

Lexington's Affordable Housing Challenge and Potential Strategy

czb for the City of Lexington, KY





Lexington, Kentucky

One of the Best Value Cities
in America - Kiplinger 2011



Lexington, Kentucky

And for low-wage workers one
with real challenges



Lexington, Kentucky

Affordable for most and very
UNAFFORDABLE for others

Presentation Elements

- Overview
- Scale of the Problem
- Cause of the Problem
- Cost of “Solving” the Problem
- Local/Non-Local Share
- Recommended Approach
- Building a System

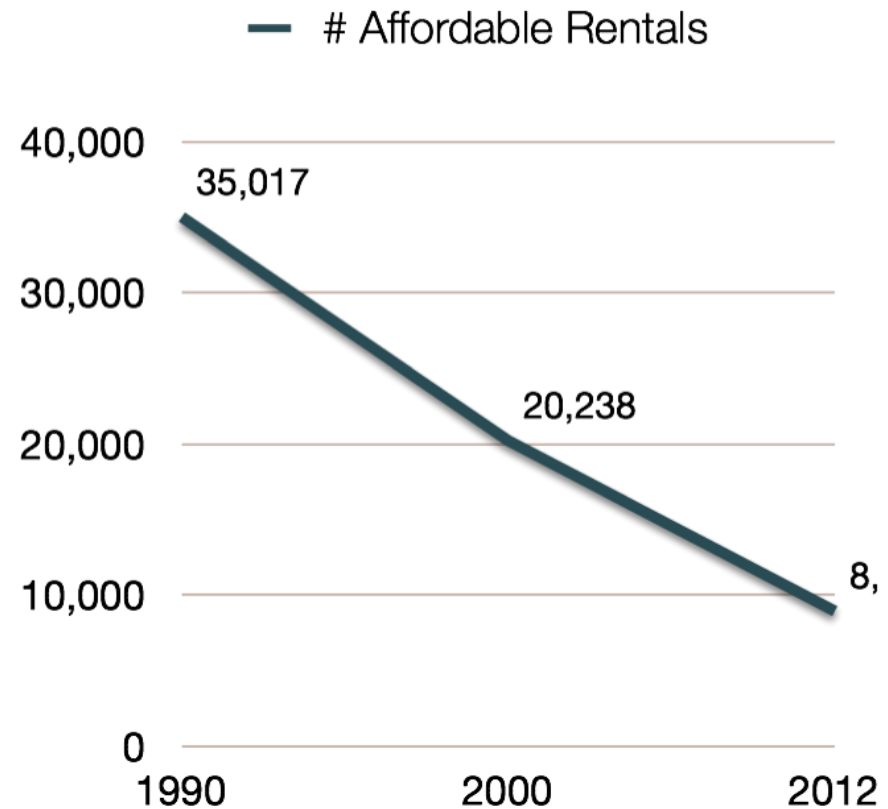


Overview

- Big affordable housing problem in the form of a NON-STUDENT rental unit shortage
 - -6,000 units today, and losing an additional -400 each year
- This is a result of success (prosperity) combined with a sizable percent of your workforce being unable to compete for higher wages in your new, high-tech Lexington economy (legacy)
- To remedy this will cost about \$6,000 per unit per year *forever*, or until your wage appreciation rate is the same as your housing cost appreciation rate for low-wage households
- That's ultimately a \$36M/year cost to catch up AND additional \$2.4M/year to keep up
- **Catching up** can be done by creating a system of rental subsidies tied to property upgrades, along with some new construction, the financing mechanism for which could be a TRUST FUND
- **Keeping up** can be done by creating a system of integrated planning tools that generate revenue, and re-orienting some current programs
- Both catching and keeping up should be coordinated by an enhanced Department of Planning, Preservation, and Development, reporting to the Mayor

