

## Kentucky Housing Task Force

July 29<sup>th</sup>, 2024 at 1pm

### Louisville Metro Government Proposals

#### The Need in Louisville

- We have built more than 18,000 affordable housing units in the last 5 years, but during those same 5 years, our housing gap increased from 31,000 to 36,000.
- Over the past eight years in Louisville, rent has risen 37% and median home prices have jumped 48%.
- Almost 50% of all renters spend more than 30% of their income on housing, and 25% of renters spend more than 50% of their income on housing.
- Our administration's goal is to create 15,000 new housing units by 2027, and we need the state's help.
- Louisville Metro Housing Authority currently serves 30,000 people, almost all of whom are some of our lowest income community members.

#### 1. Expand support for housing from state economic development tools:

- Expand the use of industrial revenue bonds for affordable housing projects by modifying the definition of "building" or "industrial building" in KRS 103.200(1) to include affordable housing projects generally.
- The Kentucky Economic Development Finance Authority (KEDFA) should fund multi-family development with tax increment financing.
- Make the building code more amenable to the use of manufactured housing in the state. Utilizing manufactured homes decreases the amount of time, in some cases by half, to construct new housing.
  - Attracting these manufacturers is also an economic development win. MMY is bringing over 80 high-paying jobs to Louisville, and the units they create can be delivered to communities throughout the state.

#### 2. Create a state-wide affordable housing tax credit:

- Many states have created their own version of LIHTC to pair with the federal program.
  - a. Ohio created new tax credits to support affordable rental properties and single-family homeownership:
    - i. State LIHTC: Owners of qualifying rental properties can claim tax credits against state liabilities for 10 years with a \$100 million per fiscal year statewide cap.
    - ii. Homeownership credit: to incentivize the construction of new single-family homes for Ohio's growing workforce, the homeownership credit will cover the gap between the development budget and the state's estimate of the appraised value of the finished home. Ten-year credit with a \$50 million per fiscal year statewide cap.
  - b. Florida's Live Local Tax Credit Program allows businesses to make a monetary contribution to the Florida Housing Finance Corporation in exchange for dollar-for-dollar credits against their corporate income tax liability and/or insurance premium tax liability. The contributions benefit the State Apartment Incentive Loan (SAIL) Program, which provides low-interest loans for the development of quality affordable rental housing. The cap for the program is \$100 million in credit allocation.
- If Kentucky creates a new tax credit program, a percentage of the credits could be set aside for rural and single-family development. If these credits aren't used, then they could roll over to urban areas.
- To have the most impact/be the most appealing to private investors, these credits would ideally be refundable or transferrable.

### **3. Revolving loan funds to build affordable and workforce housing:**

- Developers of affordable housing need access to low-cost loans. A new program should be established and capitalized at the Kentucky Housing Corporation to provide financing for workforce/middle-income housing development. This program

would complement the Affordable Housing Trust Fund, which supports projects serving our lowest income households (less than 60% area median income).

- Receipts for the Affordable Housing Trust Fund have sharply declined due to high interest rates and lack of home sales. The program is funded by a modest \$6 flat fee per real estate transaction. The fee has not been raised/adjusted for inflation in almost 20 years. Increasing this fee and encouraging other homeownership strategies would help to recapitalize the AHTF and help it to support more projects.
- Oklahoma has created a housing stability program allocating \$215 million for development loans for multifamily and single-family housing. Construction loans are provided at 0% interest rate with a term of 24 months.
- Montana:
  - The Montana Community Reinvestment Plan seeks to stem the trend of hyper-inflation on workforce housing through a public-private partnership. This shared equity program takes those making between 60 and 140 percent of the median household income, which today equates to nearly \$60,000 a year average, and allows them to leverage their maximum mortgage allowance with a deed restricted mortgage to make homeownership affordable.
  - \$107 million for the Montana Housing Infrastructure Revolving Loan Fund to assist with water, wastewater, stormwater, streets, roads, curbs and gutters, and sidewalks.
  - \$65 million available for the Multifamily Coal Trust Homes Program which provides loans for multifamily housing.

#### **4. Local control to improve development processes:**

- The Kentucky Chamber's recent report cites two of the biggest barriers to new housing production are overly restrictive land-use and zoning rules and expensive government regulations. Every barrier that adds time also adds cost to these

projects, in some cases making projects altogether cost prohibitive or unable to offer affordable or workforce housing units.

- The report encourages state policymakers to collaborate with local government to explore and encourage reforms to local land-use and zoning rules that serve to restrict new housing developments and make home building more difficult.
- It also encourages state and local policymakers to evaluate the impacts of government regulations on housing and pursue reforms where appropriate.
- Louisville has been undertaking extensive stakeholder engagement processes to pursue local reforms with the goal of removing regulatory barriers to more housing and to make it easier to build housing by right.
- We ask the legislature to support our effort to update our land use policies to facilitate development and cut unnecessary red tape so that the most efficient, effective solutions can be implemented for our city.

