

In our free market economy, the ultimate gateway to opportunity is a good income that allows a family to accumulate assets and save for the future. And unlike health or education, wealth can be stored, shared with one's family, and passed on from generation to generation.

A job that pays well and provides benefits affords a family the best chance to be self-sufficient and build wealth. Similarly, a family that saves and accumulates assets—through homeownership or other means—has the best chance of securing its place in the Cycle of Opportunity. A family that does not earn enough to be self-sufficient and to save for the future will have little to fall back on in retirement or times of crisis.

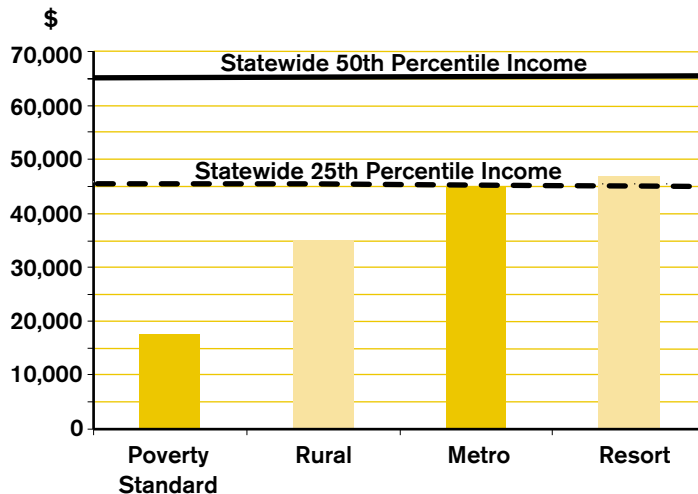




## Indicator 1: Earning a Self-Sufficiency Wage

If this were a report on the Cycle of Dependency, we might have chosen the federal poverty level as our standard for economic well-being. But when talking about opportunity, we need to set the bar higher. The poverty standard is derived only from the cost of food and does not take into account the real costs associated with work—including child care and transportation—or variations in the cost of living in different regions of the state.

### Average Self Sufficiency for Families of Four Compared to 25th and 50th Percentile Income<sup>1</sup>



We have chosen to use the Colorado Self Sufficiency Standard, developed by the Colorado Fiscal Policy Institute, which is based on data reflecting the costs of basic needs for families in specific geographic areas of the state.<sup>2</sup> We believe the Self Sufficiency Standard, as a measure of income needed for a family to live without public assistance, is a more appropriate measure of economic well-being.

■ 25% of all families of four in Colorado earn less than the Self Sufficiency Standard for the metro and resort areas (where more than four out of five Colorado families live). The average Self Sufficiency Standard for families of four is \$45,329 in metro areas, \$47,078 in resort areas and \$35,028 in rural areas.<sup>3</sup>

■ The federal poverty standard for families of four (\$17,650) is less than half of the average Self Sufficiency Standard (\$38,431),<sup>4</sup> significantly underestimating what it costs to live in Colorado.

■ A full-time worker earning twice the federal minimum wage rate of \$5.15 per

hour makes just over \$21,000 a year. In Colorado, the average job that requires only short-term, on-the-job training (with no specific educational requirement of a high school diploma or more) pays about \$22,000 a year.<sup>5</sup> Both annual amounts are less than half the Self Sufficiency Standard for families of four in urban and resort areas.

### Indicator 2: Homeownership

**Wealth signifies the command over financial resources that a family has accumulated over its lifetime along with those resources that have been inherited across generations. Such resources, when combined with income, can create the opportunity to secure the “good life” in whatever form is needed—education, business, training, justice, and so on. Wealth is a special form of money not used to purchase milk and shoes and other life necessities. More often it is used to create opportunities . . .**<sup>6</sup>

We have chosen homeownership as our indicator because it is the single greatest source of wealth in America, especially

among the middle class. In fact, homeownership represents 44% of the gross assets for families earning \$50,000 or less annually.<sup>7</sup> Encouraging homeownership is a priority of the federal government. The federal tax code makes building wealth through homeownership attractive because interest on mortgage loans is tax deductible for those who itemize their deductions, and most home equity is exempt from capital gains. Homeownership has been an especially good investment in Colorado because of the increase in home values over the past 10 years.<sup>8</sup>

