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DENVER SALES TAX INCREASE MEASURE FOR AFFORDABLE HOUSING DEVELOPMENT

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ABOUT THE AUTHORS



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Erik Gamm joined Common Sense Institute as an analyst in 2020 after completing an internship in 2019. He graduated from the University of Michigan in 2020, with a Bachelor of Arts in Economics, and has experience from Washington, D.C., where he was an intern for the natural resources lobbying firm American Capitol Group. His work at CSI has addressed several major ballot initiatives and topics such as education, health care, and property taxation.

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.

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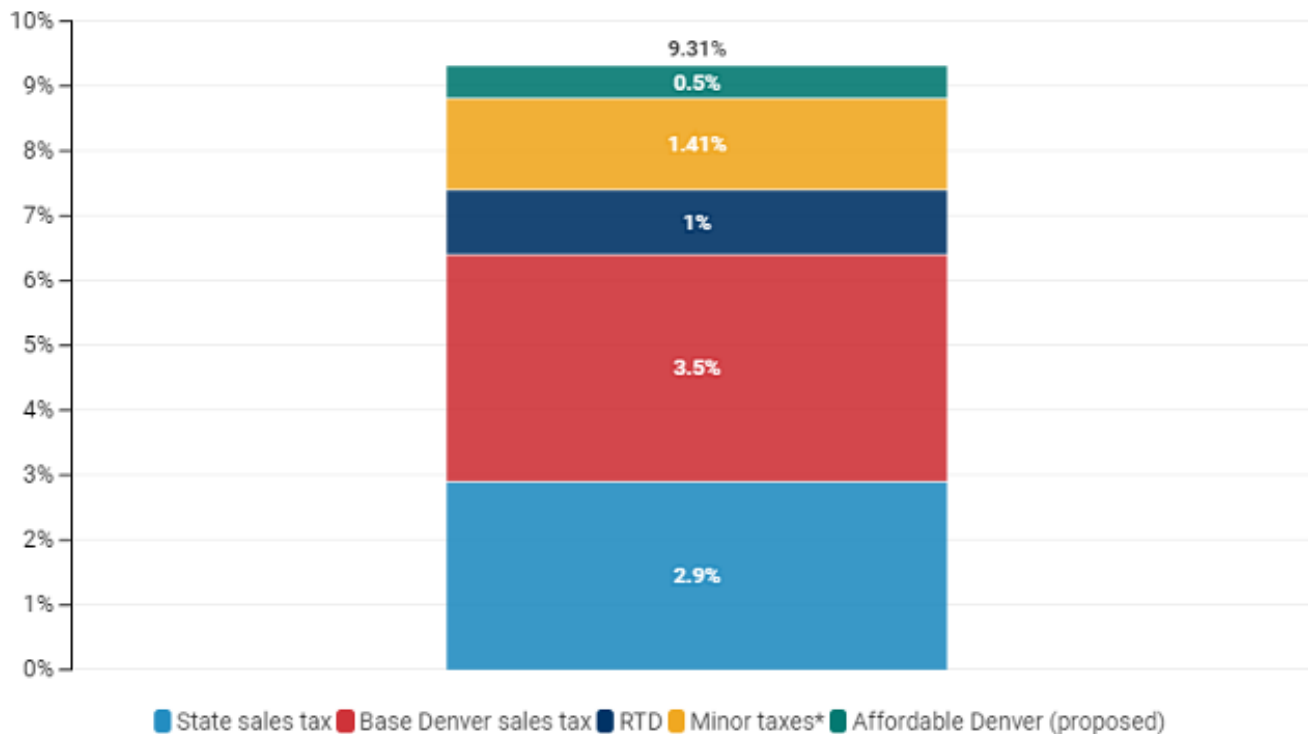
INTRODUCTION

In November 2024, Denver voters will have the opportunity to vote on a ballot measure that will raise the city’s sales tax by 0.5 of a percentage point. The measure, referred by the Denver City Council, aims to generate funds for affordable housing development and investment. The tax is expected to generate \$100 million per year.

FIGURE 1

Components of Denver's Sales Tax

Revenue from the base city tax goes to Denver's General Fund. Proceeds from other components of the total tax rate fund their respective purposes directly.



