



ECONOMIC IMPACT OF SADOWSKI ACT

(White Paper)

Analysis Performed by:
The Hendrickson Company
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SADOWSKI WORKFORCE HOUSING COALITION





ECONOMIC BENEFITS OF SADOWSKI ACT STATE AND LOCAL HOUSING TRUST FUND MONIES (*Sadowski Funding*)

SUMMARY OF FINDINGS:

- ① **Leveraging of Sadowski Funding with Private Sector Investment and Federal Funds:** For every \$1 million of Sadowski funding for housing, \$4.62 million of housing is built and/or sold.
- ② **Lost Federal Resources:** Florida has lost \$603.8 million of federal tax exempt bonds and tax credit equity in just the last three years because of inadequate housing appropriation levels due to raids on the Sadowski Affordable Housing Trust Funds.
- ③ **At Risk Federal Resources:** In addition to the resources already lost, an additional \$1.004 billion million of federal tax exempt bonds and tax credit equity will be lost in the next two years (\$191.1 at the end of 2009 and \$812.8 million at the end of 2010)—unless housing is fully funded in both FY 09-10 and FY 10-11.
- ④ **Total Economic Impact—Multiplier Effect:** The total economic activity far exceeds the value of housing built: Because of the multiplier effect and leveraging, for every \$1 million of state funding, \$7.66 million of economic activity is generated. As part of that economic activity, each \$1 million of state funding generates over \$2.98 million of earnings/income.
- ⑤ **Job Creation:** For every \$1 million of state funding, 77 jobs are created.
- ⑥ **Tax Revenues:** Every \$1 million of Sadowski funding generates over \$73,000 of sales tax revenue to the state, directly attributable to purchase of construction materials. Other revenues (including corporate income tax, documentary stamp tax, and sales tax paid on purchases from income derived from housing activities) are not included in this analysis.

ECONOMIC BENEFITS OF CAP REPEAL: INCREASED HOUSING PRODUCTION, ECONOMIC IMPACT, INCOME, JOBS AND TAX REVENUE

SADOWSKI FUNDING	HOUSING UNITS	ECONOMIC ACTIVITY	INCOME	JOBS	STATE SALES TAX REVENUE
\$175.4 million	7,060	\$1.34 billion	\$521.8 million	13,656	12,804,480

The table shows total economic activity based upon full appropriation of the \$175.4 million estimate of the amount of doc stamp revenues that will be deposited into the Sadowski Housing Trust Funds during FY09-10, and are therefore available for appropriation during the 2009 legislative session (November 2008 Revenue Estimate, updated January 2009).



INTRODUCTION:

Today, Florida faces a severe economic downturn, which has resulted in a drop in doc stamp and other revenues. Although for-sale housing costs have retreated from their all-time highs, the median priced home in Florida is still unaffordable to a large and growing segment of our citizens—including the workers who fill the critical service industry jobs which are essential to Florida. These workers most often need affordable rental housing, the demand for which is strong and growing.

Given the nexus of the housing crisis and the downturn in the economy, a reduction in Sadowski funding over the next few years would be counterproductive, and would exacerbate both housing and revenue problems. This is exactly the wrong time to reduce Sadowski Act spending, from both an economic recovery and housing policy perspective.

1 LEVERAGING OF STATE DOLLARS WITH PRIVATE SECTOR INVESTMENT AND FEDERAL FUNDS: For every \$1 million of Sadowski funding for housing, \$4.62 million of housing is built and/or sold.

State housing programs are efficiently designed, so that the state appropriation pays for only a small part of the total housing built or sold. The vast majority of the funds come from private sector investment and federal programs—both of which would be lost without the Sadowski funding.

For example, a first-time homebuyer may be able to afford a \$120,000 mortgage, when modest homes cost \$150,000. The SHIP Program provides down payment assistance to the homebuyer to bridge the gap between what can be borrowed and the cost of the housing. In this example, \$30,000 of Sadowski funds (loaned and recovered for future use when the home is sold) leverages a \$120,000 loan from a bank or mortgage company—a loan that would not be made without the Sadowski funding. In other cases, the first mortgage is provided by federal tax exempt bonds—a federal resource that cannot be effectively utilized without the Sadowski funds.

Another example is the construction of apartments for working families. The average apartment funded by Sadowski programs costs (total development cost) \$136,000 to build. If this were financed conventionally, rents would be unaffordable to working families—thus the apartments would not be built. By funding the state SAIL Program, the legislature provides the funding needed to access federal resources and reduce borrowing to a level where affordable rents can pay debt service. Additionally, the Sadowski funds are leveraged by a combination (differs for different developments) of federal tax credits, federal tax exempt bonds, bank loans, and private equity investment—all of which are lost without the SAIL funding from the Sadowski Act.



