

Analysis of Potential New Revenue Sources

The 2021 Affordable Housing Task Force recommended a variety of possible revenue sources to increase funds for affordable housing. The chart below provides an analysis of the potential for each source.

Potential Revenue Source	Analysis
<p>0.125% (1/8 penny) sales tax increase inside the Tourism Development Zone. Based on past revenue levels, this could produce about \$5.5M in annual revenue.</p>	<p>Levying additional sales tax just on consumers/businesses within Music City Center TDZ as opposed to those without to fund countywide affordable housing initiatives could be considered unconstitutional unless “reasonable basis” can be explained for extra tax burden in just TDZ for this purpose. This proposal is different than the redirect/ dedication of revenues generated in TDZ from countywide-applicable tax, or the downtown CBID fee that is used to fund expenses incurred for or related to activity in CBID.</p> <p>Other considerations:</p> <ol style="list-style-type: none"> Proposed local sales tax increase requires state enabling legislation. Metro has no authority to levy sales tax to a limited geographic area of county under current law. Any change to local sales tax would require both Council approval and voter referendum. Under present law, max local sales tax is 2.75%; Metro is at 2.25%. Increases must be in ¼ increments, not 1/8. Transit Improvement Program statute has 20% max cap on aggregate of TIP surcharge and other applicable taxes and fees.
<p>Redirect Real Estate Transfer Tax at state level.</p>	<p>The transfer tax authorized pursuant to TCA 67-4-409 is a state tax, used for state purposes, and would require state legislation to change.</p>
<p>Create an additional affordable housing fee of 0.001% for any property built or sold for \$500,000 or more that does not preserve affordable housing.</p>	<p>This proposal seems to be technically like a tax, not a fee. But either way, state enabling legislation would be required.</p>
<p>Issue General Obligation Bonds to fund affordable housing.</p>	<p>Tennessee Constitution would require a voter referendum where a ¾ supermajority would have to approve issuance of bonds. The state law governing local governments’ issuance of debt already contemplates “affordable housing” as an eligible public works project in Davidson County but states constitutional requirements must be met. In addition to foregoing, bond counsel also would need to be consulted on any federal tax issues if the bonds are to be tax-exempt.</p>

<p>Introduce an Issuer Fee of 5 basis points on [tax-exempt] bond issuances. Unlike most markets, Nashville does not charge an issuer fee for any of its tax-exempt bond issuing authorities, including the Sports Council, Health and Education Board, Industrial Development Board, and others. This fee should be standard to avoid “issuer shopping”. As bond partners receive a taxpayer subsidized rate, they would be contributing to affordable housing in Nashville.</p>	<p>This presumably would apply to conduit bonds issued by HEFB and IDB, the latter which already imposes a bond issuance fee. Metro cannot unilaterally impose a fee; the respective boards are separate legal entities and would have to agree to impose fees and turn over money to Metro or dedicate their use of these revenues to affordable housing.</p>
<p>Increase STR fees and per night/per bedroom charge. This would both discourage STRs (which reduce the supply of long-term housing) and raise revenue for affordable housing. A portion of the STR tax currently contributes approximately \$1M to the Barnes Fund annually.</p>	<p>The short-term rental taxes referenced are the hotel occupancy taxes charged to STRs. For the portion of the occupancy taxes that flow to general fund, Metro previously passed legislation that dedicated to the Barnes Fund those revenues attributable to just STRs. State legislation would be required to increase occupancy taxes.</p> <p>Metro can only charge fees (such as STR permit fees) in a reasonable amount to offset costs for regulating STRs. Otherwise, state legislation would be required.</p>
<p>\$2 per night additional hotel tax (current tax is \$2/night). Based on 2019 occupancy levels, \$2/night increase would generate about \$1.5M per month or \$18M per year.</p>	<p>State legislation would be required to authorize additional hotel occupancy tax (HOT). Also, additional HOT (or any other applicable tax or combinations thereof under TIP statute) will need to be monitored to make sure any imposition of additional fees/taxes don't affect transit surcharge given TIP 20% cap on aggregates fees/taxes + surcharge.</p> <p>In 2023, General Assembly passed a law amending TCA 7-89-112 to limit use of excess revenues remaining after the Convention Center Authority satisfied debt + contractual obligations (which include most of HOT) to tourism-related uses. But like Titans stadium additional 1% HOT diversion, General Assembly could specifically authorize additional tax for affordable housing purposes.</p>
<p>Establish linkage fees or impact fees on residential and commercial development and earmark those for affordable housing development (currently prohibited by State law).</p>	<p>TCA 67-4-2913 prohibits Metro from doing impact fees or development taxes. State legislation change required (previous unsuccessful legislation in 2000 (HB2013/SB2908) and 2022 (HB1675/SB1840)). A 2024 law change allows a “county schools privilege tax” to defray costs of providing school facilities from development but must meet requirements of TCA 67-4-2907.</p>
<p>Issue or increase a document recording fee.</p>	<p>Pursuant to TCA 8-21-101, the County Register (of Deeds) is not permitted to receive any fees other than those authorized by state law. Further, state law would have to specifically allow a redirect/allocation of all or a portion of any fee for this purpose.</p>
<p>Initiate a special assessment for building permits, which would directly tax the creation of new homes and commercial development. Instead of a conveyance or mortgage tax assessment, an assessment of 0.21% of the value of the building permit can be charged.</p>	<p>A special assessment is technically an additional tax imposed on taxpayers in specified area (e.g., a “district”) to fund public improvements located in or benefitting that area. Any tax will require state authorizing legislation. Any fee charged not used to offset costs related to reason for imposition of fee will require state legislation. This proposal could be considered a tax because its purpose is to raise general revenue that would just be dedicated to a particular purpose.)</p>