*Eight minor taxes - Parks Legacy Fund, Caring for Denver Fund, Climate Protection Fund, Homelessness Resolution Fund, Denver Preschool Program, SCFD, Healthy Food for Denver’s Kids, and College Affordability taxes

KEY FINDINGS

- The tax would raise \$100 million per year for city-funded affordable housing programs starting in 2025. In 2024, the City of Denver is budgeted to spend over \$75 million on affordable housing.
- The new revenue would benefit individuals who earn up to \$73,024 and families of four that earn up to \$104,320.
- The city will only be able to build half the units it projects with the new tax revenues if it follows its previous affordable housing development spending pattern.
- The new tax would lead to a loss of 314 jobs, 488 residents, and \$75 million in economic output by 2027.
- Denver's new combined sales and use tax of 9.31% would surpass Boulder's to become the highest among the ten largest Front Range cities.

AFFORDABLE HOUSING

The City and County of Denver took up the cause of subsidizing affordable housing in 2016, when it raised property taxes and development fees to create the Affordable Housing Fund; since then, the city government’s role has been incrementally expanded by a series of new taxes, laws, and fee hikes. Throughout 2024, the Department of Housing Stability, which administers the Affordable Housing Fund, is budgeted to spend over \$75 million, not including grants and some administrative costs, on affordable housing programs. In 2022 and 2023, the Department spent a total of \$112 million on these same programs.ⁱ

Despite all this investment, Denver still has the reputation of an expensive city where affordable housing is hard to find. The solution to this, the ballot measure implies, is more public spending—this time in the form of the largest sales tax increase in the city’s history. If the proposal, which was referred to the ballot by a vote of the Denver City Council, receives popular approval in November, affordable housing programs in Denver will receive an extra \$100 million annually.ⁱⁱ

The measure does not establish exactly what revenue from the new tax would fund, but its supporters anticipate that it would go to rental assistance, mortgage assistance, and development projects that benefit Denverites who earn less than \$73,024 (80% of the local median income for an individual).ⁱⁱⁱ Its proponents say tax would be enough to qualify 45,000 new units of affordable housing over the next 10 years. This implies a cost of about \$22,000 per unit; since 2022, however, the city government has funded the construction and/or preservation of 4,270 units despite spending \$187 million on affordable housing—one unit for every \$44,000 spent. Currently, despite having spent at least \$30 million per year on affordable housing since 2016, the City of Denver fully or partially supports through public funding only 14,102 existing affordable units and 1,933 under construction.^{iv}

FIGURE 2

Denver’s Affordable Housing Stock as of August 2024		
	City-funded	Not City-funded
Planned	246	N/A
Approved	96	N/A
Ready for Construction	114	N/A
Under Construction	1,933	558
Under Preservation	109	N/A
Open (Inhabitable)	14,102	13,468
Total Open/Under Construction	16,035	14,026

ECONOMIC IMPACTS

CSI analyzed how the proposed measure would impact Denver’s economy using the REMI PI+ economic model, which CSI regularly uses to assess the economic impacts of local and state policies. The results below show the impact of increasing Denver’s sales and use tax by 0.5 of a percentage point and allocating the proceeds to city-government services, as the Affordable Denver Fund proposes to do.

In 2025, the first year of the proposed tax, total employment in the City of Denver would rise by 32 jobs and private employment would fall by 379. The local population would shrink by 163 and lose an estimated \$16 million of personal income. The associated impacts on the economy would raise total economic output by \$13 million, but only very briefly. By 2027, Denver would shed 314 jobs (more than twice that amount in the private sector), lose 488 residents and \$48 million of personal income, and its output would decline by \$75 million.

If the tax passes, purchases of taxable goods and services in Denver will contribute to the subsidization of low- and middle-income housing. Most residents’ costs of living and shopping in Denver will increase, and the level of overall economic prosperity in the city will decrease, in exchange for \$100 million of annual support for housing affordability initiatives. Voters will decide in November whether they think this compromise is worthwhile for the sake of some residents who struggle to afford housing.

