Affordable Housing Trust Fund (AHTF)
History & Activity Timeline

Prepared by:
Chris Ford, District 1

Spring 2008	BUILD advocates for creation of AHTF to provide additional funding for affordable housing (particularly market rental rates)
May 2008	Mayor Newberry Appoints AHTF Commission 47 Members – Blue Ribbon Panel
Sept 2008	**AHTF Commission recommends establishing Trust Fund** Recommended Funding Source – 1% Increase Insurance Premium Tax Estimated dedicated revenue: $ 3 - 4 million annual
Fall 2008	Mayor Newberry rejects Commission's funding recommendation *Counter – proposes public / private financing partnership – to be capitalized with $250,000 LFUCG General Fund appropriation*
Fall 2009	Vice Mayor Gray Appoints AHTF Council Task Force *Initial Meeting 11-17-09; 24 meetings to date*
Summer 2010	Council Task Force issues RFP for Economic Impact Study *Awarded to Commonwealth Economics, approx. cost - $25,000*
March 2011	AHTF Economic Impact Study presented to Council Work Session *Referred to Council's Economic & Community Dev. Committee*
October 2011	Economic Development Committee Presentation *Discussion leads to reconvening of AHTF Council Task Force*
Winter 2011 – 12	Seven (7) interim Task Force Meetings
March 2012	**Formulation of AHTF Ordinance, as revised:** *0.5% increase to Insurance Premium Tax (excluding health premiums)* *Generates annual revenue of $1.9 million, with average household cost of $15* *Sunset provision for Council reauthorization at 5 years* *Appointment of 13 member AHTF Governing Board* *Beneficiary household population at or below 80% AMI* *Fund Allocation - minimum 50% to households at or below 30% AMI*

March 21, 2012

Affordable Housing Trust Fund Talking Points

- Commission created in 2008 in response to the Social Service Needs Assessment and Infill and Redev Report finding that there was a need for affordable housing
- Commission recommended the creation of a trust fund to be funded by a 1% tax on insurance premiums, a resolution was never presented to Council
- In 2010, the Council created a Task Force to study the fiscal, economic, and social impact of a range of funding levels, recommended 1% tax on insurance premiums
- "Affordable Housing" is housing that requires families and individuals to pay no more than 30% of their income for housing and housing-related costs
- Families that pay more than 30% of their income may have difficulty affording necessities such as food, clothing, transportation and medical care
- In Fayette County 35.8% of all renters lack affordable housing and 18.1% pay more than 50% of their income for housing
- In 2011 there were 349 families waiting for Sec. 8 vouchers and 1,171 families waiting for public housing units
- The lack of affordable housing:
  - Has a social cost including lost economic opportunity in jobs and revenue and direct and indirect social costs related to education and health care; in Fayette County that cost is estimated at $150 million a year
  - Has an effect on success in school; multiple movers scored an average of 10 points lower on the Kentucky Core Content Reading Test
- Affordable housing has a positive economic impact:
  - Money invested in Trust Fund is often matched by outside money and it stimulates private investment is housing.
  - Helps prevents homelessness more effectively than anything else
- Recommendations:
  - .5% tax on insurance premiums excluding health insurance which will raise $1.9 M annually with an average cost per household of $15
  - Sunset provision which requires reauthorization after 5 years
  - All projects funded benefit populations at or below 80% of AMI and no less than 50% of the funds benefit households at or below 30% of AMI
  - Annual review by Council
  - Administered by a Board that would decide target populations and funding levels with most of the money going to new construction of rental housing and favoring families with school age children

Affordable Housing Trust Fund Recommendations
Affordable Housing Task Force

History of Issue:
In April of 2008 both the Social Service Needs Assessment Report and the Infill and Redevelopment Report found that there was a need for affordable housing in Lexington.[1]

In response to those reports, and information from the Central Kentucky Housing and Homeless Initiative and BUILD, Mayor Newberry issued an executive order that authorized the creation of an Affordable Housing Trust Fund Commission (Commission) to assess the extent of this problem and make recommendations that would enable an Affordable Housing Trust Fund (AHTF) to be operational in Lexington by July 2009.[2] The Commission met and issued a report (Commission Report) in September of 2008 finding that affordable housing was needed in Lexington-Fayette County and recommending the creation of a trust fund to be funded by a 1% tax on insurance premiums.[3] The resolution creating such a Trust Fund was never presented to Council because there was not sufficient support to pass.

Because of continued public interest, the issue was again brought before Council in 2010 and the Affordable Housing Task Force was created. The Task Force commissioned Commonwealth Economics to study the fiscal, economic, and social impact of a range of funding levels for a trust fund. Commonwealth Economics presented that report (AHTF Study) to the Task Force in February, 2011. In September, 2011, the Task Force presented the study to the Economic Development Committee, which referred the matter back to the Task Force to develop a proposed structure for the trust fund and a set of parameters for operation of the fund.

Definition:
Affordable housing is defined by the US Department of Housing and Urban Development (HUD) as "housing that requires families and individuals to pay no more than 30% of their income for housing and housing-related costs.[4] "Families that pay more than 30% of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care."[5]

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[1] Social Needs Assessment Report 2008, p. 8, Infill Redevelopment Report 2008, p. 16, Commission Report, p. 3
[2] Commission Report, p. 3
[3] Commission Report, p. 3
[4] Commission Report, p. 3
[5] www.hud.gov/offices/cpd/affordablehousing/

Current status of affordable housing:
In Fayette County, 17,312 households (35.8% of all renters) pay more than thirty percent (30%) of their gross household income for their rent and 8,753 households (18.1% of all renters) pay more than 50% of their gross income for housing.[6] The for-sale market in Lexington is grossly under-supplied with product priced below $85,000 for people making less than 50% of area median income (AMI). The gap is 2,103 homes.[7]

The Public Housing Plan prepared by the Lexington Housing Authority and provided to LFUCG shows that as of April 13, 2011 there were 349 families on the Sec. 8 wait list. The list has been closed since October of 2010.[8] At the same time, there were also 1,171 families waiting for a public housing unit.[9]

The 2008 Commission Report states:

> The cumulative effect of rising housing costs and shrinking incomes stresses family budgets, sometimes to the breaking point. Families with less income are disproportionately impacted by these forces, as the supply of affordable housing fails to keep pace with demand and wage increases have not kept pace with increases in housing costs.[10]

Cost of lack of affordable housing:

Economic Impact: The 2008 Commission Report found that "communities that lack affordable housing actually experience diminished economic prospects."[11]

A Lee County, FL study cited in the report found that ignoring the local need for affordable housing was costing the community more than $249 million each year.[12] "The study calculated the community costs associated with inadequate housing in three sectors of the community: lost economic opportunity, stressed transportation infrastructure, and the direct and indirect social costs related to education and health care. The vast majority of the cost to the community was associated with lost economic opportunity (estimated at $241 million each year). This included lost jobs and wages as

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[6] Commission Report, p. 5
[7] LFUCG Housing Market Study, p. 5
[8] Public Housing Plan, p. 6
[9] Public Housing Plan, p. 7
[10] Commission Report, p. 7
[11] Commission Report, p. 17
[12] Commission Report, p. 17

a result of not developing needed housing, lost economic opportunity as a result of families spending too much money on housing, and lost property tax revenue."[13] Extrapolated to Fayette County given our population, the annual cost to Fayette County is estimated at $150 million.[14]

Social Costs: Multiple studies have found that lack of affordable housing also has a social cost. In Charlotte-Mecklenburg County, it was found that "the aggregate social cost of failing to address … affordable housing needs may approach $50 million annually when considering public education, criminal justice, healthcare, and transportation costs."[15]

Student Success: A study in Louisville, KY found that the availability of safe, decent, and affordable housing has a direct effect on student and school success. Those students who moved schools and homes more than once during the year scored an average of 10 academic index points lower on the Kentucky Core Content Reading Test than students who had only one school move. Multiple movers were 8% more likely to be rated as novice (below grade level) than single movers and 10% less likely to be rated as proficient.[16]

Homelessness: Lexington has roughly 1,250 homeless in shelters and 200 homeless on the street at any given time.[17] Affordable housing prevents homelessness and associated costs more effectively than anything else.[18]

Economic Impact of Affordable Housing:
The 2011 AHTF Study found that a $4 million investment in the Trust Fund matched at the national average of an 8:1 ratio would create 470 housing units each year. This assumes that Affordable Housing Tax Credits would be available to supplement Trust Fund investments.

Funding of the Affordable Housing Trust Fund:
The Commission Report concluded the following:

- the ideal primary funding source should be a community-wide source that does not excessively target a specific market sector; and
- the funding source should be targeted to generate between $3 million and $5 million annually from a dedicated public revenue source.

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[13] Commission Report, p. 17
[14] Commission Report, p. 17
[15] Charlotte-Mecklenburg Affordable Housing Report, p. x
[16] "Moving On: Student Mobility and Affordable Housing," Metropolitan Housing Coalition, 2004
[17] Commission Report, p. 9
[18] Commission Report, p. 9

For these reasons, the Commission recommended a 1% insurance premium tax.[19] The 2011 AHTF Study indicates that a 1% increase for all insurance premiums except health care would generate $3.8 million annually and that the average cost per household would be $30.[20]

Recommendation:
Given the clear need for affordable housing and the demonstrated positive economic and social impact of a trust fund to create more affordable housing, the Affordable Housing Task Force recommends an increase in the present fee on all insurance premiums, except for health care, by .5% to create an Affordable Housing Trust Fund and fund it on an ongoing basis. This tax will generate $1.9 million annually and the average cost per household is $15.[21] The Task Force also recommends that the fund be administered by a Board as proposed in Appendix A, with the appointed administrative body charged with reviewing annually the allocation of funding and the criteria for determining projects and occupants.

In addition, to reflect the specific needs for affordable housing and the opportunities represented by increased affordable housing cited above, the Task Force recommends that implementation include the following:

1) Include language in the enabling ordinance that:
    a. Requires that projects funded benefit populations at or below 80% of AMI and no less than 50% of the funds benefits households at or below 30% of AMI;
    b. Provides for an annual review by Council; and
    c. Provides a "sunset" provision, such that re-authorization for the Trust Fund will have to be approved by Council five (5) years after the implementation of the tax.
2) Provide that the Board shall decide the additional criteria for the allocation of funds and may adjust the percentage based upon current conditions. However, the following flexible guidelines are recommended:
    A. For all funds (minus 5% administrative costs):
        30% for housing rehabilitation
        70% for new construction
    B. For all funds (minus 5% administrative costs):
        65% for rental housing

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[19] Commission Report, pp. 15-16
[20] AHTF Study, p. 16
[21] AHTF Study, p. 16

35% for home ownership

3). Have the Board adopt a strategy for use of funds that targets narrow geographic areas, so that the public investment will have the greatest potential impact on private sector investment for similar housing improvements.

4) Have the Board adopt criteria for determining occupants of subsidized housing that favors families with school-age children, to provide stability and lessen the frequency of transiency within the school-age population and its negative effects on learning and school achievement.

Appendix A: Administrative Structure (Adapted from the Commission Report)[22]

The Task Force recommends the establishment of an AHTF Governing Board to have independent authority and oversight of the Trust Fund. It shall be organized as follows:

Charge of Authority - The Governing Board shall be vested with oversight authority, and shall manage the Trust Fund independently of political influences.

Appointment - The Mayor of the Urban County Government shall have the authority to appoint each member to serve on the AHTF Governing Board. The Urban County Council must confirm or reject each appointment made by the Mayor.

Term of Service - The members of the AHTF Governing Board shall serve a term of four (4) years. The terms of the Governing Board shall be staggered in a manner required by Section 7.02 of the Urban County Charter. No Board member may serve more than two consecutive terms.

Equal Representation - The AHTF Governing Board shall promote inclusion, demonstrate fairness of process, and reflect the socio-economic fabric of the Lexington – Fayette County community. The composition of the Governing Board shall be, as nearly as possible, representative of the social, economic, cultural, ethnic and racial groups which compose the population of the County.

Composition - The AHTF Governing Board shall be comprised of thirteen (13) members. Each Member must demonstrate knowledge and experience in the affordable housing sector, and support local housing efforts. These individuals must have extensive experience in one or more of the following skill sets:

- Homelessness & Emergency Housing
- Social & Support Services
- Affordable Housing Management
- Affordable Housing Resident/Client
- 2 LFUCG Council Members
- 2 General Public at Large
- Grants Administration or Philanthropic Giving
- Housing Construction
- Commercial or Mixed–Use Development
- Property Leasing or Rental Housing/Real Estate Management
- Financial or Capital Markets

Conflict of Interest - No member of the AHTF Governing Board shall be an employee, business partner, contractor, consultant, Board member or representative (or immediate family thereof) of an organization which petitions for

[22] Commission report, pp. 12-15

funding from the AHTF. Applicants for AHTF funding will be deemed ineligible if a Board member has any such affiliation.
Meetings - The AHTF Governing Board shall meet bi-monthly, or at least five (5) times within a calendar year. A quorum must be established for an official business meeting to be held. A quorum consists of a majority of eligible voting members (7 persons). A simple majority of Governing Board members present at an official meeting is required to approve any business item on the agenda.

The duties of the AHTF Governing Board shall be:

- Establish policies and procedures for the operation/management of the AHTF
- Select an appropriate Administrative Agent to carryout the functions of the AHTF
- Oversee the financial management of AHTF funds, including all receipts, gifts, donations, grants, disbursements, accounts payable & administrative costs
- Annually monitor and evaluate the performance of the Administrative Agent
- Establish annual funding goals and priorities for housing production utilizing AHTF funds
- Annually review funding proposals from eligible applicants for AHTF funds
- Annually rank and prioritize eligible projects requesting AHTF funding
- Annually approve funding for eligible AHTF projects
- Perform housing studies, housing needs assessments, and compile pertinent data consistent with planning activities on-going through existing governmental departments and non-profit housing agencies
- Submit annual reports on the activities of the AHTF to the Mayor, Urban County Council and the community

Management/Staffing
Once the initial organization is accomplished, the day-to-day management of the Trust Fund shall be entrusted by the Governing Board to an Administrative Agent. To establish the initial structure, the initial Administrative Agent shall be the LFUCG Department of Planning, Preservation, and Development.

The duties of the AHTF Administrative Agent shall be:

- Develop a Notice of Funding Availability (NOFA) for annual AHTF funding cycles
- Develop program materials and provide technical assistance to potential applicants

- Solicit and receive funding applications for housing projects requesting AHTF funds
- Evaluate project proposals to determine eligibility and feasibility based on criteria established by the Governing Board and program guidelines
- Initiate contracts with projects awarded funding by the AHTF Governing Board
- Process and approve funding draw requests submitted by project administrators
- Monitor implementation of these projects
- Complete project close-out reports
- Monitor post project compliance requirements

The initial staffing of the AHTF Program shall consist of two (2) staff persons: a *Program Director* and an *Administrative Assistant.* The initial estimated annual administrative cost of the program, including wages & fringe benefits, is $125,000-$150,000. The personnel costs required to administer the AHTF shall be supported by the revenues of the Trust. Administrative costs will be limited to no more than 10% of AHTF revenues with the initial years targeted at no more than 5%.

Commonwealth | Economics

Lexington/Fayette Affordable Housing Trust Fund

Fiscal, Economic and Social Impact Study

Submitted To:

Lexington/Fayette Urban County Government

Submitted By:

Commonwealth Economics, LLC

February 2010

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Table of Contents

Appendix

I. EXECUTIVE SUMMARY

The objective of this economic impact analysis is to provide the Lexington-Fayette Urban County Government (LFUCG) with a complete view of the anticipated economic, fiscal, and social impacts that an Affordable Housing Trust Fund (AHTF) would have throughout Lexington. The estimates and information provided by this analysis are intended to be used as a guide for discussion and debate regarding the benefits of implementing an affordable housing program in Lexington.

FISCAL IMPACT:

- As shown in Table 1.1, the range of the annual gross fiscal impact on LFUCG is between $4.4 million to $1.9 million based on different rate increase assumptions and types of tax increases studied by the AHTF Task Force.
- As shown in Table 1.1, the range of the gross fiscal impacts per household in Fayette County is between a low of $15 per household to a high of $35 per household based on different rate increase assumptions and types of tax increases studied by the AHTF Task Force.

Table 1.1

Impact per Household of Various Increases in the Local Insurance Tax Rates

Increase in the Local Insurance Tax	Gross Fiscal Impact	# of Households	Impact per Household
1% increase	$4,449,120	127,408	$35
1% increase, but excluding health increase	$3,800,677	127,408	$30
0.75% increase	$3,336,840	127,408	$26
0.75% increase, but excluding health increase	$2,850,508	127,408	$22
0.5% increase	$2,224,560	127,408	$17
0.5% increase, but excluding health increase	$1,900,338	127,408	$15

ECONOMIC IMPACT:

Assuming an 8:1 leverage ratio, the estimated annual economic impacts of a $4 million AHTF investment include:

- An average of approximately 470 housing opportunities can be produced *each year,* including 150 new construction projects and 320 rehabilitation projects.
- More than 363 new jobs will be directly and indirectly supported by trust fund investment.
- More than $43.3 million of direct, indirect and induced economic activity will be generated from trust fund investment.

