

# Incidence Study: The Impact of Increasing Insurance Premium Tax by 1%

According to Mayor Fischer's Six Year Strategic Plan, Louisville currently has a shortfall of 60,000 affordable homes. To respond to this affordable housing crisis, the Louisville Affordable Housing Trust Fund was established by a bipartisan act of Metro Council in 2008. Charged with helping fill the shortfall in affordable housing, the LAHTF still lacks the necessary resources to fulfill its mission – a source of dedicated ongoing public revenue. A 13-member Board of Directors, appointed by the Mayor and approved by Metro Council, recommends a 1% increase in the insurance premium tax as that dedicated funding source.

- There are currently 218,000 Louisville workers who need a safe and stable place to live.
- 91,999 hardworking families cannot afford their rent or mortgage – the equivalent of filling the YUM! Center to capacity more than four times.
- There is a waiting list of 21,000 for Section 8 and public housing in Louisville.
- One in every twelve JCPS students was homeless in 2014; this equals 6,846 JCPS school children in the 2013 – 2014 school year.

Every person is entitled to have a safe and stable place to call home. Hardworking families should be able to afford a home and still have enough money left over for groceries and child care. The LAHTF uses its funds to create affordable housing for working families, young families with children, seniors on a fixed income, veterans and others who deserve to have a safe place to live.

## Incidence Study

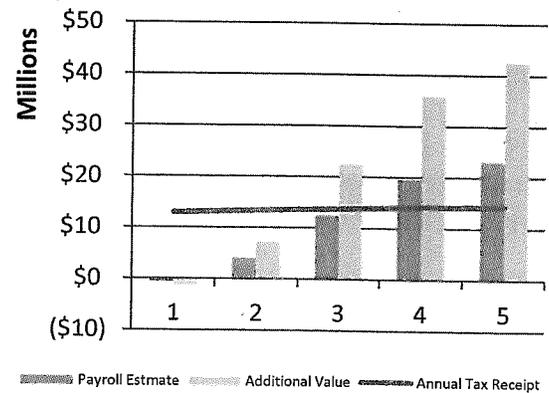
In 2015, the Urban Studies Institute (USI) at the University of Louisville undertook an incidence analysis study to estimate the costs and benefits of increasing the insurance tax premium by 1%. Using a customized input-output model, USI estimated the economic and community impacts associated with annual revenue of \$13 million at a growth rate of 3% per year. Based on a five year phased implementation and allocation plan provided by the LAHTF board, USI identified several sources of economic and community impacts.\*

### What will a 1% insurance premium tax increase do?

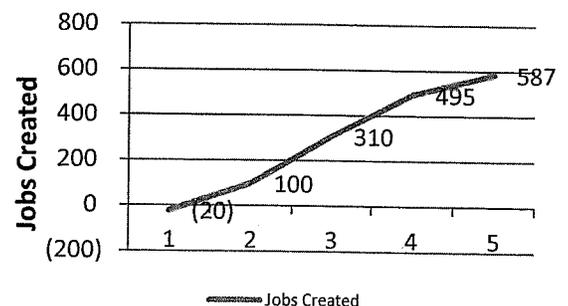
- The 1% increase in insurance premium taxes will generate revenue of **\$13 million** per year for the LAHTF.
- By year 5, affordable housing construction will add:
  - **587 jobs** to the county's economy;
  - an annual payroll of **\$23.2 million**;
  - an impact of **\$42.6 million** in leveraged funds to the community; and
  - **750** affordable housing units.

**Families who qualify for affordable housing will save approximately \$2,800 per year on average.**

Impact of 1% Increase in Insurance Premium Tax on Payroll & Additional Value



Jobs Created due to a 1% Increase in Insurance Premium Tax



\* Please reference original study for more detail.

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## What is the 1% insurance premium tax increase?

KRS 91A.080 authorizes local governments to collect license fees on insurance companies for the “privilege of engaging in the business of insurance.” The tax is applied to premiums paid by the insured for casualty, automobile, inland marine, fire and allied perils, health, and life insurance policies. The insurance company remits the tax directly to the government to which the tax is owed rather than to a centralized state authority.

### Community impacts:

- Healthy Housing
- Equal Opportunity for Education
- Transportation Equity
- Improve Neighborhood Quality
- Reduce Blight
- Reduce Homelessness

Should the additional 1% insurance premium tax be enacted, residents of many municipalities would find their rates increased by 1%, as 5% tends to be the most common rate levied by municipalities. Some residents would find their rates unaffected as their current rate is already 6% or higher. Households in the five municipalities that do not impose the insurance premium tax would pay the new 6% Metro rate. Households in municipalities with current insurance premium tax rates above 6% would face no additional costs if the base rate were increased to 6%.

