LEGISLATIVE RESEARCH COMMISSION
State Capitol 700 Capital Avenue Frankfort KY 40601
502-564-8100
Capitol Fax 502-564-2922
Annex Fax 502-564-6543
legislature.ky.gov
Jay D. Hartz
Director

MEMORANDUM

To: Senator Robert Stivers, Co-Chair
Representative David Osborne, Co-Chair
Legislative Research Commission

From: Senator Robby Mills, Co-Chair
Representative Susan Witten, Co-Chair
Kentucky Housing Task Force

Subject: Final Report and Recommendations of the Kentucky Housing Task Force

Date: 11/24/25

Foreword

The Legislative Research Commission directed the creation of the Kentucky Housing Task Force for the 2025 interim. The task force was charged with continuing the work of the 2024 Kentucky Housing Task Force by studying and reviewing the current and future housing needs of Kentuckians. In the course of its work during the 2025 interim, the task force heard testimony from an array of stakeholders concerning policies to accelerate housing production in the state. This report summarizes the work of the task force, recommends policies to address Kentucky's housing shortage, and represents its final action.

Overview

The Kentucky Housing Task Force was established to study, review, and perform:

- A demographic analysis of housing costs, population, and employment opportunities statewide and regionally in Kentucky;
- A comprehensive review of state and local laws, regulations, policies, and procedures that affect housing;
- An analysis of the availability and accessibility of housing to include examination of the costs of housing, utilities, and access to healthcare;

- An evaluation of land use, zoning, infrastructure, and community planning to identify barriers that impede the development and availability of accessible, adequate, and affordable housing; and
- An examination of efforts and policy changes in other states and municipalities to address increasing housing supply and encourage homeownership.

The twelve-member task force began meeting in June 2025 and convened five times during the 2025 interim. A comprehensive review of the causes and effects of Kentucky's current housing shortage were discussed during the 2024 Kentucky Housing Task Force, and the findings of the task force can be reviewed in the Final Report of the Kentucky Housing Task Force issued in November 2024. Among other things the 2024 task force heard was testimony indicating that:

- Kentucky faces a housing shortfall of hundreds of thousands of units that has accumulated over decades due to underbuilding;
- This shortfall has resulted in a substantial increase in home prices throughout the state, and consequently the number of cost-burdened renters and owners has surged;
- The housing shortage is a problem in every part of the state, and while it has the greatest impact on low-income Kentuckians, everyone in the state is affected; and
- The lack of housing for Kentucky workers has become an economic development issue for both private sector employers and local governments throughout the state.

While the 2024 Final Report did not contain specific policy recommendations, numerous bills were filed during the 2025 Regular Session to address housing issues. Several of these bills were signed into law, including:

- House Bill 160, which prevents local governments from placing certain restrictions on manufactured housing;
- Senate Bill 25, which allows local governments to issue industrial revenue bonds for the construction of large multi-family housing developments; and
- House Bill 321, which places restrictions on who has standing to appeal planning and zoning determinations of a planning unit.

In consideration of the testimony taken during the 2024 interim which primarily focused on understanding housing issues in the state, it was determined that the 2025 task force should focus on policies designed to address the issues that were identified during the prior interim. The task force thus set out to take testimony from a variety of interested organizations, seeking policy recommendations that could increase Kentuckian's access to homes, bring down the costs associated with housing development, and place the state in a better position vis-à-vis surrounding states for continued population and economic growth. These organizations included:

- The Kentucky Housing Corporation;
- The Bluegrass Institute for Public Policy Solutions;
- The Pew Charitable Trust;
- The Kentucky Chamber of Commerce;
- The Kentucky Bankers Association;
- The Mercatus Center;
- Antecedent Development;
- The Homebuilders Association of Kentucky;

- The Indiana Housing Infrastructure Assistance Program;
- The Homeless and Housing Coalition of Kentucky;
- Commerce Lexington;
- The Northern Kentucky Chamber of Commerce;
- Americans for Prosperity; and
- A number of legislators interested in housing issues.

The recommendations made by these groups were diverse, but generally fell into two broad categories: **regulatory reforms designed to bring down the cost of home construction, and state support designed to encourage additional homebuilding**. Generally, the regulatory reforms recommended by presenters would encourage or mandate that the state and local governments eliminate barriers to the construction of new homes. While the recommendations involving state support were varied, they generally involved either direct appropriations by the General Assembly to funds that would jump start new housing construction or tax credits for housing developers that would assist in defraying their costs. The task force has carefully considered each of these suggested policies, which will be summarized below.

