes rental assistance, down payment assistance, and outright purchase of properties which are sold to the employees at below-market rates with deed restrictions. The rental assistance program has two parts: 1) the District provides a two-year, zero-interest loan for first, last, and security deposit payments; 2) Provide rental units at below market rates for up to two years in District owned units.

Rural Resort Region Examples
Employer Housing Efforts in Eagle County

A growing number of employers in Eagle County are making an effort to find solutions for the housing problem. These efforts include master leasing of apartments or condominiums, purchasing homes, mobile homes or acquiring complexes. Some are initiating mortgage assistance programs to assist their employees in purchasing their own homes.

Listed below are current employer programs in place in Eagle County. For more information on individual employer programs contact the Eagle County Housing Department.

Employer	# of Employees	Education	Contruct/Purchase	DPA/Motgage Assistance	Master Lease	Invest	Subsidize*	Payroll Deduct	Deposits	Loans	Guarantee	Housing Allowance	Increase Wages
Ace Hardware 970-476-8282	10-12				√								
Antlers 970-476-2471	41				√		√	√		√	√		
Austria House 970-477-5800	11-13		√										
Avon Pet Center 970-949-6467	5		√		√		√			√			
Cascade Hotel/Club 970-476-7111	450-500				√		√	√					
City Market 970-476-1096	Vail 85 Avon 100 Eagle 67		√										
Colorado Mtn. News Media 970-328-6333	275		√										
Eagle County Emergency Services 970-926-5270	25 FT 18PT			√						√			√
Eagle River Water & Sanitation District 970-926-5270	Vail 30 Edwards 10 Avon 50		√	√	√	√			√	√			
East West Partners					√		√			√			
First Bank 970-476-8000	Various Locations 106				√		√						
Holy Cross Electric	N/A	√		√							√		
Honeywagon 970-476-3511	13		√	√	√		√						
McDonalds	N/A				√								
R.A. Nelson & Associates	N/A			√									

Employer	# of Employees	Education	Contruct/Purchase	DPA/Motgage Assistance	Master Lease	Invest	Subsidize*	Payroll Deduct	Deposits	Loans	Guarantee	Housing Allowance	Increase Wages
Riverwalk	N/A		√		√								
School District 970-328-6321	675 128 substitutes				√								
Sonnenalp 970-476-5656	380						√						
St. Claire Catholic School	N/A		√		√								
Steam Master 970-827-555	27				√		√						
Vail Daily	N/A				√		√	√	√				
Vail Resorts 970-476-5601	Vail 2400 Beaver Crk 2400		√	√	√	√					√	√	
Vail Valley Medical Center 970-476-2451	500				√								
West Vail Liquor Mart 970-476-2420	9 FT 1 PT				√								

Subsidies include any combination of security deposit, first & last month's deposit, and decreased prices.

Chapter 7

Housing Assistance Program Administration

Housing assistance programs may sound complicated to employers who are unfamiliar with down payment assistance or the risks associated with mortgage loans. Employers also may not want to burden their Human Resources staff with the responsibility of administering an additional program and answering employees questions about what may be foreign concepts: homeownership, real estate, or mortgage information.

The following services can be utilized to assist employers:

Homebuyer Education: In Colorado, most home ownership counseling is conducted by nonprofits at no cost to the employer or employee. Some home finance programs, such as CHFA's, pay for the home counseling, thereby making it more attractive for employers and employees alike. The curriculum covers a wide range of topics, including walking the prospective homebuyer through the entire homebuying and lending process.

Down payment assistance, loan servicing – Similar to homebuyer education services, nonprofits are capable of assisting employers in prequalifying employees for loans as well as originating and servicing second loans for down payment assistance.

Other housing assistance services – Some nonprofits work with individual employers to tailor housing services to meet a company's unique needs. Other nonprofits--similar to an employee assistance program--can provide employees with individual counseling unique to their needs and link them to a variety of housing programs.

Another advantage of outsourcing housing assistance programs to a nonprofit, is that the employer contribution for the housing services desired can be designed as a tax-deductible donation.

Attractive lending terms – Some lenders are also willing to provide services and attractive loans depending on the volume of business they receive from an employer. Examples include discounted closing costs, interest deductions and attractive banking services.

Risk Management

To protect each party's interests, all forms of housing assistance should include documentation ranging from a legally prepared promissory note to a human resources customized loan request form. This documentation outlines the terms of the assistance, covering such things as the case of termination before a prescribed time. It could outline that an employee receiving housing assistance is required to reimburse the employer on termination, that a payment plan can be set up, or that the company will write off the debt.