SOCIAL IMPACT

- Academic literature and numerous studies show that improvements in health, family stability, education, and the environment are some of the positive social and community benefits associated with AHTFs.
- Opportunity costs, administrative costs, and potential negative industry impacts should also be considered when adopting the AHTF.

II. INTRODUCTION

Housing trust funds are dedicated sources of revenue to help low- and moderate-income people achieve affordable housing. In most cases, a government agency -- usually an existing housing agency -- administers the housing trust fund and awards grants and loans to local governments, non-profit developers, for-profit developers, and in some cases, individuals, for a variety of low and moderate-income housing activities.

Commonwealth Economics, LLC was retained to examine the projected local impacts of an Affordable Housing Trust Fund (the "AHTF") that is proposed to be implemented in Lexington, Kentucky by the Lexington-Fayette Urban County Government. In 2008, the Affordable Housing Trust Fund Commission was charged with the task of determining the need for an improved affordable housing program in Lexington. Now, the AHTF Task Force has been charged with determining the correct implementation of an AHTF in order to maximize its potential benefits to the City. This study examines the proposed Affordable Housing Trust Fund's impact throughout Lexington, including effects on jobs and income, industry sectors, tax revenues, and changes in spending by households that benefit from increased access to affordable housing opportunities. In addition to these quantifiable impacts, the study looks at a range of social and community benefits that can be expected to accrue as a result of the investments made by the trust fund.[1]

Commonwealth Economics used a number of previous reports, studies, websites, and other sources to create this study. In addition, the methodology and economic analysis used in this report relies heavily on other similar economic impact studies using IMPLAN, such as the Colorado Housing Trust Fund Impacts Study (September 2002). A detailed bibliography of all sources can be found in section VII of this report.

The LFUCG's Affordable Housing Trust Fund Task Force commissioned this study to better understand and communicate the potential fiscal, economic and social impact of public investment in a local housing trust fund. In doing so, the AHTF Task Force required Commonwealth Economics to answer the following nine questions.

[1] The results presented herein are fair and reasonable. Commonwealth Economics utilized sources deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analysis presented in this study are based on trends and assumptions, which usually result in differences between the projected results and actual results. And because events and circumstances frequently do not occur as expected, those differences may be material.

1) What would be the yield on various levels of increases in insurance taxes from one half of one point, three quarters of one point, and one point? Calculate for an all-inclusive increase and for an increase that exempts the health insurance tax.

2) What would be the cost of raising the tax to the average household?

3) How many affordable housing units will be created and/or rehabilitated each year if trust fund revenues are $4 million?

4) How many jobs will be created to construct new, or rehabilitate existing, affordable housing units?

5) What is the financial impact on the community based on answers to #3 and #4?

6) What is the impact on surrounding area property values when new units are created or existing units are rehabilitated?

7) Is the "6 to 1 match" attainable?

8) What is the economic impact of an average, conservative and aggressive leverage ratio?

9) What are the unquantifiable impacts (i.e. social, quality of life, etc) of an affordable housing trust fund on the community?

The following sections of the report provide the answers to the questions listed above.

Section III provides background information from the Affordable Housing Commission's report detailing Lexington's need for more affordable housing.

Section IV calculates the fiscal impact that the proposed AHTF would have on both individual citizens and Lexington as a whole.

Section V details the methodology used to calculate the estimated economic impacts that the AHTF would have throughout Lexington.

Section VI provides the detailed estimations of the economic impact that the proposed AHTF will have throughout Lexington.

Section VII reviews the other unquantifiable impacts that the AHTF is likely to have throughout Lexington, based on numerous studies which have analyzed these effects.

Section VIII provides a conclusion to the study.

III. A REVIEW OF PREVIOUS AFFORDABLE HOUSING STUDIES AND STATISTICS FOR LEXINGTON

The following is an excerpt from the LFUCG's Affordable Housing Trust Fund Commission Report, presented in September 2008 to then-Mayor Jim Newberry. It has been included strictly as supplemental information in order to provide a deeper context to the economic conditions in Lexington which relate to the City's need for affordable housing. Commonwealth Economics neither supports nor denies the need for Affordable Housing in Lexington.[2]

The following quote, **which lasts until page 14**, is a direct excerpt from LFUCG's Affordable Housing Trust Fund Commission Report:

"........

> **Shortages of Affordable Housing** - The U.S. Department of Housing and Urban Development defines "worst case needs" households as "unassisted renters with very low incomes (below 50 percent of area median income) who pay more than half of their income for housing or live in severely substandard housing." In a 2003 report, HUD found that "a substantial proportion of households with worst case needs experience these problems despite being *fully employed*. Of families with children that have worst case housing needs, 41 percent have earnings consistent with full-time year-long work at low wages."
>
> In Fayette County there are approximately 48,357 renter households. Of these, 17,312 households (35.8% of all renters) pay more than thirty percent (30%) of their gross household income for their rent. More alarmingly, 18.1% of all renter households in Lexington (8,753 households) pay more than 50% of their gross income for housing.

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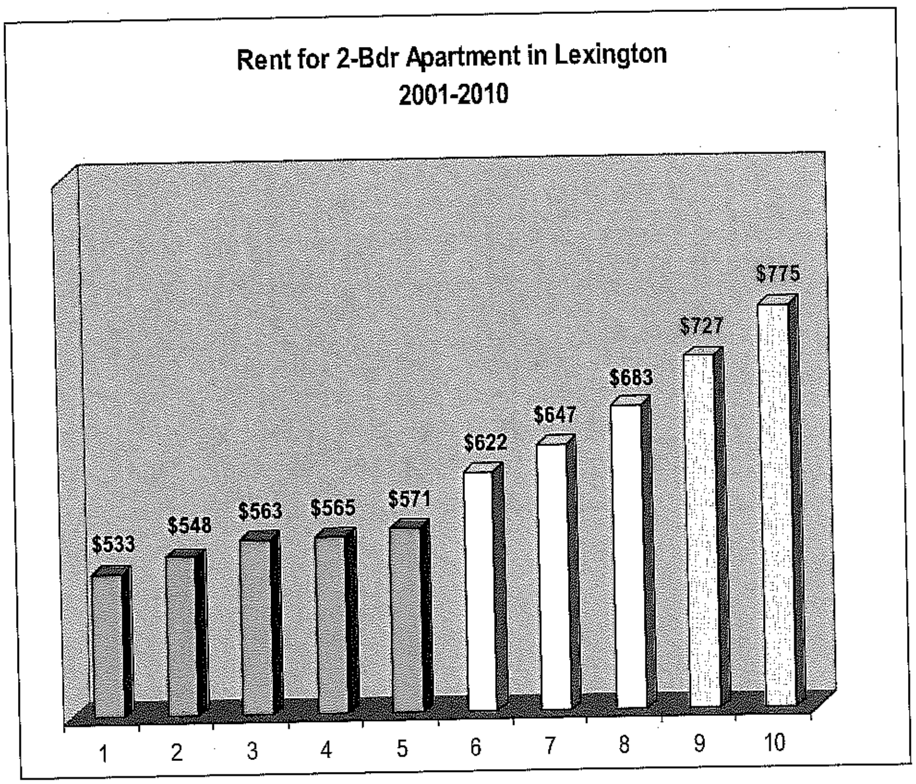
[2] Commonwealth Economics makes no claim to the accuracy of the content found in the following excerpt. It has been included in this study as a direct quote from the Report submitted by the LFUCG's Housing Trust Fund Commission in 2008, and its findings are neither confirmed nor denied by Commonwealth Economics. It was included as a quote because Commonwealth Economics was not asked to examine the need for Affordable Housing, only to provide answers to the questions listed in Section II, but we felt it important to provide some context to the origin of this impact study. Commonwealth Economics neither supports nor denies the need for Affordable Housing in Lexington.

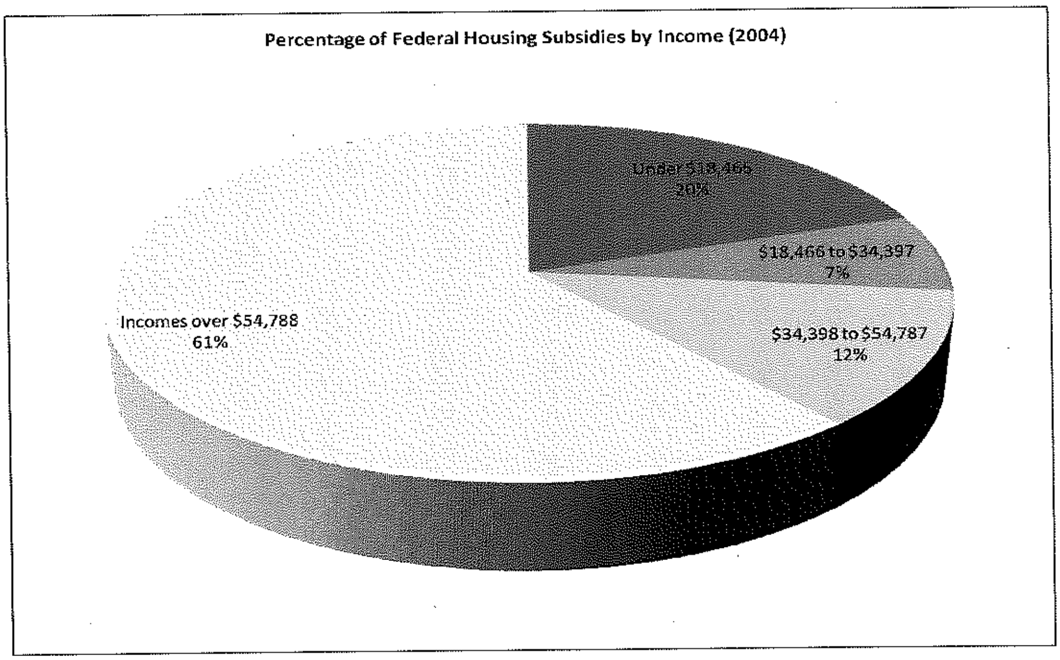
Between 2003 and 2005, the median renter household income in Lexington increased 5.5% from $27,298 to $28,811. However, during this same two-year period the fair market rent of a two-bedroom apartment increased 10%, from $565 to $622 per month. Similarly, the "housing wage" (amount needed to afford the average 2-bedroom apartment rent) increased 10% from $10.87 to $11.96 per hour.

As noted in the following chart, apartment rents in Lexington increased an average of 1.8% per year from 2000 to 2005 but have averaged 6.5% since then. If this trend continues, rents in Lexington will have increased nearly 33% in the last half of this decade compared to just 9% in the first half of the decade.



Surprisingly, the federal government's response to this nearly three decade long decline in affordable housing has been a steady reduction in the national commitment to allocating federal dollars toward affordable housing. Federal investments in affordable housing have been drastically reduced since 1980. The budget of the Department of Housing and Urban Development (HUD) has plummeted from $104.5 billion in 1980 (in 2005 dollars) to only $19.2 billion in 2005. Not surprisingly, these cutbacks in our national commitment to affordable housing have been mirrored by increasing numbers of homeless persons and families in the United States.

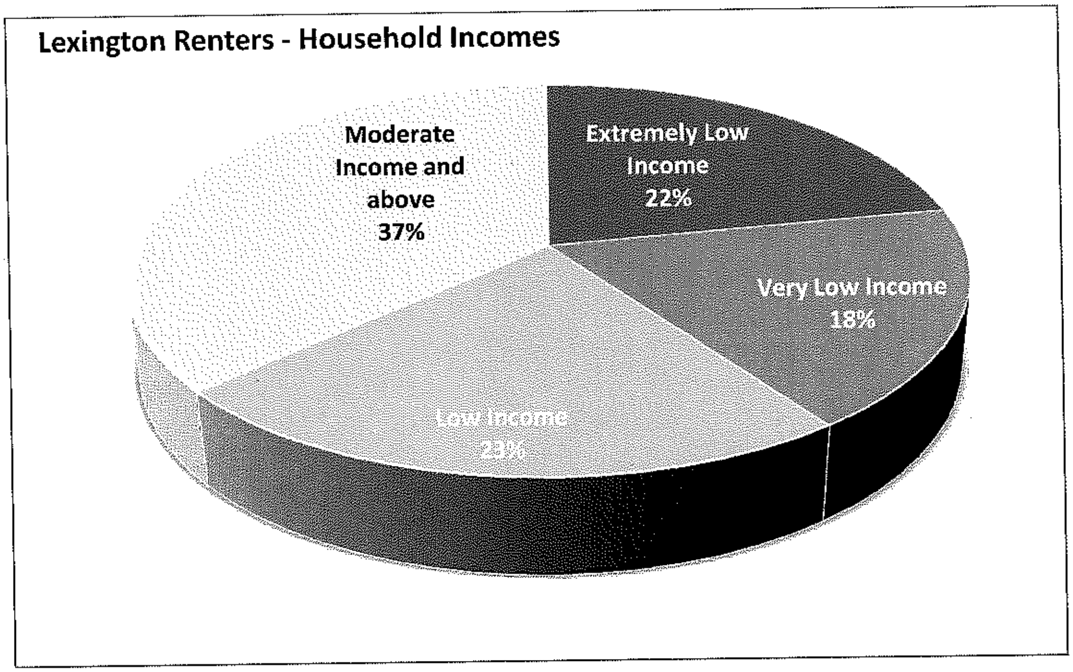
However, it should also be noted that total federal outlays for housing have not declined during this same period. In fact, these have actually increased. Primarily because of the homeowner deductions allowed under federal tax law, the emphasis of federal housing policy over this period has increasingly shifted to benefit middle and upper income property owners, as indicated by the following chart.

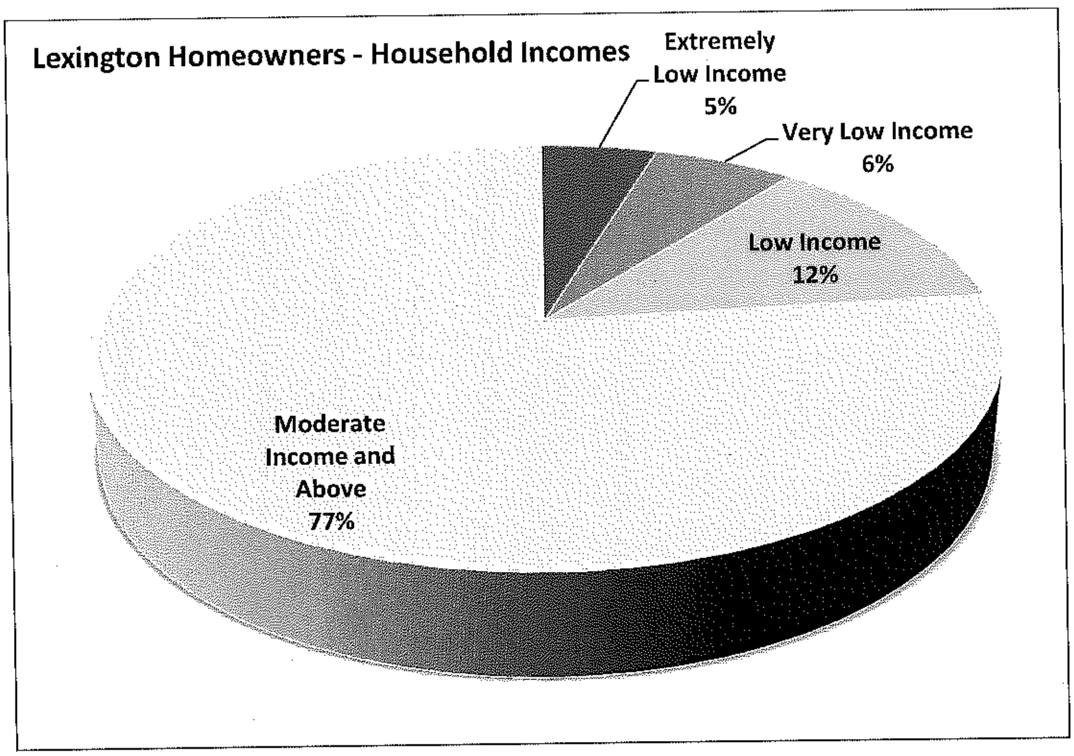


<u>Declining or Stagnating Real Incomes</u> - Amidst increasing housing costs that are consistently outstripping the general rate of inflation, most Americans have faced decades of declines or stagnation in their real wages. In 2004, 37 million people, comprising almost thirteen percent (13%) of the U.S. population, lived in poverty. In Fayette County, the percentage is even higher: 14.9% of the population lives under the poverty level. The poverty rate for children in Fayette County is even higher at 17.5%. Rising housing costs, in addition to stagnant incomes and lower safety net benefits, are factors in the rising number of Americans living in poverty. The bottom half of wage earners has seen its income stagnate or decline in the last 20 years, while the top 5 percent of households has seen its income double. The minimum wage has steadily lost purchasing power since its inception as legislative increases have substantially lagged inflation. Wage inequality has dramatically grown in the last twenty years as a result of a variety of changes in the economy and in public policies that shape the economy. The disparity between the incomes of those at the top and those at the bottom is at its greatest point since the decade of the "roaring 20's" that preceded the Great Depression. Nearly half of American households are deeper in debt, insecure about their jobs or downsized into the temporary workforce, and contemplating a future retirement that is significantly diminished with little or no economic security.

