



Economic and Real Estate Consulting

MEMORANDUM

To: Tiffany Marthaler, Kentucky Affordable Housing Coalition
Executive Director

From: Danny Court, Elliott D. Pollack & Company
Principal, Senior Economist

Date: October 15, 2020

Re: Economic & Fiscal Impact Summary of Proposed State-Level Affordable Housing Tax Credits

Elliott D. Pollack & Company has assessed the economic and fiscal impacts of the proposed Affordable Housing State Tax Credit for the State of Kentucky. The objective of the state tax credits is to provide a funding mechanism to induce more development of housing that will be affordable to individuals and households in the lowest income brackets of Kentucky's population. It is our understanding that the goal of proponents of the Kentucky state tax credit is to model the administration of the proposed program after the best practices of other state tax credit programs already operating.

The following summary outlines the impacts of the proposed affordable housing tax credit program. For modeling purposes, the production of new affordable housing units was based on the proposal for \$12.5 million in annual credits issued over a 10-year period with a 5 year sunset. For development potential, the historical performance of the Kentucky state tax credit program was analyzed in terms of development potential and construction costs and used in the following calculations. The scenario modeled assumes that 70% of the state tax credits will leverage underutilized 4% federal low-income housing tax credits to optimize potential gap funding with the remainder used in the 9% federal credit program. A similar assumption was made for the development location of new affordable housing within urban and rural areas. Production from the new state tax credit program is expected to average 1,312 new units annually, equating to a total of 6,560 new units over 5 years.

In addition to new apartment construction and operations, the analysis also includes the impacts of new household spending. Affordable housing alleviates households overburdened by rent, offering units below market rate rents to individuals, families, and seniors who are income restricted. These

Elliott D. Pollack & company

households gain additional money that would have otherwise gone towards housing cost to provide other household needs such as food, transportation, utilities, and personal services. This is new money spent in the local economy that support local jobs and generate tax revenue.

Economic Impacts

- ❖ Construction of the new housing units will create 3,539 jobs in each year of the program. This equates to a total of 17,696 person-years of employment, \$949.6 million in wages, and nearly \$2.1 billion in economic activity throughout the state.
- ❖ The commercial operations of new apartment communities and the additional employment supported by increased household spending will create an estimated 622 direct, indirect, and induced jobs annually, with wages of \$23.3 million and generate an estimated \$110.0 million in economic activity each year. Over the 30-year operating life of each apartment community (34 years for the entire program), a total of \$698.7 million in wages will be created and over \$3.3 billion in economic activity will occur throughout the state.
- ❖ **In total, both construction and operations will create nearly \$5.4 billion in economic activity over the course of construction and 30 years of operations.**

Economic Impact Summary		
Kentucky Affordable Housing Tax Credit Program		
State of Kentucky		
(2020 Dollars)		
Construction	Avg Annual	Total
Jobs (direct, indirect, induced)	3,539	17,696
Wages (\$mil)	\$189.9	\$949.58
Economic Output (\$ mil)	\$417.0	\$2,085.0
Operations (Total at Buildout)	Annual	34-Year TOTAL
Jobs (direct, indirect, induced)	622	
Wages (\$mil)	\$23.3	\$698.7
Economic Output (\$ mil)	\$110.0	\$3,300.1
GRAND TOTAL CONSTRUCTION & OPERATIONS		
Wages (\$mil)		\$1,648.3
Economic Output (\$ mil)		\$5,385.0
1/ The total may not equal the sum of the impacts due to rounding.		
Sources: Elliott D. Pollack & Co.; IMPLAN		



Fiscal Impacts

- ❖ Construction of the 6,559 new affordable housing units would generate an estimated \$178.7 million in tax revenues for the State of Kentucky and local governments including construction sales tax, use tax, impact fees and employee generated taxes.
- ❖ Apartment operations and additional household spending would create nearly \$20.4 million in ongoing annual tax revenue that would be collected by state, county, and local governments each year at stabilized occupancy. Over 30 years of operations, total tax revenue will total over \$611.5 million.
- ❖ **Combined, construction and operating tax revenues of the program would total over \$790.2 million to state, county, and local governments.**

Fiscal Impact of Operations Summary			
Kentucky Affordable Housing Tax Credit Program			
(2020 Dollars)			
	State of Kentucky	Local Governments	Total
<i>Impact from Construction</i>			
Sales tax on materials	\$48,472,900	--	\$48,472,900
Impact fees	--	\$23,047,000	\$23,047,000
Use Tax	\$1,967,600	--	\$1,967,600
Employee generated taxes	\$56,626,100	\$48,571,200	\$105,197,300
Total - Construction	\$107,066,600	\$71,618,200	\$178,684,800
<i>Ongoing Annual Operations at Buildout</i>			
Resident spending sales tax	\$6,347,600	--	\$6,347,600
Property tax	\$1,213,100	\$10,620,900	\$11,834,000
Retail sales tax (supply purchases)	\$9,000	--	\$9,000
Employee generated taxes	\$631,700	\$1,562,400	\$2,194,100
Total - Operations	\$8,201,400	\$12,183,300	\$20,384,700
34-Year Operations	\$246,042,000	\$365,499,000	\$611,541,000
GRAND TOTAL	\$353,108,600	\$437,117,200	\$790,225,800
<p>methodology section of this report. The figures are intended only as a general guideline as to how they could be impacted by the project. The above figures are based on the current economic structure and tax rates.</p> <p>Sources: Elliott D. Pollack & Co.; IMPLAN</p>			

