Funding Denver's Housing Alternatives

Research Conducted Winter/Spring 2015

PPT Prepared for Council August 2016

Major Criteria When Examining Funding Sources

- **Volatility**: changes in revenue produced over time
  - Stable tax sources can be more easily relied on to be available
  - Downside of this stability: slower revenue growth over time
- **Capacity:** funding source sufficient on its own
- **Tax Burden**: 1) breadth of the tax base, 2) what parties in that base pay i.e. regressivity
- **Best Practices:** are other cities successfully using this funding source to finance affordable housing?
- **Impact on Operating Budget:** if funding source currently finances City's operating budget, using it to fund housing program will draw money from other current programs
- **Effect on Denver's Regional Competitiveness:** will the tax make the city less attractive to businesses and other private investment
- **Other**
  - Permanence of funding stream
  - Feasibility

Master List of Options

Options Reviewed in Depth Included:

- Occupational Privilege Tax Increase*
- Property Tax
  - Increase in Mills*
  - Leverage TABOR credits
- Commercial Linkage Fees
- Residential Linkage Fees
- Combination of Options
- Sales Tax Increase*
- Lodgers Tax Increase*
- MJ Tax Increase
- Real Estate Transfer Fees (prohibited by TABOR)
- Real Estate Recording Fees
- Capture Growth in GF Revenue
- Existing Bond Capacity*

*Would require voter approval

Source	Funding Capacity	Pros	Cons
New Citywide Mill Levy for Housing	1 mill = $13 million	• No impact on current City operating budget • Could generate sufficient revenue for policy goals • Stable revenue source over time, not subject to repeal • Best practice • Broadens base of payers citywide – residential and commercial	• Depending on the rate set, could impact Denver's regional economic competitiveness on commercial side • Low revenue growth over time
Existing TABOR Mill Credits	1 mill = $13 million	• No impact on current City operating budget • Could generate sufficient revenue for policy goals • Stable revenue source over time • Best practice • Broadens base of payers citywide	• Low revenue growth over time • Could be subject to repeal

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Source	Funding Capacity	Pros	Cons
Commercial Linkage Fee (charged to developers of commercial projects)	$0.40 per sqft on industrial = $250K on average $1.70 per sqft on commercial = $1.8M on average	• Best practice • Burden is on uses which generate need for housing •Benefits from up cycles	• Volatile—ebbs and flows with economy • Difficult to forecast • Council could repeal
Residential Linkage fee (charged to developers of residential projects)	$0.60 per sqft on single family = $1.5M on average $1.50 per sqft on multi-family = $4M on average	• Best practice • Burden is on uses which generate need for housing • Benefits from up cycles	• Volatile—ebbs and flows with economy • Difficult to forecast • Council could repeal

Funding Sources That Do Not Meet Most Criteria

Source	Funding Capacity	Pros	Cons
Increasing OPT and Dedicating New Revenues	$1.00 increase = $4.79 million	• No impact on current City operating budget • Stable over time	• Competitive Disadvantage for businesses (tax highly uncommon) • May not generate enough revenue on its own (need to pair with other source), and grows slowly • Does not broaden payer base as much as other options
New Sales Tax for Housing	0.1% increase = $15.1 million in revenue	• No impact on current City operating budget • Rate could be set to generate funds required • Denver has seen good sales tax growth in good economic times	•Regressive: heavier burden on the population who needs housing assistance • Competition from other uses for this tax
Lodger's Tax Current rate: 10.75% (30% goes to operating budget)	2014: $20,831,300 2015 (projected): $21,248,000 (2% increase)	• No impact on current City operating budget • Tax burden felt by mostly non-Denver residents • Rate could be set to generate funds required • Best practice (for homeless housing/services especially)	• Feasibility issues: currently dedicated to tourism uses and convention center • Volatile—ebbs and flows with economy • Could impact Denver's regional economic competitiveness

Funding Sources That Do Not Meet Most Criteria

Source	Funding Capacity	Pros	Cons
Capture Surplus Revenues From Economic Growth	Dependent on growth of economy outpacing city's increase in costs over time	• No change in tax burden or structure • Feasibility: within purview of Mayor and Council	• Any risk will be covered by operating budget • Dedicates *estimated growth* rather than known revenue growth from existing/new taxes • Unlikely to fund goals by itself • Not best practice (and could hurt City's credit rating)
Dedicating Existing Real Estate Recording Fees	$4m	• National best practice • No change to current tax burdens • Good feasibility • Low economic impact (used by all jurisdictions)	• Would not generate enough revenue on its own (need to pair with other source), and grows slowly • Would take money away from current City operating budget
Increase Marijuana Special Sales Tax (after meeting regulation, enforcement, and education needs)	Approx. $10m if special rate doubled	• No impact on current City operating budget • City can set rate up to 15%	• May not generate enough revenue on its own • Many unknowns: economic impact, growth potential, volatility, etc. • Overburden the commodity, may drive back to black market

Funding Sources That Do Not Meet Most Criteria

Source	Funding Capacity	Pros	Cons
GO Bonds (with no increase in property tax rate)	$150m issuance	• No impact on current City operating budget • If use existing levy, will not change tax burdens and will have no significant economic impact • No volatility issues	• If use existing debt capacity, will be taking funding away from existing backlog of capital projects with no source to replace lost funds thereby eroding the capital maintenance program