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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 of the Kentucky Housing Task Force

Date: 11/12/24

Foreword

The Legislative Research Commission directed the creation of the Kentucky Housing Task Force to meet during the 2024 interim. The task force was charged with the study and review the current and future housing needs of Kentuckians. In the course of its work during the 2024 interim the task force heard testimony from an array of stakeholders concerning the scope and causes of Kentucky's current housing shortage, the effects of the shortage on Kentucky citizens, businesses, and local communities, and policies pursued by other states facing similar housing issues. This report summarizes the work of the task force and represents its final action.

Summary

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 10-member task force began meeting in June 2024 and convened six times during the 2024 interim. Topics of discussion included demographics of Kentuckians and their housing needs, regulations related to new home construction, the impact of housing issues on the state and local communities, the effects of planning and zoning on new home construction, the state of the homebuilding and affordable housing industries, homelessness, and policies advanced in states similar to Kentucky to address housing.

The State of Kentucky Housing

The United States is currently undergoing what some have labeled a national housing "crisis," exemplified by rapidly rising home prices, a lack of affordable housing options, and demand for housing that has far out paced the production of new supply. The Kentucky Housing Task Force was established to review Kentucky's current and future housing situation and assess potential policies related to housing. Data and testimony provided during the task force indicated that while Kentucky's housing situation is not as dire as in many parts of the country, Kentucky is facing a growing housing shortage.

The Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation discussed a housing gap analysis report produced by the Corporation. The report stated that Kentucky currently faces a shortfall of approximately two hundred six thousand (206,000) housing units. These "missing" units include both rental properties and owned properties, and span the entire range of need for area median income groups. The report showed that the lack of housing is particularly pronounced for renters making less than thirty percent of area median income, where there exists a more than sixty thousand (60,000) unit shortfall.

The Deputy Executive Director explained that the two hundred six thousand (206,000) unit gap identified in the Corporation's report did not mean that there were two hundred six thousand (206,000) households without housing because the figure includes those who desire housing more in line with their needs, and are currently living with roommates or family members. The unit shortfall could thus represent demand from Kentuckians that is not being met by the state's current housing stock

This shortfall in units has led to an increase in both renter and owner households that are considered cost burdened—where more than thirty (30%) percent of income goes towards housing costs—and severely cost burdened—where more than fifty (50%) percent of income goes towards housing costs. While the total cost-burdened population in the state is concentrated in more urban areas, the proportion of households that are cost-burdened is greater than twenty percent in both rural, suburban, and urban counties throughout the state.

Additionally, officials from northern Kentucky stated that according to a report conducted by a consulting group, the region would need to build an additional six thousand six hundred fifty (6,650) housing units to meet demand over the next five years. The officials stated that the current housing shortfalls had led to rising prices that were becoming less aligned with the income of the region's residents.

Several presenters stated that much of Kentucky's missing housing supply is in "middle housing" and apartment units. Middle housing includes townhomes, multiplexes, and other similar types of more dense housing units. While single family home construction has rebounded from post-2008 lows, apartment construction and especially middle housing construction have lagged significantly. Because apartments and middle housing provide more density, the total number of units constructed has remained low because the proportion of new construction that is single family homes has increased.

Presenters from the Kentucky Chamber of Commerce and the Homebuilders Association of Kentucky stated that the cost to build a starter home in the state currently ranges between two hundred sixty thousand (\$260,000) dollars and four hundred thousand (\$400,000) dollars. Because of the costs associated with building homes, many low-income buyers cannot afford to purchase starter homes, and market dynamics have led to fewer starter homes being constructed in recent years. The Chamber also provided information showing that the home price to income ratio in all metropolitan areas in the state increased between 1992 and 2002, with it nearly doubling in some metropolitan areas; this increase means that more income is going to housing costs and has especially outsized effects on low- and fixed-income households.

Finally, the Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation presented information indicating that Kentucky's housing shortfall is projected to reach two hundred eighty seven thousand (287,000) units in five years if trends continue.

Causes of Kentucky's Housing Situation

The task force heard testimony from presenters regarding the numerous causes of Kentucky's current housing shortfall. Many presenters stated that the shortfall began as a result of the 2008 financial crisis, but that it has been exacerbated by other factors in recent years. While demand-side issues were addressed, the presenters almost uniformly agreed that Kentucky's housing shortfall exists as a result of supply-side problems. These factors will be discussed in further detail below.