In addition, reductions in public assistance programs, including the 1996 repeal of the Aid to Families with Dependent Children (AFDC) program, have made it more difficult for single mothers to rise out of poverty. Temporary Assistance to Needy Families (TANF), the program designed to replace AFDC, provides families with only a fraction of the income received under the previous program. In Kentucky, the maximum monthly TANF benefit for a family of three is $262. Bad credit, no credit and poor or non-existent landlord references are barriers to housing for families. In Minnesota, a study of over 3,100 homeless individuals and families found that 22% had credit problems and 11% had an eviction or other rental problems on their record. Another nine percent had no local rental history.

The cumulative effect of rising housing costs and shrinking incomes stresses family budgets, sometimes to the breaking point. Families with less income are disproportionally impacted by these forces, as the supply of affordable housing fails to keep pace with demand and wage increases have not kept pace with increases in housing costs. Renters are more significantly impacted, primarily because the income distributions for renter households are dramatically lower than those of owner households, as illustrated by the following charts:





Homelessness - In Fayette County, it is estimated that approximately 1,250 individuals (at any given time) are living in shelter programs provided by homeless service providers. Another 200 persons are living on the streets. There is very little argument among those knowledgeable about the root causes of homelessness that long term solutions to this problem must be focused on the two primary factors that cause homelessness, namely insufficient affordable housing options and stagnating wages unable to keep up with rising housing costs. The combination of higher and higher housing costs while incomes for low-income families continue to shrink presents an increasingly more difficult challenge for those struggling to keep a roof over their heads. Not surprisingly, the vast majority of studies that have researched solutions to homelessness have found that affordable housing (often subsidized), prevents homelessness more effectively than anything else. This is true for all groups of poor people, including those with persistent and severe mental illness and/or substance abuse.

The creation of more affordable housing in Lexington should be the major focus of any recommendations to end homelessness. The comprehensive network of services now provided to assist homeless persons in Fayette County is increasingly burdened by the lack of affordable housing for persons seeking to exit emergency and transitional programs. In addition, increased affordable housing options in the community will reduce the number of people who are at-risk of homelessness and therefore reduce the demand on the existing network of homeless services. Finally, more affordable housing options locally will actually increase capacity in the local homeless service network, particularly in the availability of transitional housing. Local transitional housing providers are experiencing increasing delays with individuals and families successfully exiting their programs to permanent housing because residents simply cannot find affordable housing. Programs that once saw families successfully transitioning to permanent housing in as little as three months are now experiencing stays averaging 18 months. If these programs were able to reduce the delays now needed to successfully transition families into permanent housing (say to an average of 9 months) it could double the number of families who will benefit from the existing network of transitional programs. In short, more affordable housing options in the community not only increases the supply of decent housing that people can afford but it also increases the capacity of existing transitional housing without the expense of expanding the current inventory and it reduces demand on the current network of homeless services by reducing the number of people who fall into homelessness.

Lastly, it should be noted that a local needs assessment is required annually in the Continuum of Care submission to the U.S. Department of Housing and Urban Development. Since 2004, emergency shelter has been designated a "low" priority need in Lexington. This does not mean that there are currently enough shelter beds in Fayette County to meet the needs of all who are homeless. This ranking is a relative assessment when comparing emergency shelter, transitional housing and permanent housing (with supportive services). Since 2004, transitional housing and permanent housing with supportive services have been ranked as "medium" and "high" priorities, respectively. These rankings essentially mean that the greatest unmet local need in Fayette County is permanent housing with supportive services, followed by the unmet need for transitional housing (set at medium). These rankings are based on known and estimated numbers of homeless persons in Lexington in need of emergency shelter, transitional housing and permanent housing with supportive services when compared to the beds currently provided. In short, the current listings of available sheltering capacity are best met at the emergency shelter level and least met at the permanent housing with supportive services level.

……."

IV. FISCAL IMPACT

LFUCG's Affordable Housing Trust Fund Task Force (the "Task Force") has proposed the establishment of a local affordable housing trust fund, with a dedicated revenue source in the form of a one percent increase to the insurance premium tax.

The AHTF Task Force asked Commonwealth Economics to answer the following question: "What would be the yield on various levels of increases in insurance taxes from one half of one point, three quarters of one point, and one point? Calculate for an all-inclusive increase and for an increase that exempts the health insurance tax."[3]

To perform these computations, it is first necessary to understand the current LFUCG revenues from the insurance premium tax. As shown in **Table 4.1** the overall gross revenue from the insurance tax rate is approximately $22.2 million. The tax on health insurance represents approximately $3.2 million of this $22.2 million.

Table 4.1

LFUCG Insurance Tax Revenues

	Yearly
Casualty	$3,875,690
Motor Vehicles	$7,183,627
Inland Marine	$1,191,245
Fire and Allied Perils	$3,872,290
Life	$1,734,965
Health	$3,242,216
All Other Risk	$1,145,567
Total	**$22,245,600**

[3] It must be noted that Commonwealth Economics is not recommending or suggesting certain tax rates. The information provided above is merely a computational analysis.

According to the data provided by the IMPLAN database, a nationally recognized economic forecasting tool, there are approximately 127,408 households in Fayette County. Therefore, a 1% increase in all insurance taxes would represent an increase of $4.4 million in local insurance tax revenues, which would represent an average insurance cost per household of nearly $35 per household.[4] This average is based on the total amount of local insurance tax revenue, and therefore includes taxes paid both by individual households and businesses.

Data separating household insurance tax revenues from business insurance tax revenues are not available to make a distinction between the amount of additional tax a household would pay versus the amount of additional tax a business would pay, if a 1% increase to the insurance premium tax is enacted. However, any individual household or business can calculate the exact effect that a 1% increase in the local insurance tax rate would have on a case-by-case basis using their specific level of spending on insurance in a given year. For example, if a household spends a total of $3,000 a year on all of its insurance (including all of those listed in Table 4.1), by multiplying this amount by 1% (0.01) one will see that the tax increase will cost this particular household $30 more each year. Similarly, if a business spends a total of $4,000 a year on all of its insurance, it can calculate the increased cost in the same manner, to show an increased cost of $40 a year.

Table 4.2 shows the anticipated revenues for a 0.5%, a 0.75%, and a 1% increase in the local insurance tax rate, both including and excluding the tax on health insurance.

Table 4.2

Impact per Household of Various Increases in the Local Insurance Tax Rates

Increase in the Local Insurance Tax	Gross Fiscal Impact	# of Households	Impact per Household
1% increase	$4,449,120	127,408	$35
1% increase, but excluding health increase	$3,800,677	127,408	$30
0.75% increase	$3,336,840	127,408	$26
0.75% increase, but excluding health increase	$2,850,508	127,408	$22
0.5% increase	$2,224,560	127,408	$17
0.5% increase, but excluding health increase	$1,900,338	127,408	$15

[4] While it might be anticipated that the increase in the insurance tax could potentially result in negative economic impacts that might actually result in different baseline gross tax revenues due to tax price elasticity rates, for purposes of this analysis the AHTF only required Commonwealth Economics to look at a static analysis of the revenues. A dynamic analysis of a change in tax rates requires a great deal of assumptions on the elasticity of tax rates, as well as current and future economic conditions.

As shown in Table 4.2, the range of gross fiscal impact is between $4.4 million and $1.9 million based on different rate increase assumptions and types of taxes included. It can also be inferred from Table 1.1, the range of the gross fiscal impacts per household in Fayette County is between $35 per household to $15 per household based on different rate increase assumptions and types of taxes included.

V. METHODOLOGY OF ECONOMIC IMPACT STUDY

The study examines the direct, indirect, and induced economic impacts of additional spending on affordable housing programs that would result from the creation of an Affordable Housing Trust Fund by the LFUCG. These impacts include effects on employment, income, spending, industry sectors, and tax revenues in the state. In this section, we examine the following methodology components: type of impact, duration of impact, the multiplier effects, how leverage works, and the assumptions provided by the Task Force on allocation of funds.

TYPE OF IMPACT

Any economic activity, such as the construction or rehabilitation of housing, generates a number of different effects or impacts throughout a regional economy. Economic impacts are usually measured in terms of jobs, output, and income. Employment refers to full-time jobs, or the equivalent amount of work. For example, if two people were working 20 hours a week building a home for an entire year, the project would be considered to have created only one job. Output refers to the total value of a good or service produced. It includes the value added by the producer of the good as well as the value of all the inputs used to make the good or service. Income refers to wages and benefits paid to all employees (including those that are self-employed).

Initial economic activity creates direct impacts on the local economy. These impacts are followed by indirect and induced impacts, as described below:

- **Direct Impacts** are the jobs, output, and income associated with the industries receiving a change in final demand. For example, the construction of a new home has direct effects on the construction industry in terms of output, jobs, and wages. This initial or direct impact creates a multiplier effect throughout the economy, which is seen through both indirect and induced impacts.

- **Indirect Impacts** are jobs and income resulting from spending by directly impacted industries for goods and services provided by other businesses. For example, the construction industry will purchase materials and services (e.g. concrete, wood, electrical services, etc.) from other industry segments, resulting in employment and income impacts on those segments, and their suppliers. Such purchases occur both within and outside of Lexington. This study reports only the portion of indirect purchases within Lexington.

- **Induced Impacts** are the impacts on all local industries as a result of the expenditures of new household income generated by the direct and indirect impacts from new output and employees. Payroll expenditures by construction companies are a direct impact. Payroll expenditures by suppliers to construction companies are indirect impacts. The spending by households that receive those payroll dollars creates an induced impact, as those dollars are spent on items including housing, food, utilities, transportation, clothing, health care, entertainment, and taxes. This spending produces revenue for the businesses providing these goods and services, which in turn creates additional jobs and spending – a pattern that repeats as a diminishing ripple throughout the regional economy. This cycle diminishes due to savings and money spent outside the local economy.

- **Total Impacts** represents the sum of the direct, indirect, and induced impacts and is the measure of total economic impact.

DURATION OF IMPACT

This analysis studies the economic impacts associated with new housing trust fund investment. It does not evaluate the impacts of investment from any current equity subsidy sources. This analysis can be broken down into two types of impacts -- one-time impacts related to new housing construction and rehabilitation and on-going impacts related to changes in household spending.

- **One-time Impacts from Construction** are one-time impacts related to new housing construction and rehabilitation. The actual mix of projects will vary from year to year according to changes in market demand and investment opportunities. It is expected, in most affordable housing trust funds, that a significant portion of funding will be devoted to the construction or rehabilitation of affordable housing projects. This investment in new construction or rehabilitation activity, leveraged with other public and private funds, generates new economic activity, with corresponding direct, indirect, and induced economic impacts.

The remaining money in the fund typically goes toward the acquisition of land and various supportive services. It is generally accepted that the majority of funds used for property acquisition represent a transfer of capital rather than new economic activity. While there are some economic impacts related to property acquisition, including closing costs and real estate fees, these impacts will be minimal. In addition, the portion of funds related to supportive services can also be considered a transfer payment, which does not create any additional direct economic impacts.

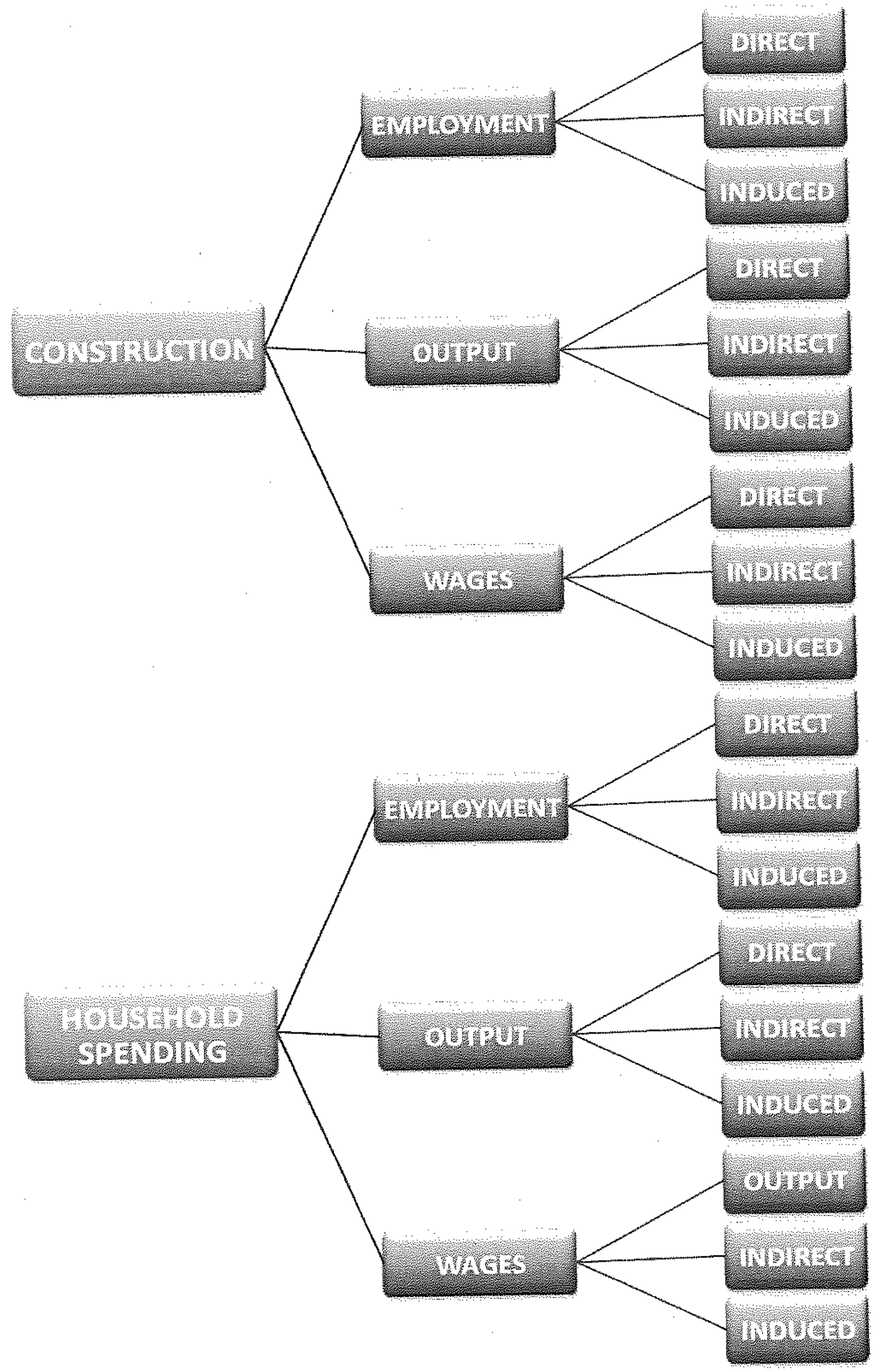
- **Ongoing Economic Impacts** are changes in the local economy that continue on an annual basis after the initial change in final demand. Ongoing impacts accrue from the increase in disposable income resulting from lower rental housing costs to beneficiaries of affordable rental housing opportunities created through the housing trust fund. It is assumed that rental opportunities created through housing trust fund investment will be available only to households that are currently rent-burdened; i.e., paying more than 30 percent of their household income for housing. For all rental projects funded by the trust fund, households are estimated to average annual rent savings of approximately $2,460 --income that is freed up for alternative spending in the economy. This annual savings is multiplied by the number of rental opportunities produced through new construction and rehabilitation to develop a data input for the total increase in spending by beneficiary households.

SUMMARY OF IMPACTS

This study measures 18 different economic impacts that are a result of the initial spending by the Affordable Housing Trust Fund. Both the spending on construction and rehabilitation projects and the increased household spending from rent savings create a number of impacts throughout the economy. There are employment, output, and wage increases created by the direct, indirect, and induced spending that result from the initial dollars spent on construction and as increased household spending. These 18 impacts are illustrated below in **Table 5.1**.

Table 5.1

Lexington Housing Trust Fund Impacts Study
Economic Impacts



The economic activity associated with these 18 measureable impacts will also create tax revenues that will accrue to the local and state governments, as well as to the federal government. When including the effects created by both construction and household spending, there are a total of 20 different impact calculations shown in this section

LEVERAGE RATIO

Affordable Housing Trust Funds are most successful when they are able to successfully use their available funding to attract additional investment from either the private sector, other public entities (i.e. the State and Federal Governments), or a combination of both. This is typically achieved by the inherent incentive that it provides private businesses or through State and Federal programs that offer to "match" the trust fund's investments in affordable housing. The estimated extent to which housing trust fund dollars would be able to leverage other public and private funds can vary greatly. An average historical leverage ratio of 8:1 has been estimated in several studies; however, this can fluctuate significantly based on different market conditions in any given year. Kentucky's Affordable Housing Trust Fund has been able to leverage its funding at nearly a 4:1 average ratio since 1994. Because this leveraging has been achieved at the state level, it is not unreasonable to assume that a local affordable housing trust fund in Kentucky would be able to achieve an even higher leverage ratio because the local AHTF would be able to leverage both the State and Federal programs.

