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ROBERT B. VICE

April 29, 2010

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PUBLIC SERVICE COMMISSION

Hon. David L. Armstrong
Chairman
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40602

2009-00548
2009-00549

Re: Kentucky Utilities Co. (KU) and the Louisville Gas & Electric Co. (LG&E)

Dear Chairman Armstrong:

As you know from your years of public service in Louisville and Jefferson County, safe, decent and affordable housing is an important community need in Louisville Metro, as well as statewide.

The Housing Partnership, Inc., New Directions Housing Corporation, and Louisville Metro Housing Authority have prepared the enclosed analysis of the impact on affordable housing of the rate increases proposed by LG&E and KU. As their analysis shows, there will be two significant impacts of the proposed gas and electric rate increases. Rents, which include utility allowances, are capped, based on maximums set by the United States Department of Housing and Urban Development, and therefore cash flow to pay other project expenses will be significantly reduced in addition to the higher utility costs themselves that these projects and their tenants will bear.

The enclosed analysis is indicative of the experience that all such affordable housing projects will experience statewide, whether public or private, non-profit or for profit. It will cause economic distress on existing affordable housing developments and it will impact the feasibility and reduce the number of future affordable housing developments. The financial resources available to such projects and their residents are already strained, and the proposed rate increases will be the "tipping point" for many.

On behalf of The Housing Partnership, Inc., New Directions Housing Corporation, and Louisville Metro Housing Authority, please consider the unintended but direct effect that these proposed rate increases will have on affordable housing across Kentucky and on the citizens of the Commonwealth that depend on safe, decent and affordable housing.

Please share the concerns of these leading sponsors of affordable housing with your fellow Commissioners.

Sincerely,

Robert B Vice

Robert B. Vice

Enclosure

cc: Tim Barry
Joe Gliessner
Lynn Luallen

Analysis: The Housing Partnership, New Directions Housing Corporation, & Louisville Metro Housing Authority

On January 29, 2010, Louisville Gas & Electric filed a request with the Kentucky Public Service Commission for an adjustment of its electric and gas rates and charges to become effective March 1, 2010. The adjustment would result in a 12.1% increase in electric rates, and a 7.7% increase in gas rates.

Owners and residents in affordable housing developments are subject to rent and utility allowance requirements from HUD: *Generally defined, the federal government considers housing to be affordable when a resident spends no more than 30% of their gross income on house related expenses (i.e. rent, utilities, insurance, mortgage, interest etc.). As a result HUD establishes rent and income limits, as well as utility allowance that most be followed by all designated low-income housing developments. So Housing Expense = HUD rent – Utility Allowance = 30% of income.*

- **Based on the nature of affordable housing portfolios, every dollar increase in utility cost is a dollar reduction in rental revenue for not for profit affordable housing providers.**

Utility rate increases have both short and long-term effects on residents and owners of affordable housing. Immediately, a utility rate increase is paid by the resident which causes their Housing Expense to exceed 30% of income and thus threaten their housing security. In the long-term, HUD will increase utility allowances which means owners will have to charge lower rents to be in compliance with HUD's rent limits. Affordable housing developments typically run thin operating budgets and a decrease in effective rents significantly impact a project's ability to pay debt service and maintain economic viability.

The Housing Partnership, Inc.

- The average utility allowance for the 688 units in HPI's portfolio is approximately $120.00. A 12.1% increase in utility costs would equal $119,877.12 in lost revenue per annum. A 7.7% increase applied to the same portfolio would reflect a loss of $76,285.44 in revenue per annum. **Because our utilities are overwhelming electric, it is safe to assume that the actual, realized lost would be between $100,000.00 and $120,000.00 per year for HPI's portfolio alone.**
- Additionally, HPI paid $199,490.01 in actual utility bills in 2009. A 7.7% increase would be an additional $15,360.73 utility cost per annum, and a 12.2% increase would equal an additional $24,138.29 per year. **The aggregate increase would be a blend of those rates that would be somewhere in the neighborhood of $17,000 to $22,000 per year** – in addition to the lost revenue estimate of $100,000.00 to $120,000.00.

- This rate increase will have a detrimental long-term implication for The Housing Partnership as an owner and developer of affordable housing because across the HPI portfolio, the decrease in revenue will far exceed the marginal increase in utility cost. Some of our projects – such as Marion Manor - will go in the red because they will fail to cash flow. Once any of our projects fail to perform, it will immediately and adversely affect the Housing Partnership's ability to secure financing for future projects. **The bottom line for HPI will be a realized decrease in gross rental revenue in excess of $120,000.00.**

Our experience will be shared by developers and owners of affordable housing across Louisville.

New Directions Housing Corporation

- New Directions Housing Corporation is a local nonprofit that develops and maintains affordable housing and vital communities in partnership with neighborhoods and other stakeholders. Currently, over 1,800 men, women, and children reside in housing provided by New Directions housing. Annually, New Directions expends $451,255.00 on gas and electric costs. **A 7.7% rate increase would add $34, 746.64 to this cost, and a 12.1% rate increase would result in $54,601.86 of additional costs.** These calculations only reflect direct payment of utility bills paid by the owner, and do not address the substantial decrease in gross rental revenue income that would be resultant of a utility rate increase.

Louisville Metro Housing Authority

- Louisville Metro Housing Authority is a local nonprofit agency that is responsible for the development and management of federally subsidized housing in the Louisville Metro area. The LMHA presently manages over 4,000 units with occupancy determined primarily by federal income guidelines. LMHA has four family housing communities and five housing communities for accessible and senior citizens, and a growing number of scattered site housing that, Over 7,000 of the Louisville Metro's residents reside in public or subsidized housing. **A 7.7% rate increase would add approximately $235,000.00 to the cost of gas service annually, and a 12.1% rate increase the annual cost of electricity for LMHA to approximately $300,000.00.**

There are tens of thousands of affordable units in Kentucky subject to rent restrictions and utility allowances. The utility rate increase will affect the viability of this industry and act as a disincentive to develop and build more units in the future.