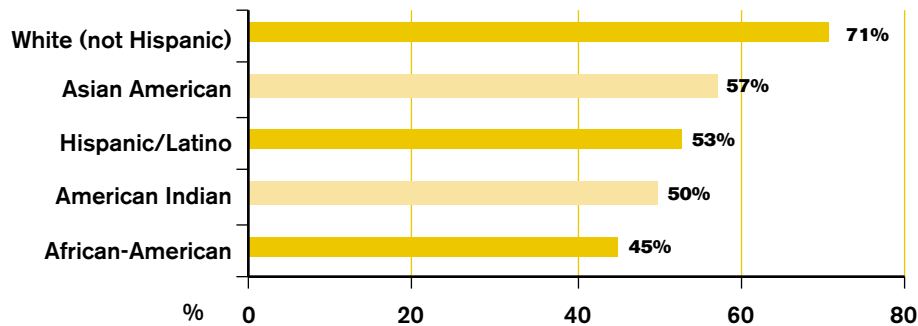
■ Colorado’s homeownership rate was 68.5% in 2001. While this exceeds the national rate of 67.8%, homeownership rates in surrounding states are higher, with the exception of Arizona (68.0%). The state with the highest homeownership rate in 2001 was Michigan (77.1%). The state with the lowest rate was New York (53.9%).<sup>9</sup>

■ Homeownership rates vary widely by race and ethnicity, with the rate for African-Americans being below 50%. Some of this variation is due to differences in income. However, since wealth





### Percentage of Ownership Occupied Households by Race and Ethnicity<sup>10</sup>



(including homeownership) often reflects the fortunes of previous generations, a significant portion of the variation is due to the broad-based and well-documented discrimination (e.g. restrictive covenants, “redlining” and other practices) that greatly restricted access to homeownership by African-Americans and other people of color for most of the 20th century.<sup>11</sup>

■ Even today, differential practices threaten to strip equity from many minority, non-English speaking and senior homeowners. So-called predatory lenders disproportionately target minority neighborhoods. In addition, a recent study by ACORN found that,

in Colorado, upper- and middle-income African-Americans and Latinos are more likely than low-income Whites to receive sub-prime loans when refinancing their homes.<sup>12</sup>

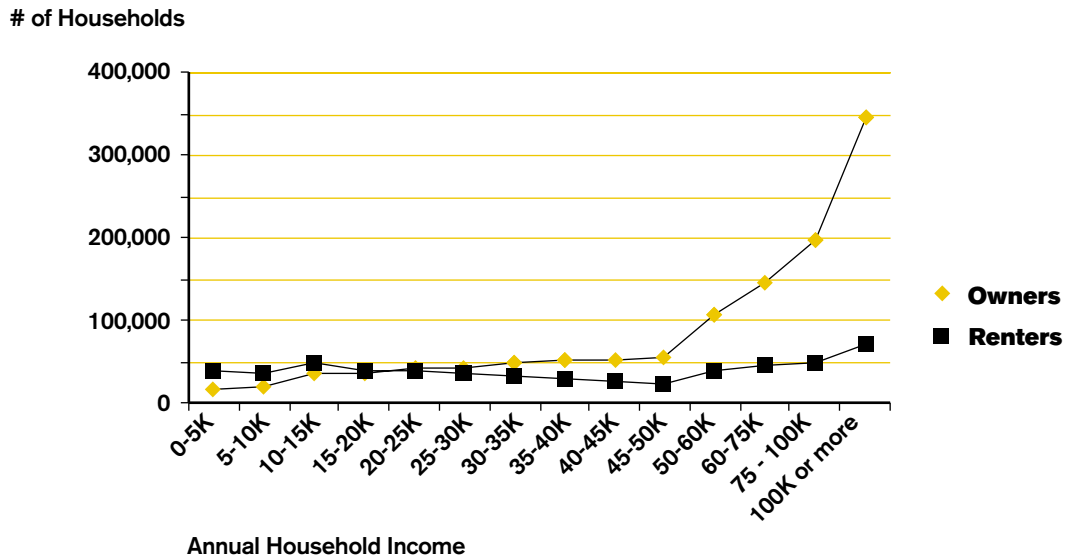
■ In Colorado, as incomes rise so does the homeownership rate. The percent of households that own their own home increases dramatically at income levels above \$45,000-\$50,000. Households that earn less than \$20,000 annually are more likely to rent. Those who own in this income range are most likely elderly persons with no debt on their homes.<sup>13</sup>