As previously mentioned, housing trust funds leverage other investment at ratios ranging from 1:1 to 25:1 and averaging around 8:1 historically, however, in today's market this may vary. Therefore, as requested by the Task Force, this study shows the key impacts using a 5:1 ratio, an 8:1 ratio, and a 10:1 ratio in order to illustrate the ranges of impacts that the fund could generate depending on the ability to leverage funds in a bad, average, or a good year.

ASSUMPTIONS

The economic impacts of housing trust fund investment on the Lexington economy are based on the spending assumptions that have been provided by the Task Force.

As determined by the Affordable Housing Trust Fund Commission's 2008 Housing Report and discussions with the Task Force, it is expected that the new housing trust fund equity subsidies will be invested in a mix of housing projects and programs, including new construction, rehabilitation, land acquisition, and supportive services, creating opportunities for a range of income groups.

For this impact analysis, it has been estimated, based on the information provided in the Commission's report, that of the total annual housing trust fund investment (after removing the expected administrative costs), 40 percent would go toward new rental and homeownership construction and 30 percent toward construction-related rehabilitation activities. The remaining 30 percent goes toward the acquisition of land and various supportive services, estimated at 20 percent and 10 percent respectively.

The housing type/income category that benefits from the AHTF spending allocations will be determined based on need at the time of application, however for purposes of this study, the AHTF Task Force made estimates based on the 2008 Commission Report. It is expected that five percent (5%) will be dedicated to Emergency Shelters (Homeless families/individuals), 50 percent (50%) toward Deep Subsidy Rental Units (0-30% AMI), 30 percent (30%) for Affordable Worker Rental Units (31-60% AMI), and 15 percent (15%) toward subsidized homeownership (61- 100% AMI).[5]

The spending allocations, based on expectations described by the Task Force and assuming an estimated $4 million annual balance are summarized in **Table 5.2**. The total funds generated by the fund using the three different leverage ratio scenarios are shown in **Tables 5.3a, 5.3b,** and **5.3c.**

[5] Allocation is expected to be dedicated toward the indicated Area Median Income, however, these are rough estimates based on the Commission and the Task Force's expectations of community need and program implementation.

Table 5.2

Lexington Housing Trust Fund Impacts Study
Direct Impact Assumptions- Lexington Housing Trust Fund Allocations

		Trust Fund Total	New Construction Funds	Rehab Construction Fund	Total Acquisition Funds	Supportive Services
Emergency Shelters	5%	$200,000	$80,000	$60,000	$40,000	$20,000
Deep Subsidy Rental Units	50%	$2,000,000	$800,000	$600,000	$400,000	$200,000
Affordable Worker Rental Units	30%	$1,200,000	$480,000	$360,000	$240,000	$120,000
Subsidized Homeownership	15%	$600,000	$240,000	$180,000	$120,000	$60,000
Total	**100%**	**$4,000,000**	**$1,600,000**	**$1,200,000**	**$800,000**	**$400,000**

New construction funds based on LFUCG's expected breakdown of 40% of all funds going toward new construction projects.
Rehab construction funds based on LFUCG's expected breakdown of 30% of all funds going toward multifamily property rehab.
Acquisistion funds based on LFUCG's expected breakdown of 20% of all funds going toward propery acquisition.
Supportive services funds based on LFUCG's expected breakdown of 10% of all funds going toward financial assistance.

Table 5.3a

Lexington Housing Trust Fund Impacts Study

Direct Impact Assumptions- Leveraged Funds at 5:1 Ratio

	Levered Total	New Construction Direct Impacts	Rehab Direct Impacts	Acquisition Spending	Supportive Services Spending
Emergency Shelters	$1,000,000	$400,000	$300,000	$200,000	$100,000
Deep Subsidy Rental Units	$10,000,000	$4,000,000	$3,000,000	$2,000,000	$1,000,000
Affordable Worker Rental Units	$6,000,000	$2,400,000	$1,800,000	$1,200,000	$600,000
Subsidized Homeownership	$3,000,000	$1,200,000	$900,000	$600,000	$300,000
Total	**$20,000,000**	**$8,000,000**	**$6,000,000**	**$4,000,000**	**$2,000,000**

Table 5.3b

Lexington Housing Trust Fund Impacts Study

Direct Impact Assumptions- Leveraged Funds at 8:1 Ratio

	Levered Total	New Construction Direct Impacts	Rehab Direct Impacts	Acquisition Spending	Supportive Services Spending
Emergency Shelters	$1,600,000	$640,000	$480,000	$320,000	$160,000
Deep Subsidy Rental Units	$16,000,000	$6,400,000	$4,800,000	$3,200,000	$1,600,000
Affordable Worker Rental Units	$9,600,000	$3,840,000	$2,880,000	$1,920,000	$960,000
Subsidized Homeownership	$4,800,000	$1,920,000	$1,440,000	$960,000	$480,000
Total	**$32,000,000**	**$12,800,000**	**$9,600,000**	**$6,400,000**	**$3,200,000**

Table 5.3c

Lexington Housing Trust Fund Impacts Study
Direct Impact Assumptions- Leveraged Funds at 10:1 Ratio

	Levered Total	New Construction Direct Impacts	Rehab Direct Impacts	Acquisition Spending	Supportive Services Spending
Emergency Shelters	$2,000,000	$800,000	$600,000	$400,000	$200,000
Deep Subsidy Rental Units	$20,000,000	$8,000,000	$6,000,000	$4,000,000	$2,000,000
Affordable Worker Rental Units	$12,000,000	$4,800,000	$3,600,000	$2,400,000	$1,200,000
Subsidized Homeownership	$6,000,000	$2,400,000	$1,800,000	$1,200,000	$600,000
Total	**$40,000,000**	**$16,000,000**	**$12,000,000**	**$8,000,000**	**$4,000,000**

VI. ACTUAL ECONOMIC IMPACT

To calculate the economic impacts of investment by the LFUCG's proposed Affordable Housing Trust Fund, this study uses IMPLAN Pro. This regional economic model was calibrated to simulate the effects of a spending scenario on Lexington's economy. Initial spending is entered into the model in the appropriate category, and the impacts that the initial input is expected to have throughout the given region is calculated. Once impacts are calculated using the IMPLAN model, multipliers are derived to create a tool to calculate indirect and induced impacts for alternative spending assumptions. These multipliers are further described in **Appendix A.**

CONSTRUCTION IMPACTS

According to the Louisville Apartment Association, Habitat for Humanity, and River City Housing Corporation's estimates, the cost to develop a single unit of affordable housing is approximately $85,000. In addition to the cost of new construction, the median amount spent on rehabbing a single distressed unit is approximately $30,000. Based on these average costs, at the 8:1 leverage ratio, Lexington would be able to construct approximately 150 new housing units and rehab up to 320 units per year based on the anticipated spending allocation detailed in **Table 5.3b**.

Housing trust fund spending on new construction and housing rehabilitation activities will cause an initial direct economic impact as trust fund equity subsidies, leveraged by other public and private investment, are used to pay for labor, services, materials, and supplies associated with construction activities. Annual investment for construction activities (at the 8:1 leverage ratio) would result in $22.4 million of *annual* direct spending on construction activities. This construction activity would cause a direct employment estimate of 161.

As summarized in **Tables 6.1a, 6.1b, and 6.1c**, these direct jobs would all be in the construction industry, but jobs are created through the indirect and induced impacts as well.

The annual indirect and induced effects of housing trust fund investment in construction activity include 143 jobs. These effects are spread over other industry segments as initial investment trickles down through the economy. For example, initial investment in housing construction stimulates indirect spending on insurance and other real estate services needed to support a newly constructed housing unit. Similarly, wages earned by construction workers are re-circulated into the economy for a broad range of goods and services across industry segments, all of which create jobs throughout the economy.

Table 6.1a

Lexington Housing Trust Fund Impacts Study Construction Activity- Employment 5:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	0.00	0.00	0.07	0.07
Mining	0.00	0.32	0.05	0.37
Construction	100.72	0.19	0.39	101.30
Manufacturing	0.00	1.62	0.18	1.79
TIPU*	0.00	2.61	0.70	3.32
Trade	0.00	22.76	9.43	32.19
Service	0.00	19.99	30.18	50.17
Government	0.00	0.28	0.43	0.72
Total	**100.72**	**47.78**	**41.43**	**189.93**

*TIPU= Transportation Information & Public Utilities

Table 6.1b

Lexington Housing Trust Fund Impacts Study Construction Activity- Employment 8:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	0.00	0.01	0.11	0.12
Mining	0.00	0.51	0.08	0.60
Construction	161.15	0.30	0.62	162.08
Manufacturing	0.00	2.59	0.28	2.87
TIPU*	0.00	4.18	1.13	5.31
Trade	0.00	36.42	15.08	51.50
Service	0.00	31.98	48.29	80.28
Government	0.00	0.46	0.69	1.15
Total	**161.15**	**76.45**	**66.29**	**303.89**

*TIPU= Transportation Information & Public Utilities

Table 6.1c

Lexington Housing Trust Fund Impacts Study Construction Activity- Employment 10:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	0.00	0.01	0.14	0.15
Mining	0.00	0.64	0.10	0.75
Construction	201.44	0.38	0.77	202.59
Manufacturing	0.00	3.23	0.35	3.59
TIPU*	0.00	5.23	1.41	6.63
Trade	0.00	45.52	18.86	64.38
Service	0.00	39.98	60.37	100.34
Government	0.00	0.57	0.86	1.43
Total	**201.44**	**95.56**	**82.86**	**379.86**

*TIPU= Transportation Information & Public Utilities

Tables 6.2a, 6.2b, and 6.2c demonstrate the overall economic output created by the initial spending in the construction industry. The direct impact of the construction and rehabilitation is estimated to account for $22.4 million in output at the 8:1 leverage ratio (the initial spending on construction and rehab) and the annual indirect and induced effects create total spending of $14.8 million, for a total output of $37.2 million.

Table 6.2a

Lexington Housing Trust Fund Impacts Study				
Construction Activity- Output 5:1 Leverage				
Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$374	$3,585	$3,959
Mining	$0	$64,169	$11,199	$75,369
Construction	$14,000,000	$19,716	$41,366	$14,061,082
Manufacturing	$0	$511,555	$106,520	$618,075
TIPU*	$0	$419,894	$127,097	$546,991
Trade	$0	$1,609,786	$664,756	$2,274,542
Service	$0	$2,169,372	$3,327,365	$5,496,737
Government	$0	$48,295	$97,791	$146,086
Total	**$14,000,000**	**$4,843,161**	**$4,379,679**	**$23,222,840**

*TIPU= Transportation Information & Public Utilities

Table 6.2b

Lexington Housing Trust Fund Impacts Study				
Construction Activity- Output 8:1 Leverage				
Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$598	$5,736	$6,334
Mining	$0	$102,671	$17,919	$120,590
Construction	$22,400,000	$31,545	$66,185	$22,497,731
Manufacturing	$0	$818,487	$170,432	$988,919
TIPU*	$0	$671,830	$203,355	$875,186
Trade	$0	$2,575,657	$1,063,610	$3,639,267
Service	$0	$3,470,996	$5,323,784	$8,794,780
Government	$0	$77,272	$156,465	$233,738
Total	**$22,400,000**	**$7,749,057**	**$7,007,486**	**$37,156,544**

*TIPU= Transportation Information & Public Utilities

Table 6.2c

Lexington Housing Trust Fund Impacts Study Construction Activity- Output 10:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	$0	$747	$7,170	$7,917
Mining	$0	$128,339	$22,399	$150,737
Construction	$28,000,000	$39,432	$82,732	$28,122,163
Manufacturing	$0	$1,023,109	$213,040	$1,236,149
TIPU*	$0	$839,788	$254,194	$1,093,982
Trade	$0	$3,219,572	$1,329,512	$4,549,084
Service	$0	$4,338,745	$6,654,730	$10,993,475
Government	$0	$96,591	$195,581	$292,172
Total	**$28,000,000**	**$9,686,322**	**$8,759,358**	**$46,445,680**

*TIPU= Transportation Information & Public Utilities

Tables 6.3a, 6.3b, and 6.3c highlight the effect construction activities have on employee compensation through direct, indirect and induced impacts. Employees throughout Lexington would receive an estimated total of $10.2 million in compensation as a result of 8:1 leveraged trust fund spending.

Table 6.3a

Lexington Housing Trust Fund Impacts Study Construction Activity- Wages 5:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	$0	$97	$854	$951
Mining	$0	$10,143	$642	$10,786
Construction	$3,341,831	$6,836	$12,666	$3,361,333
Manufacturing	$0	$93,646	$10,145	$103,791
TIPU*	$0	$135,281	$36,565	$171,846
Trade	$0	$703,427	$283,299	$986,726
Service	$0	$741,558	$955,669	$1,697,227
Government	$0	$24,731	$35,701	$60,433
Total	**$3,341,831**	**$1,715,719**	**$1,335,542**	**$6,393,093**

*TIPU= Transportation Information & Public Utilities

Table 6.3b

Lexington Housing Trust Fund Impacts Study Construction Activity- Wages 8:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	$0	$155	$1,367	$1,522
Mining	$0	$16,229	$1,028	$17,257
Construction	$5,346,930	$10,937	$20,266	$5,378,133
Manufacturing	$0	$149,834	$16,232	$166,066
TIPU*	$0	$216,450	$58,503	$274,953
Trade	$0	$1,125,483	$453,279	$1,578,762
Service	$0	$1,186,492	$1,529,071	$2,715,563
Government	$0	$39,570	$57,122	$96,692
Total	**$5,346,930**	**$2,745,151**	**$2,136,868**	**$10,228,949**

*TIPU= Transportation Information & Public Utilities

Table 6.3c

Lexington Housing Trust Fund Impacts Study Construction & Real Estate Activity- Wages 10:1 Leverage				
Industry	**Direct**	**Indirect**	**Induced**	**Total**
Agriculture	$0	$194	$1,709	$1,902
Mining	$0	$20,287	$1,284	$21,571
Construction	$6,683,663	$13,672	$25,332	$6,722,666
Manufacturing	$0	$187,292	$20,291	$207,582
TIPU*	$0	$270,562	$73,129	$343,691
Trade	$0	$1,406,854	$566,599	$1,973,453
Service	$0	$1,483,115	$1,911,339	$3,394,454
Government	$0	$49,463	$71,403	$120,865
Total	**$6,683,663**	**$3,431,438**	**$2,671,085**	**$12,786,186**

*TIPU= Transportation Information & Public Utilities

As summarized in **Tables 6.1b, 6.2b,** and **6.3b,** the combined annual total of direct, indirect, and induced effects of construction related housing trust fund investment (at the 8:1 leverage ratio) include 304 jobs, $37.2 million of spending, and $10.2 million in increased wages in Lexington's economy.

HOUSEHOLD SPENDING IMPACTS

As summarized in **Tables 6.4a, 6.4b,** and **6.4c,** the additional rental housing opportunities created through housing trust fund investment can benefit up to 2,285 rent-burdened households each year.[6] By gaining access to housing that costs no more than 30 percent of their gross incomes, these households are estimated to save an

[6] This represents the number of households that would benefit from the subsidy created by the construction of new units, should this amount be viewed as a direct subsidy rather than dollars spent on construction. In other words, this number represents the number of families that will benefit from the new and rehabilitated subsidized construction projects over time, or if these units were already in place. This shows that the one-time spending on construction provides subsidized benefits to its inhabitants for more than just the year in which it is constructed.

average of $2,460 per year, based on the actual experience of beneficiary households in Colorado. As shown in **Tables 6.5a, 6.5b,** and **6.5c,** this increase in the amount of household income that can be spent on non-housing related purchases will have an annual direct impact on the economy of 36 jobs and nearly $3.7 million, and combined indirect and induced impacts of 23 jobs and $2.4 million at the 8:1 leverage ratio.