Appendix A in the original study shows the 2015 insurance premium tax rates for municipalities in Jefferson County under a scenario where Louisville Metro raises the base rate countywide from 5% to 6%. Average households in the municipalities currently taxing below 6% would face additional monthly costs that range from \$0.13 to \$26.54. The wide range exists due to the income disparity between the “Urban Services Districts” and the unincorporated areas (please reference original study for more detail). Households in the urban services district would face an average additional monthly cost of \$2.53, while a household in the unincorporated area would face an average additional monthly cost of \$4.48.

Figures 1a and 1b present the impact of the 1% increase across Metro Louisville. Besides resulting in annual estimated revenue of \$13 million, the tax increase reduces some of the income disparity between various municipalities, thereby “leveling the playing field.”

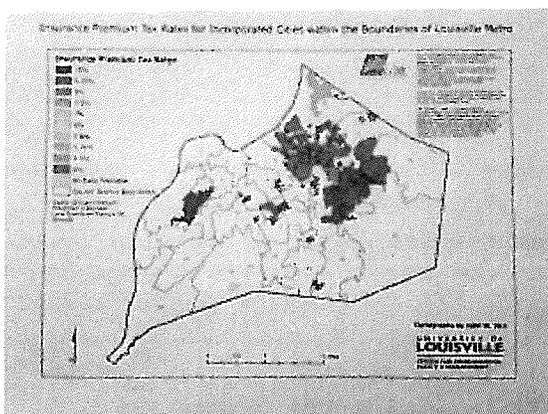


Figure 1a: Insurance premium tax rates for Incorporated cities within Louisville Metro

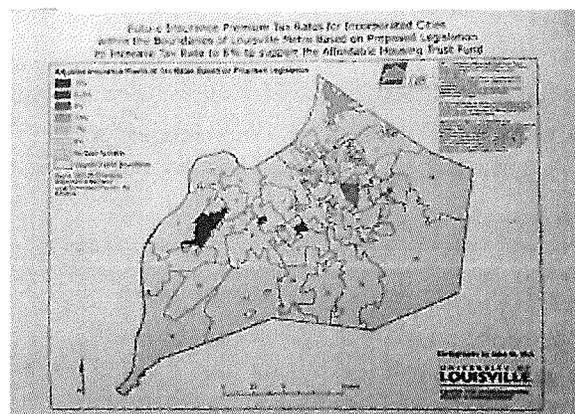


Figure 1b: Future insurance premium tax rates for Incorporated cities within Louisville Metro

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## Community Impact

Doing its part to fill the shortfall of 60,000 units of affordable housing, the LAHTF has dedicated its resources to meeting housing and community needs. The LAHTF invests in affordable housing and related activities, including: homeownership and rental housing acquisition, new construction, rehabilitation, emergency repair, down payment assistance, temporary rental assistance, technical assistance and training for developers and low-income housing consumers, support services designed to keep special at-risk people stably housed, foreclosure intervention, and housing-related asset-building. Investments are made by offering a public RFP process and awarding the most promising applicants below-market rate loans and a small amount of grants.

In order to fulfill its mission, the LAHTF needs a source of dedicated ongoing public revenue. With a 1% increase in the insurance premium tax, Louisville will establish an estimated \$13 million annually in dedicated public revenue for the LAHTF to help struggling families and individuals. The benefits to the community and the city are multifold. USI has identified the multiplier effects on our community as follows:

- **Healthy Housing:** Poor quality rental housing has an impact on residents' mental and physical health. Asthma, respiratory conditions, lead poisoning and infectious diseases can all be associated with inadequate housing (Krieger and Higgins, 2002). A 2011 study conducted by Takaro, et al. found that within a year, children who moved from old homes into new construction homes experienced an increase of asthma-free days from 8.6 days per 2 weeks to 12.4 days per 2 weeks. Asthma-related clinical visits also decreased from 62% to 21%.
- **Housing Stability & Education:** While a child's health and her performance in school are directly linked to one another, housing instability is another factor to consider. High rates of absenteeism and school changes often lead to children falling behind in school. Catching up with their peers is an additional burden on children and their families, and often takes a backseat to basic needs such as having a safe place to stay. Additionally, the financial burden of unaffordable housing may limit how much a family will spend on food. Fletcher, et al. (2009) found that a \$500 increase in yearly rental costs was associated with a 10% increase in food insecurity rates.
- **Transportation Costs & Access:** When transportation from home to jobs is factored in, *nearly half* of all Louisville households have housing that is unaffordable to the working person. A Brookings Institute (2011) study found that only 6% of available jobs in Louisville are reachable in a 45 minute, one-way, public transit. In a 90 minute, one-way transit, only 33% of available jobs in the area are reachable. By creating affordable housing near public transit or within walking distance of jobs can enable hardworking people to retain their jobs and spend less money on child care and more time with their families.
- **Reduce Homelessness:** For each chronically street homeless person that is housed, the city saves approximately \$26,146 per year (University of Louisville, 2008). In a more recent University of Louisville study of 24 homeless clients who are making heavy use of homeless services and other services such as jails, correction facilities, hospital services, mental health and substance abuse services, cash assistance, food stamps etc., preliminary findings suggest annualized savings of almost \$1 million in a year after housing this group of high utilizers.