Post-Financial Crisis Construction Deficit

The Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation along with presenters from the Kentucky Chamber of Commerce pointed to the 2008 financial crisis as the genesis of the current housing shortfall. The crisis led to a sharp decline in demand for housing, with many suggesting that housing had been overbuilt during the mid-2000's housing bubble. As a result, many in the homebuilding and construction industries left the marketplace, and did not return. Because of restrictions placed on banks in the wake of the crisis,

and a generally more conservative attitude towards lending, it also became more difficult for homebuilders to obtain financing.

According to the Kentucky Chamber of Commerce, the average number of building permits issued for single or multi-family homes in Kentucky between 2008 and 2022 was ten thousand nine hundred seventy three (10,973), which represented a fall of nearly fifty (50%) percent from a similar span prior to 2008. The total number of units built from 2008 to 2022 was nearly one hundred thousand (100,000) fewer than the number built between 1995 and 2007.

Additionally, the Chamber presented information that the total number of people employed in the construction field in Kentucky fell from a peak of around ninety thousand (90,000) in the early 2000's to less than seventy thousand (70,000) between 2010 and 2014, with a recovery to previous levels only occurring in recent years.

Inflation and Interest Rates

The Kentucky Housing Corporation also identified higher interest rates and inflation as contributors to housing supply problems in recent years. Higher interest rates have limited home builders' ability to obtain credit to develop new projects. And inflation has increased the costs for the materials and labor necessary to build homes while reducing the purchasing power of homebuyers. Supply chain issues during and after the Covid-19 pandemic also contributed to delays and increased costs.

Natural Disasters

According to the Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation, Kentucky has also been uniquely affected by natural disasters which have reduced the state's total housing stock. Specifically, the 2021 Western Kentucky Tornadoes and the 2022 Eastern Kentucky Floods, in combination destroyed or damaged nearly five thousand (5,000) housing units. While this represents a small portion of the total housing gap identified by the Kentucky Housing Corporation it has had significant and outsized effects within the regions where the disasters occurred.

Infrastructure

The Kentucky Chamber of Commerce as well as local officials identified a lack of infrastructure as a barrier to new home construction. The building out of infrastructure such as roads and utilities is a responsibility often placed on a developer, which increases the total cost of a project and resultingly higher prices for new homes. The increasing cost of undeveloped or agricultural land was also cited as a cause of higher development costs.

Local Resistance and Zoning

Local resistance to new home construction in established communities, usually taking the form of planning and zoning-based challenges, was cited by a number of presenters, including the Kentucky Housing Corporation and the Kentucky Chamber of Commerce, as a factor in the lack

of new home construction. This is especially pronounced for affordable and higher density housing, which is frequently subject to challenge and delay by incumbent homeowners. Cumbersome planning and zoning approval processes may cause years long delays for some projects, and, as in many other areas, delays lead to increased costs and prices for new homes.

Additionally, the Kentucky Manufactured Housing Institute stated that many jurisdictions that have adopted planning and zoning have excluded manufactured housing, which is often a cheaper option, due to outdated notions regarding the quality of manufactured homes.

Regulation

Several presenters discussed the likelihood that local, state, and federal regulations act to depress the construction of new homes. In many jurisdictions, numerous inspections and plan reviews must be conducted, along with other administrative hurdles, before a developer can build new housing. The Kentucky Chamber of Commerce stated that 25% of the cost of new home construction is taken up by regulation, including inspections, permit fees, and studies. The Chamber emphasized that it understood the value of regulation to ensure safety, but that regulators should weigh the costs and benefits of regulations and the effects those regulations may have on the housing construction market.

Stagnant Federal Funding

The Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation pointed to stagnating or even decreasing federal funding for affordable housing programs despite growing recognition of an increased need for those types of units. The total allocations from the federal government to the Kentucky Housing Corporation have decreased by more than five million (\$5,000,000) dollars between fiscal year 2021 and 2024.

Demand-Side Causes

Finally, on the demand side, several factors were raised by members of the task force and in testimony. First, Kentucky's population has grown in recent years, and immigration into the state—including illegal immigration—was raised as a possible source of increased demand, though no evidence was presented to support this assertion.

Additionally, society-wide changes in family formation have likely led to increased demand for housing units. More single adults are living in housing units than in previous generations leading to a greater need for housing.

Many presenters stressed that the supply-side issues heavily outweighed these causes of increased demand, and that supply-side intervention would likely be more possible by the legislature.