Table 6.4a

Lexington Housing Trust Fund Impacts Study
Trust Fund Spending by Renter Income Groups-5:1 Leverage

Housing Type	Trust Fund Total	Avg Subsidy Amt needed to serve each Household	#of Households served	Income Groups Targeted	IMPLAN Income Groups
Deep Susbsidy Rental Units	$7,000,000	$10,000	700	0-30% of AMI	$0 - $25,000
Affordable Worker Rental Units	$4,200,000	$5,766	728	31-60% of AMI	$25,000 - $50,000
Total	**$11,200,000**		**1,428**		

Table 6.4b

Lexington Housing Trust Fund Impacts Study
Trust Fund Spending by Renter Income Groups- 8:1 Leverage

Housing Type	Trust Fund Total	Avg Subsidy Amt needed to serve each Household	#of Households served	Income Groups Targeted	IMPLAN Income Groups
Deep Susbsidy Rental Units	$11,200,000	$10,000	1,120	0-30% of AMI	$0 - $25,000
Affordable Worker Rental Units	$6,720,000	$5,766	1,165	31-60% of AMI	$25,000 - $50,000
Total	**$17,920,000**		**2,285**		

Table 6.4c

Lexington Housing Trust Fund Impacts Study Trust Fund Spending by Renter Income Groups- 10:1 Leverage					
Housing Type	**Trust Fund Total**	**Avg Subsidy Amt needed to serve each Household**	**#of Households served**	**Income Groups Targeted**	**IMPLAN Income Groups**
Deep Susbsidy Rental Units	$14,000,000	$10,000	1,400	0-30% of AMI	$0 - $25,000
Affordable Worker Rental Units	$8,400,000	$5,766	1,457	31-60% of AMI	$25,000 - $50,000
Total	**$22,400,000**		**2,857**		

Table 6.5a

Lexington Housing Trust Fund Impacts Study

Economic Impacts of Change in Household Spending- 5:1 Leverage

		Impacts					
		Direct		Indirect & Induced		Total	
Housing Type	# of Households	Output	Jobs	Output	Jobs	Output	Jobs
Deep Susbsidy Rental Units	700	$1,119,103	10.9	$731,141	6.8	$1,850,244	17.7
Affordable Worker Rental Units	728	$1,202,081	11.8	$792,807	7.3	$1,994,888	19.1
Total	**1,428**	**$2,321,184**	**23**	**$1,523,948**	**14**	**$3,845,132**	**37**

Table 6.5b

Lexington Housing Trust Fund Impacts Study

Economic Impacts of Change in Household Spending- 8:1 Leverage

		Impacts					
		Direct		Indirect & Induced		Total	
Housing Type	# of Households	Output	Jobs	Output	Jobs	Output	Jobs
Deep Susbsidy Rental Units	1,120	$1,790,565	17.5	$1,169,826	10.8	$2,960,391	28.3
Affordable Worker Rental Units	1,165	$1,923,330	18.8	$1,268,490	11.7	$3,191,820	30.5
Total	**2,285**	**$3,713,895**	**36**	**$2,438,316**	**23**	**$6,152,211**	**59**

Table 6.5c

Lexington Housing Trust Fund Impacts Study
Economic Impacts of Change in Household Spending- 10:1 Leverage

		Impacts					
		Direct		Indirect & Induced		Total	
Housing Type	# of Households	Output	Jobs	Output	Jobs	Output	Jobs
Deep Susbsidy Rental Units	1,400	$2,238,207	21.8	$1,462,282	13.6	$3,700,489	35.4
Affordable Worker Rental Units	1,457	$2,404,161	23.5	$1,585,612	14.7	$3,989,773	38.2
Total	**2,857**	**$4,642,368**	**45**	**$3,047,894**	**28**	**$7,690,262**	**74**

TAX REVENUES

The economic activity associated with housing trust fund investment and related changes in household spending creates additional public revenues from federal, state, and local taxes on property value, sales, and income due to the various direct, indirect and induced impacts described in the previous sections.

As summarized in **Tables 6.6a, 6.6b**, and **6.6c**, investment in construction is estimated to generate tax revenues totaling $3.6 million each year at the 8:1 leverage ratio, $1.5 million of which would go to state and local jurisdictions.

Changes in household spending at the 8:1 leverage ratio will generate an additional $849,922, of which $420,637 would go to local and state jurisdictions. The breakdown of household tax impacts is shown in **Tables 6.7a, 6.7b**, and **6.7c**.

Table 6.6a

Lexington Housing Trust Fund Impacts Study Construction Activity- Tax Revenue- 5:1 Leverage							
	Business Taxes			Personal Taxes			
Taxing Entity	Sales	Property	Other	Direct Property Tax	Induced Property Taxes	Income Tax	Total
Federal	$0	$0	$1,065,713	$0	$0	$294,498	$1,360,211
State/Local	$332,046	$188,549	$192,363		$30,826	$166,118	$909,902
Total	**$332,046**	**$188,549**	**$1,258,076**	**$0**	**$30,826**	**$460,616**	**$2,270,113**

Table 6.6b

Lexington Housing Trust Fund Impacts Study Construction Activity- Tax Revenue 8:1 Leverage							
	Business Taxes			Personal Taxes			
Taxing Entity	Sales	Property	Other	Direct Property Tax	Induced Property Taxes	Income Tax	Total
Federal	$0	$0	$1,705,141	$0	$0	$471,196	$2,176,337
State/Local	$531,274	$301,679	$307,781		$49,321	$265,789	$1,455,844
Total	**$531,274**	**$301,679**	**$2,012,922**	**$0**	**$49,321**	**$736,985**	**$3,632,181**

Table 6.6c

Lexington Housing Trust Fund Impacts Study
Construction Activity- Tax Revenue 10:1 Leverage

	Business Taxes			Personal Taxes			
Taxing Entity	**Sales**	**Property**	**Other**	**Direct Property Tax**	**Induced Property Taxes**	**Income Tax**	**Total**
Federal	$0	$0	$2,131,426	$0	$0	$588,995	$2,720,421
State/Local	$664,093	$377,099	$384,725		$61,652	$332,236	$1,819,805
Total	**$664,093**	**$377,099**	**$2,516,151**	**$0**	**$61,652**	**$921,231**	**$4,540,226**

Table 6.7a

Lexington Housing Trust Fund Impacts Study
Economic Impacts of Household Income Change- Tax Revenue 5:1 Leverage

	Business Taxes			Personal Taxes		
Taxing Entity	**Sales**	**Property**	**Other**	**Induced Property Taxes**	**Income Tax**	**Total**
Federal	$0	$0	$220,714	$0	$47,589	$268,303
State/Local	$111,135	$63,107	$56,831	$4,981	$26,844	$262,898
Total	**$111,135**	**$63,107**	**$277,545**	**$4,981**	**$74,433**	**$531,201**

Table 6.7b

Lexington Housing Trust Fund Impacts Study Economic Impacts of Household Income Change- Tax Revenue 8:1 Leverage						
	Business Taxes			Personal Taxes		
Taxing Entity	**Sales**	**Property**	**Other**	**Induced Property Taxes**	**Income Tax**	**Total**
Federal	$0	$0	$353,142	$0	$76,143	$429,285
State/Local	$177,816	$100,971	$90,930	$7,970	$42,950	$420,637
Total	**$0**	**$0**	**$444,072**	**$7,970**	**$0**	**$849,922**

Table 6.7c

Lexington Housing Trust Fund Impacts Study Economic Impacts of Household Income Change- Tax Revenue 10:1 Leverage						
	Business Taxes			Personal Taxes		
Taxing Entity	**Sales**	**Property**	**Other**	**Induced Property Taxes**	**Income Tax**	**Total**
Federal	$0	$0	$441,428	$0	$95,178	$536,606
State/Local	$222,270	$126,214	$113,664	$9,963	$53,687	$525,798
Total	**$222,270**	**$126,214**	**$555,092**	**$9,963**	**$148,865**	**$1,062,404**

SUMMARY OF IMPACTS

The projected benefits of creating a statewide housing trust fund with a dedicated revenue source are substantial. As summarized in **Tables 6.8a, 6.8b**, and **6.8c**, annual investment of $4 million for a mix of affordable housing initiatives including new construction of housing, acquisition and rehabilitation of existing housing, and funding assistance to individuals and families is estimated to produce an average of 470 new housing opportunities a year, filling the gap between the total need and available resources, and yielding significant economic benefits for every year of investment.

Table 6.8a

Lexington Housing Trust Fund Impacts Study

Summary of Economic Impacts- 5:1 Leverage

		Output			Taxes		
Impact Category	**Jobs**	**Direct**	**Indirect/ Induced**	**Total**	**Federal**	**State/Local**	**Total**
Construction Activity	190	$14,000,000	$9,222,840	**$23,222,840**	$1,360,211	$909,902	**$2,270,113**
Change in Household Spen(	37	$2,321,184	$1,523,948	**$3,845,132**	$268,303	$262,898	**$531,201**
Total	**227**	**$16,321,184**	**$10,746,788**	**$27,067,972**	**$1,628,514**	**$1,172,800**	**$2,801,314**

Table 6.8b

Lexington Housing Trust Fund Impacts Study
Summary of Economic Impacts- 8:1 Leverage

		Output			Taxes		
Impact Category	**Jobs**	**Direct**	**Indirect/ Induced**	**Total**	**Federal**	**State/Local**	**Total**
Construction Activity	304	$22,400,000	$14,756,544	**$37,156,544**	$2,176,337	$1,455,844	**$3,632,181**
Change in Household Spending	59	$3,713,895	$2,438,316	**$6,152,211**	$429,285	$420,637	**$849,922**
Total	**363**	**$26,113,895**	**$17,194,860**	**$43,308,755**	**$2,605,622**	**$1,876,481**	**$4,482,103**

Table 6.8c

Lexington Housing Trust Fund Impacts Study
Summary of Economic Impacts- 10:1 Leverage

		Output			Taxes		
Impact Category	**Jobs**	**Direct**	**Indirect/ Induced**	**Total**	**Federal**	**State/Local**	**Total**
Construction Activity	380	$28,000,000	$18,445,680	**$46,445,680**	$2,720,421	$1,819,805	**$4,540,226**
Change in Household Spending	74	$4,642,368	$3,047,894	**$7,690,262**	$536,606	$525,798	**$1,062,404**
Total	**453**	**$32,642,368**	**$21,493,574**	**$54,135,942**	**$3,257,027**	**$2,345,603**	**$5,602,630**

VII. OTHER IMPACTS

In addition to the economic impacts of housing trust fund investment, there are many other impacts associated with the increased availability of affordable housing. The social benefits throughout a community associated with housing families and individuals in decent, safe, and affordable homes and expanding access to homeownership are numerous. When affordable housing is integrated into broader community plans for land use, transportation, and economic development, the range of these effects can expand greatly. There are also potential negative impacts that can be seen or perceived as a result of implementing an Affordable Housing Trust Fund and expanding affordable housing opportunities in certain communities. This report examines effects on both the community as a whole and the individuals that comprise it. These effects are typically seen as quality of life measures, including the perceived and actual effects on health, family stability and education, and economic development.

In general, social and other benefits accruing from housing trust fund investment are supported by research but difficult to quantify, and therefore are reviewed in more qualitative terms. Therefore, existing literature on the subjects is used to gather information on social and community impact. One such report, *Meeting Our Nation's Housing Challenges,* a 2002 report to Congress by the congressionally appointed bipartisan Millennial Housing Commission, sums up the potential benefits. The report states:

> **Why Housing Matters**
>
> ***"Decent, affordable, and accessible housing fosters self-sufficiency, brings stability to families and new vitality to distressed communities, and supports overall economic growth. Very particularly, it improves life outcomes for children. In the process, it reduces a host of costly social and economic problems that place enormous strains on the nation's education, public health, social service, law enforcement, criminal justice, and welfare systems. Housing very much matters – to the individual, to the family, to the neighborhood, and to the nation."***

HEALTH

Housing trust fund investment in both new construction projects and the rehabilitation of existing housing, which is often dilapidated and hazardous, has the potential to move Lexington families out of dangerous, unfit living situations. The Center for Housing Policy has found a number of different health benefits that may accrue from living in decent affordable housing. Some of these findings, as listed in the summary of the report by the Center for Housing Policy entitled, "Framing the Issues- the Positive Impacts of Affordable Housing on Health," are as follows:

- Affordable housing may improve health outcomes by freeing up family resources for nutritious food and health care expenditures.
- By providing families with greater residential stability, affordable housing can reduce stress and related adverse health outcomes.
- Well-constructed and managed affordable housing developments can reduce health problems associated with poor quality housing by limiting exposure to allergens, neurotoxins, and other dangers.
- By alleviating crowding, affordable housing can reduce exposure to stressors and infectious disease, leading to improvements in physical and mental health.
- By allowing victims of domestic violence to escape abusive homes, affordable housing can lead to improvements in mental health and physical safety.

While there are a lot of factors that play a role in one's health, there are documented linkages between housing quality/affordability and physical and mental health, especially the health of children and the elderly who are typically most vulnerable to various hazards such. Housing trust fund investment can help to rehabilitate or replace Lexington's substandard housing, with a positive impact on public health.

Family Stability and Education

A stable and decent housing situation has been shown to play a major role in creating a much more conducive and positive environment in which to raise children. The Millennial Housing Commission notes, in their 2002 report to Congress, finds that families who cannot afford good-quality housing may have to make frequent moves in search of decent affordable housing. As may be expected, studies have continuously shown a strong correlation between the frequency of moves during childhood and below-average performance in school. Studies have found that children who change schools frequently often have below-average math and reading scores and that these children and teens are significantly less likely to finish high school on time.

On the other hand, similar research has also suggested that homeownership can have positive effects on educational attainment levels of children. A study conducted by Harvard's Joint Center for Housing Studies observed that "children of homeowners have better home environments, high cognitive test scores, and fewer behavior problems than do children of renters. The independent impact of homeownership combined with its positive impact on the home environment results in the children of owners achieving math scores up to nine percent higher, reading scores up to seven percent higher, and reductions in children's behavior problems of up to three percent."

While the provision of affordable housing alone is only one of many factors that determines a child's success, studies have shown there to be a significant correlation between the two. It is very difficult to isolate the impact of the housing provision alone on educational achievement due to the inability of studies to quantify the many aspects of parenting that play a factor in a child's success. However, the stable living situations and created by housing trust fund investment can be expected to improve the educational performance of Lexington schoolchildren to some extent by minimizing school changes and overall family instability.

WELFARE TO WORK

Lexington's efforts to promote successful transitions from welfare to work are also likely to benefit from housing trust fund investment. Studies find that a major barrier to achieving a successful transition from welfare to work is a common mismatch between the largely suburban location of entry-level job growth and the location of housing for welfare recipients, which is often downtown. Welfare recipients are likely to have difficulties finding suitable transportation, so proximity to job centers becomes a very important aspect to successfully making the transition off of welfare. In Lexington, future housing trust fund investment will have the ability to prioritize funding to projects that locate affordable housing closer to areas found to have higher opportunities for entry-level job growth.

ENVIRONMENTAL BENEFITS

Several studies have examined the potential that affordable housing trust funds have to create a few different benefits to the environment. As with any housing development, strategic investment of the housing trust fund monies can be implemented in different ways in order to have a positive impact on Lexington's growth management and the environmental issues that come with any expanded development. Strategic investment of housing trust fund dollars would allow recipients the opportunity to live closer to employment centers, which will likely improve the chances of success in the welfare to work program. By locating near employment centers for entry-level positions, affordable housing will be able to reduce negative air quality impacts by shortening driving distances and making either public transit or walking/biking a more viable option.

ECONOMIC DEVELOPMENT AND PROPERTY VALUES

In general, housing affordability is often linked to economic development and the growth of business and industry in an area. Employers consider the cost-of-living and quality-of-life when choosing their ideal location. The cost-of-living is an important aspect for a business to consider when considering the pay required to employ the low-end cross-section of its workers. While Lexington continuously receives praise for the overall quality of life and its highly educated population, the cost of housing is a growing concern for the many people who earn well below the median income.

A related concern lies in the perceived ability of affordable housing to affect the surrounding area's property values. A study conducted by the Arizona State Stardust Center in August 2008, titled *How Does Affordable Housing Affect Surrounding Property Values,* finds that "there is no single, unqualified answer to whether or not introducing affordable housing lowers property values of surrounding homes. Rather it depends on a host of contextual conditions: of site, host community, scale, and other external factors." The study goes on to say that, "In those studies that do discover depressed property values, the impacts are generally slight and often transitory. It is not the affordable housing development *per* se but conditions or characteristics of the affordable housing or neighborhood- and how they interact- that mediate the impact on property values. Conditions that are will supported by research studies include:

- Host neighborhood context and compatibility of affordable housing with that context
- Degree of concentration of affordable housing units
- Replacement
- Management."

A number of other studies have been compiled by the California Department of Housing and Community Development in their August 2005 publication titled *Documents and Websites on Affordable Housing & the Relationship to Property Values.* These studies find that impacts on neighboring residential property values can be positive, neutral, or negative depending on certain neighborhood characteristics. The most consistent finding appears to be that, if implemented and managed correctly, an affordable housing development does not have a negative effect on property values in the area. This may partially be a result of scale, as smaller scale developments, often developed by non-profit community development corporations, tend to be more well-managed than the large-scale developments which are typically implemented by local governments in large cities.

POSSIBLE NEGATIVE IMPACTS OF AHTF

- Opportunity Costs – Tax and fee revenues are finite resources. To a certain degree, agreeing to fund one program takes away from the ability to fund others. Each alternative use of public resources presents its own set of benefits and impacts.

- Administrative Costs – There are costs associated with collecting and remitting taxes and fees, and with administering funding programs. Assuming that current collection mechanisms and administrative entities can be used, these costs are expected to be reasonable, allowing efficient use of revenues for the intended purpose. It is assumed that no more than five percent (5%) of the additional tax revenue collected will be used to cover the administrative costs associated with the program's implementation. The increased wages and jobs that these costs will create should also be realized when analyzing this as a negative effect.

- Industry Impacts – Because there are so many variables that affect the price of insurance, it is difficult to determine whether a higher tax rate would have an economic impact on insurance sales or values. At the one percent (1%) increase in the tax rates described above, the impacts are a small percentage of total insurance costs, and because insurance is often seen as a necessary expense, the increase is unlikely to have a largely negative effect on the insurance business, although it may negatively impact those who live on the margin.

VIII. CONCLUSIONS

To address the gap in affordable housing funding, the LFUCG has proposed the creation of a local affordable housing trust fund with a dedicated revenue source that will generate approximately $4 million annually through insurance tax revenues.