For example, a 360 unit apartment complex was recently built (currently leasing) in Hillsborough County. The financing of that \$36.2 million development was provided by \$19.8 million of federal tax exempt bonds (55%), \$1.0 million of federal HOME funds (3%), \$11.4 million of private sector equity investment generated through federal tax credits (31%), and only \$4.0 million of state funds (11%). Without the state SAIL funds, the federal programs and private sector equity could not have been accessed, and the apartments would not have been built.

The following is the actual leveraging of state funds in the most recent funding cycle, and the most recently closed out year for SHIP, as provided by the Florida Housing Finance Corporation:

PROGRAM	TOTAL DEVELOPMENT COST/ UNITS	FEDERAL PROGRAMS ACCESSED	PRIVATE SECTOR SOURCES ACCESSED	STATE SADOWSKI FUNDING	LEVERAGING
SAIL (Rental Construction and Rehabilitation)	\$421,656,825 2,521	Bonds Tax Credits HOME	Bond Buyers Equity Bank Loans Builders	\$95,521,744	4.41-1.00
SHIP (Primarily homeownership assistance through downpayments to persons needing larger levels of subsidy, also includes rehabilitation of owner occupied housing, and limited rental production)	\$641,481,173 7,887	Bonds Tax Credits HOME CDBG	Bank Loans Equity Mortgage Lenders Builders	\$160,582,798	4.00-1.00
HAP (State downpayment assistance program, primarily for sale of existing housing to persons needing small levels of assistance)	\$199,024,182 1,732	Bonds	Bond Buyers Mortgage Lenders Builders	\$17,235,742	11.55-1.00
TOTAL	\$1,262,162,180 12,140			\$273,240,284	4.62-1.00

Therefore, an examination of the programs that are currently in operation show that for each state dollar spent on housing, over \$4.62 of housing is built and/or sold. Utilizing this proven ratio, the impact on housing production is profound. The following table assumes (conservatively) that the funds would be split 61% SHIP and 39% SAIL:

STATE FUNDING	TOTAL HOUSING VALUE CONSTRUCTED AND/OR SOLD	UNITS
FY 09-10: \$175.4 million	\$729.646,460	7,060



2. LOST FEDERAL RESOURCES: Florida has lost \$605.4 million of federal tax exempt bonds and tax credit equity in the last three years because of the inadequate funding levels for SAIL and/or SHIP. Without adequate housing funding, this massive loss will continue each year:

The major federal housing resource that is lost without adequate state funding is tax exempt bonds. Each year, Florida is permitted by the federal government to sell a limited amount of bonds for activities such as housing—both for mortgages to first time homebuyers and construction or rehabilitation of apartments for working families. The bonds must be sold within three years or the allocation is forfeited.

However, bonds by themselves are not sufficient to make construction or rehabilitation of apartments economically feasible or a home affordable to a buyer. While an extremely valuable resource, they must have some additional subsidy to work.

In Florida, the downpayment assistance provided through SHIP and HAP, and the gap financing provided by SAIL serve that role. Without those state programs, this very large federal resource will be unused and lost. As shown in the section on leveraging of state resources, SAIL loans total 22.7% of total development cost—meaning that every \$23 of SAIL “buys” \$77 worth of federal resources (bonds and tax credits).

In the last three years, \$458.3 million of housing bonding authority has been lost to Florida—all because there were inadequate state appropriations to “match” the bonds.

\$242.5 million of the lost bonding authority was for multi-family housing. With adequate SAIL funding, \$485 million of rental housing would have been built or rehabilitated, and \$145.5 million of equity from federal tax credits would have automatically accompanied the bonds. Clearly, 2,900 units of rental housing with a total development cost of \$485 million was not built or rehabilitated because of the lack of state housing appropriations. An additional SAIL appropriation of only \$110.0 million would have prevented this massive loss of \$388.0 million of federal housing resources.

\$215.8 million of the lost bonding authority was for homeownership. With adequate HAP funding, 1,878 homes would have been sold to first-time homebuyers. An additional HAP appropriation of only \$18.68 million would have prevented this massive loss of over \$215 million of federal housing resources.

This extraordinary loss of federal resources will continue unabated unless Florida begins to use its Sadowski Housing Trust Fund monies to adequately fund housing programs. Unless bonds are sold this year, another \$93.67 million of multi-family bonding authority (and accompanying \$56.2 million of equity from automatic federal tax credits), and \$41.279 million of homeownership bonding authority will be lost December 31, 2009—a total loss of federal resources for 2009 of \$191.149 million. This represents 359 homes that could be sold to first-time homebuyers and construction or rehabilitation of 1,120 units of rental housing with a total development cost of \$187.3 million.