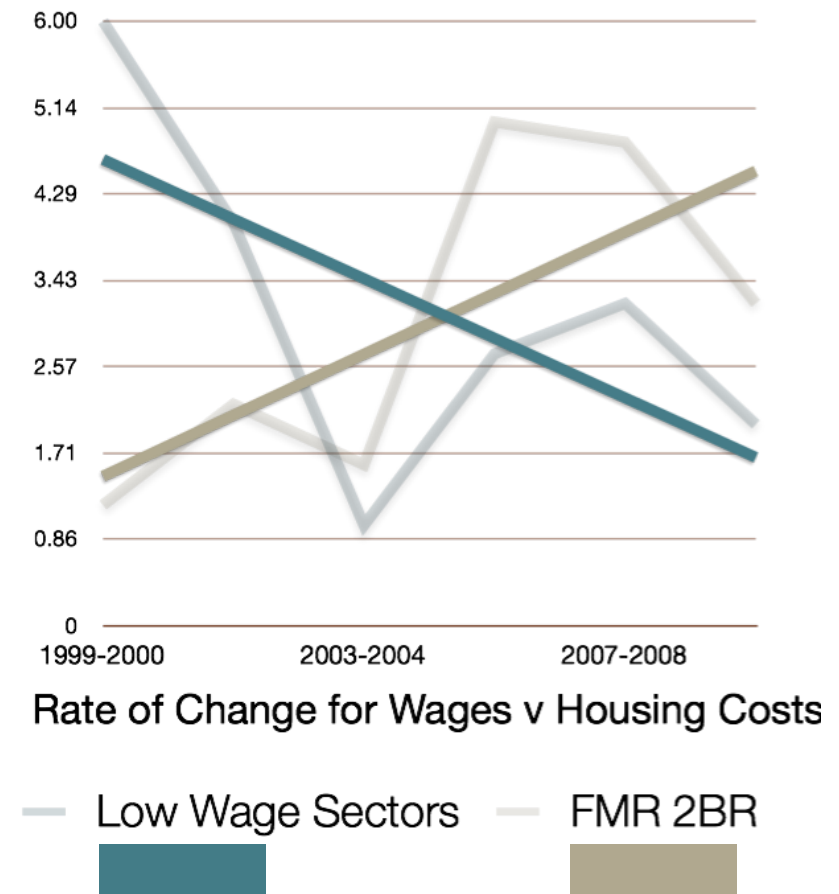
How Acute?

- In 1990 there were 35,017 apartments that someone working at minimum wage could afford; or about 88% of Lexington's rental inventory
- In 2000 this number became 20,238 (44%)
- By 2010 it had fallen to 8,945 just 17%)



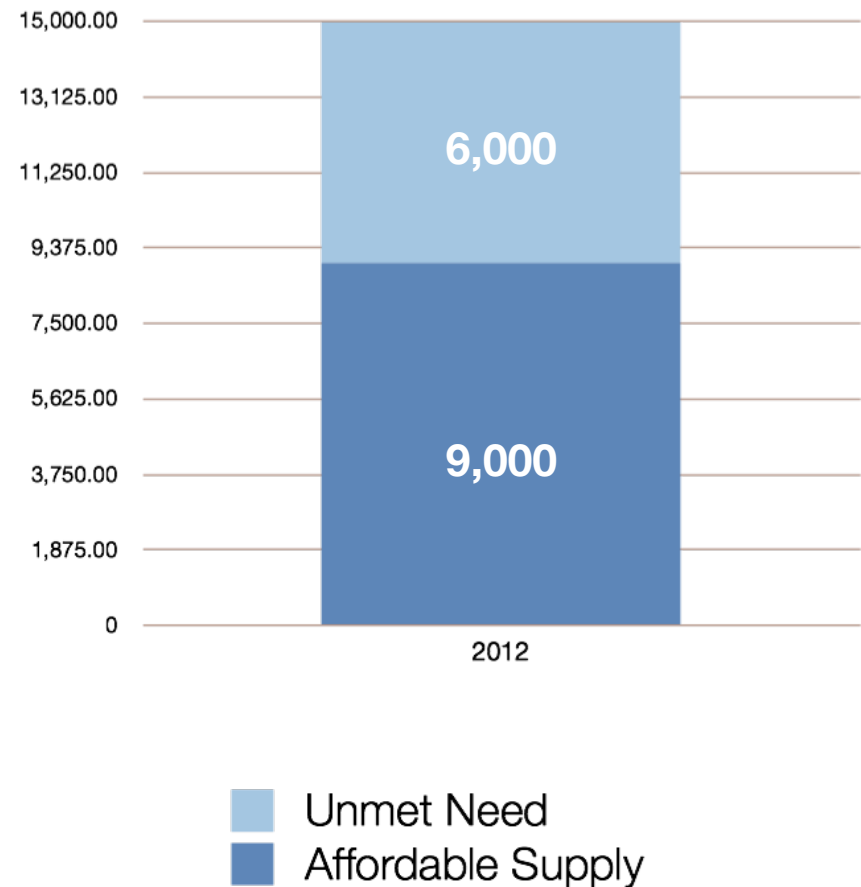
Why Unaffordable for Some?

