Northwest Colorado
Council of Governments

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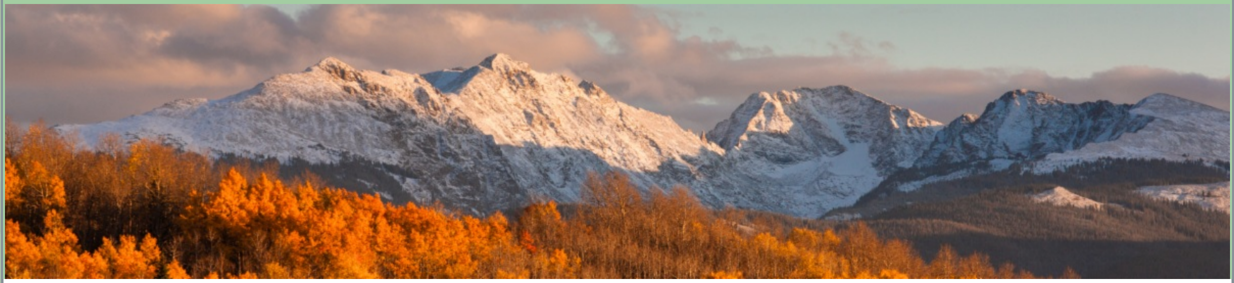

From the Director's Desk -

Muni Sales Tax Windfall and The New Sin Tax

Municipalities are raking in record sales tax income. Among all the affordability pains that residents of mountain towns face and following the major disruption to the local and national economy due to a pandemic, that distinction between how towns currently fair in contrast to their residents should give pause to leaders as they budget for 2023. Voters seem to know what to do with the windfall (see next article).

Jason Blevins of the Colorado Sun has been tracking net taxable sales across 18 Mountain Towns, putting together these tables to show Winter and Summer season sales. Having just compiled the bar chart with 2022 summer sales to compare summers back to the summer before COVID, he reached out to NWCCOG for reasons why so many municipalities sales tax revenues continue to increase. Though each community is different some explanations include:

1. Prices are higher due to inflation (supply issues, etc.) which increases sales tax per sale
2. South Dakota v. Wayfair has up ended the concept of retail sales tax "leakage"
3. The magnetism of mountain towns is stronger than ever (check out real estate prices
4. People are staying, with remote work and in-migration towns are at capacity year-round
5. Those visitors and new residents are wealthier and have more disposable income
6. Increased "sin taxes" on tobacco and marijuana represent new revenues

The second conversation of the COVID summer that I had with Aspen City Manager Sara Ott has stuck with me. She said that the winter season that wrapped up just prior to COVID was Aspen's most lucrative on record, and that somewhat inexplicably as of September of the COVID year 2020, it was already evident that the pandemic lockdown was going to be a blip in that upward trajectory of sales tax revenues (my words, not hers). That year, it was too soon to know, but many town managers I spoke with said that the influx of on-line sales tax revenue following the South Dakota v Wayfair decision in June of 2018 which couldn't be predicted in late 2019 when 2020 budgets were approved, more than made up for much suffered local brick & mortar stores.

It will be interesting what municipalities choose to do with the "extra" income. My take when Jason asked was that most would be conservative about assuming a continued upward trajectory. Will the influx be enough for communities to address long-term issues like housing, climate, or complete capital planning?

NWCCOG may focus the next budget research project testing some of these assumptions to accompany the 2022 Regional Survey of Budgeting Practices report which can be found on our website. If you see different factors or disagree with those listed above, please contact me. I'd love to hear your viewpoint.

Are Short Term Rentals the new "sin tax?"

If ballot questions are a measure, housing issues are not equally felt across the state. CML reports that this November short term

rental taxes passed in Aspen, Carbondale, Dillon, Salida and Steamboat Springs. The Colorado Sun reports voters in 12 Western Slope jurisdictions approved taxes on short-term rentals (STRs) on election day earning $40 million each year toward affordable housing in those communities. The article notes an Airbnb study finding that 54% of visitors to Summit County stayed in STRs in 2020, an astonishing change from when there was a bright line between housing for residents and lodging for visitors. Only Park County and Grand Junction put similar measures to voters. Both were defeated.