HERA

Additionally, as part of the Housing and Economic Recovery Act (HERA) passed in mid-2008, Florida received “bonus” federal bonding authority of \$571,487,942. None of these bonds have been sold, and will be lost at the end of 2010. This bonding authority is divided \$169.4 million for homeownership and \$402.1 million for rental. Much of this bonding authority was committed to developments that had preliminary SAIL commitments which were “cancelled” after the legislature directed FHFC to return \$190 million of “unexpended” funds. The \$169.4 million of homeownership bonds represents 1,474 homes that could be sold to first-time homebuyers. The \$402.1 million of rental bonds represents 4,808 units of rental housing with a total development cost \$804.2 million, and equity from federal housing credits of \$241.3 million. Total HERA federal resources at risk without adequate state funding totals \$812.8 million.

[Analysis based upon (1) State Board of Administration, Division of Bond Finance data on lost tax exempt volume cap, (2) estimate that rental bonds finance 50% of total development cost, and tax credit equity is 30% of total development cost, and (3) leveraging ratios for housing programs detailed in Section 1 of this paper.]

3 TOTAL ECONOMIC IMPACT—MULTIPLIER EFFECT: The total economic activity associated with housing production far exceeds the value of the housing built. Because of the multiplier effect and leveraging, for every \$1 million of Sadowski funding, \$7.66 million of economic activity is generated. As part of that economic activity, each \$1 million of Sadowski funding generates over \$2.98 million of earnings/income.

When housing is built or sold, the total economic impact is much greater than simply the cost of construction or the sales price of the home. The construction of housing involves the purchase of land and construction materials, payment of wages to construction workers and fees to professionals (engineers, architects, environmental and soil testing companies, Realtors, and many others), and the earning of profit by builders, contractors, and developers.

All of these payments of money for goods and services create disposable income, and that income is often spent on additional goods and services. Additionally, when families buy a home, particularly their first home, they also purchase appliances, furniture, and other household necessities. The combination of all this economic activity takes the same dollar and passes it through the economy more than once. This concept is known as the “multiplier effect”.

Not all economic activity has the same multiplier effect. At the low end of the scale is the purchase of raw land. At the high end of the scale are construction activity, particularly housing and roads. No expenditure of state funds will have a greater total economic impact than funding affordable housing programs. While roads have a similar multiplier effect, the combination of program leveraging and the multiplier effect make housing by far the greatest economic stimulus.



To calculate the total economic impact of the expenditure of Sadowski funds on housing, one must first calculate the dollar volume of housing that will be built and/or sold. This total development cost figure is then multiplied by the appropriate “multiplier effect” number, with the result equaling total economic impact of the state spending.

As detailed in the section on leveraging of state funds, for every \$1 million of Sadowski funding for housing, \$4.62 million of housing is built and/or sold. According the University of Florida’s Shimberg Center for Affordable Housing (the state’s housing data clearinghouse), the multiplier effect for housing expenditures on new housing is 1.826 for multi-family and 1.853 for single family:

	IMPACT ON OUTPUT				IMPACT ON EARNINGS			
	DIRECT	INDIRECT	INDUCED	TOTAL	DIRECT	INDIRECT	INDUCED	TOTAL
Multi-Family	\$1,000,000	\$248,840	\$578,084	\$1,826,924	\$563,163	\$93,005	\$189,680	\$845,848
Single-Family	\$1,000,000	\$427,654	\$425,460	\$1,853,114	\$330,940	\$152,805	\$139,601	\$623,346

The Shimberg Center data also shows that every \$1 million of housing construction, \$623,346 (single family) to \$845,848 (multi-family) of earnings (income) is created.

While not every unit assisted with state funds is newly constructed, an overwhelming majority are. All of the SAIL units and at least 70% of SHIP funds are spent on newly constructed housing. The following table assumes that 61% of additional funds will be spent on SHIP, and 39% on SAIL, all new construction or substantial rehabilitation. It further assumes that SHIP will be spent on single family housing, and SAIL on multi-family housing. The total economic impact is calculated:

[State Funding] X
 [Leveraging Factor (4.00 for SHIP and 4.41 for SAIL)] X
 [Multiplier Effect Factor (1.853 for SHIP and 1.826 for SAIL)]

The Impact on Earnings is calculated:

[State Funding] X
 [Leveraging Factor (4.00 for SHIP and 4.41 for SAIL)] X
 [Earnings Multiplier Effect Factor (0.623 for SHIP and 0.846 for SAIL)]