- Two Main Reasons
 - **Legacy** (inherited poverty and low wage earning capacity among tens of thousands of households) including 6,000 WORKING households simply not earning enough
 - **Newfound Prosperity** (rising housing prices growing faster than wages for service sector workers)



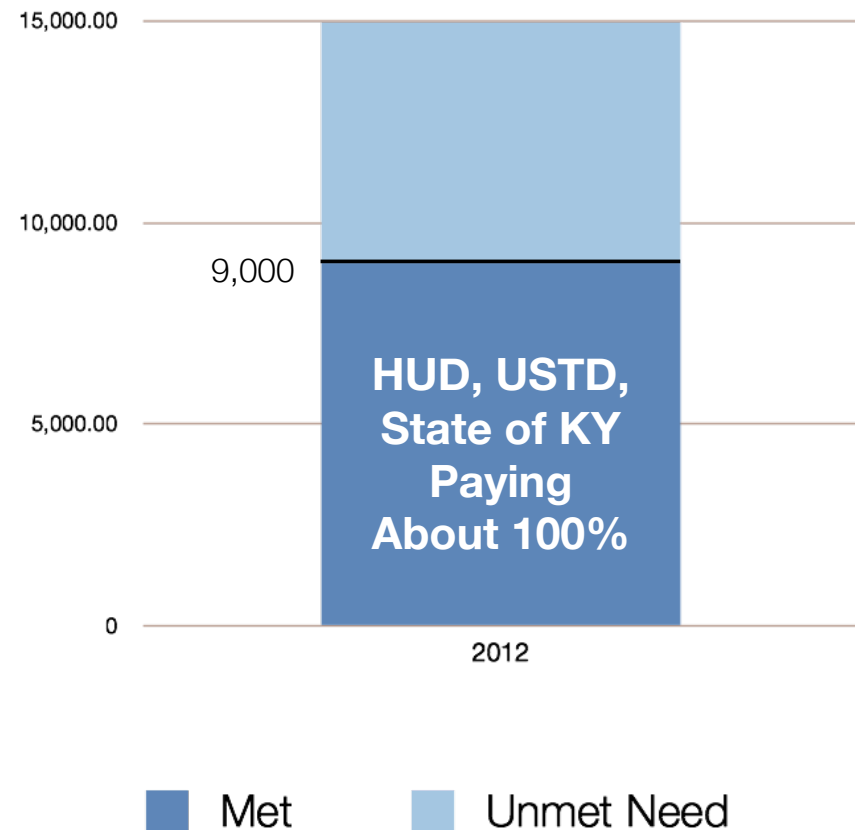
Breakdown

- 15,000 NON STUDENT households in Lexington with incomes < \$20,000, and thus unable to afford fair market rents in Lexington (\$750)
 - 9,000 of these households are being adequately assisted by the Lexington Housing Authority, Habitat, the Urban League, etc. and the market
 - 6,000 are not being assisted



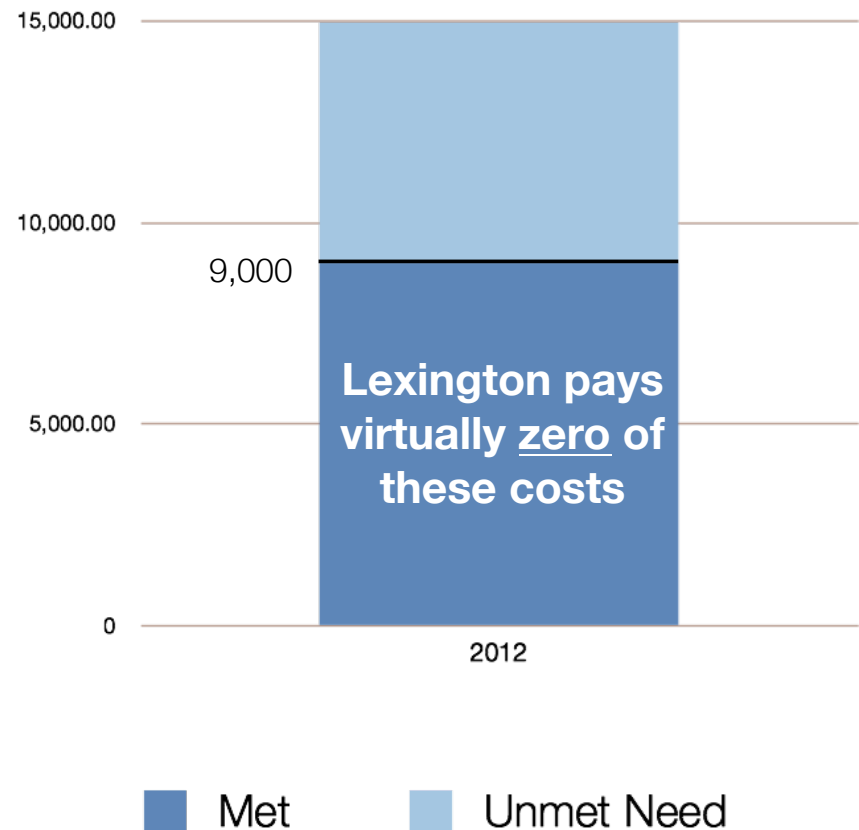
Who is Paying?