Academic literature and numerous studies show that many positive economic benefits are correlated with affordable housing. In addition, improvements in health, family stability, education, and the environment are some of the positive social and community benefits associated with AHTFs. However, opportunity costs, administrative costs, and potential negative industry impacts should also be considered when adopting the AHTF.

Assuming an 8:1 leverage ratio, the estimated annual economic impacts of a $4 million AHTF investment include:

- An average of approximately 470 housing opportunities can be produced *each year,* including 150 new construction projects and 320 rehabilitation projects.
- More than 363 new jobs will be directly and indirectly supported by trust fund investment.
- More than $43.3 million of direct, indirect and induced economic activity will be generated from trust fund investment.

In conclusion, the projected benefits of creating a local housing trust fund with a dedicated revenue source are substantial. Annual investment of $4 million for a mix of affordable housing initiatives including new construction of housing, acquisition and rehabilitation of existing housing, and funding assistance to individuals and families is estimated to produce an average of 470 new housing opportunities a year.

Appendix A – Multipliers

Lexington Housing Trust Fund Impacts Study
Multipliers- Outputs

Impact Type	Direct	Indirect	Induced	Total
New Construction	1	0.40919	0.297628	1.706819
Rehabilitation Construction	1	0.30137	0.368585	1.669955

Lexington Housing Trust Fund Impacts Study
Multipliers- Employment

Impact Type	Direct	Indirect	Induced	Total
New Construction	6.197562	4.214893	2.920022	13.332477
Rehabilitation Construction	9.996054	3.042063	3.617414	16.655531

Lexington Housing Trust Fund Impacts Study
Multipliers- Wages

Impact Type	Direct	Indirect	Induced	Total
New Construction	0.215375	0.144702	0.090437	0.450514
Rehabilitation Construction	0.29478	0.105839	0.111989	0.512609

Lexington Housing Trust Fund Impacts Study
Multipliers- Indirect Business Tax

Impact Type	Direct	Indirect	Induced	Total
New Construction	0.00406	0.030123	0.019916	0.054098
Rehab Construction	0.006379	0.022488	0.024687	0.053554

Appendix B - Commonwealth Economics' Organization

Commonwealth Economics, LLC

Commonwealth Economics is a leader in developing the following types of reports and analysis for clients in the public and private sector: economic impact analysis, market analysis, fiscal analysis, and feasibility studies. Commonwealth Economics' has helped over twenty companies and municipalities analyze the potential benefits of TIF.

Commonwealth Economics has helped clients successfully obtain over $750 million in federal, state and local incentives. We have specialized knowledge, experience, and proven processes to help clients take full advantage of available credits and ensure compliance. As Secretary of Finance, John R. Farris helped draft the State's new TIF law. We are experts in tax increment financing (TIF), economic impact analysis, and federal loan and tax credit programs.

John R. Farris

John R. Farris is the Founder and President of Commonwealth Economics. He began his career as an economist at the Center for Economics Research at the Research Triangle Institute. Mr. Farris continued his professional career as a senior economics consultant with the World Bank and the International Finance Corporation. From 2006 - 2007, Mr. Farris served as Secretary of the Finance and Administration Cabinet for the Commonwealth of Kentucky, where he oversaw the collection, investment and distribution of over $8 billion dollars in annual tax revenue. Currently, Mr. Farris also serves as a Professor of Economics and Finance at Centre College in Danville, Kentucky.

Mr. Farris received a full-tuition fellowship to study economics and finance at the Woodrow Wilson School at Princeton University, where he was awarded a Master's Degree in 1999. Before attending Princeton, Mr. Farris studied economics and set-theoretical logic at Centre College from which he graduated, Phi Beta Kappa, attaining a Bachelor of Science degree in Economics and Philosophy in 1995.

David Larson

David Larson is a Director for Commonwealth Economics. Prior to joining Commonwealth Economics, Mr. Larson worked as an analyst at Svoboda Capital Partners, a Chicago-based private equity group with over $250 million under management. While at Svoboda Capital Partners, Mr. Larson was heavily involved in all aspects of the investment process, transaction execution, and management of portfolio companies. Mr. Larson's experience includes working closely with companies and management teams in the healthcare, value-added distribution, consumer products, business services, and direct mailing industries, among others.

Mr. Larson graduated cum laude with a Bachelor of Science degree in Business Administration and Accounting with special attainments in Commerce from Washington and Lee University.

Mallory Howard

Mallory Howard is a Director at Commonwealth Economics. Mrs. Howard began her career with Bluegrass Capital Advisors, specializing in the formation and administration of hedge funds. She has set-up a variety of private funds and has expertise in dealing with regulatory agencies. She has also worked with early stage companies on business plan development, capital raising, and production of offering documents.

Mrs. Howard received her Bachelor of Business Administration in Business Studies with an emphasis in Marketing and Management from the University of Mississippi.

Casey Bolton

Casey Bolton is a Senior Associate at Commonwealth Economics. Mr. Bolton has specialized in various forms of economic analysis, including a number of feasibility and impact studies. Mr. Bolton has worked with a wide variety of businesses in conducting these feasibility and impact studies and has guided several of them through the approval process towards receiving millions of dollars in funding. Mr. Bolton has experience in dealing with various forms of economic incentive programs at both the

State and Federal level.

Mr. Bolton received his Bachelor of Science degree in Financial Economics with an emphasis in Political Economy from Centre College in Danville, Kentucky.

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Affordable Housing Trust Fund Commission Report

September, 2008

September 2, 2008

Jim Newberry, Mayor
Lexington Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

Dear Mayor Newberry:

Attached is the final report from the Affordable Housing Trust Fund Commission.

All of us on the Commission want to thank you for your efforts in working to establish an Affordable Housing Trust Fund here in Lexington-Fayette County. For the two of us, it has been an honor working on this effort as co-chairs.

This report is the culmination of an extensive effort by Commission members. From the outset, Commission members have been meeting at least weekly, and in some cases more than once per week. The broad range of Commission members served this process well as the array of perspectives enriched the final product. Though the discussions and debates were sometimes a challenge, all sides were heard, and, in the end, consensus was reached.

This report was passed unanimously by Commission members and represents our recommendations to you on how best to initiate and fund an Affordable Housing Trust Fund here in Lexington-Fayette County.

Thank you again for all that you are doing to make this a reality.

Sincerely,

David Christiansen
AHTF Commission Co-Chair
Executive Director
Central Kentucky Housing and Homeless Initiative

Paula King
AHTF Commission Co-Chair
Director
Division of Community Development

Table of Contents

Executive Summary

The Social Services Commission, the Central Kentucky Housing and Homeless Initiative, the Council's In-Fill and Redevelopment Report and BUILD, a local grassroots organization, have all highlighted the need for more affordable housing in Lexington. In response, Mayor Jim Newberry, in May 2008, authorized the creation of an Affordable Housing Trust Fund Commission to assess the extent of this problem and make recommendations that will enable an Affordable Housing Trust Fund (AHTF) to be operational in Lexington by July 2009.

As rental costs increase at twice the rate of wage increases, an alarming 18.1% of all renter households in Lexington (8,753 households) now pay more than 50% of their gross income for housing. Meanwhile, the federal commitment to affordable housing for those most in need has shrunk by more than 80% in the last 25 years, even as rates of homelessness have continued to increase. In Fayette County, it is estimated that approximately 1,250 individuals (at any given time) are living in shelter programs provided by homeless service providers. Another 200 persons are living on the streets. The combination of higher and higher housing costs while incomes for low-income families continue to shrink presents an increasingly more difficult challenge for those struggling to keep a roof over their heads.

The Commission recommends the creation of a local Affordable Housing Trust Fund to provide our community with an ongoing publicly funded commitment to expand the supply of safe, decent and affordable permanent housing in Lexington-Fayette County. Affordable housing is defined as "housing that requires families and individuals to pay no more than thirty percent (30%) of their income for housing and housing-related costs".

The Fund will allow a broad range of entities to initiate projects that provide affordable permanent housing, assistance for long-term sustainability of permanent housing, rental assistance and emergency/transitional housing assistance leading to permanent housing. Funding will be targeted to those with the greatest housing need but the Fund will provide resources across the spectrum of need in our community, from homeless services to assistance for first time homebuyers.

The AHTF will be administered by an independent Governing Board, appointed by the Mayor and approved by Council. The Governing Board will have broad representation and expertise within the community. The Governing Board will select an appropriate Administrative Agent to carry out the day-to-day activities of the AHTF. A Technical Assistance Advisory Group will be established for the purpose of providing assistance to the Governing Board, Administrative Agent and eligible applicants in developing and evaluating feasible project proposals.

The Commission recommends funding the AHTF by adding 1% to the existing insurance premium tax in Fayette County. This revenue source would generate approximately $4 million in annual revenues for the AHTF. It is important to recognize that all communities with AHTFs multiply the investment into their communities many times over. Funded at $4 million and matched at the average ratio of 6:1 (for a total annual investment of $28 million) the AHTF is estimated to generate 448 jobs in year one and 176 jobs each year thereafter. In contrast, communities that lack affordable housing suffer diminished economic prospects though lost economic opportunity, stressed transportation infrastructure, and direct and indirect social costs related to education and health care.

Introduction

A number of community efforts have indicated the need for a Lexington Affordable Housing Trust Fund. These include:

- The Social Services Commission conducted an extensive community needs assessment to ascertain what services were most needed in the community. Over and over service providers and community members indicated that the lack of affordable housing in our community was an increasing problem and needed to be addressed by the community.

- The Central Kentucky Housing and Homeless Initiative, in collaboration with the Division of Community Development, conducted an extensive analysis of homelessness in Lexington in the preparation of a "10 Year Plan to End Homelessness in Lexington-Fayette County". The number one recommendation from this report was to initiate an Affordable Housing Trust Fund in Lexington to begin to address the local shortage of affordable housing.

- After extensive study by the Council on addressing how our community will preserve the essential character of Lexington's image as the *Horse Capital of the World* surrounded by beautiful horse farms while at the same time maximizing opportunities for development nearer the city center, an In-Fill and Redevelopment Report indicated the need for an Affordable Housing Trust Fund to address the lack of affordable housing in our community.

- BUILD, a local grassroots organization of concerned individuals and faith communities in Lexington, after a broad range of community meetings and local research, stressed the damaging effects of shrinking supplies of affordable housing in our community and determined that affordable housing should be much more proactively addressed in our community. They initiated a "call to action", asking Lexington's leadership to recognize and address the lack of affordable housing in the community.

In response to these and other efforts, Mayor Jim Newberry, in May 2008, authorized the creation of an Affordable Housing Trust Fund Commission to assess the extent of the problem and issue a report to the Mayor with specific recommendations for the creation of a local Affordable Housing Trust Fund. The timeline for this effort was established as follows:

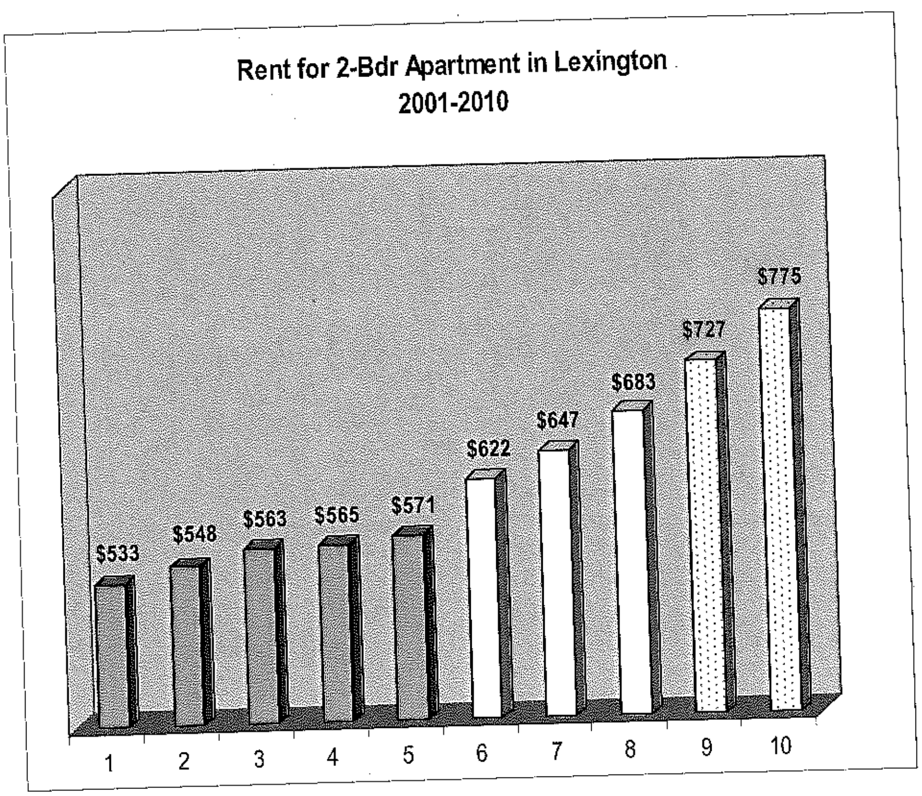
- Report Completed by September 1, 2008
- Ordinance Language Completed by October 1, 2008
- AHTF Ordinance Enacted and Operational by July 1, 2009

Shortages of Affordable Housing - The U.S. Department of Housing and Urban Development defines "worst case needs" households as "unassisted renters with very low incomes (below 50 percent of area median income) who pay more than half of their income for housing or live in severely substandard housing." In a 2003 report, HUD found that "a substantial proportion of households with worst case needs experience these problems despite being *fully employed*. Of families with children that have worst case housing needs, 41 percent have earnings consistent with full-time year-long work at low wages."[i]

In Fayette County there are approximately 48,357 renter households. Of these, 17,312 households (35.8% of all renters) pay more than thirty percent (30%) of their gross household income for their rent. More alarmingly, 18.1% of all renter households in Lexington (8,753 households) pay more than 50% of their gross income for housing.[ii]

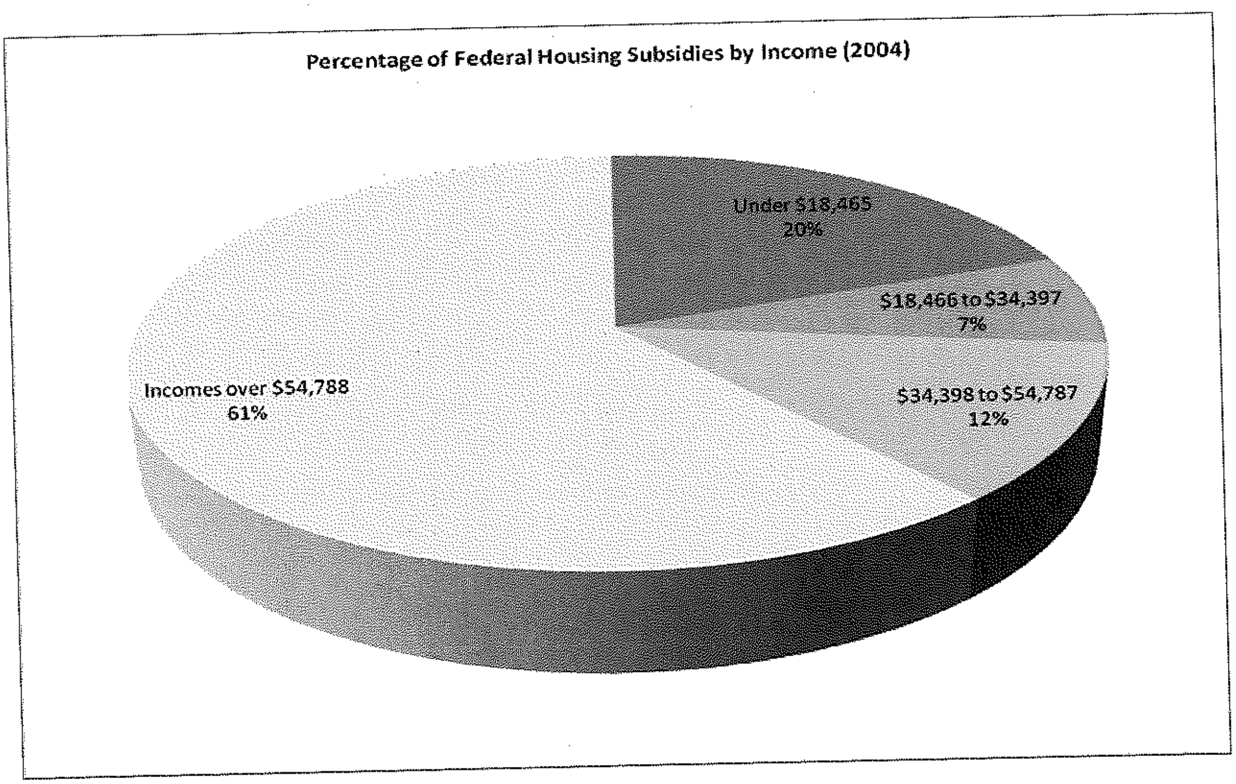
Between 2003 and 2005, the median renter household income in Lexington increased 5.5% from $27,298 to $28,811. However, during this same two-year period the fair market rent of a two-bedroom apartment increased 10%, from $565 to $622 per month. Similarly, the "housing wage" (amount needed to afford the average 2-bedroom apartment rent) increased 10% from $10.87 to $11.96 per hour.[iii]

As noted in the following chart, apartment rents in Lexington increased an average of 1.8% per year from 2000 to 2005 but have averaged 6.5% since then. If this trend continues, rents in Lexington will have increased nearly 33% in the last half of this decade compared to just 9% in the first half of the decade.