As a final note, the task force recognizes the scope of the housing issue facing the Commonwealth, and would like to emphasize that surrounding states have already taken significant steps to address their own housing shortages. For example, testimony was heard from Indiana officials regarding that state's Residential Housing Infrastructure Assistance Program, which has been appropriated more than $100,000,000 by its general assembly since 2023. Moreover, many surrounding states, including Tennessee and Indiana, have recently advanced regulatory reforms to their planning and zoning regimes designed to facilitate new housing construction.

The task force recognizes that housing issues cannot be solved solely via changes in policy, as macroeconomic factors, such as inflation and interest rates, and national trends, have significant effects on the housing market. Nevertheless, Kentucky runs the risk of falling behind its neighbors in this crucial area. A housing shortage that continues to grow will almost certainly result in lost economic development opportunities, as businesses choose to locate to places where their workforces can afford to rent or purchase homes. The members of the taskforce believe that this would be an unacceptable outcome, and to avoid that outcome will recommend policies that the General Assembly should consider or adopt during the 2026 Regular Session.

Discussion of Testimony and Recommendations

As discussed above, the task force heard policy proposals to address the state's housing shortage from a variety of interested organizations. These policy recommendations will be summarized in this section, and broken down into the two broad categories referenced in the preceding section: regulatory reforms and state support. This section will contain a discussion of those recommendations and those recommendations that the task force supports. A summary of the recommendations of the task force will be listed in the subsequent section.

Regulatory Reforms

Testimony during the task force has almost universally indicated that regulations related to homebuilding and land use have significantly driven up the costs of, and in some cases completely prohibited, new construction and rehabilitation of residential homes. These regulatory barriers have made too many of Kentucky's communities unattractive to homebuilders. While the populations of these communities have continued to grow, they have not done so as quickly as in surrounding states, and the costs of housing in those places have far outpaced population increases. The task force is therefore recommending a slate of regulatory reforms that should encourage new construction and rehabilitation and bring down construction costs, in order to reduce home prices and rents for Kentuckians.

- **Building Code Reforms**

  The task force believes that changes should be made to the state building code to reduce costs to homebuilders and allow for less regulatory burdens on multi-family housing.

  First, the task force recommends that certain permitting, inspection, and certification requirements contained in KRS Chapter 198B be expanded to include duplexes, triplexes, and quadplexes. These kinds of multifamily housing developments provide a greater number of units on a smaller footprint. In instances where multifamily housing is similar to a single-family home, the building code should treat that housing similarly.

  The task force also recommends that the Kentucky building code be amended to allow for a single staircase in certain multi-family and apartment buildings. The cost associated with requiring additional staircases in larger housing developments can be exorbitant, while any safety benefit is likely negligible. The single staircase reform should result in cost savings that can then be translated to lower rents.

  The task force also recommends a requirement that state agencies consider the effects on housing construction and costs before adopting regulations, and the placement of a two-year moratorium on changes to the building code or energy code that would increase costs of residential home construction. The state should be more circumspect about regulations which drive up costs of home construction, as these regulations may price individuals out of the housing market while providing little benefit.

  Finally, the task force recommends that the general assembly allow third-party, non-governmental sources, to issue permits for certain required inspections. These inspections are a critical part of the timeline of new construction, and a delay at any point in the process can result in significant cost-overruns for homebuilders, which translate to higher prices. By allowing approved and regulated third-party entities to issue permits across the state, timelines for construction can be compressed, and new homes can reach the market more quickly.

- **Local Land Use Reforms**

  The task force recommends that legislation reforming local land use practices be adopted. While local governments often have laudable goals in enforcing planning and zoning, their regulations can frequently become overly burdensome, affecting the supply and costs of homes in their jurisdictions. The task force is recommending several policies which have been successfully implemented in other states that will permit additional density in appropriate areas, allow for more efficient use of urban land, and drive down costs for residential construction, while continuing to allow local governments broad authority regarding the planning of their communities.

  First, the task force recommends legislation that would provide that local governments should not be able to set their minimum lot size under a specific square footage amount and prevent the adoption or enforcement of onerous setback requirements. This will allow developers the option to build more densely and more efficiently use land in urban areas. The purported benefits of large lot and setback requirements do not outweigh the benefits that would come from additional space for housing, while representing a significant infringement on individual's property rights.