Impacts of Housing Issues at the State Level

Presenters to the task force primarily focused on the effects that a lack of housing may have on continued economic development, homelessness, and low-income communities.

Several presenters focused on the effects that a lack of housing may have on the ability for Kentucky to experience continued economic growth. The Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation stated that "homes are where jobs go to sleep at night," and thus without an adequate number of homes there would not be an adequate workforce to attract and retain economic development projects.

The Kentucky Chamber of Commerce conducted a study and found that only six percent of local leaders believed that it would be easy for a middle-income family of four to find housing that met their needs in their communities, and that over ninety percent believed that it would be difficult or very difficult to find such housing. Additionally, approximately ninety percent of local leaders surveyed believed that their region would not be well-positioned to meet growing housing demand if an economic investment with one thousand (1,000) new jobs was announced in their community.

Presenters also discussed the possibility that Kentucky will be placed at a competitive disadvantage in comparison to surrounding states if the legislature does not address the state's housing issues. As discussed further below, Indiana and Ohio, among other surrounding states, have made significant investments into incentive programs for infrastructure and new home construction in recent years. If those investments spur construction in other states, those states may become more attractive for both individuals in the workforce and businesses seeking to locate in the region, and leave Kentucky at a disadvantage.

Several presenters also pointed to rising homelessness as an effect of the housing shortfall. According to the Kentucky Housing Corporation, the number of homeless Kentuckians was holding stable around four thousand (4,000) prior to 2022, but reached more than five thousand three hundred (5,300) in 2024. While homelessness is often considered an urban issue, the number of unsheltered homeless individuals has rapidly risen outside of Lexington and Louisville, going from six hundred fifty (650) in 2019 to more than one thousand (1,000) in 2024.

While homelessness has many causes, the Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation stated that the lack of housing was a contributing factor, likening the housing situation to a game of musical chairs where certain people would simply be left out due to the lack of supply. Those already vulnerable to homelessness, including seniors, people with disabilities, and those with low income, could be pushed into homelessness as a result of the housing shortage and rising home prices and rents.

Impacts of Housing Issues at the Local Level

Leaders from throughout the state testified regarding the current state of housing in their communities. Both rural and urban leaders acknowledged that the problem was complex and a challenge to face at all levels of government. The connection between economic development and housing was reiterated by local leaders, as well as a desire to build communities where families can live, work, and go to school.

Mayor Craig Greenberg of Louisville discussed the efforts undertaken by the city to address its housing situation. He stated that while Louisville has built more than eighteen thousand (18,000) affordable housing units in the last five years, the need has increased even further during that same period. Rents and median home prices have increased substantially, with almost fifty (50%) percent of renters in Louisville being cost-burdened. The city hopes to create fifteen thousand (15,000) new housing units by 2027, but will need the assistance of state policy makers to do so.

Mayor Linda Gorton of the Lexington-Fayette County Urban County Government highlighted the programs that Lexington has used to combat the city's housing issues including economic development programs like tax-increment finance, a land trust, infrastructure fund and the affordable housing trust fund. Additionally, Mayor Gorton described how Lexington has committed one (1%) percent of the city's general fund to affordable housing. Among other things, the planning commission recently recommended a two thousand eight hundred (2,800) acre expansion of the urban service boundary with the direct goal of increasing the availability of housing. To support housing growth, zoning law changes were made to expand housing types available in certain zones, reduced minimum lot sizes and increased building heights in medium to high density zones were allowed.

Members of the task force also heard from Elliott County Judge Executive Myron Lewis, who discussed the importance of available housing to preserve and improve the economy and quality of life. Recently the investment and development of the Little Sandy Correctional Complex in the community has provided a great opportunity for the residents, however, the projected new employees will need a place to live. Judge Executive Lewis emphasized that counties with limited resources in rural Kentucky are often called upon to provide the infrastructure to support the developments.

Officials from Northern Kentucky stated that job creation is outpacing housing availability in the region. As a result, the region lacks housing that aligns with the income of its residents. Efforts have been undertaken to modernize planning and zoning to allow for additional density and speed up the home building process.

Officials from Hardin County discussed the effects on housing that the new Blue Oval battery plant has had on their community. They emphasized that large economic development projects require significant workforces, and the ability to quickly build out housing in order meet the needs of those workforces.