The idea of covering the impacts of STRs through a use tax evidently resonated with voters. Among those 12 jurisdictions, the poster story is Steamboat Springs, as reported by Colorado Public Radio. Starting January 1st, 2023, visitors who book an STR in Steamboat will pay an extra 9% in local taxes—that is essentially a doubling of all other combined sales taxes! The revenues will generate between $11 to $14 million annually toward building housing in Routt County. With a large tract of land recently donated, it is probably not a coincidence that voters saw a direct line to where that money will be spent. Aspen voters approved “an additional” 5-10% tax to generate $9.1 million each year.

STR taxes differ from traditional lodging taxes which are levied primarily in synergy with industry to market visitation—or they were before communities this cycle began eyeing them for affordable housing, essentially turning lodging into another “sin tax.” During this election cycle, a few high-country jurisdictions successfully asked voters to repurpose lodging taxes for affordable housing, including Glenwood Springs, Gunnison County, and Snowmass Village. The Colorado Sun reports that similar measures to shift existing lodging taxes to housing solutions were defeated in Grand Junction and Park County.

STRs are only one recent, acute factor in the overall housing issue. So many inter-related factors constrict housing supply and drive increases to the cost of housing units, including a shortage of construction workers, supply-chain issues for materials, regulatory barriers to development, demographic shifts caused by an international pandemic, federal banking & tax policy favoring single-family homes and mortgages over rent, the novelty of many workers suddenly being able to work remotely, big-city problems related crime and homelessness, fear of unrest in a nation on the edge of cultural change, not to mention a generational re-thinking of one’s relationship to work. One could also point to a failure to embrace more robust government involvement in constructing housing in the past, as well as a continuing fiction that “the market” will build housing types at price points that workers need. The STR boom benefitted from those factors—why buy a home when you can borrow one. Many of these factors appear far beyond the purview of local governments to address.

The migration of units from long-term rental stock to short-term rental units in resort communities has prompted local governments to roll out innovative programs recently to counter the trend. Most NWCCOG member jurisdictions regulate STRs now. Yet persuading citizens to spend their own tax dollars on housing has proven problematic. A “sin tax” is levied “on a specific activity or good that is deemed harmful to individuals or society,” the implication is that STRs deserved penalty to “cover the costs” of the harm, and that the tax essentially is imposed on someone else (the visitor).

From one perspective, taxing STR users or repurposing lodging taxes are elegant policy solutions, leveraging “the problem” to address a “solution.” From another perspective, the need to identify a policy scapegoat instead of addressing housing “head-on” as publicly funded infrastructure is unfortunate. Deep progress in addressing most of the factors listed above will likely require unpopular solutions (like infill, and dense housing that will bring out the NIMBYs and traffic sirens) and will require sacrifices that voters may not so readily embrace – higher property taxes or RETTs.

The STRs concept began innocently enough as a tool to monetize an empty room or vacant home. VRBO began in 1995. Airbnb in 2008. It is fair to say these innovations flew under the policy radar until San Francisco started regulating VRBO in 2014. Many high-country jurisdictions followed in 2018 through today. In resort areas, STRs absorb a surge in demand for a product that the lodging base cannot. For some visitors, who wish to inhabit places differently, more authentically like a resident, STRs changes those visits from being “tourism-based” to a hybrid-residential experience. All that is fine and good, except the overall supply is limited and pricing is pushing out the workers needed for the full-service community those new residents expect.

Americans at all levels of government tend to be allergic to robust government involvement in such issues as housing, and allergic to taxes no matter what issues may be solved by additional revenues generated. Perhaps voters in mountain towns are signaling a shift. Local governments, as with the state or with Congress, entertain an astonishingly narrow breadth of solutions when it comes to addressing even the most acute policy issues, such as housing or climate. Why? Because one of the least taxed peoples of a major developed nation in the world have been trained to equate lower taxes with quality of life. The exception to the tax allergy since the 1980s has been “sin taxes;” for instance, tax gambling to pay for open space and parks (state lottery), or taxing marijuana for law enforcement and substance abuse programs or taxing tobacco to pay for pre-school and health care. STR taxes are now in that category. Can the mental health crisis be solved out of the wallets of smokers? Can the housing crisis be solved out of the wallets of visitors?

A recent article in the Atlantic opines that "for Americans to live a productive, prosperous, happy life, homes must be truly abundant." The impacts of not having enough affordable housing are far reaching and disturbing. It is an issue that requires more than just one solution.

While the passage of these STR taxes may be a step in the right direction, because of the premise of a sin tax, over the long term, it will prove inadequate to the magnitude of the housing problems that our communities face. When we rely on scapegoats to fund basic services, we ensure that basic services will always be under-funded.