## Gateway 8 | Earning a Decent Living and Building Wealth

■ In Colorado, housing costs continue to increase faster than incomes. Between 1989 and 2000 in the Denver metro area, the average wage increased 71%, the average rent increased 103% and the cost of existing single family homes increased 131%.<sup>14</sup> The discrepancy between housing costs and purchasing power has created an “affordability gap” for many Colorado households.<sup>15</sup> Housing prices were higher and inventory lower for most of 2001, making it hard for many low- and moderate-income households to afford the move to homeownership<sup>16</sup>

The Colorado Division of Housing notes that an elementary school teacher earning \$38,560 annually could afford the statewide average rent of \$753 per month but could not afford to purchase the average priced home of \$166,396.<sup>17</sup>

**Distribution of Homeowners and Renters by Income<sup>18</sup>**



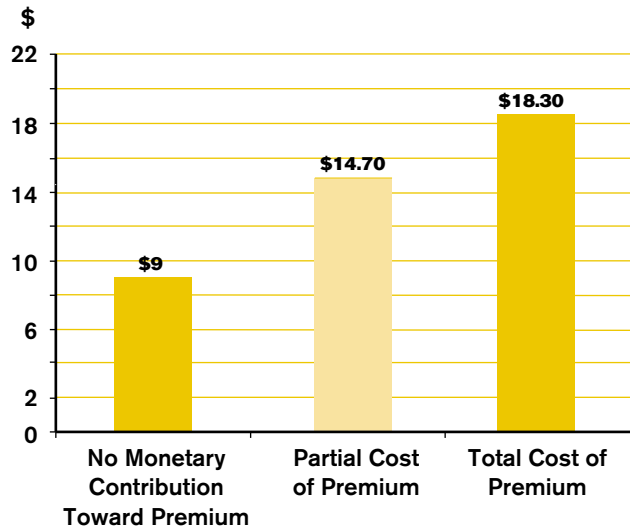


## Why is earning a decent living and building wealth important to the Cycle of Opportunity?

Earning a self-sufficiency income gives a family the flexibility to purchase items important to opportunity, including higher education, a home and adequate health care.

■ Surveys of job vacancies in Colorado reveal a positive relationship between wages and whether those jobs offer medical insurance coverage. As higher paying jobs require higher levels of education and experience, employers offer better medical insurance packages to attract qualified candidates.<sup>19</sup>

**Average Wage by Medical Insurance Offered<sup>20</sup>**



■ Poorer people die younger and are sick more often than people with higher incomes.<sup>21</sup> Adults earning less than \$20,000 per year were almost five times more likely to be in fair or poor health than those with incomes of \$60,000 or more (34% vs. 7%).<sup>22</sup>

■ Home equity can be used to secure low interest loans to pay for educational expenses (e.g. college tuition), start a business or pay medical bills.<sup>23</sup>

■ Home equity is particularly important in retirement. Owning a home provides older homeowners with a place to live without rising costs of rent. When their home is paid off, their net housing expenses are greatly reduced, stretching their retirement income.<sup>24</sup>

■ Homeowners, because they have a greater stake in their community, are more likely to get involved in solving local problems<sup>25</sup> and to participate in the democratic process.<sup>26</sup>

■ Sons and daughters of homeowners are less likely to become involved in the juvenile justice system<sup>27</sup> and more likely to graduate from high school and college.<sup>28</sup>

