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# RISING HOUSING COSTS: ASSESSING IMPACTS OF LAYERED HOUSING POLICIES IN ERIE

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## ABOUT THE AUTHOR



### Chris Brown – CSI Vice President of Policy and Research

Chris joined CSI in 2017 and leads the research efforts to provide insightful, accurate and actionable information on the implications of public policy issues throughout the state of Colorado. With an extensive background in economics and public policy, Chris has made significant contributions to understanding complex economic issues within Colorado and beyond. Highlights of his work include reports on the economic effects of major ballot measures and legislation including, analysis of Denver’s Inclusionary Housing Ordinance, Proposition HH on property tax reform, Proposition 118 on the creation of a state paid leave program, predictive scheduling legislation, the Colorado option health plan among many more. Prior to joining CSI, Chris spent close to a decade working for REMI (Regional Economic Models Inc), establishing their Washington D.C. office.

## ABOUT COMMON SENSE INSTITUTE

**Common Sense Institute** is a non-partisan research organization dedicated to the protection and promotion of Colorado’s economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Coloradans. CSI’s mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

## TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI’s commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI’s mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team’s work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

# COLORADO HOUSING CHALLENGES AND ERIE POLICY IMPACTS

The Town of Erie, situated less than 30 miles north of Denver and co-located in Boulder and Weld counties, is one of the fastest growing municipalities in Colorado, growing 17% between 2020 and 2023. The town's recently passed Comprehensive Plan anticipates the number of homes to more than double in the next 30 years.<sup>i</sup> Achieving this goal requires developing an average of more than 600 housing units per year.

The anticipated growth comes at a time when Colorado and the surrounding communities across northern Colorado face housing shortages and affordability challenges. At the end of last year, CSI estimated Weld County to have a housing supply shortfall of 3,500 to 10,000 units, requiring an increase of 2.8% to 7.8% in the current housing stock to bridge the gap. Boulder County fared worse, with an estimated shortfall of between 5,300 and 12,500 homes - or between 3.7% and 8.7% of the county's existing housing stock.<sup>ii</sup>

Erie recently approved two policies that directly impact the cost of providing new homes: **Fire Suppression Requirements** which mandate sprinkler systems for all new construction, and **Electric-Ready Building Codes requiring** upgrades for electric vehicle charging and solar panel integration.

In addition, Erie has announced it will increase its **Water Tap Fee**. While the Town has not increased their tap fees in a while and has one of the lowest in the region, significant issues surrounding the increase remain. The policy discussion now centers around whether the increase will be phased in over several years and whether the fees can incentivize smaller lots and native landscaping.

Finally, the town is expected to consider mandating affordability restrictions on new developments through an **Inclusionary Housing Ordinance (IHO)** in 2025.

Each of these significant changes, enacted over the span of months, has been discussed in isolation. However, the cumulative impact of these policies and proposed fee increases on Erie's goals for new housing and revenue expectations is less well understood. Recent CSI research found that the permitting of new housing in Denver is down 33% to 35% following the adoption of just an inclusionary housing ordinance.<sup>iii</sup>

While the fee hike aims to address fiscal challenges and ensure Erie keeps pace with rising water rates, the cumulative costs **and timing** of these policies **will constrain supply and substantially drive-up prices for future Erie homebuyers.**

**The result is less revenue for the city to meet its fiscal demands and greater challenges to meet the diversity of supply expectations laid out in its own comprehensive plan.**

## KEY INSIGHTS

- **Rising Costs Passed to Homebuyers:** Erie’s proposed and enacted housing policies—including increased water tap fees, fire suppression mandates, and electric-ready building codes—are estimated to raise homebuyer costs by \$35,000 to \$60,000 per unit.
- **Up to 468 Fewer Homes Over Three Years:** The change in development costs directly impact approximately 10,000 housing units currently in the development review process. A 20% to 35% reduction in annual housing supply amounts to 267 to 468 fewer homes over three years.
- **Longer-Term Impacts on Housing Goals:** The increase in prices to future homebuyers and the decline in housing supply challenges Erie’s recently approved Comprehensive Plan Update. Higher costs per unit further discourage smaller homes on smaller lots, making it harder to meet both total housing unit goals and the diversity of housing supply goals.
- **Reductions to Town Revenue:** While the proposed water tap fee increase aims to boost revenue, the projected reduction in homes would offset these gains. At a 35% supply loss, the town could see a net decline in revenue of \$278,400 annually, undermining fiscal goals and threatening the sustainability of long-term capital projects. One Erie homebuilder estimated that the loss of their planned 2,000 homes could cost the city \$100 million in fees.