- Nearly 100% of the costs of helping the 9,000 households now being assisted are being paid by the federal government and in some small instances, the State of Kentucky (state housing trust fund)
- Nearly 0% of the costs of helping the 9,000 households now being assisted are being paid by the City of Lexington



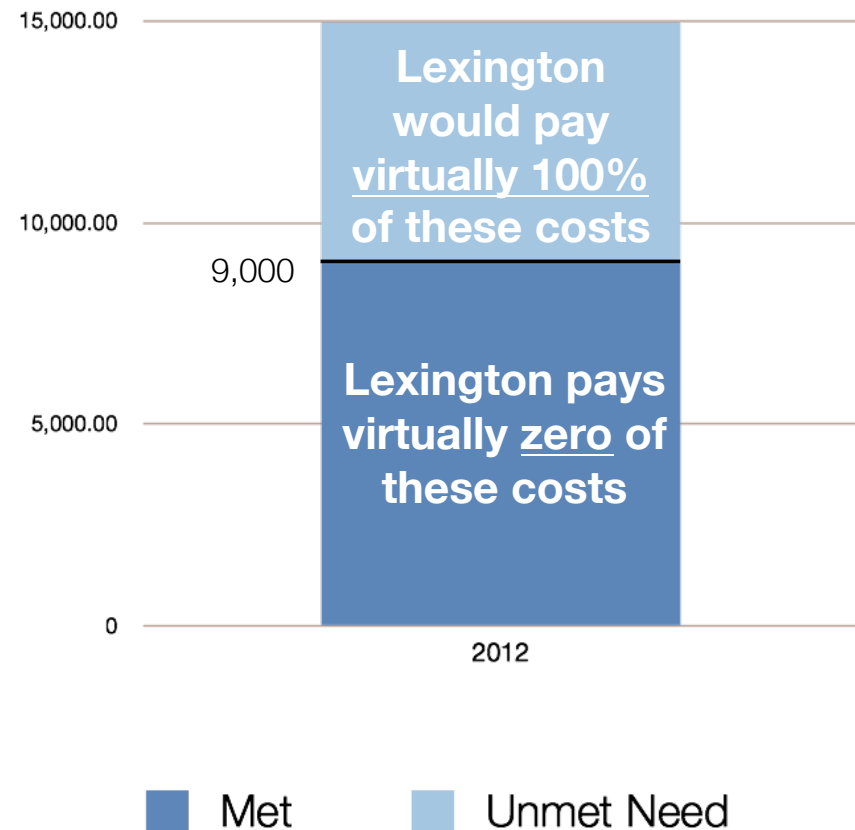
How Much?

- A scalable annual variable is about \$6,000 per household per year (sooner or later)
- Those in Lexington being helped cost the US taxpayer about \$20M annually (plus eventual capital improvement costs), of which Lexington pays about \$20,000...a 1,000:1 leverage ratio (nearly infinite)