Policies Pursued by Other States

The Deputy Executive Director of Housing Programs for the Kentucky Housing Corporation presented on policies being pursued in other states to alleviate those states housing issues. The efforts fell into three broad categories: land use and zoning incentives or mandates; state housing tax credits; and state level funding for infrastructure and housing development.

States have pursued a variety of planning and zoning-based reforms to encourage new home construction. Among others, these include: by-right accessory dwelling units; permitting duplexes and multiplexes in single family home zones; reducing parking requirements and minimum lot size requirements; streamlining permitting processes for new home developments; limiting the abilities of local governments to enact burdensome design requirements; permitting more manufactured housing; and allowing housing to be placed in commercial zones and on land owned by religious or non-profit institutions.

Many states have also adopted their own equivalent to the federal Low Income Housing Tax Credit. These state credits supplement federal credits, and encourage private investment in affordable housing units, reduce debt loads, and allow for lower rents to be charged. More than half of states offer these credits, with all states surrounding Kentucky, aside from West Virginia having done so. Additionally, Ohio recently established a single family tax credit program that was allocated fifty million (\$50,000,000) dollars per year for four years to provide tax credits to incentivize the construction of single family homes, and specifically targeted at housing for Ohio's workforce. The homes are required to have at least two (2) bedrooms and one and a half (1.5) bathrooms, reserved for homebuyers making eighty (80%) to one hundred twenty (120%) of the area median income, and must remain affordable for 10 years. Each home built entitles the builder to up to a fifty thousand (\$50,000) dollar tax credit.

States have also begun to more directly invest in the development of housing and the infrastructure to support it. For example, Ohio established the Welcome Home Ohio program which provides grants and nonrefundable tax credits for the purchase, construction, or rehabilitation of qualifying properties. The program was allocated one hundred million (\$100,000,000) dollars from Ohio's general fund and fifty million (\$50,000,000) dollars in nonrefundable tax credits. These funds were made available to land banks, land reutilization corporations, and local governments, who wish to increase housing stock within their communities.

As an example of infrastructure investments made by states, in 2023, Indiana adopted legislation establishing the Indiana Residential Infrastructure Fund and allocated seventy five million (\$75,000,000) dollars to that fund. The fund offers low interest loans to local governments to finance infrastructure for residential housing. Funds can be used by the local government for the improvement of public infrastructure as well as the purchase of land associated with the infrastructure improvements.

Recommendations Made by Presenters

Presenters to the taskforce made many specific policy recommendations, some of which are laid out below.

Presenters from the Kentucky Chamber of Commerce and the Homebuilders Association of Kentucky recommended that the legislature investigate potential reforms to land-use and zoning, leverage tax incentives for low- and middle-income housing construction, continue to invest in infrastructure, and consider the impact of government regulations on home construction.

Lexington Mayor Linda Gorton provided recommendations to the task force that included: investments in state revolving loan funds for market rate and affordable housing projects, exploring state affordable housing tax credit concepts to offset cost of development, cooperation with local government and state legislature to design land bank concepts, including policies to grow the development sector, and reviewing statues and regulations that may expedite housing projects.

Louisville Mayor Craig Greenberg made several recommendations including expanding support for housing utilizing state economic development tools, creating a revolving loan fund for affordable and workforce housing developers to utilize, using local land banks to assist in the redevelopment of property for those seeking affordable housing, and funding the provision of services alongside housing for vulnerable community members.

The Kentucky Manufactured Housing Institute recommended that the legislature remove the current six percent sales tax on manufactured homes, instead treating them like real property, and asked the task force to address restrictive planning and zoning regulations at the local level which prevent the placement of manufactured homes. Generally, the Institute asked that manufactured homes be treated similarly to any other type of home.

The Apartment Association of Kentucky recommended that the legislature take action on planning and zoning to streamline permitting processes, reduce parking and minimum lot requirements, and allow for more diverse residential use types.

Presenters with the Coalition for the Homeless recommended that the legislature consider matching federal funding on certain programs to allow for access to additional resources, investing additional dollars into the Affordable Housing Trust Fund, and allowing for eviction expungement.

Many presenters including the Mayor of Louisville and representatives of the affordable home building industry among others, recommended that the legislature establish a state equivalent Low Income Housing Tax Credit.

Finally, representatives of the Housing Partnership, Inc. recommended specific statutory changes that would allow Kentucky-based nonprofits to purchase tax liens of vacant and abandoned properties for the purpose of redeveloping them as affordable housing.