# ERIE HOUSING POLICIES AND BUILDER COSTS

The Town of Erie recently approved two policies that directly impact the cost of providing new homes.<sup>iv</sup>

- **Fire Suppression Requirements:** Mandating sprinkler systems for all new construction.
- **Electric-Ready Building Codes:** Requiring upgrades for electric vehicle charging and solar panel integration.

Along with these recent changes, the town also decided to increase its **water tap fee** in an effort to address budgetary needs for capital projects that would benefit both existing and future residents.<sup>v</sup> While Erie has not increased its water tap fees even as water supply costs have gone up, significant issues surrounding the increase, including whether the increase will be phased in over several years and whether the fees can incentivize smaller lots and native landscaping, are still being debated.

Though not officially decided, the town is also considering mandating affordability restrictions on new developments through an **Inclusionary Housing Ordinance (IHO)**.<sup>vi</sup>

Each policy has been debated individually, but the cumulative impact on the cost and supply of new homes has not been adequately addressed.

# SURVEY OF ERIE HOMEBUILDERS

In partnership with the Denver Metro Home Builders Association, CSI reviewed the results of a survey of builders in Erie. The survey included questions related to the project size and unit mix for existing projects. It also asked builders to estimate the impact of the proposed code and fee changes on their costs on a per-unit basis and how it would impact their project financing and ability to continue to produce new units. The results below summarize specific responses from individual Erie homebuilders. The responses related to costs provide insight into how town policy changes impact development costs and prices for future homebuyers. The responses related to supply provide insights into how homebuilders will respond, given their ability to pass on higher costs to homebuyers or forego new development in Erie altogether.

Summary Responses from Survey of Erie Homebuilders:

## Related to Costs –

- Homebuilder response - Just the three policies related to fire suppression, code adoption and water tap fee increase would have a per-unit base cost of \$35,200 per unit.
- Homebuilder response - The tap fee plus the IHO would increase the cost to homebuyers by \$46,000.
- Homebuilder response - Total cost to homebuyers would increase \$60,000 per unit on currently proposed townhomes due to recent policy.
- Homebuilder response - Town fees would increase rents on new units by \$430/month.
- Homebuilder response - “Prices drop for the same product by \$50,000, just across the freeway (I-25)”.

## Related to Supply –

- Homebuilder response - Just the increase in water tap fees of ~\$22,000 would slow building permit applications between 10% to 25%.
  - > The tap fee increase alone would “tip the scales into impractical” for project completion.
  - > “If the deal no longer generates market returns, the financing will not be achievable. This is a real threat.”
- Homebuilder response - The loss of \$50,000 per unit in impact fees on 2,000 planned homes would be a loss of \$100M to Erie.
- Homebuilder response – “Small lots and small homes have been discouraged in the suburbs for many years. Small homes with large fee impacts will create attainability issues and further perpetuate the housing gap.”

# ERIE HOUSING SUPPLY

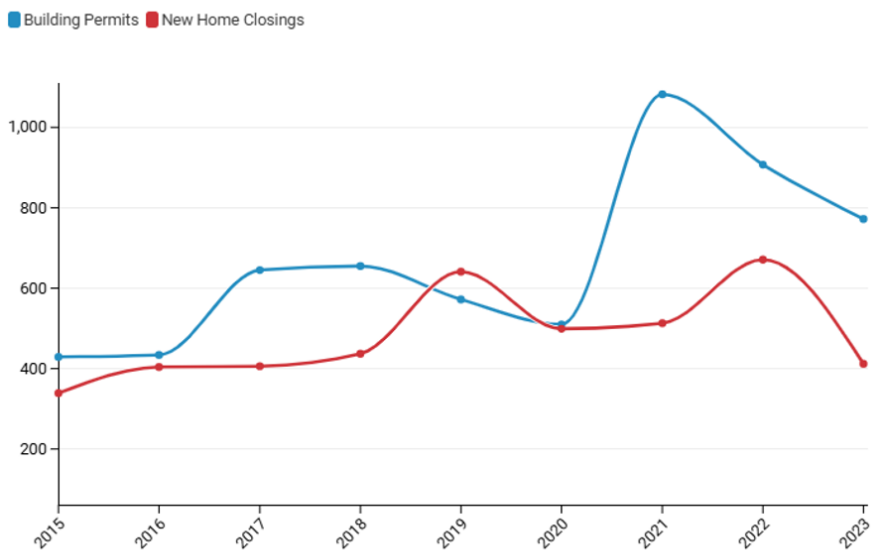
As identified by *Erie's Housing Needs Assessment*, nearly nine out of every ten homes in Erie are single family homes. Due to a mix of factors — including historic lack of supply, mortgage and interest rates, supply chains, labor costs, and local zoning — the median price of the average new single-family home sold in Erie is now \$779,497. It is \$604,203 for a townhome/duplex.