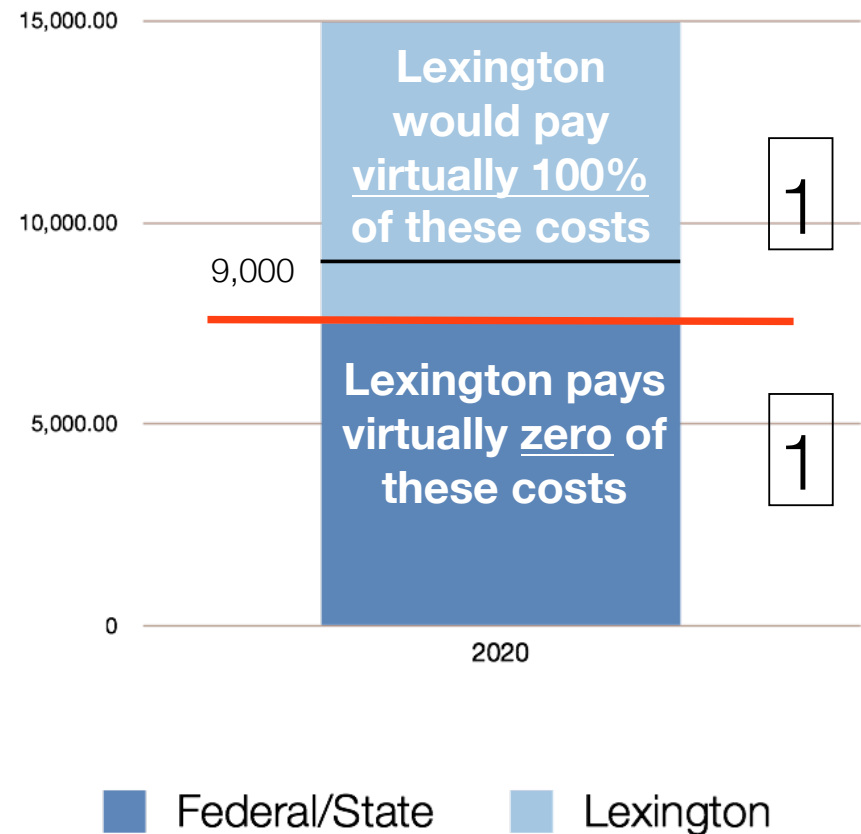
How Much?

- A scalable annual variable is about \$6,000 per household per year (sooner or later)
- Those in Lexington not being helped now, if helped by Lexington, will cost Lexington \$20-30M a year (depending on the methods), of which the state or federal government will likely contribute zero



Combined Leverage

- A scalable annual variable is about \$6,000 per household per year (sooner or later)
- Over the life of the units and the duration of a housing cost-wage gap, about \$50M a year is needed in Lexington, of which about half will be paid for by the federal government, and if Lexington chooses to, the other half by Lexington, a maximum leverage ratio of 1:1 under in the BEST scenario



We Recommend

- Be bold and establish an unimpeachable Lexington objective
 - By 2025 and thereafter, anyone who works in Lexington can afford to live in Lexington
 - Adopt two clear goals
 - COMPLETELY CATCH UP: Go from -6,000 to zero by 2025
 - KEEP UP: Address projected annual -400 loss
- Build the capacity needed to achieve these goals
 - To tackle the large and growing shortage of affordable rental housing in Lexington, enhance the Department of Planning, Preservation, and Development
 - To begin coordinating a response to the growing problem of homelessness, establish an Office of Homelessness

We Recommend

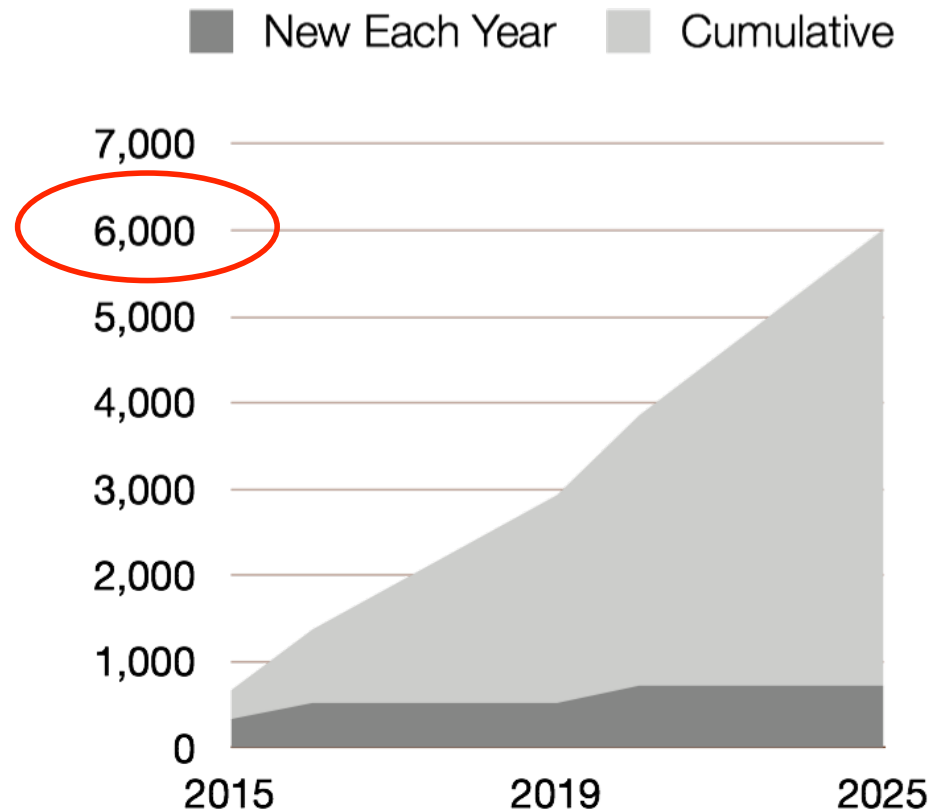
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- Shift existing orientation of local use of federal and state funds
 - Modify current emphasis on home ownership help towards rental

