COLORADO

Office of Economic Development & International Trade

Business Funding & Incentives

Innovative Housing Incentive Program (IHIP): Program guidelines

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Contact: Jack Tiebout, Senior Program Manager, OEDIT
jack.tiebout@state.co.us

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1. Introduction

a. Background

The Innovative Housing Incentive Program (IHIP), which emerged as a recommendation from the 2021 interim Affordable Housing Transformational Task Force, was introduced to the Colorado General Assembly as HB22-1282 with bipartisan sponsorship in March 2022 and signed into law by Governor Polis in May. The program was designed to help address the state's critical lack of affordable and attainable housing by supporting innovative housing manufacturing businesses across the state through grants, loans, and cash incentives. The program was initiated with $40 million in state funding and no sunset date.

The program includes three funding mechanisms for innovative housing manufacturers: a working capital grant, a per-unit cash incentive, and a factory loan. The working capital grant will partially reimburse innovative housing businesses' operating expenses. The per-unit cash incentive will reward manufacturers who build affordable and sustainable homes with a cash award for every unit built and installed in Colorado. Finally, the factory loan program will help finance the construction of new innovative housing manufacturing facilities or expanding existing facilities across the state. Each mechanism will be described in greater detail below.

b. Program status and timeline

The program was funded and staffed by the Office of Economic Development & International Trade (OEDIT) in July 2022. As directed by statute, OEDIT sought feedback from the public, industry stakeholders, and state agency partners to ensure that the program runs smoothly and meets stakeholders' needs. The publication of previous draft guidelines on September 29, 2022 marked the beginning of a two-week public comment period, ending on October 13, 2022.

Upon concluding the public comment period, OEDIT consulted with an interagency group consisting of partners from the Department of Local Affairs (DOLA) Division of Housing (DOH), the Colorado Energy Office, the Governor's Office, and the Colorado Housing & Finance Authority (CHFA). That group advised OEDIT on the initial guidelines and subsequent revisions, and will continue to use their domain expertise to advise OEDIT as it implements the program.

We expect to begin receiving applications for the working capital grant and per-unit incentive before the end of 2022. We expect to begin receiving applications for the factory loan shortly thereafter, in early 2023. We will continue to update the public on application dates and other program updates through the IHIP webpage and the IHIP newsletter. A newsletter sign-up form is available on the IHIP webpage.

OEDIT may continue to revise guidelines after the initial program rollout and will also add details to the factory loan section once a contract is in place with the loan administrator, likely in early 2023.

c. Summary of statute

While the statute lays out the three funding mechanisms introduced above, many of the details regarding how they are implemented has been left for OEDIT to determine with input of agency partners, industry stakeholders, and the public.

Some aspects of the statute that apply to all three funding mechanisms are discussed here, while others that are mechanism-specific are discussed in more detail in each mechanism's respective section of this document.

i. Grant and loan utilization

Businesses will be allowed to utilize both the grant and the loan components of the program. However, working capital expenses and units produced from a new factory that receives an IHIP loan will not be eligible for either the working capital grant or the per-unit incentive.

ii. Eligibility

The statute provides some parameters for eligibility, and otherwise allows OEDIT to determine which businesses are considered innovative and eligible for funding. Colorado-based manufacturers with under 500 employees that produce prefabricated, panelized, 3D-printed, tiny, or kit homes are eligible for the incentive. Modular homes are presumed to be included in the prefabricated category. To be eligible, the homes must be built for installation on permanent foundations.

Additional processes for determining eligibility will be described in the section for each funding mechanism, but the general litmus test for whether a given business is considered innovative is if it uses a technology or process that significantly reduces the amount of on-site time and labor required to build a home.

d. Funding limits

The statute does not dictate how the $40 million should be allocated among the three funding mechanisms, though it does allow OEDIT to spend up to two percent of the overall allocation per year ($800,000) to cover direct and indirect costs of implementing the program.

At this point, OEDIT does not plan to immediately set an overall limit on how much of the $40 million is allocated to each funding mechanism. Instead, it will create lifetime limits per business for each funding mechanism, and will further evaluate allocation limits based on the performance of each mechanism after the first two or three years.

OEDIT currently expects to make the working capital grant and per-unit incentive to be available for five years, while the loan program may continue to revolve indefinitely.

To ensure that small and early-stage businesses are able to benefit from the program, OEDIT will set aside $3,000,000 in combined grant funds for businesses with 5 or fewer full-time employees at the start of the contract period. These funds will be reserved for the first five years of the program, or until all funds set aside are absorbed by small/early stage businesses.