To minimize the risk of foreclosure by employees, employers may:

- Establish employee eligibility requirements

- Require home ownership counseling
- Define prequalifying and underwriting criteria
- Execute promissory notes and other legal documents
- Define size and term of the housing assistance
- Utilize an intermediary such as nonprofit who is familiar with Colorado real estate and lending practices
- Utilize a legal and tax expert.

Conclusion

Employers can design and implement their own affordable housing programs. Doing so should give these progressive employers an advantage in the competition for employees. We are hopeful that this Report will spark the imagination of the reader to create a program that will work for his/her employees.

In creating this Report, the Rural Resort Region hoped to accomplish two goals:

First, to give individual employers a tool to understand and to create a housing assistance benefit program that will help them to attract and to retain workers.

Second, to encourage employers to create these benefit programs so that the Rural Resort Region continues to attract the best workers from across the United States. The continued health of Colorado's economy depends on it.

For more information or to get an electronic version of this report visit the Northwest Colorado Council of Governments website at www.nwc.cog.co.us.

Resources

Northwest Colorado Council of Governments (NWCCOG)
P.O. Box 2308 / 249 Warren Avenue
Silverthorne, CO 80498
970-468-0295 / fax 970-468-1208
http://www.nwc.cog.co.us/

Rural Resort Region
PO Box 2308
Silverthorne, CO 80498
970-468-0295
rrr@nwc.cog.co.us

Colorado Housing and Finance Authority
1981 Blake Street
Denver, CO 80202
1-800-877-CHFA
www.colohfa.org

Homebuyer Education/Home Counseling

Grand County Adult Education Coalition, Inc
Dawnie Blado

CCCS – Denver
Chris Conrad
303-632-2265

CHAC
Julie Liggett/Jo Untiedt
303-572-9445

Mountain Regional Housing
Susan Shirley
970-963-9606

Summit Housing Authority
Eileen Freidman
970-453-3557

Upper Arkansas Areas Council of Governments (Lake County)
Laura Yost
719-269-7687

Financing

Colorado Housing and Finance Authority
1981 Blake St.
Denver, CO 80202
www.colohfa.org

Fannie Mae Colorado Partnership Office
1225 17th Street, Suite 2460
Denver, CO 80202
www.fanniemae.com

CHAC & Funding Partners for Housing Solutions, Inc.
Joe Rowan
970-494-2021

Housing Consultants

Chris Cares
RRC Associates
4940 Pearl East Circle, Ste. 103
Boulder, CO 303-449-6558

Melanie Rees
Rees Consulting, Inc.
P.O. Box 19410
Boulder, CO 80308
303-782-3049

Kathy McCormick
McCormick and Associates, Inc.
2705 Iliff
Boulder, CO 80303
303-499-1915

Andy Knudtsen
Knudtsen and Company Consulting, Inc.
745 Marion St.
Denver, CO 80218
303-831-7784

Human Resources/Benefits

Mountain States Employers Council
1799 Pennsylvania Street
Denver, CO 80203
303-839-5177 www.msec.org

City and County Housing Departments

Eagle County Housing Department
KT Gazunis
P.O. Box 850
500 Broadway
Eagle, CO 81631
970-328-8769

Summit County
Eileen Friedman
P.O. Box 188
106 N. Ridge St.
Breckenridge, CO 80424
970-453-3555

Housing Authority of Pitkin County (Aspen)
Maureen Dobson
530 East Main Street, Lower Level
Aspen, CO 81611
970-920-5050

Garfield County Housing Authority
Geneva Powell
2128 Railroad Avenue
Rifle, CO 81650
970-620-3589

Grand County Housing Authority
Jim Sheehan
200 Eisenhower Drive
Fraser, CO 80442
970-726-4572

City of Leadville Housing Authority
131 West 12th Street
Leadville, CO 80461
719-486-2431

Additional Resources
Mountain Regional Housing Corporation
Susan Shirley
326 Hwy 133, Suite 160
P.O. Box 2001
Carbondale, CO 81623
970-963-9606

Sources

Fannie Mae, Fannie Mae National Housing Survey, 1996

The Joint Center for Housing Studies, Harvard University, *The State of the Nation's Housing*

Schubert, Michael, *Housing for a Competitive Workforce: Homeownership Models that Work,* April 1998

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Society for Human Resources Management , *Employee Turnover: Analyzing Employee Movement out of the Organization* (see www.shrm.org)