#### **5. Create opportunities for home ownership through the Landbank:**

- Louisville has one of the oldest Landbanks in the country. It acquires vacant and abandoned single family properties and clears them of any legal barriers so they can be an opportunity for affordable home ownership and revitalize their neighborhood.
- Right now, approximately 1400 abandoned properties are on the Department of Codes and Regs' annual "cut" list. These are properties where LMG maintains the exterior (e.g. cutting the grass) because they have been visibly abandoned and would otherwise be an eyesore. These are NOT in the Landbank right now and must go through a foreclosure action and then be bid on by the Landbank to acquire them – a process which usually takes about 3 years even with targeted intervention.
- Once in the Landbank, the properties move more quickly. Approximately 400 buildable lots are in Landbank inventory, staying an average of 12-18 months before being sold to new buyer.
- State can examine existing property laws that are slowing down the process of getting these underutilized properties into the land bank.

- Tennessee is innovating in this space by offering an expedited tax foreclosure action in certain priority situations, so the property can be more quickly acquired by the land bank and then put back into productive use (Neighborhood Preservation Act).
- Another potential reform is for the Administrative Office of the Courts to give local Landbanks super bidding status at auctions, allowing them to acquire more abandoned properties at the Commissioner's Sale rather than them going to the highest bidders.
- Representative Grossberg introduced a bill last session to prevent large outside real estate companies from hoarding land, creating a win for both housing and small businesses. The bill would amend KRS 91.514 and create a new section of KRS Chapter 426 to establish that any residential property that is purchased at a master commissioner's sale in a county that has a land bank authority and was occupied prior to or at the time of the sale must be returned to a state of occupancy within specified time periods, with a fine of \$100 per day payable to the local government for noncompliance.
- Welcome Home Ohio program includes \$100 million set aside for grants and \$50 million in tax credits for landbanks to cover the cost of acquisition, rehabilitation, or construction of residential properties.

**6. Fund the provision of services paired with housing:**

- Most vulnerable residents (people struggling with addiction, domestic violence, and mental illness) need services to keep them stably housed and off the street.
- We appreciate the legislature's investment in the Community Care Campus in downtown Louisville during the most recent budget session. The goal of that campus, a partnership with Volunteers of America, is to create a central location for unhoused individuals to access a variety of services including a family shelter, permanent affordable housing, medical respite care, and more.

- Permanent supportive housing, which pairs housing with case management and supportive services, is a proven solution to homelessness for the most vulnerable, chronically homeless people, but it's expensive. More funding is needed.
- In addition, Louisville has 284 units of permanent supportive housing coming online in the next 12-18 months, supported by ARPA one-time funds. This is a start but we need more.
- Not only do we have the largest population and the biggest demand-supply gap for housing in the state, but vulnerable folks from all over the state come to Louisville to receive services related to mental health, addiction, and domestic violence. These individuals often need extra support to stay stably housed and off the street.
- A statutory change would be that state-supported providers of mental health and addiction services cannot release individuals to homelessness. Other states like Ohio require individuals to have a permanent address prior to release. Often, individuals are brought from around the state to receive services in Louisville and are then released without a place to go or support to get back to their hometowns.

**7. Improve the supply and allocation of federal resources for housing:**

- Kentucky gets federal resources to help build affordable housing from Tax-Exempt Private Activity Bonds and Low-Income Housing Tax Credits (also known as LIHTC). These tools are critical to incentivizing the private market to invest in affordable multi-family and single-family production.
- Demand for both tools strongly outpaces supply in Kentucky, particularly demand coming from Jefferson County.
- Congress should increase the supply of these bonds and credits (each state gets a maximum allocation), which will help the Kentucky Housing Corporation (KHC) disburse more around the state.
- The federal government could also expand the opportunities for bond recycling. Allowing multifamily housing bond volume to be recycled for single-family housing projects would then free up new PAB volume for multifamily housing.

- Congress can reduce the threshold, from 50 percent to 30 percent, of bond-funding required in development projects to unlock LIHTC through a simple change to the tax code.
- These ideas already have broad bipartisan support in DC as part of the Affordable Housing Credit Improvement Act.
- Though more support is needed from the federal level to move the needle on supply issues, KHC could also ensure adequate allocations of existing bonds, credits, and the Trust Fund dollars to Kentucky's urban areas.
- KHC allocates two types of LIHTC credits: 4% and 9% - the latter being more valuable and more competitive. There have been years where Louisville has not received any 9% deals despite our tremendous need.
- For the first time this year, KHC has guaranteed that Louisville, Lexington, and Northern Kentucky will all receive at least one deal of 9% deal LIHTC credits.
- This progress should be systematized through permanent set asides.