Surprisingly, the federal government's response to this nearly three decade long decline in affordable housing has been a steady reduction in the national commitment to allocating federal dollars toward affordable housing. Federal investments in affordable housing have been drastically reduced since 1980. The budget of the Department of Housing and Urban Development (HUD) has plummeted from $104.5 billion in 1980 (in 2005 dollars) to only $19.2 billion in 2005.[iv] Not surprisingly, these cutbacks in our national commitment to affordable housing have been mirrored by increasing numbers of homeless persons and families in the United States.[v]

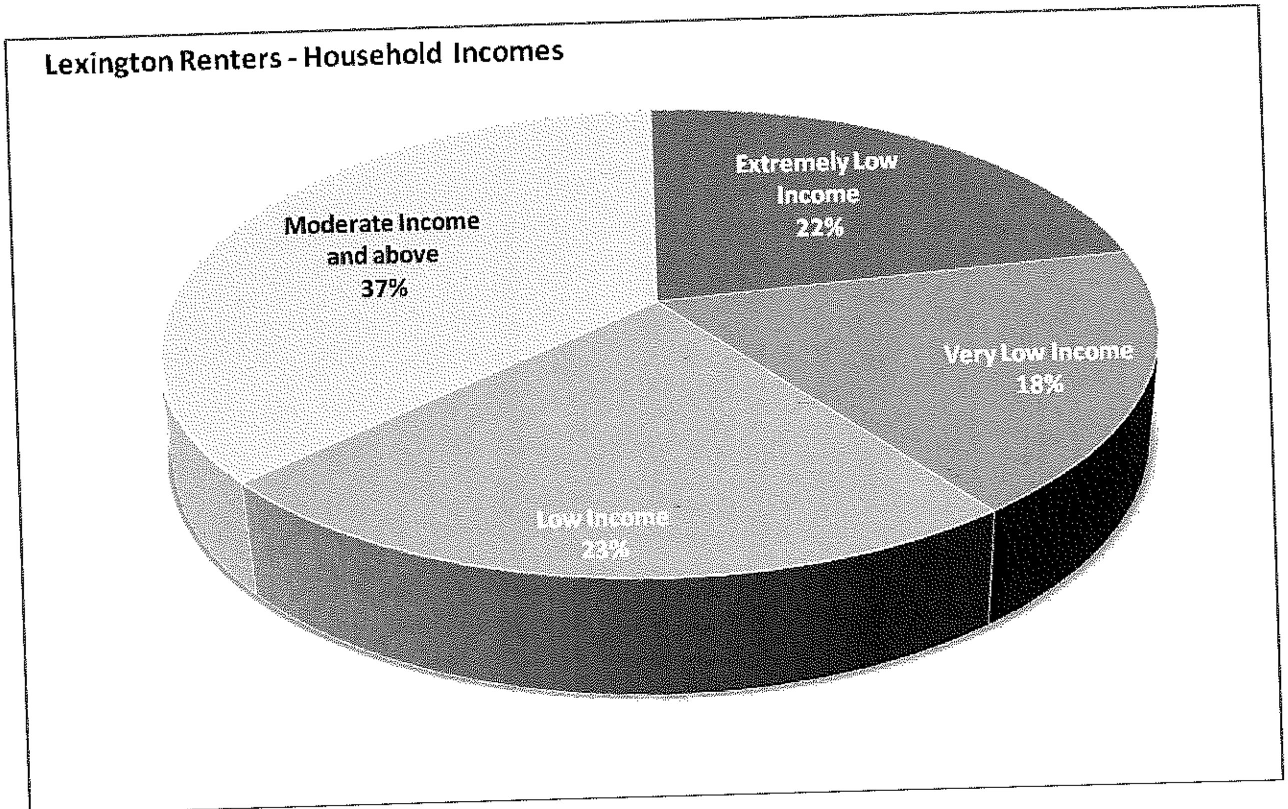
However, it should also be noted that total federal outlays for housing have not declined during this same period. In fact, these have actually increased. Primarily because of the homeowner deductions allowed under federal tax law, the emphasis of federal housing policy over this period has increasingly shifted to benefit middle and upper income property owners, as indicated by the following chart.

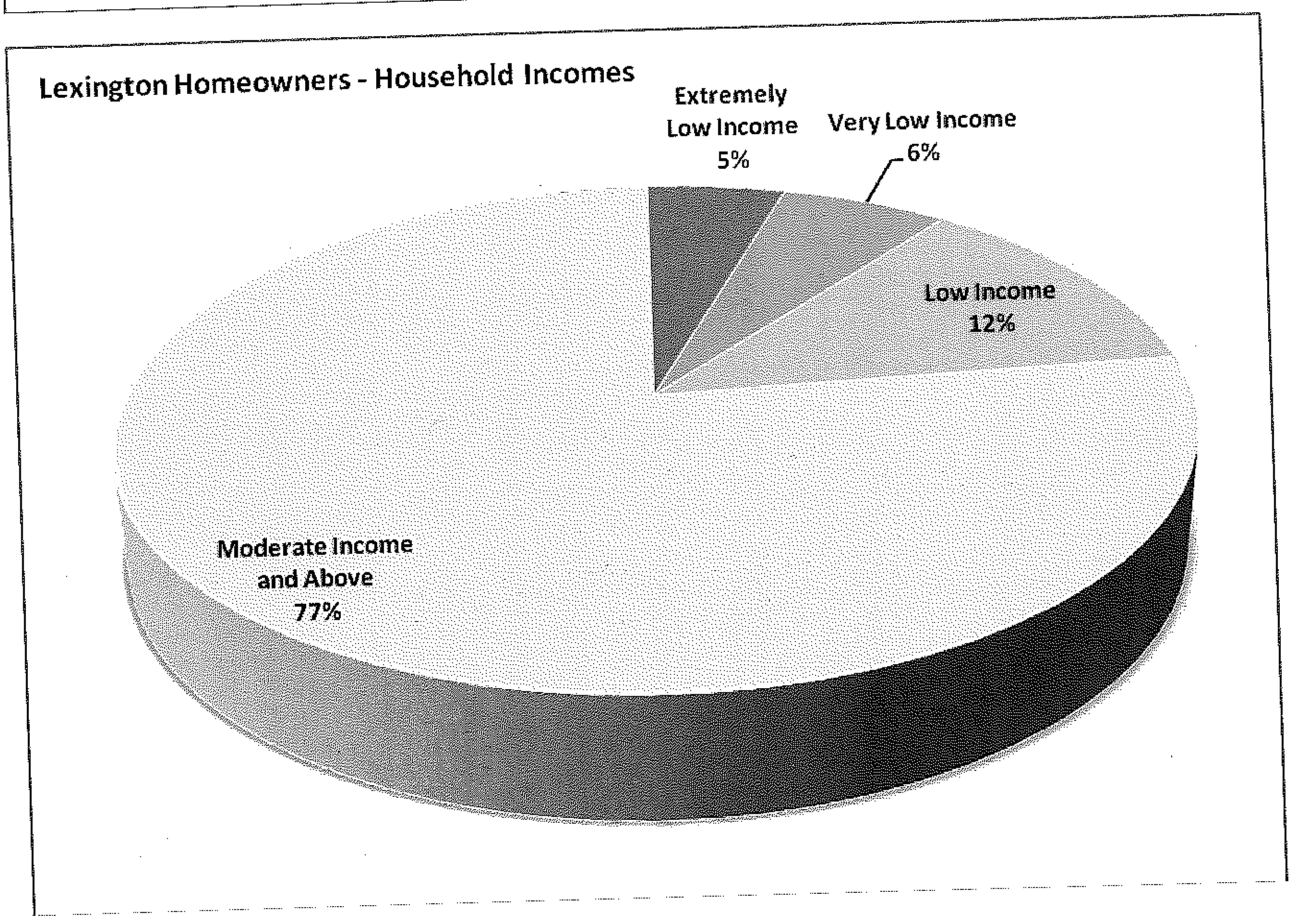


<u>Declining or Stagnating Real Incomes</u> - Amidst increasing housing costs that are consistently outstripping the general rate of inflation, most Americans have faced decades of declines or stagnation in their real wages. In 2004, 37 million people, comprising almost thirteen percent (13%) of the U.S. population, lived in poverty.[vi] In Fayette County, the percentage is even higher: 14.9% of the population lives under the poverty level. The poverty rate for children in Fayette County is even higher at 17.5%.[vii] Rising housing costs, in addition to stagnant incomes and lower safety net benefits, are factors in the rising number of Americans living in poverty. The bottom half of wage earners has seen its income stagnate or decline in the last 20 years, while the top 5 percent of households has seen its income double. The minimum wage has steadily lost purchasing power since its inception as legislative increases have substantially lagged inflation. Wage inequality has dramatically grown in the last twenty years as a result of a variety of changes in the economy and in public policies that shape the economy. The disparity between the incomes of those at the top and those at the bottom is at its greatest point since the decade of the "roaring 20's" that preceded the Great Depression. Nearly half of American households are deeper in debt, insecure about their jobs or downsized into the temporary workforce, and contemplating a future retirement that is significantly diminished with little or no economic security.[viii]

In addition, reductions in public assistance programs, including the 1996 repeal of the Aid to Families with Dependent Children (AFDC) program, have made it more difficult for single mothers to rise out of poverty. Temporary Assistance to Needy Families (TANF), the program designed to replace AFDC, provides families with only a fraction of the income received under the previous program.[ix] In Kentucky, the maximum monthly TANF benefit for a family of three is $262.[x] Bad credit, no credit and poor or non-existent landlord references are barriers to housing for families. In Minnesota, a study of over 3,100 homeless individuals and families found that 22% had credit problems and 11% had an eviction or other rental problems on their record. Another nine percent had no local rental history.[xi]

The cumulative effect of rising housing costs and shrinking incomes stresses family budgets, sometimes to the breaking point. Families with less income are disproportionally impacted by these forces, as the supply of affordable housing fails to keep pace with demand and wage increases have not keep pace with increases in housing costs. Renters are more significantly impacted, primarily because the income distributions for renter households are dramatically lower than those of owner households, as illustrated by the following charts:[xii]


Lexington Renters - Household Incomes
Extremely Low Income 22%
Very Low Income 18%
Low Income 23%
Moderate Income and above 37%


Lexington Homeowners - Household Incomes
Extremely Low Income 5%
Very Low Income 6%
Low Income 12%
Moderate Income and Above 77%

<u>Homelessness</u> - In Fayette County, it is estimated that approximately 1,250 individuals (at any given time) are living in shelter programs provided by homeless service providers. Another 200 persons are living on the streets.[xiii] There is very little argument among those knowledgeable about the root causes of homelessness that long term solutions to this problem must be focused on the two primary factors that cause homelessness, namely insufficient affordable housing options and stagnating wages unable to keep up with rising housing costs. The combination of higher and higher housing costs while incomes for low-income families continue to shrink presents an increasingly more difficult challenge for those struggling to keep a roof over their heads. Not surprisingly, the vast majority of studies that have researched solutions to homelessness have found that affordable housing (often subsidized), prevents homelessness more effectively than anything else. This is true for all groups of poor people, including those with persistent and severe mental illness and/or substance abuse.

The creation of more affordable housing in Lexington should be the major focus of any recommendations to end homelessness. The comprehensive network of services now provided to assist homeless persons in Fayette County is increasingly burdened by the lack of affordable housing for persons seeking to exit emergency and transitional programs. In addition, increased affordable housing options in the community will reduce the number of people who are at-risk of homelessness and therefore reduce the demand on the existing network of homeless services. Finally, more affordable housing options locally will actually <u>increase</u> capacity in the local homeless service network, particularly in the availability of transitional housing. Local transitional housing providers are experiencing increasing delays with individuals and families successfully exiting their programs to permanent housing because residents simply cannot find affordable housing. Programs that once saw families successfully transitioning to permanent housing in as little as three months are now experiencing stays averaging 18 months. If these programs were able to reduce the delays now needed to successfully transition families into permanent housing (say to an average of 9 months) it could <u>double</u> the number of families who will benefit from the <u>existing</u> network of transitional programs. In short, more affordable housing options in the community not only increases the supply of decent housing that people can afford but it also increases the capacity of existing transitional housing without the expense of expanding the current inventory and it reduces demand on the current network of homeless services by reducing the number of people who fall into homelessness.

Lastly, it should be noted that a local needs assessment is required annually in the Continuum of Care submission to the U.S. Department of Housing and Urban Development. Since 2004, emergency shelter has been designated a "low" priority need in Lexington. This does not mean that there are currently enough shelter beds in Fayette County to meet the needs of all who are homeless. This ranking is a <u>relative</u> assessment when comparing emergency shelter, transitional housing and permanent housing (with supportive services). Since 2004, transitional housing and permanent housing with supportive services have been ranked as "medium" and "high" priorities, respectively. These rankings essentially mean that the greatest unmet local need in

Fayette County is permanent housing with supportive services, followed by the unmet need for transitional housing (set at medium). These rankings are based on known and estimated numbers of homeless persons in Lexington in need of emergency shelter, transitional housing and permanent housing with supportive services when compared to the beds currently provided. In short, the current listings of available sheltering capacity are best met at the emergency shelter level and least met at the permanent housing with supportive services level.

Commission Recommendations

Fund a local Affordable Housing Trust Fund with the following as a mission statement:

> The purpose of the Affordable Housing Trust Fund is to provide our community with an ongoing publicly funded commitment to expand the supply of safe, decent and affordable permanent housing in Lexington-Fayette County.

The primary purpose of the AHTF will be to provide affordable, permanent housing in Lexington. Affordable housing is defined as "housing that requires families and individuals to pay no more than thirty percent (30%) of their income for housing and housing-related costs (such as utilities)".

The Center for Community Change indicates that nearly 600 housing trust funds in cities, counties, and states generate more than $1.6 billion a year in support for affordable housing. Both the City of Louisville and the Commonwealth of Kentucky have passed legislation authorizing affordable housing trust funds.

Authorize the AHTF to accept applications for funding from a broad range of organizations to carry out the purposes of the AHTF. Applicant organizations may include:

- Nonprofit Organizations
- For-Profit Organizations
- Units of Local Government
- Public Housing Authority

By accepting applications for funding from a broad range of entities the AHTF will encourage organizations throughout the community to address the shortage of affordable housing in our community. Although both for-profit and non-profit entities would be eligible for funding, it is suggested that non-profits be eligible for grants and loans, while for-profits would only be eligible for loans. In addition, any AHTF funded projects involving new construction or significant rehab must include deed restrictions (similar to HOME regulations) as well as financial penalties if projects are not maintained as affordable housing.

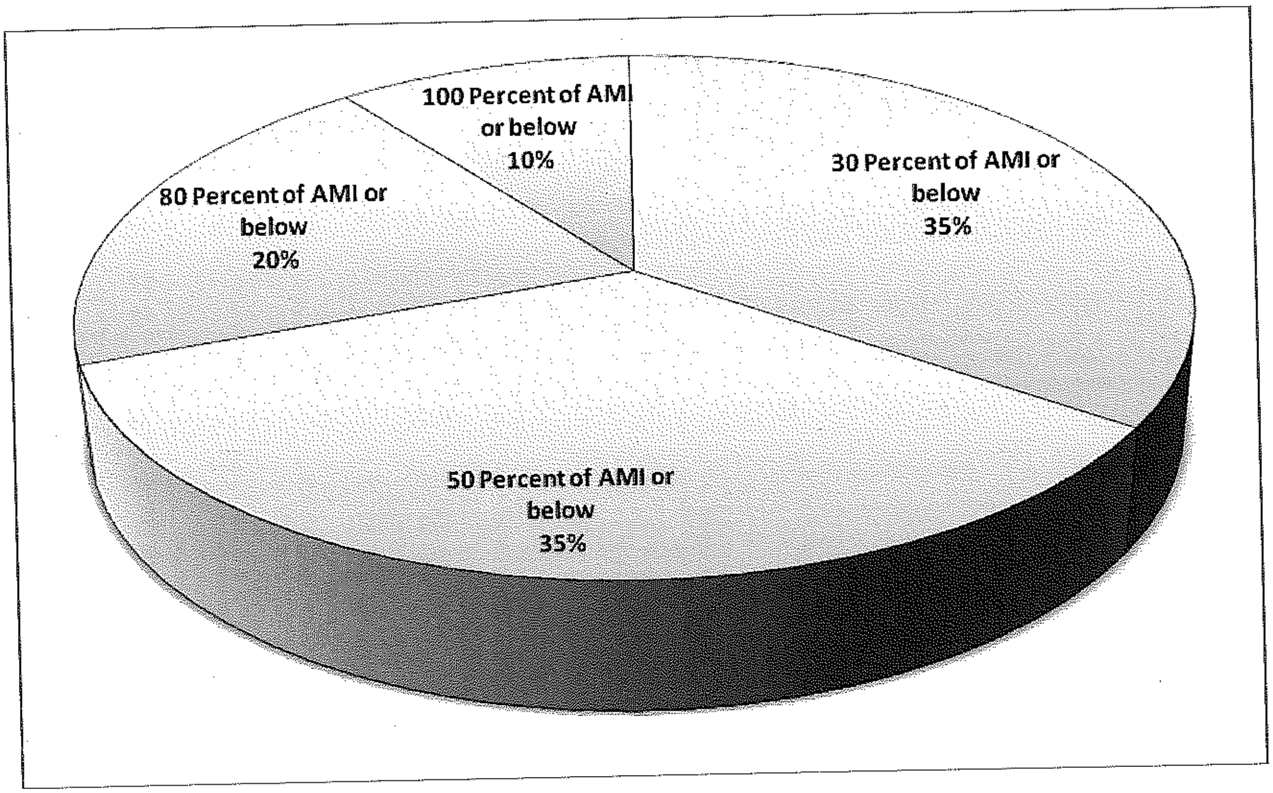
Since the primary purpose of the AHTF is to increase and preserve the supply of affordable permanent housing, all funded projects must be "non-supplantive". This provision would encourage the development of new or expanded projects in our community.