There will also be an annual limit on how much of the lifetime limit is absorbed in each contract year. OEDIT will disburse up to 50% of the lifetime limit for both the working capital grant and per-unit incentive in a given year. A business in a non-Just Transition county would therefore be able to get up to $200,000 in working capital grant funds and $500,000 in per-unit incentive funds in a given year under the grant agreement. The $50,000 affordability bonus (detailed below) would be divided across each year of the contract period.

Additional details on the pathway for early-stage businesses can be found in the following section of the program guidelines.

Funding mechanism	**Lifetime limit per business**
Working capital grant	$350,000 for businesses in non-Just Transition counties* $450,000 for businesses in Just Transition counties *Lifetime limit does not include $50,000 bonus for affordable housing production, detailed in Section 2 (c) below

Per-unit cash incentive	$1,000,000 for all eligible businesses
Factory loan	No more than $10 million will be loaned to any business

2. Working capital grant and per-unit incentive guidelines

a. Process

Because businesses will be eligible to utilize both the working capital grant (referred to in this section as "the grant") and the per-unit incentive (referred to in this section as "the incentive"), OEDIT is proposing to merge the two funding mechanisms into one application process. This will save time for both the participating businesses and OEDIT staff, while still giving the business the ability to opt out of either mechanism if they choose.

Applications for both programs will be accepted on a rolling basis, as described below:

1) Businesses submit a screener survey to determine eligibility. If they meet basic eligibility criteria, they will automatically receive a link to fill out a full application.

2) Businesses fill out a full application, which will require a description of the innovative manufacturing method and submission of financial statements, among other components.

3) An OEDIT representative will visit the manufacturing facility in-person to confirm that it is operational. Businesses will present to an interagency panel and answer questions about the manufacturing method as well as their growth trajectory and financial stability.

4) If approved, businesses will work with the IHIP program manager and OEDIT's procurement department to create a multi-year contract and statement of work that will reimburse a portion of operating expenses and give awards for units produced and installed in Colorado.

5) Reimbursements will be processed on a monthly basis. Every month, the business will complete a worksheet detailing their qualified operating expenses. Businesses will be required to submit some form of receipt (including payment method) for each expense. Recurring expenses such as lease payments will not require receipts if a lease contract is provided. For the per-unit incentive, the business will submit building plans and purchase orders/receipts.

6) Businesses may continue to utilize the incentive until they reach the lifetime limit per business for their geographic area, or until the three-year contract period ends, whichever occurs first. For some smaller and startup businesses, the three year contract period may be extended. Businesses must submit certificates of occupancy (COs) for all units incentivized before the contract is closed. No funds will be

withheld, but OEDIT reserves the right to recoup funds for any units for which COs are not submitted.

b. Eligibility and review

To be eligible for the grant and incentive, businesses must first meet all requirements described above. They must also have a facility in Colorado that has produced at least one prototype.

If a manufacturer has under 500 employees but is a subsidiary of a company with over 500 employees, then the manufacturer will be eligible for the per-unit incentive, but not the working capital grant.

As mentioned above, each business will be required to present to an interagency panel that will assess whether a business is eligible and whether grant/incentive funds would be managed responsibly. This panel will consist of members of the DOLA Division of Housing, the Colorado Energy Office, the Governor's Office, and OEDIT.

Pathway for early-stage businesses
Early-stage businesses with 5 or fewer employees are eligible to participate in the IHIP grant program. They will generally follow the same process as larger businesses, but will have some additional requirements. As noted above, a prerequisite for participation is having produced at least one prototype in a Colorado facility. A prototype is defined as a physical demonstration of the innovative housing manufacturing method, but not necessarily a liveable unit. A Colorado facility is considered as a non-residential space (i.e. not a garage, but at minimum a makerspace or other small leased/donated space) where the prototype or home is made. Early-stage businesses will also be required to have had their business plans reviewed by a local Small Business Development Center and pass a more in-depth interagency panel review. Grant funds for early-stage businesses come from the working capital grant component, which is a reimbursement of operating expenses (described further below). Early-stage working capital grant funds are limited to up to $100,000 in two years of operation. After two years or $100,000 disbursed, the company would be eligible to re-apply for a full IHIP grant for up to $250,000 from the working capital grant and the full eligible amount for the per-unit incentive.

c. Guidelines for working capital grant

The working capital grant will have a lifetime limit of $350,000 per business (not including affordability bonus), unless the business is located in a Tier 1 Just Transition community.* Participating businesses will have up to three years to reach the lifetime limit, though OEDIT will reserve the right to extend contracts beyond three years if grantee does not meet the limit.