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Northwest Loan Fund (NLF) hosts State Conference

October 25-28, the Business Loan Fund conference, hosted by the NLF, began in Eagle, CO. Pre pandemic, this state-wide group met twice per year, alternating regions so the participants became familiar with the uniqueness of each area. The conference allowed attendees to share what was happening in their region, from loan demand, loan management systems, changes in staff, participation in various funding sources, and future trends. Meetings included updates from State and DOLA Directors and Managers who worked closely with the Business Loan Funds and the tours allowed them to see firsthand what they have helped fund. The theme for this year's conference was Colorado Outdoors and explored the ever-expanding outdoor industry.

In Eagle, the group toured Eagle Climbing + Fitness, a client of the NLF, as the first stop on the tour. This well-respected community asset is responsible for not only providing health activities for the residents of Eagle County, but they host three to four climbing competitions annually. Each competition brings more than 200 participants, their coaches, and families to the Eagle area – thus adding real economic growth to the community.

Larry Moore, Co-Owner of EC+F, said, "We are proud our motto is Building Strength for the Community. We love bringing youth, residents, and people from throughout the state together to share our passion. The loan made by the NLF, allows us to add to the economic vitality of our community."

After lunch, those brave enough had the chance to try their hand at climbing! In the afternoon, conferees convoyed to Steamboat Springs. (Jody Adkins CDBG Program Manager, shown on wall.)

October 26, began with breakfast at Smell That Bread Bakery,(pictured at left) an NLF paid client. The NLF loan financed sophisticated equipment allowing the bakery to produce substantially more and to expand from wholesale only (to local restaurants) to offering their world class baked goods to Steamboat Springs residents and tourists.

Conference meetings were held at the Bud Werner Memorial Library named for the internationally renowned alpine ski racer who died trying to outrace an avalanche in the Swiss Alps. Jay Harrington, Routt County Manager welcoming the group said, "We are grateful for the opportunity to host the BLF conference, these types of loans are one of the most powerful economic development tools available to rural Colorado."

Later that afternoon the group toured two businesses in Hayden:

- CER Linen is a commercial laundry serving restaurants and lodging in Steamboat Springs; they run two shifts per day and employ up to 90 people in the peak seasons. NLF funds were used to purchase this business when the founder wanted to retire.
- Next, they moved to BAR-U-EAT where Commissioner Tim Redmond spoke on economic development in Hayden and on coal transition. BAR-U-EAT is an energy bar containing only whole, organic ingredients and local honey. Packaging is 100% compostable. All were able to see the new equipment that NLF had financed and the new facility which will allow the business to expand beyond its current 30 states.

Conference Speakers included Jeff Kraft, Director of Business Funding & Incentives from OEDIT, Alyson Anderson, Manager of CDBG Business Programs, Brian Rose, Deputy Director Region 9 on Start-up Loan Funding, Justin Vause – CHFA, Samantha Albert, Deputy Director, Outdoor Recreation Industry, and Mark Bellantoni – San Louis Valley who spoke on the State Forest Service Loan Fund.

Overall, the Business Loan Fund Conference celebrated the diversity of the loans being awarded to Colorado businesses that continue to add value to their communities by creating thriving businesses with opportunities for employment, along with sustainability and economic growth.

A special thanks to Talai Shirey, NWCCOG Office Manager for assisting Anita Cameron in handling all the details to make this an event a benchmark to be remembered.

The NWCCOG welcomes new Fiscal Assistant

Greg Ociepka joins the COG as a Fiscal Assistant, where he's excited to use his BS degree in Accounting and Finance to learn more about Government Accounting practices and to help the organization thrive. Before coming to Summit County in 2014, Greg lived in Hampden, Maine where he was born and raised. During the past few years, he has worked in property management as director of Inspections and Housekeeping, Accounts Payable, and Community Manager.

When he's not working you can find him outdoors skiing, mountain biking, or hiking – he's also a big fan of live music. We're excited to welcome him to the team.

Next Council Meeting - December 1, 2022
Full Council Meeting, EDD Board Meeting
Location: Zoom Conference Call
Time: Council 10:00 AM - 12:00 PM - EDD 12:30 PM - 2:30 PM
Primary Agenda Items: Revised 2023 Draft Budget and 2023 Draft Employee Handbook will post separate of the packet 48 hours prior to the meeting.