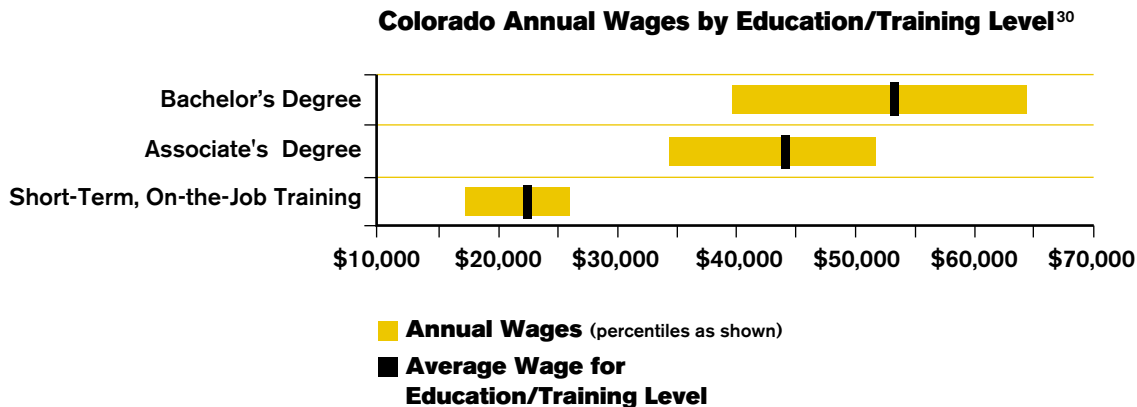
## Gateway 8 | Earning a Decent Living and Building Wealth

### How do other gateways and barriers impact the opportunity to earn a decent wage and accumulate assets?

Jobs that require higher levels of education pay more. In Colorado, the average annual wage is \$22,000 for a job that requires no education other than short-term, on-the-job training; \$44,000 for a job requiring an Associate's degree; and \$53,000 for a job requiring a Bachelor's degree.<sup>29</sup>

■ Physical disability is a major cause of low-income and poverty.<sup>31</sup>

■ One out of four debtors, some 326,441 families, identified an illness or injury as a reason for filing for personal bankruptcy. An estimated 596,198 families indicated that substantial medical debt was a factor in their bankruptcy case in 1999.<sup>32</sup>





## What are some of the state programs designed to increase income and asset accumulation?

- In 2000, the state adopted an Earned Income Tax Credit (EITC) for families earning less than \$31,000. However, the EITC is contingent upon the state collecting revenue in excess of the constitutional limitation created by the Taxpayers Bill of Rights (TABOR), and current projections indicate it will not be funded until fiscal year 2005.
- Colorado has a child care tax credit for families who earn less than \$64,000 per year and have children under 13.
- Colorado has established a statewide network of One-Stop Workforce Development Centers to help workers access services such as increased training, child care assistance, Medicaid and other health-related services and job search assistance.
- In 2000, the general assembly authorized Colorado nonprofit organizations to create Individual Development Accounts (IDAs) to help low-income families save money to buy their first home, pay for postsecondary education or start a

business. Access to the program and the level at which deposits are matched are not guaranteed. Donations to match participant deposits are tax-deductible, contingent upon the state collecting revenue in excess of the revenue limit created by TABOR.<sup>33</sup>

- Resources are available to assist low- and moderate-income homebuyers through long-term mortgage financing backed by tax exempt revenue bonds. Down payment assistance programs also are available through the Colorado Housing and Finance Authority (CHFA), the Colorado Division of Housing (DOH) and a number of community-based programs. DOH estimates that, each year, these programs serve 4,300 (or 11%) of the approximately 38,500 households that would like to become homeowners.<sup>34</sup>

- In addition to direct assistance to low- and moderate-income homebuyers, a number of communities provide cash and regulatory incentives to developers of for-sale housing to lower costs and maintain affordability. The state also has had a low-income housing tax credit, which expires at the end of this year and was not renewed by the general assembly. Similarly, this year's appropriation to the

affordable housing loans and grants program at DOH, which provided over \$2.5 million in assistance for nonprofit affordable housing each year, was vetoed by the governor.

