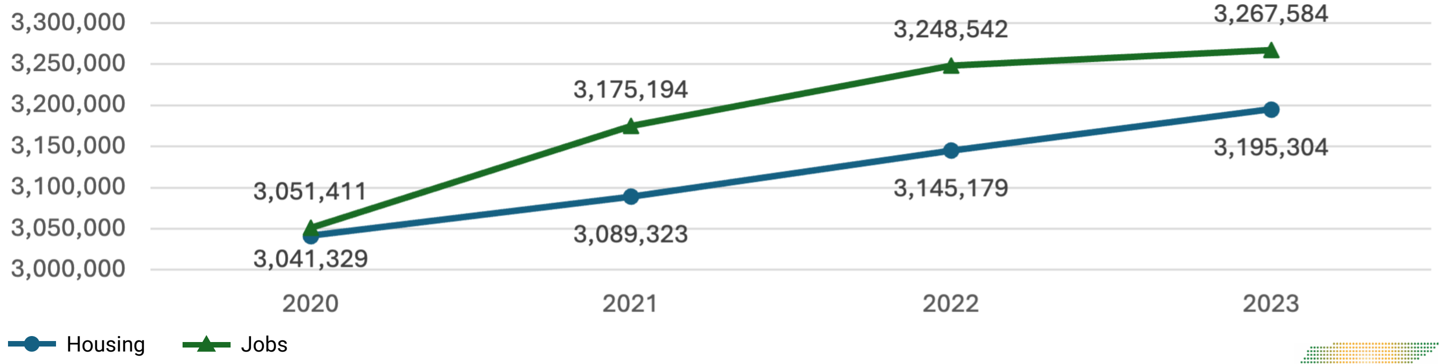
Breaking Ground: Local Tools for Housing and Infrastructure

THINK TENNESSEE

POLICY BRIEF

Tennessee's economy is booming and the state is growing, adding hundreds of thousands of jobs and residents over the past decade. With this growth, we face an increased demand for housing that communities across the state are struggling to meet. The shortage contributes to rising housing costs that are becoming increasingly unaffordable for Tennessee families.

Tennessee is not building enough housing to support the state's growth.



Source: US Census and Bureau of Labor Statistics

To help meet this challenge, communities are looking to both increase the production of homes at all price points and to fund and build the infrastructure—the schools, parks, roads, sidewalks, and other community services—needed to support this new housing supply.

Tennessee has tools to address both needs, from raising funds through development and real estate transfer taxes, to programs that encourage the production of more affordable homes, including low-income tax credits and land banks. This policy brief provides recommendations for how to extend or expand these tools to improve local communities' ability to support our state's growth.

POLICY RECOMMENDATIONS

- ✓ Leverage the state and federal Low-Income Housing Tax Credits to increase housing that is affordable to all Tennesseans.
- ✓ Expand land banking authorization to more communities.
- ✓ Expand eligibility for local governments to raise funds for infrastructure.
- ✓ Use a portion of the Real Estate Transfer Tax to support housing and infrastructure.

Tennessee is not building enough housing to keep up with employment and population growth.

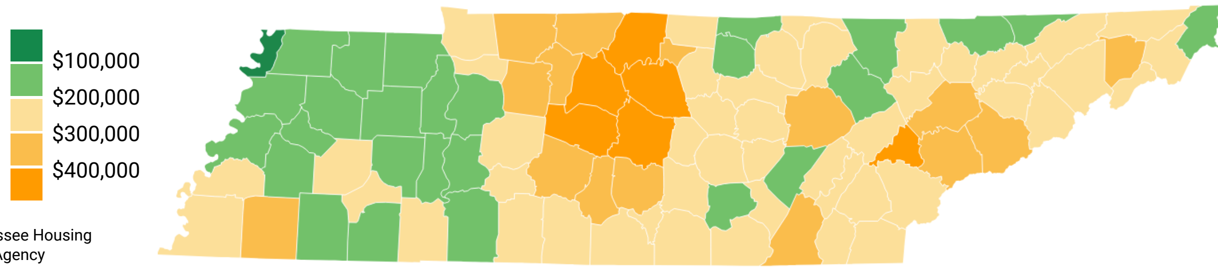
From 2020 to 2023, Tennessee added 216,173 jobs, 200,398 residents and only 153,975 new homes, or just 7 houses for every 10 jobs.[1] Tennessee now has an estimated shortage of 120,000 housing units.[2] This housing supply shortage is due to a number of factors, including pandemic-related supply and workforce issues, federal interest rate changes, and local land use and zoning policies which limit the supply of land for housing.[3]

The housing we do have is increasingly unaffordable for Tennessee families.