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 - By 2025 and thereafter, anyone who works in Lexington can afford to live in Lexington
 - Adopt two clear goals
 - COMPLETELY CATCH UP: Go from -6,000 to zero by 2025
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- Generate the resources needed to achieve these goals
 - Create and operate a TRUST FUND of sufficient size
 - Create and coordinate PLANNING TOOLS of sufficient focus

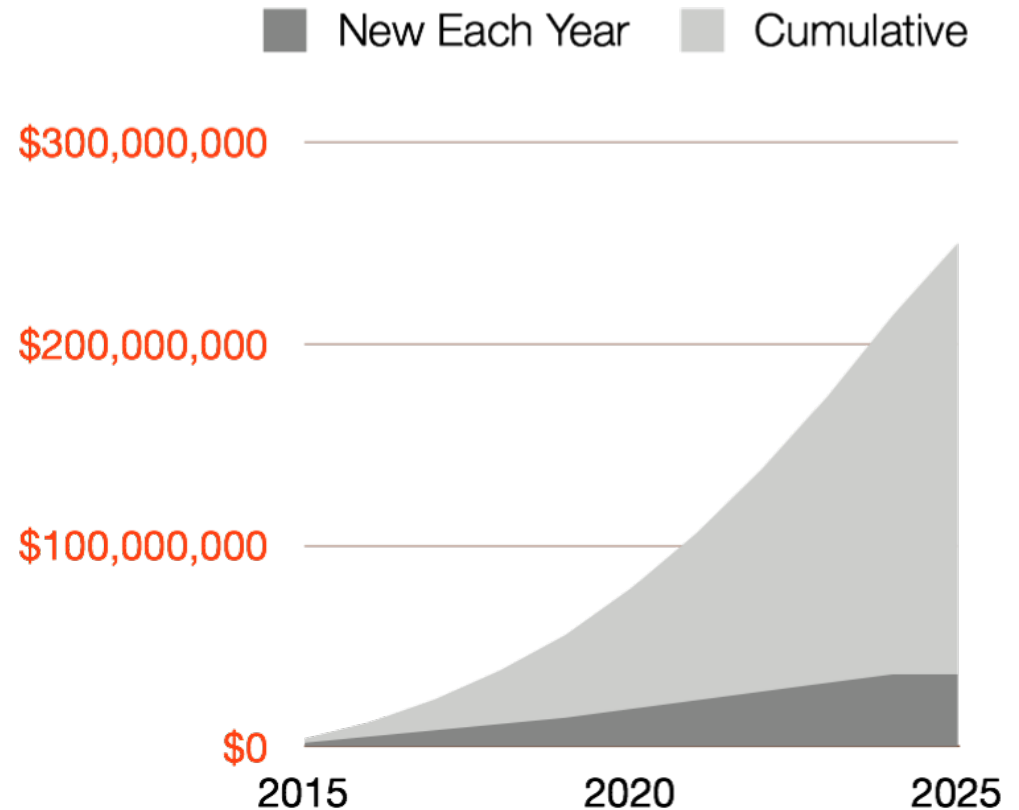
CATCHING UP: Using a Trust Fund

- Start modestly at about \$4M the first year, knowing you will have to average \$19.48M to have enough \$ to catch up (close your 6,000 unit gap)
- Allocate \$2M towards addressing homelessness each year
- An enhanced Department of Planning, Preservation, and Development would help coordinate the design and development and scaling of the Trust Fund and the system needed to use the \$



