

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

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

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.

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

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%.

Affordable Housing Trust Fund (AHTF) History & Activity Timeline

Prepared by:
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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

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