- In 2002 the general assembly passed the Consumer Equity Protection Act to stem the growth of predatory lending. Lenders must meet stronger disclosure requirements and include fairer terms when making sub-prime loans. Certain deceptive practices also are prohibited. The state attorney general has authority to enforce these regulations.

### What else could Colorado do to help families earn a self-sufficiency wage and build wealth?

- The creation and maintenance of good jobs by the private sector is the single most important factor in ensuring families have the opportunity to earn self-sufficiency incomes and accumulate wealth. **Colorado should identify and implement policies that best support the creation and retention of such jobs throughout the state.**

- Cities, counties, state agencies and other service providers should consider adopting the Self

Sufficiency Standard as the basis for determining eligibility for state assistance programs. **The state should collect data to help determine how many families are above and below the applicable standards.**

- **The general assembly should increase the rate of Colorado's Earned Income Tax Credit and make it permanent, not conditioned on the existence of excess revenues under TABOR.** By no longer conditioning the credit on these revenues, and by increasing the credit from 10 to 20% of the federal credit, the state would ensure that a family making \$13,000 (with one wage earner and more than one child) would have almost \$800 more each year.<sup>35</sup>

- Unemployment insurance provides important protections for families facing short-term economic hardships. Currently Colorado's unemployment insurance reciprocity rate (33.7%) is below the national average of 43.3% (The reciprocity rate measures the percentage of unemployed workers who receive benefits).<sup>36</sup> **Colorado should extend unemployment insurance coverage to more workers.**

- **Colorado should reinstate and increase funding for affordable housing loans administered by DOH, which were recently vetoed by the governor.**





The state also should reinstate the low-income housing tax credit that expires at the end of 2002. The renewed tax credit should be permanent and not conditioned on the existence of excess revenue under TABOR.

■ **Colorado should greatly strengthen its Individual Development Account (IDA) program by ensuring it is available in all regions and by providing funding every year to guarantee a level of matching state funds that are not dependent on private donations or conditioned on the existence of excess revenues under TABOR.**

■ **Colorado should launch a major education effort to make sure the public—especially low-income people interested in becoming first-time homeowners—is aware of the many programs available to help with down payments, low-interest loans, rehabilitation funds and more.**

■ **The attorney general's office should closely monitor the success of the new anti-predatory lending law.** If the act fails to curb predatory lending by the end of 2003, the law should be strengthened.

■ **Colorado should establish a statewide housing trust fund, similar to those in 36 other states.** The fund should be set up to generate \$15 to \$20 million in assistance each year. Housing trust funds not only create and preserve affordable housing by encouraging public and private partnerships, they also produce jobs, generate tax revenues and provide direct social and economic benefits to children and families.

### Where can I get more information about increasing income and building wealth?

- Colorado Fiscal Policy Initiative and Colorado Center on Law and Policy, [www.cclponline.org](http://www.cclponline.org)
- Wider Opportunities for Women, [www.WOWonline.org](http://www.WOWonline.org) or [www.sixstrategies.org](http://www.sixstrategies.org)
- Center on Budget and Policy Priorities (see the “State Fiscal Policy” section), [www.cbpp.org](http://www.cbpp.org)
- Economic Policy Institute (see “Poverty and Family Budgets” and “Wage and Income Trends”), [www.epinet.org](http://www.epinet.org)
- Corporation for Enterprise Development, [www.cfed.org](http://www.cfed.org)
- Colorado Department of Local Affairs (DOLA), Division of Housing, [www.dola.state.co.us](http://www.dola.state.co.us)
- Denver Homeownership Center, U.S. Department of Housing and Urban Development (HUD), [www.hud.gov](http://www.hud.gov)
- Association of Community Organizations for Reform Now (ACORN), [www.coacorn@acorn.org](mailto:www.coacorn@acorn.org)