  Additionally, the task force recommends that local laws requiring units to have a certain number of parking spaces be reduced or eliminated entirely. These parking requirements, like lot size and setback requirements, mean that land cannot efficiently be used to maximize the amount of housing. Several local governments in Kentucky have already chosen to reduce their parking requirements, and the task force believes that this policy should be encouraged statewide.

  The task force also recommends adopting policies which encourage the conversion of commercial uses to residential uses, the mixing of those two uses, and that encourage additional urban infill.

  Finally, the task force is recommending legislation that will allow religious landowners the ability to construct affordable housing on land owned by the institution by right. Many religious organizations have excess land and strong faith-based commitments to serving those in need that results in the means and desire to construct affordable housing or convert older structures to affordable housing. Nevertheless, those organizations may be stymied by local land use policy. SB 59 from the 2025 regular session had input from many different religious organizations and other groups, and the task force recommends that a similar bill be enacted during the coming session.

- **Local Permitting and Approval**

  Along with changes to land use policy, the task force believes that the local planning process often presents unacceptable burdens to those seeking to develop housing. This can take many forms, including long delays, burdensome and frivolous litigation, and last-minute changes that may frustrate the rights of property owners. The task force thus recommends the following policy changes to promote speedy resolution of the planning process and increased certainty for those seeking to develop housing. The task force believes that these changes will result in a more development-friendly environment that will encourage investment.

First, the task force recommends that legislation be adopted to streamline permitting and approval. This may involve requirements that local governments issue a final determination related to planning and zoning within a set number of days. A failure to do so would result in an automatic approval. Alternatively, this may involve a requirement that certain steps along the process be completed within a set amount of time, and if they are not, the applicant would be entitled to a refund of any fees associated with the permitting process or costs incurred due to the delay. Either of these approaches will advance the goal of speeding up the planning process and moving earth on housing projects.

Next, the task force recommends legislation that would secure the rights of a developer at the time of an application. Tennessee has adopted legislation that could serve as a model in this area. The goal would be to prevent a local government from altering or downzoning a parcel after an application has been submitted. This would provide developers additional security for their investments.

Similarly, the task force recommends that zoning restrictions with which a majority of structures in the existing area do not comply should not be enforceable. For example, many older neighborhoods are parts of zones containing parking or bulk requirements that did not exist when the structures were initially built and would make those uses nonconforming. This can mean that infill or redevelopment of those areas is made impractical. Simply put, a developer should be able to build or rebuild housing in an area that conforms to that area's actual character, and any requirement to the contrary should be disallowed.

Finally, the task force recommends that the changes to standing to challenge a planning and zoning determination contained in the previous session's House Bill 321 continue to be monitored by the General Assembly, to determine whether the bill is having the desired impact of reducing frivolous and wasteful litigation. If litigation continues to be a hinderance to development, additional action may be necessary.

- **Allow Local Governments Flexibility to Adopt their Own Pro-Housing Policies**

Finally on the issue of regulatory reforms, the task force believes that more options should be made available to local governments so that they can choose to encourage more affordable housing. The changes to industrial revenue bond requirements during the previous session was a step toward that goal, but more can be done to give local governments tools to facilitate housing construction.

The task force recommends that the General Assembly advance two bills which were introduced in the previous session: 2025 RS HB 7 and 2025 RS SB 50. These bills would allow local governments to establish districts to encourage the construction of additional housing. House Bill 7 would allow local government to establish districts in which they could provide incentive payments to housing developers that construct new homes and that meet certain conditions.

Senate Bill 50 would allow local governments to establish infrastructure development districts. In these districts, a local government would be permitted to finance infrastructure used for housing and that financing would be secured by a special assessment on property within the district.

Both measures would be voluntary and would merely provide an additional tool to local governments seeking to attract housing development to their communities.

State Support

While the regulatory reforms addressed above will most certainly make the state a more attractive place to construct housing, the task force believes that the magnitude of the issue and the now decades-long disruption in housing production in the state may require additional intervention.

The task force is recommending two changes at this stage, one to the funding of the Affordable Housing Trust Fund and the other to the Rehabilitation Tax Credit, but will also lay out the recommendations it has received involving state appropriations.