In part due to our lack of housing supply, costs have increased significantly for Tennessee families, particularly for lower-income households. Since 2013, median monthly housing costs increased 32% from $797 to $1,055. Cost increases ranged from 17% for homeowners to 51% for renters.[4]

Overall, more than a quarter (26.5%) of Tennessee households are cost-burdened—meaning they spend more than 30% of their income on housing. Tennessee's low-income households are most impacted; 59.9% of households that earn under $50,000 a year are cost-burdened.[5]

The state's median home sales price is now over $339,000.



Source: Tennessee Housing Development Agency

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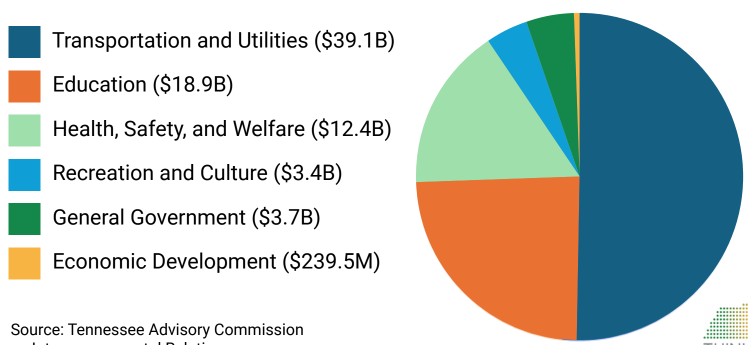
Local communities need more funding for critical infrastructure to support our growth.

As Tennessee grows, local communities need to build new infrastructure such as roads, parks, schools, and other community services to support new jobs and residents.

The state has calculated the need for $78.7 billion ($10,901 per resident) in such infrastructure from 2023 to 2028.[6] Every county has identified infrastructure needs, averaging $817.8 million per county, ranging from a low of $23.9 million in Meigs County to a high of $15.5 billion in Davidson County.[7]

Over half of Tennessee's $78.7 billion in infrastructure needs are for transportation and utilities.



Source: Tennessee Advisory Commission on Intergovernmental Relations

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Tennessee will need to increase spending to meet our identified infrastructure needs.*

	Fire Protection	Education	Water + Waste	Housing and Community Development
Annual Infrastructure Needs ($M)	$118	$3,731	$1,431	$162
Recent Annual Spending (Actual) ($M)	$60	$1,267	$352	$66

*Annual infrastructure needs based on Building Tennessee's Tomorrow: Anticipating the State's Infrastructure Needs July 2023 through June 2028. Annual spending is the average from 2019 to 2021.

Source: Tennessee Advisory Commission on Intergovernmental Relations and the Tax Policy Center

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Tennessee spends less at both the state and local levels on infrastructure and services per person—particularly on infrastructure—than the nation and other states in our region. At $9,660 per person, Tennessee's average expenditures from 2017 to 2021 were 7% less than the region ($10,429) and 23% less than states nationally ($12,529).[8]

Tennessee has tools in place that could be expanded to better address these challenges.

As TACIR highlighted in a May 2024 report, Tennessee has policy options for increasing housing supply and improving affordability.[9] As Tennessee lawmakers continue to look for ways to address our housing needs, several existing programs could be modified and expanded to support our state's economic growth.

1 Leverage the state and federal Low-Income Housing Tax Credits to increase housing that is affordable to all Tennesseans.

The federal Low Income Housing Tax Credit (LIHTC), established in 1986 and administered by the Tennessee Housing Development Agency, provides developers credits against tax liabilities in exchange for providing housing units that are affordable to low-income renters. Most states (32 and DC) supplement the federal LIHTC with a similar state program.

In 2024, Tennessee legislators passed the **"Rural and Workforce Housing Credit,"** a statewide LIHTC to award state tax credits to builders of housing projects that receive the federal tax credits.[10] The program designates a minimum of 50% of credits to be allocated for projects in eligible rural areas.[11] Though the program has been established, funding for the program needs to be allocated annually.

States can tailor their LIHTCs to address their specific needs.

FLORIDA
Focuses on infill housing and senior-living residences.

MISSOURI
Provides tax credit equal to 50% of the federal credit.

OKLAHOMA
Provides a dollar-for-dollar match of the federal LIHTC.

Support the construction of affordable housing in the state by expanding the federal and state tax credit programs.

- ✓ Fund the Rural and Workforce Housing Tax Credit to supplement federal dollars.
- ✓ Expand eligibility for the Rural and Workforce Housing Tax Credit to capitalize on development opportunities in non-rural areas.

2 Expand land banking authorization to more communities.

Eighteen states have authorized and established **land banks**—public entities authorized to rehabilitate vacant, abandoned, or deteriorated properties and land into productive assets that can be used for affordable housing.[12] In Tennessee, 22 jurisdictions have authorization, but only four have established them: Oak Ridge, Chattanooga, Memphis, and Shelby County.[13,14]

Local governments can establish priorities for how to use land banks, including for public space, affordable housing, commercial uses, or wildlife conservation areas. Those authorized to clear title and tax liens on properties are the most successful.[15]

Make impactful changes to the Local Land Bank Program to help local governments develop needed housing and infrastructure.