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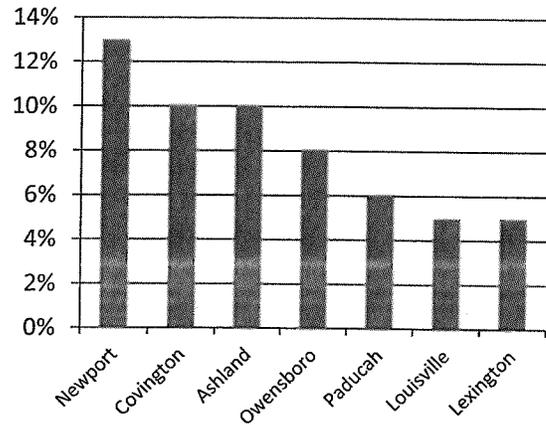
## What are other cities doing?

All of Louisville's 17 peer cities have an Affordable Housing Trust Fund, either at the city or state level.

Louisville's 5% insurance premium tax is lower than other Kentucky Metro Areas and will remain so after a 1% increase (please see graph).

The most relevant municipal study available for review was one recently conducted at the direction of the Affordable Housing Trust Fund Task Force of **Lexington/Fayette** Urban County Government (2010). The study estimated annual revenue of \$4,449,120 at 1% with an annual impact per household of \$35. The study estimated both one-time impacts from construction and ongoing economic impacts attributable to average annual rent savings of \$2,460 per household.

Insurance Premium Tax Rate of Kentucky Metro Areas, 2012-2013

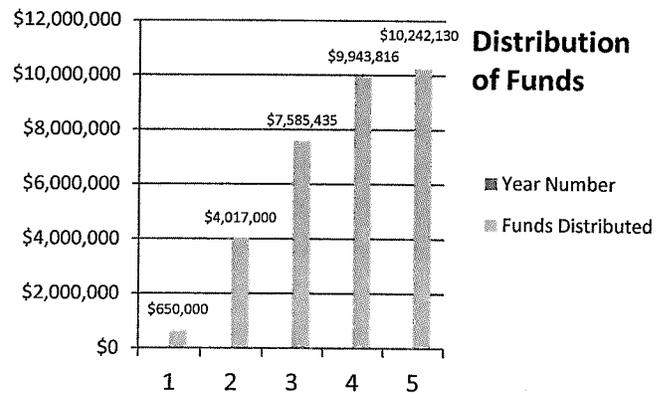


## Economic Impact

The LAHTF board prepared an allocation plan for the disbursement of the prospective \$13 million, with a five year implementation period.

Loans rise quickly to 30% in the second year, to 55% in the third year and stabilize at 70% in year 4 and thereafter.

As years pass, the volume of loan activity increases and interest payments from those loans flow back into the revenue stream.



In the five year scenario, LAHTF uses a portion to fund new construction, a portion to fund rehabilitation of existing structures, and a portion to make grants and programs available to families. These programs are identified by the LAHTF Board as services that connect people to housing and keep them stably housed, such as homeownership counseling, foreclosure prevention services, services tied to permanent supportive housing for people with severe disabilities, and services to help people age in place.

LAHTF also uses the interest from the accumulated revenue (not given or loaned) to fund the operations of the program. The LAHTF Board identified operating costs as including monitoring, compliance, inspections, legal, staff, accounting and auditing services.

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- **Neighborhood Quality:** Vacant and abandoned properties are an eye sore; they also increase the risks of fire, vandalism, and crime, thereby decreasing neighborhood economic value and community pride. Rehabilitating vacant and abandoned properties will not only create homes for hardworking families and children, but also give them a sense of belonging and pride.

## **How Can You Help?**

The LAHTF believes that:

- Every child deserves a safe place to call home.
- The elderly deserve an opportunity to live and grow with independence and dignity.
- Our veterans deserve access to safe, affordable housing.
- All citizens of Louisville deserve an equal right to a stable and affordable place to live.

The LAHTF still lacks the ability to fulfill its mission of filling the gap of 60,000 affordable housing units; the LAHTF still needs a source of dedicated ongoing public revenue.

The city of Louisville must take action now and help its struggling families. With your support, we can help the LAHTF by enacting a 1% insurance premium tax increase – a commitment that does not require further state action and costs a few dollars per month per household. For a more in-depth analysis of the incidence study, please contact Natalie Harris, LAHTF Board Chair, at [nharris@louhomeless.org](mailto:nharris@louhomeless.org).

Help support the LAHTF in its mission of helping hardworking families find safe, affordable housing.