CATCHING UP: Using a Trust Fund

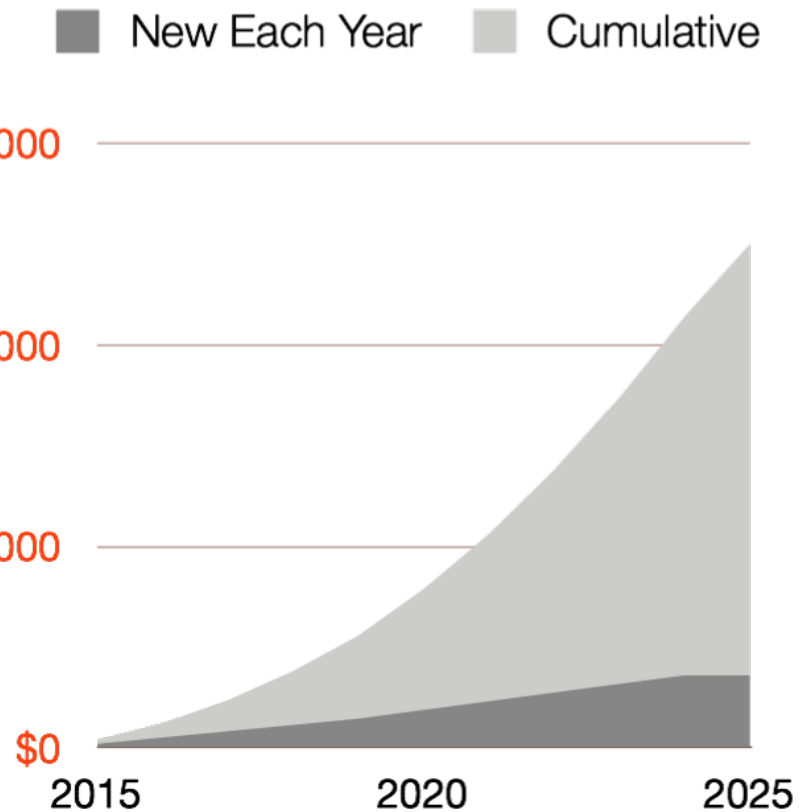
- A scalable annual variable is about \$6,000 per household per year (sooner or later)
- That works out to \$36M/yr
- Because you lack capacity, however, even if the heavens rained millions, you could not deploy it right away, so get there gradually
- By having to scale up you can aim to zero out this gap by 2025 (11 years) at an annual average cost of \$19.48M from 2015-2025



CATCHING UP: Revenue for the Trust Fund

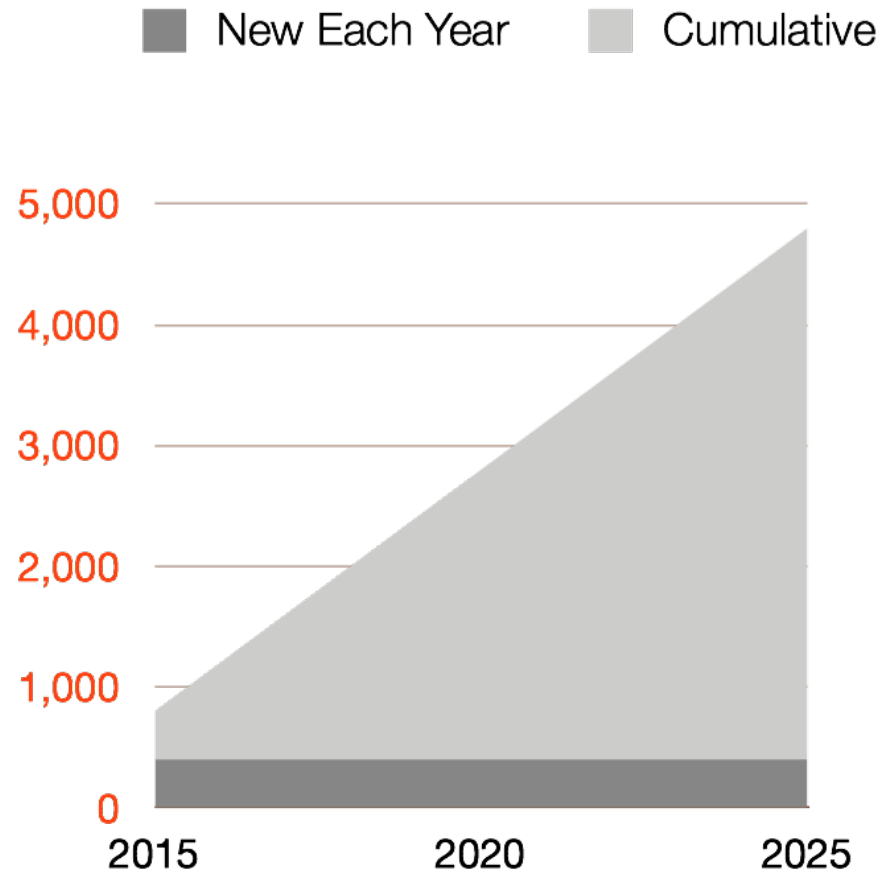
- About \$20M a year is the average needed through 2025