From 2015 through 2023, Erie issued an average of 667 new home permits annually with 480 new homes sold annually. However, in 2023 there were just 412 new homes sold, and for the first 9 months of 2024 it appears that the sales of new homes have even further declined. Through September of 2023, there were 335 total closings and there have been just 244 through September of this year.

Erie's recently adopted comprehensive plans call for the town to grow from 12,000 to 30,000 homes by 2055. To achieve the 2055 goal, the town will need to develop an average of 666 new homes per year.

**FIGURE 1**

**Town of Erie Housing Permits and Closings**



Sources: HUD and Peak Economics Research and Consulting



## IMPACT TO TOWN OF ERIE FROM CUMULATIVE COST INCREASES

The proposed water tap fee increase and other development impact fees account for a significant – and growing – share of Erie’s revenue. However, the potential revenue losses resulting from declining new home permits and sales could likely outweigh the potential gains from the fee increase. This has direct implications for Erie’s ability to fund its planned growth and sustain funding for long-term investments.

Recent analysis by the Common Sense Institute (CSI) highlights how policies that impose significant costs on new development can restrict housing supply. For example, CSI’s report on Denver’s 2022 Inclusionary Housing Ordinance (IHO) found that the city would have issued approximately 33% more monthly housing permits had the IHO not been implemented.<sup>vii</sup>

Following Denver’s IHO adoption, a comparison of Denver and Aurora analyzed how such policies affect development viability. While Denver experienced a 31% decrease in permits after the IHO was implemented, neighboring Aurora saw an 18% increase. Financial analysis of a representative 250-unit multifamily project in Denver versus Aurora revealed that rents in Denver would need to increase by \$80 per month—or \$964 annually—to achieve the same financial return as the Aurora project.

Although Erie’s potential IHO and related policies may not directly mirror Denver’s, the cumulative impact of the four measures described earlier — including the proposed water tap fee increase— could have an even greater effect on housing supply and the town’s stated goals for housing diversity. According to survey results, one respondent estimated that the water tap fee increase alone could restrict supply by 10% to 25%.

At one end of the range, a 20% reduction in the supply of new homes would lead to a loss of 78 single-family homes and 11 fewer townhomes and duplexes, for a total loss of 89 units annually. At the higher end, a 35% reduction in supply would reduce total annual home production by 156 units including 136 single-family homes and 20 townhomes and duplexes.

Figure 2 illustrates the potential reduction in housing supply, showing reductions in the average number of new home closures of between -20% to -35%.



**FIGURE 2**

<b>Erie, Colorado - Annual Average New Home Sales (2015-2023 average)</b>	
Single Family Home Closures	422
Townhouse/Duplex Home Closures	58
<b>TOTAL New Home Closures</b>	<b>480</b>
<b>Reduction in Housing Supply Scenarios</b>	
<b>-20% Reduction in Avg Annual Closures</b>	
Single Family	-78
Townhouse/Duplex	-11
<b>-35% Reduction in Avg Annual Closures</b>	
Single Family	-136
Townhouse/Duplex	-20

Figure 3 shows the estimated Town of Erie tax and fee impacts resulting from a reduction in the new supply of housing between -20% to -35%.

**FIGURE 3**

<b>Estimated Fiscal Impacts to Town of Erie of Housing Supply Loss Under Layered Housing Policies</b>		
	<b>-20% Supply Loss Scenario</b>	<b>-35% Supply Loss Scenario</b>
<b>Revenue Losses from Reduction in Supply</b>	-\$3,938,741	-\$6,892,796
<b>Revenue Gains from Increase in Fee</b>	\$7,977,535	\$6,614,366
<b>Net Fiscal Impact</b>	<b>\$4,038,794</b>	<b>-\$278,430</b>

\* The effective rate of Town of Erie revenue generated from new homes is estimated to be 6.1%, or \$47,549 on the 2024 median-priced home of \$727,500, based on analysis of Erie fee and survey results.<sup>viii</sup> The assumed increase in fee revenue for every new home is \$20,397 based on Erie presentation.