Authorize the AHTF to fund applications for projects that provide the following:

- Affordable Permanent Housing
- Assistance for Long-term Sustainability of Permanent Housing
- Rental Assistance
- Emergency/Transitional Housing

Rental Assistance must be targeted to persons and families with incomes at or below 30% AMI. Emergency/Transitional Housing funded projects must seek to provide assistance and supports needed for individuals and families to transition into permanent housing.

Mandate that publicly funded AHTF projects be allocated to the following households:



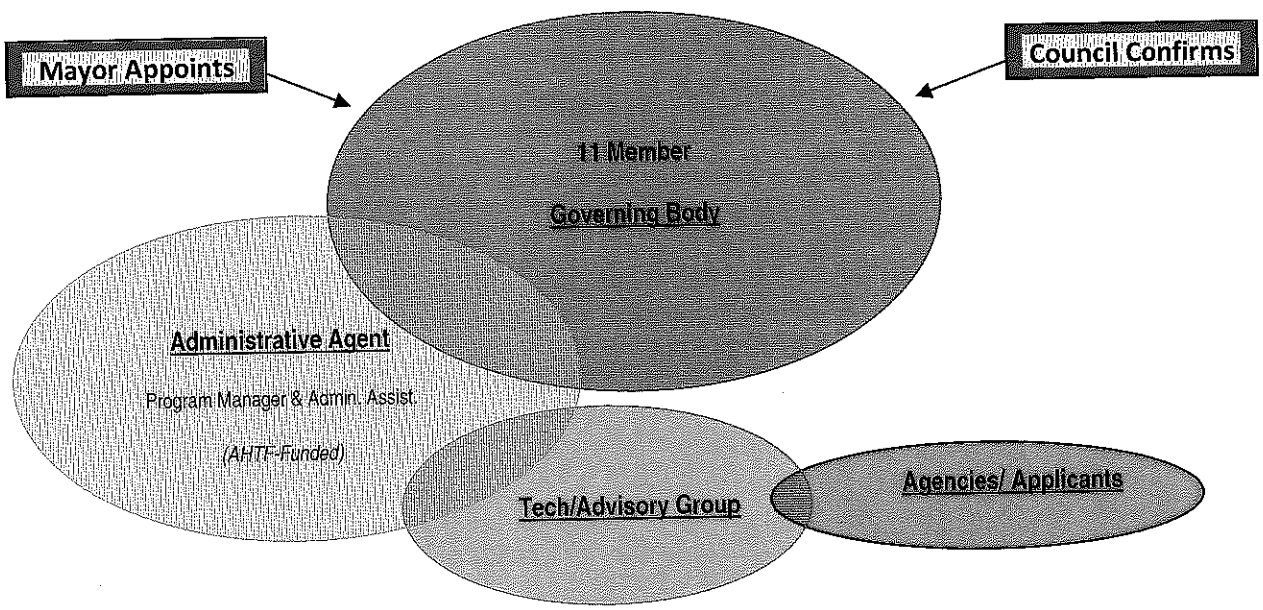
The primary purpose of this funding allocation is to insure that most of the AHTF is allocated to those with the greatest need. Under this allocation formula thirty-five percent (35%) of AHTF funding <u>must</u> be allocated for households with incomes at or below 30% of AMI. However, if circumstances warranted, it would also be permissible for as much as 100% of the funding to be allocated to these extremely low income households. On the other end of the funding spectrum, no more than ten percent (10%) of AHTF funding may be allocated for households with incomes between 80-100% AMI.

It should be noted that a minority of Commission members (4) expressed concerns with including the AMI income categories in the ordinance language. This in no way suggested that the AMI categories were not worthy of funding, but rather indicates a different methodology to target and allocate the funding. While the majority of Commission members felt it was important that this be mandated by ordinance, this minority suggested that these targets could be accomplished through weighted scoring criteria of the applications submitted each year to the Governing Board. This would allow the Governing Board the flexibility to target and allocate funding to changing needs within the community without requiring changes in the ordinance.

Finally, to maximize access to companion funding for the AHTF the Commission recommends that regulations guiding the use of Trust funds seek to be compatible with other affordable housing funding sources from the state and federal government. This will enable collaborative projects and allow the AHTF to fill gaps where other funding resources are inadequate.

Administrative Structure for the AHTF

The following graphic illustrates the proposed administrative structure for the AHTF:



The Commission recommends the establishment of an AHTF Governing Board, to have independent authority and oversight of the Trust Fund. It shall be organized as follows:

Charge of Authority - The Governing Board shall be vested with oversight authority, and shall manage the Trust Fund independently of political influences.

Appointment - The Mayor of the Urban County Government shall have the authority to appoint each member to serve on the AHTF Governing Board. The Urban County Council must confirm or reject each appointment made by the Mayor.

Term of Service - The members of the AHTF Governing Board shall serve a term of two (2) years. The terms of the Governing Board shall be staggered in a manner required by Section 7.02 of the Urban County Charter. No Board member may serve more than two consecutive terms.

Equal Representation - The AHTF Governing Board shall promote inclusion, demonstrate fairness of process, and reflect the socio-economic fabric of the Lexington – Fayette County community. The composition of the Governing Board shall be, as nearly as possible, representative of the social, economic, cultural, ethnic and racial groups which compose the population of the County.

Composition - The AHTF Governing Board shall be comprised of eleven (11) members. Each Member must demonstrate knowledge and experience in the affordable housing sector, and support local housing efforts. These individuals must have extensive experience in one or more of the following skill sets:

- Homelessness & Emergency Housing
- Social & Support Services
- Affordable Housing Management
- Affordable Housing Resident/Client
- LFUCG Council Member
- Grants Administration or Philanthropic Giving
- Housing Construction
- Commercial or Mixed–Use Development
- Property Leasing or Rental Housing
- Real Estate Management
- Financial or Capital Markets

Conflict of Interest - No member of the AHTF Governing Board shall be an employee, business partner, contractor, consultant, Board member or representative (or immediate family thereof) of an organization which petitions for funding from the AHTF. Applicants for AHTF funding will be deemed ineligible if a Board member has any such affiliation.

Meetings - The AHTF Governing Board shall meet bi-monthly, or at least five (5) times within a calendar year. A quorum must be established for an official business meeting to be held. A quorum consists of a majority of eligible voting members (6 persons). A simple majority of Governing Board members present at an official meeting is required to approve any business item on the agenda.

The duties of the AHTF Governing Board shall be:

- Establish policies and procedures for the operation/management of the AHTF
- Select an appropriate Administrative Agent to carryout the functions of the AHTF
- Oversee the financial management of AHTF funds, including all receipts, gifts, donations, grants, disbursements, accounts payable & administrative costs
- Annually monitor and evaluate the performance of the Administrative Agent.
- Establish annual funding goals and priorities for housing production utilizing AHTF funds
- Annually review funding proposals from eligible applicants for AHTF funds
- Annually rank and prioritize eligible projects requesting AHTF funding
- Annually approve funding for eligible AHTF projects
- Perform housing studies, housing needs assessments, and compile pertinent data consistent with planning activities on-going through existing governmental departments and non-profit housing agencies
- Submit annual reports on the activities of the AHTF to the Mayor, Urban County Council and the community

Community needs will be re-assessed on an ongoing basis (at least every 3 years) via a formal needs assessment process.

Management/Staffing - Recommendations

The day-to-day management of the Trust Fund shall be entrusted by the Governing Board to an Administrative Agent. Nearly 95% of all new AHTF's established in the US are administered by a governmental department or agency. Preferably the Administrative Agent selected by the Governing Board would be the entity within local government most experienced in administering affordable housing grant and loan funds. At present, this entity within local government is the LFUCG Division of Community Development. This department is responsible for the administration of federal grant dollars such as HOME, CDBG and ESG from the US Department of Housing & Urban Development (HUD).

The duties of the AHTF Administrative Agent shall be:

- Develop a Notice of Funding Availability (NOFA) for annual AHTF funding cycles
- Develop program materials and provide technical assistance to potential applicants
- Solicit and receive funding applications for housing projects requesting AHTF funds
- Evaluate project proposals to determine eligibility and feasibility based on criteria established by the Governing Board and program guidelines
- Initiate contracts with projects awarded funding by the AHTF Governing Board
- Process and approve funding draw requests submitted by project administrators
- Monitor implementation of these projects
- Complete project close-out reports
- Monitor post project compliance requirements

The initial staffing of the AHTF Program shall consist of two (2) staff persons: a *Program Director* and an *Administrative Assistant.* The initial estimated annual administrative cost of the program, including wages & fringe benefits, is $125,000-$150,000. The personnel costs required to administer the AHTF shall be supported by the revenues of the Trust. Administrative costs will be limited to no more than 10% of AHTF revenues with the initial years targeted at no more than 5%.

Technical Assistance Advisory Group

A Technical Assistance Advisory Group shall be established for the purpose of providing assistance to the Governing Board, Administrative Agent and eligible applicants in developing and evaluating feasible project proposals. In addition, the formation of this Advisory Group will allow for affordable housing developers & administrators to participate in the planning and policy development of the AHTF.

The Technical Assistance Advisory Group shall be comprised of designees of the AHTF Commission, and should reflect the size of the existing AHTF Steering Committee (approximately 8-10).

The duties of Technical Assistance Advisory Group shall be:

- Assist Governing Board, AHTF staff and the Division of Community Development in providing technical assistance to applicants.
- Assist in planning and housing needs assessments.
- Assist in evaluation & assessments of the AHTF.

Funding the Affordable Housing Trust Fund

The Commission considered a broad range of possible funding sources. Such sources included (but were not limited to) an increase in the property transfer fee, parking fees, blighted property tax levies, an increase in garbage fees, a small fee added to utility bills, promotional fees generated by event activities, an increase in the hotel/motel tax, a car rental fee, a partial allocation of surplus funds from the County Clerk's office, building and development fees, city use taxes, demolition fees, a designated property tax allocation, an added amount to the insurance premium tax, a General Fund commitment, tax increment finance (TIF) fees, restaurant fees, license plate fees for an AHTF plate, cable service fees and others. Funding sources were evaluated as short, medium or long term strategies. Many of these funding sources required legislative approval at the state level as well as at the local Council level. Such sources necessarily require a longer timeline to initiate as well as an extensive campaign effort to gain approval in Frankfort.

The Commission determined that primary funding sources for the AHTF would ideally be community-wide sources that do not excessively target a specific market sector such as commercial or residential development. In addition, the Commission determined that initial funding for the AHTF should be targeted to generate at least $3-$5 million annually from a dedicated public revenue source.

Initial Funding Source - The Commission recommends that the Council add 1% to the existing insurance premium tax in Fayette County (currently at 6%) and dedicate this 1% increase to the AHTF. This premium tax is levied on most insurance premiums (except health insurance). As an example, this one percent increase would represent a $7.60 annual increase in the average $760 cost for homeowners insurance in Lexington. The other most commonly paid insurance premium is automobile insurance, which would increase on average a similar amount annually ($7.42). Based on current amounts collected this revenue source would generate approximately $4 million in annual revenues for the AHTF.

Once the AHTF is operational and successfully funding affordable housing in our community, other sources of funding could be sought to increase the impact of the AHTF. Among these the Commission recommends the following:

- Increased property tax levies on blighted properties.
- Allocate a portion of the surplus funds provided to LFUCG every 3-4 years by the County Clerk's Office to the AHTF.
- Increase the real estate transfer tax assessed when a local property is sold (this is paid by the seller) and allocate the increase to the AHTF. This requires companion legislative approval at the state level.

Outcomes and Economic Impact

It is important to recognize that any funding of the AHTF actually brings other funding into the community. <u>All</u> communities with AHTFs successfully multiply the investment into their communities many times over, on average by a factor of 7 to 1.[xiv]

Based on a more conservative matching ratio of 6:1 experienced by the administrator of Kentucky's AHTF (Kentucky Housing Corporation), the recommended funding level of $4 million per year could provide 336 units of <u>new</u> affordable housing <u>each year</u>.[xv] Or it could provide enough funding to significantly rehabilitate approximately 1,400 units of existing affordable housing <u>each year</u> and thereby prevent this dilapidated but affordable housing from falling out of service.

The economic impact is even more significant. Funded at $4 million and matched at a ratio of 6:1 (for a total annual investment of $28 million) the AHTF is estimated to generate 448 jobs in year one and 176 jobs each year thereafter – on an ongoing basis.[xvi]

In short, the allocation of local revenues to investment in affordable housing brings additional revenues into the community. Each **$1 million** in AHTF investment generates an estimated additional **$6,468,000 in local revenue** in year 1, and **$3,061,800** on an annual ongoing basis.[xvii]

On the opposite side of the ledger, communities that lack affordable housing actually experience diminished economic prospects. In a comprehensive study done by Lee County, Florida it was estimated that ignoring the local need for affordable housing was costing the community more than $249 million each year. The study calculated the community costs associated with inadequate housing in three sectors of the community: lost economic opportunity, stressed transportation infrastructure, and the direct and indirect social costs related to education and health care. The vast majority of the cost to the community was associated with lost economic opportunity (estimated at $241 million each year). This included lost jobs and wages as a result of not developing needed housing, lost economic opportunity as a result of families spending too much money on housing and lost property tax revenue.[xviii]

Since the population of Fayette County is about 60% that of Lee County, FL, we could extrapolate that ignoring our need for affordable housing is ONLY costing us about $149 million each year. On the other hand, we could recognize the need for more affordable housing in our community and move forward with establishing our own AHTF to begin to address this dire need in our community.

Other research supports the economic impact of ignoring the need for affordable housing:

- Best practices research has shown that the lack of affordable housing is an impediment to local economic growth when employers struggle to find and keep reliable workers but those same workers cannot afford to live nearby.[xix]
- Other research shows that affordable housing is vitally important to low-wage workers. This research suggests in particular that housing subsidies help families to obtain and retain employment by increasing family stability, freeing up income for work-related expenses such as childcare, and providing families the opportunity to locate nearer to better employment opportunities.[xx]
- Sensible urban planning as a solution to urban/suburban sprawl must include sufficient numbers of affordable housing units. These units are needed to grow local economies dependent upon lower-wage workers. Such growth must also include adequate numbers of affordable housing units to meet the needs of other residents who are no longer able to work, or those in transition within the workforce, such as those who are disabled and low-income retirees.[xxi]

Other sources highlight the human impact when communities ignore the need for affordable housing. Shortages of affordable housing have been shown to contribute to family instability but can also have a destabilizing impact on whole neighborhoods. The impact is felt most with children, as their physical, social, and educational development deteriorates when they lack consistent shelter.[xxii]

In testimony before Congress, Sheila Crowley, President of the National Low Income Housing Coalition (NLIHC) stated the following in March 2007:

> What are the consequences of a housing shortage of these proportions? How do these families cope? Many of them spend much more than they can afford for their homes. An analysis of data from the 2005 American Community Survey shows that 71% of all extremely low income renter households in the United States pay more than half of their income for their homes.[xxiii] Spending

that much of household income on housing means there is not enough income left for other basic necessities, and people are forced to make impossible choices between rent and food or medicine or heat. Certainly, they are not able to save.

Another way to cope is for the adults in the family to work two or more jobs to bring in the needed income. This means children are left alone or in the care of others for long stretches of time and the parents are unable to do what we expect of them to raise healthy and productive children.

Or they are prey to unscrupulous landlords who rent substandard housing that tenants do not dare complain about for fear of losing the only homes they can afford. Or they double-up with family members or friends creating overcrowding and all the related health and mental health stressors that come with too many people living in too little space. Or they move from one short term dwelling to another, making stable employment and school attendance impossible to maintain. High rates of residential mobility among low income families is correlated with high rates of school mobility for their children, which means these kids never stay long enough in one school to be successful.[xxiv]

The ultimate consequence of this housing shortage is that people lose their homes and become homeless. In circumstances where there is such a gap between supply and demand, those who are the most vulnerable, those with the most complex problems and the weakest support systems, are the least able to compete and at highest risk of homelessness.

This housing shortage is not going to be solved by market forces. Given the huge pent-up demand for rental housing that this population can afford, if there was money to be made building and operating such housing, someone would have figured out how to do so by now. Nor can this housing shortage be solved by existing federal, state, and local housing programs at the level of investment we are currently making.[xxv]

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