SADOWSKI FUNDING	TOTAL HOUSING VALUE CONSTRUCTED AND/OR SOLD	UNITS	TOTAL ECONOMIC IMPACT	EARNINGS (INCOME) GENERATED
\$175.4 million	\$729.6 million	7,060	\$1.344 billion	\$521.8 million



4 JOB CREATION: For every \$1 million of Sadowski funding, 77 jobs are created:

The housing construction industry is labor intensive, and increasing housing production has a significant positive impact on employment. Housing construction directly employs roofers, electricians, carpenters, drywall workers and others, as well as professionals that are directly involved with each development (banking, architects, engineers, environmental and soil testing, and others). Housing construction also involves the purchase of construction materials and household goods, and also creates jobs in both the manufacturing and sale of those products.

According to the University of Florida’s Shimberg Center for Affordable Housing (the state’s housing data clearinghouse), each \$1 million of construction creates 22.0 jobs (multi-family) or 16.4 jobs (single-family).

While not every unit assisted with state funds is newly constructed, an overwhelming majority are. All of the SAIL units and at least 70% of SHIP funds are spent on newly constructed housing.

The following table assumes that 61% of additional funds will be spent on SHIP, and 39% on SAIL, all new construction or substantial rehabilitation. It further assumes that SHIP will be spent on single family housing, and SAIL on multi-family housing. The total job creation is calculated:

[State Funding] X
 [Leveraging Factor (4.00 for SHIP and 4.41 for SAIL)] X
 [Jobs created per million (16.4 for SHIP and 22.0 for SAIL)]

SADOWSKI FUNDING	TOTAL HOUSING VALUE CONSTRUCTED AND/OR SOLD	UNITS	TOTAL JOBS CREATED	EARNINGS (INCOME) GENERATED
\$175.4 million	\$729.6 million	7,060	13,656	\$521.8 million



5 Tax Revenue: Every \$1 million of state funding for housing generates \$73,002 of sales tax revenues to the state directly from purchases of building materials and supplies. Additional revenue generated from other taxes (documentary, licensing) and from sales tax on secondary activities (purchases by construction workers, homebuyer, and others) are not included in this analysis.

All of the economic activity surrounding housing production generates tax revenues for both state and local governments. Because the state housing programs leverage \$4.62 for every dollar of state spending, the positive revenue impact is much greater than if the state funds paid entirely for the housing.

A study by Douglas C. Olson of MIG Inc, entitled Using Social Accounts to Estimate Tax Impacts (June 11, 1999) estimates that for every \$1 million of housing construction, \$66,569 of taxes are generated for state and local governments. The largest amount of this revenue is paid in sales tax and property taxes; however, revenues are also generated through other taxes and fees, such as motor vehicle licensing, corporate income, occupational licenses, the documentary tax, and unemployment compensation taxes, as well as local fees.

Because this is a national model, it cannot be directly applied to Florida. However, the Florida Department of Revenue reports that for revenue estimating purposes, Florida assumes that 45% of the construction costs of housing are paid for taxable items.

Research by the Florida Home Builders Association, as well as data collected on rental transactions by credit underwriters for the Florida Housing Corporation, show that the percent of total development costs attributable to construction activity varies, depending upon local land costs and regulatory fees. Recent Florida Housing developments have over 70% of total development cost from construction, while the latest FHBA survey showed 64%.

Because the housing produced with state funding is a combination of single and multi-family, the analysis in this paper assumes that 65% of total development cost is attributable to construction activity. Given the 45% Florida DOR assumption related to taxable items, the estimate for sales taxes paid as a direct result of the construction activity is calculated:

[Total Development Cost] X
[65% attributable to construction] X
[45% of construction activity paid for taxable goods] X
[6% Sales Tax Rate] =
Sales Tax Paid as Direct Result of Construction Activity



Given these assumptions, \$1 million of state funding generates \$98,711 in direct sales tax revenues. This understates the tax revenue from housing, as sales tax is paid on many of the items that are purchased as an indirect result of the housing development (multiplier effect), and this analysis estimates sales tax only—not the other taxes that are generated to the state.

However, using only the direct sales tax paid, increased state spending on housing is significantly offset by increased sales tax revenues.

SADOWSKI FUNDING	TOTAL HOUSING VALUE CONSTRUCTED AND/OR SOLD	DIRECT SALES TAX PAID
\$175.4 million	\$729.6 million	\$12,804,480

Analysis Performed by:
The Hendrickson Company
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Contact: Mark Hendrickson 850.671.5601

Using data from:

Shimberg Center for Affordable Housing, University of Florida
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Florida Housing Finance Corporation
First Housing Development Corporation
Housing Finance Authority of Hillsborough County