Under a 20% supply reduction, the loss of 89 new housing units results in a loss of \$3.94 million in Erie fee revenue. The increase in the water tap fee on the remaining 391 new homes brings in an additional \$7.98 million. The net impact to the city is only \$4 million. However, as the loss of supply increases to -35%, the growing loss in revenue offsets any revenue gains.

At a 35% loss in supply (in-line with just the reduction in supply following the introduction of an IHO in Denver) the loss in Erie fee revenue of \$6.9 million would more than offset the increase in revenue of \$6.6 million from the increased fee. The net result being a decline in Erie fee revenue of \$278,400.

# PROPERTY TAX IMPLICATIONS

The decline in housing supply in Erie impacts property tax for multiple districts in Weld County. Though every property will pay taxes to a unique group of local governments with varying mill levies, the following table shows the net change in property tax revenue using average property tax mill levies for Weld County and Erie.

The net loss of \$200,000 to \$400,000 in property tax revenue highlights the broader financial risks associated with a decline in housing supply. While increased home prices may offset some losses, they cannot fully compensate for reduced development.

Over a 10-year period, the resulting loss would be more than \$2 million to \$4 million.

**FIGURE 4**

Property Tax Revenue Impacts		
Property Value Impacts	-20% in Supply	-35% in Supply
Value loss	-\$65,645,681	-\$114,879,941
SFD	-\$58,937,870	-\$103,141,272
TH	-\$6,707,811	-\$11,738,669
Value increase	\$15,644,525	\$12,971,253
SFD	\$13,768,808	\$11,432,081
TH	\$1,875,717	\$1,539,172
Assessment Rate	6.7%	
Mill Levies		
Weld County		
County	12.024	
Erie	13.381	
Average School District	29.078	
Average Special District	4.51	
Total	71.385	
Revenue Impacts		
Loss		
County	-\$52,885	-\$92,548
Town of Erie	-\$58,853	-\$102,993
Schools	-\$127,893	-\$223,812
Special Districts	-\$19,836	-\$34,713
Total	-\$259,467	-\$454,067
Increase		
County	\$12,603	\$10,450
Town of Erie	\$14,026	\$11,629
Schools	\$30,479	\$25,271
Special Districts	\$4,727	\$3,920
Total	\$61,835	\$51,269
Total NET		
County	-\$40,281	-\$82,098
Town of Erie	-\$44,827	-\$91,364
Schools	-\$97,414	-\$198,541
Special Districts	-\$15,109	-\$30,794
Total	-\$197,631	-\$402,797

## IMPACT ON PROP 123

The Town of Erie reported having 167 affordable housing units as part of its application for Proposition 123 funding, the statewide measures recently passed by voters to establish ~\$300 million of new funding dedicated to affordable housing projects. Under their application to receive funding, the town committed to adding 15 new affordable housing units.

Erie is on track to meet this commitment, with 35 townhome units expected to open to residents by November 2025. These units, starting at \$400,000 each, were made possible through federal ARPA funds and a \$1 million grant from Proposition 123.

However, the cumulative costs of the new housing policies outlined in this report pose significant challenges to future affordable housing projects. These policies leave developers with limited ability to absorb or pass on higher costs, given the strict affordability targets, undermining the financial viability of such projects.

In addition to affordability concerns, the anticipated annual loss of 89 to 156 units due to these policies would result in a three-year reduction of 267 to 468 homes. This loss is 18 to 31 times greater than the affordable units Erie committed to deliver through Proposition 123, highlighting the disproportionate impact of these policies on overall housing supply.



## BOTTOM LINE

Policy changes and fee increases rarely happen in isolation. Given the Town of Erie's own growth projections, leaders must carefully evaluate the cumulative impacts and compressed timing of their housing policies. Successive fee and cost increases will have an impact on the town's published goals for housing diversity and attainability, water conservation, and infrastructure investments. While each policy may address specific objectives, their combined effects could significantly curtail housing supply, erode affordability, and result in net revenue losses. Proactively considering these trade-offs will help ensure that policies align with long-term housing and fiscal goals and don't add more acute costs to future residents.

## SOURCES

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