The grant is a reimbursement of up to 20 percent of an innovative housing business's operating expenses over a given time period. Statute indicates that operating expenses include, but are not limited to, payroll, inventory, and materials. Only operating expenses incurred after the start of the contract period are eligible for reimbursement.

Businesses may receive up to 50% of the base contract amount in a given contract year. For example, a business that has a two-year, $350,000 grant contract may receive up to $175,000 in each contract year, not including the affordability bonus.

Other categories of expenses that will be considered as operating expenses are rent, utilities, marketing, research & development, and payments toward leased equipment.

Costs that are ineligible for reimbursement include, but are not limited to, startup/capital costs, purchased equipment, food and liquor, costs related to IP (patents, copyrights, trademarks), taxes, and other government fees.

Businesses that sell over 10% of homes manufactured and installed in Colorado to deed-restricted affordable housing developers will be eligible for a $50,000 affordability bonus beyond the $350,000 base contract amount, for a total of up to $400,000. Businesses that sell less than 10% of units for affordable housing will still be eligible for up to $350,000. The $50,000 will be divided across each year of the contract period. If over 10% of units in any given contract year are sold to affordable housing developers, the bonus will be disbursed at the end of the contract year.

* Tier 1 Just Transition communities: The West End of Montrose County, Moffat County, Rio Blanco County, Routt County, Morgan County, and Pueblo County. Businesses in these communities have a $450,000 working capital grant limit (not including affordability bonus).

d. Guidelines for per-unit incentive

As with the grant, per-unit incentive awards will be reserved and then disbursed on a monthly basis. For each unit incentivized, the innovative housing business must submit receipts or purchase orders, architectural or construction drawings, and a Certificate of Occupancy.

Only units that have not yet begun construction at the start of the contract period are eligible for the per-unit incentive. If a unit has been ordered and paid for but the unit has not begun being assembled, it will still be eligible.

There will be a 150-unit limit per year, with a lifetime award limit of $1,000,000 per business. OEDIT will retain the option to increase the limit if a given manufacturer exceeds expectations in terms of affordability, sustainability, workforce development, and community impact.

Statute suggests that OEDIT to incentivize housing units based on affordability and sustainability factors. However, the ultimate cost and efficiency of the unit for the end-user depends largely on the developer, the site on which the home is built, and on the quality of the on-site installation. Because the manufacturers for whom the program was designed have little influence on these factors, and because verifying the cost and sustainability performance of each unit would be unnecessarily onerous, OEDIT's proposed guidelines prioritize elements within the manufacturer's control.

With this in mind, OEDIT has created multiple pathways for verifying the sustainability and affordability of each unit incentivized. Manufacturers may verify affordability through either a deed-restricted or per square foot cost path, and they may verify sustainability and energy efficiency through either a certification path or an insulation and electrification path.

Kit homes, tiny homes, and minimally finished or unfinished panelized homes will not be eligible for the affordability and sustainability criteria, but may still receive the base $1,500 per-unit.

Tiny home producers must attest that any incentivized unit will not be used primarily for hospitality purposes.

Below is a summary table of per-unit bonuses available for innovative housing businesses, followed by a description of how each category will be managed.

Category	**Dollar amount**	**Requirements for each level**
Base	$1,500	Must meet one sustainability or affordability criterion (except for kit homes)
Affordability and attainability	$1,000 - $2,000	Deed-restricted: $1,000 = 80-120% AMI $1,500 = <80% AMI $2,000 = <60% AMI -OR- Per square foot (400+ square feet): $1,000 = <$175/sf* $1,500 = <$150/sf Per square foot (400 or fewer square feet): $1,000 = <$200/sf $1,500 = <$175/sf * Per square foot amounts will be adjusted annually to reflect changes in the Consumer Price Index (CPI).