FIGURE 3

Economic Impacts of the “Affordable Denver” Sales Tax			
	2025	2026	2027
Total Employment	32	-194	-314
Private Employment	-379	-575	-669
Population	-163	-333	-488
Gross Domestic Product	\$8,000,000	-\$23,000,000	-\$42,000,000
Output	\$13,000,000	-\$42,000,000	-\$75,000,000
Personal Income	-\$16,000,000	-\$34,000,000	-\$48,000,000

WHAT WOULD THE IMPACT BE?

A .5 percentage-point increase in sales tax would mean that Denver residents pay 50 cents more for every \$100 of spending. The city's current tax rate is 8.81%, and the proposed affordable housing measure would bring the total sales and use tax to 9.31%. At 9.31%, Denver would have the highest overall tax rate among the 10 largest cities in the Front Range, well above Boulder's rate of 9.05%.

FIGURE 4

Current Combined Sales and Use Tax Rates in Front Range Cities

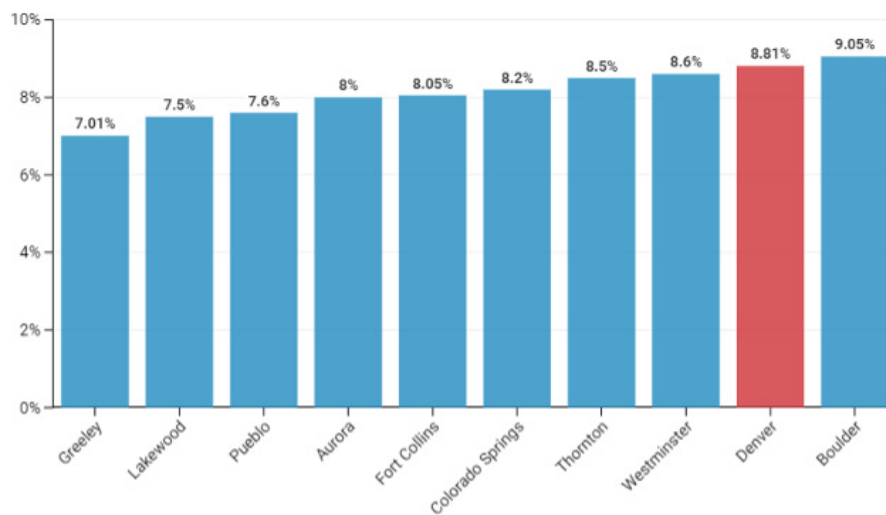
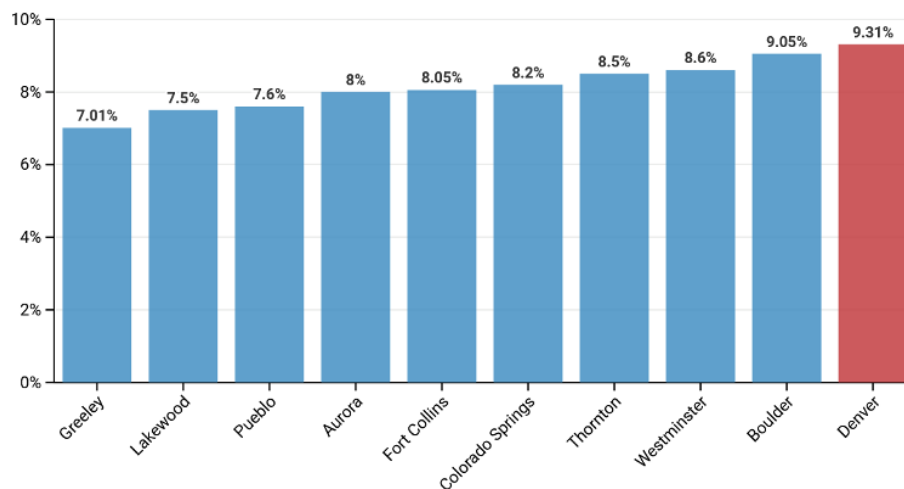


FIGURE 5

Combined Sales and Use Tax Rates of Front Range Cities if "Affordable Denver" Passes





BOTTOM LINE

The high cost of housing in Denver is a problem that the city's low-income residents feel keenly. Although the proceeds from the proposed sales tax increase would benefit some of them, they would raise most residents' costs of living, hurt local businesses by discouraging spending, and does not address root causes of housing unaffordability. This November, voters should weigh the concentrated benefits of the proposal against the widespread economic harm it would cause.

SOURCES

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