The task force recognizes that there may be objections to supply side interventions taken by the state to encourage additional housing production. Further, these projects will require appropriations, and decisions regarding appropriations will require additional input. But, given the magnitude of the housing shortage and the programs adopted in peer states, the task force nevertheless urges the General Assembly to consider whether state appropriations are necessary, and if so, which method of intervention would best spur additional housing production.

- **Affordable Housing Trust Fund**

  The affordable housing trust fund is currently funded by fees placed on certain real estate transactions. These fees were set decades ago and have not kept pace with inflation. Moreover, the funding can be unpredictable. As a result, at a time when the housing situation in the state is at its worst, the trust fund has minimal funding to address the issue.

  The task force is recommending further consideration of legislation in the vein of that proposed in HB 588 from the previous session, which would increase the fees assessed to certain real estate transactions to be paid in to the affordable housing trust fund. Under that proposal, fees would be gradually increased to account for inflation over the previous decades, and bring them in line with similar fees assessed in peer states.

- **Rehabilitation Tax Credit**

  The rehabilitation tax credit is a state income tax credit that is granted to those who perform rehabilitation of historic structures. This rehabilitation can result in additional housing units being placed on the market in structures that previously were dilapidated or unused. The tax credit has been in place for several years, and has been successful in rehabilitating properties in the state. But several reforms have been proposed which will result in the credit more efficiently assisting in the finance of large projects that will contribute to increased housing supply. Among other things, the task force recommends that the transferability of the tax credit be expanded, allow credits to be used according to demand, and increase the credit for those projects where housing is a major component.

- **Additional State Funding Measures**

  The task force heard information from a wide spectrum of presenters regarding different funding mechanisms that would encourage additional housing production.

  First, several presenters recommended that Kentucky create and fund a residential infrastructure revolving loan fund. This program could be modeled on Indiana's successful program. Testimony consistently indicated that utility and infrastructure costs are a significant source of costs for homebuilders. The task force believes that sufficient guardrails can be established in enacting a program to ensure that funds are fairly distributed throughout the state and wisely invested in important infrastructure projects. Due to its nature as a revolving loan fund, it would not require consistent future appropriations to maintain and would be self-sufficient over time.

  Many presenters also requested that Kentucky adopt a matching state low-income housing tax credit. The federal low-income housing tax credit is used by builders of affordable housing to assist in financing projects. Many states have adopted a program which matches the federal tax credit with a state tax credit, which allows developers of low-income housing to take on additional projects and build more units than they otherwise could. More than twenty-five states, including the neighboring states of Ohio, Virginia, and Indiana, have dedicated funding to their own state low-income housing tax credits. Kentucky could explore the feasibility of adopting its own matching tax credit to assist those developers constructing housing for low-income Kentuckians.

  Finally, the Kentucky Banker's Association testified regarding its obligations under the Community Reinvestment Act, and requested an appropriation to match funds that the association's members had committed to a specific affordable housing project.

Summary of Recommendations

1. Ease requirements and eliminate mandates placed on multifamily and middle housing contained in the state building code, to treat those kinds of units similarly to single family homes.

2. Place a two-year moratorium on any changes to the state building and electric codes that would result in any increase to construction costs of residential units.

3. Require state agencies to consider the effects that any regulation have on housing costs prior to adoption.

4. Allow qualified third-parties to conduct required inspections during the construction of housing units.

5. Implement changes to local land use polices including reduction in minimum lot size, setback, parking, and single stair requirements.

6. Require local governments to conduct any plan review in a timely manner.

7. Adopt legislation allowing religious developers to construct affordable housing on their property.

8. Allow development and redevelopment of property that matches the existing characteristics of an area, and encourage urban infill and conversions of commercial space to residential.

9. Secure the rights of housing developers at the time they apply for permitting from a planning unit.

10. Continue to assess the necessity of additional restrictions on standing to challenge planning decisions.

11. Adopt legislation that will provide local governments with additional tools, including incentives to developers and special assessments, to promote housing construction.

12. Consider legislation updating the real estate transaction fees that fund the affordable housing trust fund to bring them in line with peer states.

13. Adopt proposed changes to the rehabilitation tax credit that will result in a more efficient use of resources and encourage projects that increase the number of housing units.

14. Strongly consider state appropriations to address housing issues by directly supporting housing construction, including appropriations to a residential infrastructure revolving loan fund or a state matching low-income housing tax credit.