Sustainability	$1,000 - $2,000	*Certification path* $1,000 = Energy Star Certification (in-factory or on-site verification allowed) $1,500 = HERS score under 50, Zero-energy ready, NGBS Gold, OR LEED Gold $2,000 = HERS score under 35, Passive House, NGBS Emerald, OR LEED Platinum *Insulation/Electrification path* $1,000 = Floor R-value at or above 33, Exterior Wall R-value at or above 21, Ceiling R-value at or above 40, Window glazing U-Factor under 0.34 $1,500 = Unit meets above benchmarks and will be installed with an electric heat pump $2,000 = Unit meets $1000 and $1500 level requirements and includes or will be installed at least two of the following: - electric stove - electric clothes dryer - home storage battery - heat pump water heater - rooftop solar panels - electric vehicle charger
Density	$500	$500 for all units built at density
Maximum total	**$6,000**	

1. *Affordability and attainability*

Manufacturers can follow one of two exclusive paths — deed-restricted affordability or per-square foot affordability — for verifying the affordability of each unit produced. With the following assumptions, the maximum affordability bonus per unit would be $2000.

If a unit is sold to a housing authority or housing developer and will be rented or sold to the end user with a deed restriction, the innovative housing business can follow the deed-restricted path for the per-unit incentive. This path awards $1000 for every deed-restricted unit rented or sold at an attainable level (80-120% area median income), $1,500 for every unit rented or sold at an affordable price for under residents at or under under 80% AMI, and $2,000 for every unit rented or sold at or under 60% AMI.

Participating businesses may instead choose to follow the per square foot path, which will award $1,000 per unit sold for under $175 per square foot and $1,500 per unit sold for under $150 per square foot. Costs per square foot do not include shipping and installation costs.

Proper supporting documentation for either path is required.

2. *Sustainability/Energy Efficiency*

Given the logistical limitations of verifying the on-site energy performance of each home produced, OEDIT will accept past demonstration of a specific model's sustainability and energy performance in Colorado as evidence of the sustainability capacity of other units of that model produced in the future.

If a unit is custom-designed or if a model has not previously had a unit certified to meet a given standard, then the manufacturer will be required to have the unit rated and certified to receive the per-unit incentive. If local building code exceeds the requirements of a given certification, then OEDIT will assume that it meets the standard.

Producers of custom or model homes may also opt for the insulation/electrification path. The insulation/electrification path will recognize builders whose models have not been certified or HERS-rated based on the materials and features of the home. Buildings whose floors, walls, and windows meet insulation and heat gain standards will be eligible for a $1,000 per-unit bonus. Those that meet these standards and also will be installed with electrification improvements such as heat pumps, solar panels, and electric stoves will be eligible for an additional $1,000 per-unit.

With the following assumptions, the maximum sustainability bonus would be $2,000 for both the certification path and the insulation/electrification path.

3. *Density*

Given the importance of density for achieving sustainability and affordability goals, an additional $500 will be awarded for each unit that is one of multiple units on a given parcel. Essentially, any installed unit that is not zoned single-family will be eligible for the $500. Parcels that include an residential accessory dwelling unit will also be considered eligible for the density bonus.

3. Factory loan guidelines

a. CHFA partnership

The statute allows OEDIT to contract with the Colorado Housing & Finance Authority (CHFA) to administer the factory loan program. Early discussions with CHFA have begun, and while there is no contractual agreement yet, we can begin to share how the factory loan program will operate. Once an agreement is in place, this section will be expanded with additional details.

b. Application and review process

Applications for factory loans with concessionary terms will be taken in separate tranches. In each tranche, applicants will have the opportunity to propose loan terms for building a new factory or expanding an existing facility. The applicant will propose a loan amount, length, interest rate, forgivability, and the state's priority within the capital stack. Applications will include audited financial statements and other documents required for underwriting.

From there, the loan administrator will meet with OEDIT and a selected interagency group of experts to evaluate the applications. Per statute, this group will include representatives from the DOLA Division of Housing. Along with loan terms described above, OEDIT will consider the business's financial health, the number of units the factory will produce, the anticipated percentage of affordable units produced, the number of new jobs created, the wages and benefits of those new jobs, the level of economic distress in the area where the proposed factory is located, and the sustainability and energy efficiency of the units to be produced, among other factors.

OEDIT and the loan administrator will then negotiate loan terms with one or more applicants. No more than $10 million will go toward any one factory loan.

OEDIT plans to allow for loan funds to be used for cash collateral support, in addition to traditional loans.

OEDIT has the authority to revolve loans into the future. As principal and interest is paid, it may be used for future factory loans or to cover other IHIP program costs.

As mentioned above, businesses will be eligible to utilize the factory loan along with the working capital grant and per-unit incentive. However, new factories financed with IHIP loans will not be eligible for the working capital grant and per-unit incentive.

The statute notes that loans are to be made to "privately-owned" factories. OEDIT has interpreted this to include non-profit organizations and only disclude government-owned facilities.

OEDIT anticipates that the loan program will open for applications in early 2023.