- ✓ Expand eligibility to all local Tennessee jurisdictions.
- ✓ Clarify and expand land banks' authority to clear title for distressed properties efficiently and affordably.

When to Use Land Banks

- ✓ Large inventories of vacant and abandoned property
- ✓ Properties with little to no market value
- ✓ Properties with delinquent taxes in excess of fair market value
- ✓ Properties with title problems

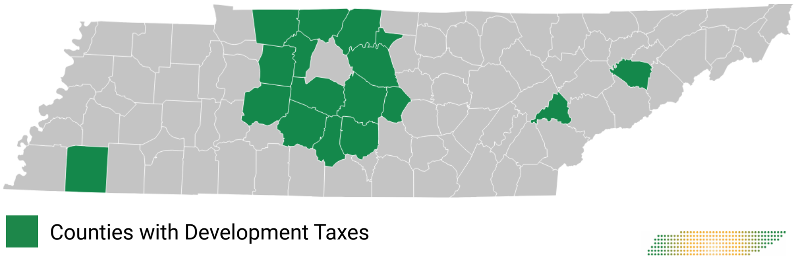
Source: Center for Community Progress

3 Expand eligibility for local governments to raise funds for infrastructure.

Local governments can levy **development taxes**—a privilege tax levied on property developers for new projects—to offset the financial impact of new development on public infrastructure, such as roads, utilities or schools, or to fund the construction of housing that is affordable.[16]

In Tennessee, counties that reach specific population-growth thresholds are eligible to levy a development tax, and population growth must be recertified every four years.[17] Currently, 17 counties have development taxes, either by meeting population growth requirements or through legislative action.[18] According to TACIR, city and county development taxes raised a total of $58.5 million in 2022 and have "limited" impact on increasing housing costs.[19]

Few rural counties—and no urban counties—are able to levy development taxes.



Source: Tennessee Advisory Commission on Intergovernmental Relations

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Allow more counties to benefit from additional funding for infrastructure and housing.

- ✓ Lower the growth-rate threshold and extend the time period allowed before recertification.
- ✓ Allow jurisdictions to also demonstrate eligibility through local building permit data.
- ✓ Allow anticipated growth from large economic development investments ("mega deals") to trigger development tax eligibility.
- ✓ Exempt qualified affordable housing projects to encourage development.

4 Use a portion of the Real Estate Transfer Tax to support housing and infrastructure.

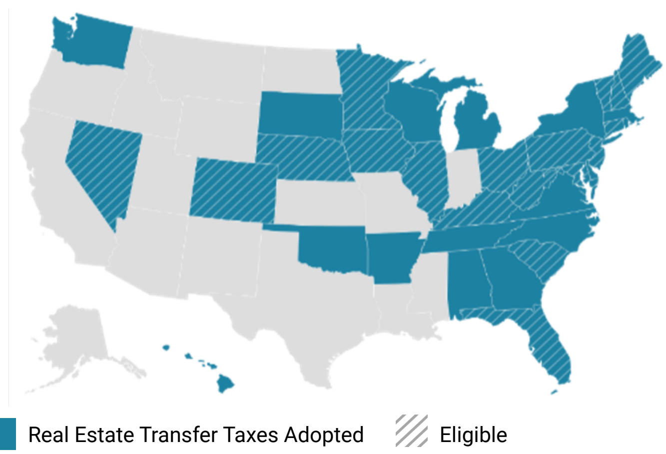
Revenue from Tennessee's **realty transfer tax**—a levy on most real estate transactions—has increased 134% in the last decade, from $110.7 million in FY2014 to $258.9 million in FY2024.[20]

Historically, a portion (15.5%) of the realty transfer tax revenue was used to fund affordable housing.[21] Today, the funds are mostly directed to the General Fund, apart from a commission for county registers, small set-asides for wetland, local park, and state lands acquisitions, and historic site preservation and funding.

With the exceptional growth of realty transfer tax revenue, portions of the funding could be directed to support infrastructure and housing.

- ✓ Dedicate a set-aside to the Tennessee Housing Trust Fund; a 3% set-aside would raise approximately $7.8 million per year.
- ✓ Allow a portion of revenue raised to stay in local communities to fund housing and infrastructure.

16 of the 34 states with real estate transfer taxes use revenue for affordable housing.



Source: Center for Budget and Policy Priorities

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Written by:
Amy Gore, Policy and Research Director and Adriane Harris, Senior Advisor on Housing Policy
Other Contributing Staff:
Matthew Kenny, Policy Associate

For further information, email us at info@thinktn.org.