Economic Analysis of HB-18 1995

Harlan Bair Draft 4

HB18-1195 creates a 50% tax credit for individuals who donate to non-profit organizations that build affordable housing. This housing would remain affordable for 15 years under a deed restriction included in the bill. The bill limits an individual's tax credit to $250,000, and limits the overall total tax credit to $20 million for each year from 2020-2029.

The proposed bill meddles with the housing market, but does not improve it. Current zoning laws and regulations on housing are responsible for the existing market failure but are not corrected by this bill. Additionally, the proposed affordable housing is a redistribution of income that fights against the market by forcing the housing units to be undervalued through deed restrictions. This redistribution is appropriate, but would not benefit poorer people as well as it could if the market failure was corrected. Further, the bill would be insignificant in the number of households that it affects.

As defined in this bill, affordable housing is "housing that is to be affordable for households with incomes up to 120% the area mean income." The primary requirement is that the buyer of the home be eligible by this definition, but qualified housing is left to the interpretation of the non-profits.

According to this definition, over half of households in Colorado qualify for affordable housing but their needs cannot be met due to zoning law and regulation. The current zoning laws and regulations place minimums on housing quality, size of dwellings, and spacing of new developments, which limit the market, and do not allowing it to work effectively. These zoning laws create artificial scarcity, causing the price of land to increase (White, 2015). This increases the cost of housing and results in a lack of affordable housing that is built.

The government would have a legitimate role in promoting affordable housing if it were solving market imperfections that were preventing consumers from obtaining housing or if redistribution is warranted. There is market failure present due to zoning regulation, so the government does have a role in increasing affordable housing, and should intervene with the market.

The zoning regulations, and therefore the market failure, were created by the government. The zoning regulations are a result of the government limiting density. However, zoning regulation also promotes market inefficiencies which work against the poor. According to Jason Furman, chairman of the CEA "while land use regulations sometimes serve reasonable and legitimate purposes, they can also give extra-normal returns to entrenched interests at the expense of everyone else." (Reeves, 2016). This bill does not change the underlying issues of the housing market. Instead it attempts to produce additional housing in spite of the market failure through government subsidy in the form of tax credit.

Despite not addressing the zoning regulations that are to blame, the bill could still be beneficial. Subsidizing the affordable housing market will increase the amount of affordable housing available, so the bill would be successful and the government should intervene. Because developers will only produce when they profit, there is no incentive to build expensive housing that is sold below market value, and their costs must be subsidized. Developers would be able to produce housing that satisfy zoning regulations and fits within their budget, but not at prices that exclude poorer people from the market. Government spending will have to be cut to support this tax credit, so support of the bill should hinge on being the best use of revenue.

The bill caps the amount of tax credits for each year at $20 million. This amount is so small, about half of 1% of the Colorado State Budget (Colorado.gov), that it will not impact enough people to be truly beneficial. As the maximum allotted by the bill, $20 million dollars of tax credits equates to $40 million dollars that can be donated to non-profits to build affordable housing.

Because the bill does not define Area Median Income, it is reasonable to use statewide statistics as an example. According to the Census ACS 1-year survey, the median household income for Colorado was $65,685 in 2016. Under the bill, individuals with incomes of $79,000 or less would be eligible for the housing made available to households with less than 120% of the area median income. A home that costs $200,000 would be considered an eligible project by the bill. This means that approximately 200 homes could be built with the maximum of $40 million from this bill per year. According to the U.S. Census Bureau data, Colorado has approximately 1.2 million households with incomes under $79,000 (Statistical Atlas). Creating approximately 200 new homes for 1.2 million eligible households is insignificant and does not benefit the state, nor does it benefit the majority of lower income households.

For the limited number of households that can access affordable housing through the bill, purchase of the house is subject to an additional deed agreement. The deed restriction would last for 15 years “to ensure the affordable housing is preserved as affordable”. The restriction means there are limits on what the house can be resold for. Under the restrictions, the price of the property cannot increase to match its value, so the quality of the unit will decline to reflect what it can be sold or rented for. Homeowners would not be interested in the maintenance or improvement of a property if they cannot benefit from the improvement when they sell it. Therefore, deed restrictions will keep the properties affordable but will also contribute to an inevitable decline in quality. Each of these properties will be sold below market value until neglect reduces the value to equal the price initially set by the deed restriction.

House Bill 18-1195 should not be supported because of the way it suggests interfering with the natural housing market. This bill aims to incentivize donation to non-profits to provide more affordable housing for lower-income citizens. However, it fails to do so in an efficient, large-scale manner, and does not address the root of the problem that limits affordable housing in the market. Subsidizing a product that is being sold for a lower cost than the market would dictate is unsustainable when left alone and depends on indefinite government support to function. Members of the committee should oppose this bill on these grounds and instead should work to find a solution that allows the market to provide affordable housing options by removing some of the regulations on zoning that cause the market inefficiency.

Works Cited

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