- Options could include
- Affordable Housing Levy (Seattle)
- General Obligation Bond (Austin)
- Local Option Sales Tax (Current KY proposal)
- Insurance Fee (Current Lexington Proposal)
- Employer Fee (Recommended Innovation)



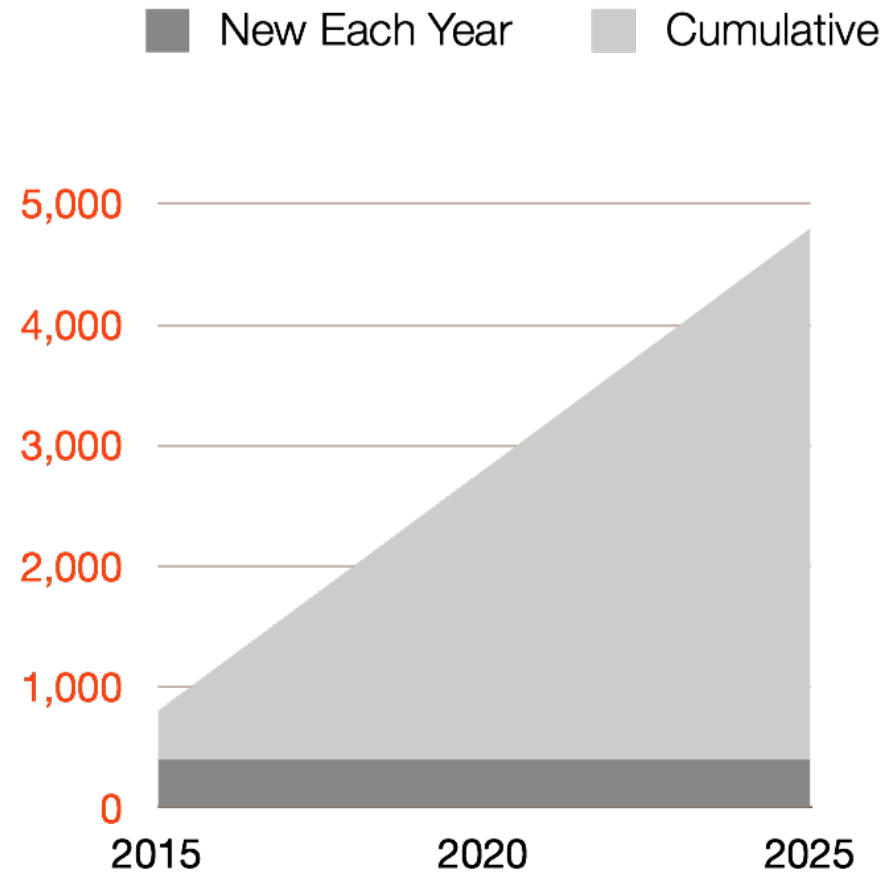
KEEPING UP: Creating + Coordinating Planning Tools

- No matter what you manage to do with a Trust Fund, Lexington will likely shed an additional -400 affordable rental units each year going forward
- To keep up, a full battery of planning tools is needed so that market activity remains fully encouraged and robust, yet accounts the affordability impacts it causes
- Done through a range of related land use regulations, zoning and development codes, and other measures



KEEPING UP: Revenue from Planning Tools

- An additional \$2.4M per year will be needed to offset to projected annual loss of another -400 affordable rentals each year
- Options could include
 - Transfer Development Rights (Park City, UT)
 - Significant Up-Zoning (New York City)
 - Impact Fees (Alexandria, VA)



RECAP



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