PATTON TOWNSHIP
CENTRE COUNTY, PENNSYLVANIA

Patton Township Housing Task Force

Exploring Affordable Housing Options that Promote Smart Growth and Development

People	---- Needs	--- Resources	--- Challenges	--- Future Thinking	---Recommendations
Who?	*What?*	*Where?*	*Why Not?*	*When?*	*How?*

Housing Task Force Meeting of March 16, 2021
Report to Patton Township Board of Supervisors
Patton Township Planning Commission and Patton Township Citizens

Sixteen members of the Patton Township Housing Task Force met by zoom for a two-hour meeting from 3 to 5 pm on Tuesday March 16, 2021. *You are invited to persevere through this long, detailed report – almost an "Affordable Housing 101" review-- because it documents key issues at the heart of the Housing Task Force research and work this year. Thank you for learning along with us.*

Presenter: Andy Haines Speaking on Affordable Housing

Andy Haines, Executive Vice President of Gatesburg Road Development, presented an in-depth assessment of Affordable Housing issues. His presentation addressed multiple aspects of Affordable Housing including:

- Its history and its negative image
- Its major types (single family and multi-family) and the problems with single family funding
- "Section 8" funding and Low Income Housing Tax Credits (LIHTC)
- The "Area Median Income" (AMI) for Centre Region residents (used to calculate affordability)
- "Inclusionary zoning" and "Fee In Lieu Of"
- Challenges to Affordable Housing including NIMBYism and land and building costs

He has worked in the S and A Homes Corporate Office for 22 years where he specializes in Affordable Housing. In 2017, the S and A Home's Affordable Housing Division branched off to create a company called Gatesburg Road Development.

He has developed:

- Both sale and rental housing
- 25 LIHTC projects (Low Income Housing Tax Credits)
- 1000 units under management
- 5 for sale developments that created affordable housing

His local projects include:

- 108 senior units in Stonebridge Senior Apartments on Bristol Avenue, State College
- 80 units in Pleasant Hills Apartments, Pleasant Gap
- Waupelani Heights, Waupelani Drive, State College
- Yorkshire Village, Southgate Drive, State College
- Beaver Heights, on Bishop Drive behind Bellefonte High School, Bellefonte
- Fox Hill Senior Apartments on Benner Pike, Bellefonte

Older local examples of "affordable housing" (built prior to 1986) include:

- Brockerhoff House in Bellefonte—owned by Centre County Housing Authority
- Mount Nittany Apartments behind Hills Plaza on South Atherton
- Beaver Farm Apartments
- Spring Creek estates, Pleasant Hills Estate in Pleasant Gap

The Problems of Affordable Single Family Housing Development Today

Generally **single family affordable housing needs substantial funding to offset the cost or to balance the market**.

In State College, it typically costs almost $300,000 to build a house. You can sell it for over $300,000 so as a home builder that's a good thing-- I don't have to use subsidy.

But if I go 20 minutes outside this town or near Tyrone or between here and Altoona it still costs me probably $250,000 to build a house but I necessarily can't sell that house in that area for $250,000 because the comparables in that area don't match. The bank won't lend if the comparables (the other houses in your neighborhood) are less than what you're going to build it for. No one wants to be the one to build the highest cost house surrounded by lower cost houses.

So there's two problems of affordable single family housing development:

One is State College where the cost is very high but the market is here. So you have a problem of how you get people who can't afford a $300,000 house into a "for sale" house.

Then there's the problem of communities outside of State College and some urban areas where your housing market is severely under the cost of the housing.

So in either of these situations there's **very limited funding available** to offset the difference in the housing affordability and the housing cost. There are some local or state programs. Some states like California or Massachusetts or Colorado have very strong single family development housing programs but Pennsylvania does not.

That is a struggle of how to find the funding sources to make a "for sale" housing affordable.

In multi-family developments, the "Low Income Housing Tax Credit" does that (see next page.) The housing credit basically provides us the gap between what we can afford in rentals and what it costs us to build.

For Multi-Family Developments: Low Income Housing Tax Credit-- LIHTC

Low **I**ncome **H**ousing **T**ax **C**redit **(LIHTC)** is the largest multi-family housing financial provider. It is the most successful affordable rental production program in US history, providing 80,000 units annually**.**

This is our main source of developing Affordable Housing right now. We typically do family projects or senior projects (for people over 55 or over 62). Our project in Ferguson Township-- Stonebridge Apartments—that's an $11 million project. We built 50 units. We used a combination of conventional debt and equity from Low Income Housing Tax Credits to fund that development.

For those tax credits we are required to rent to people who have less than 60 percent Area Median Income (AMI) (see next page for AMI details). Our rents for Stonebridge (which we tier range) are from $360 to $900 per month for a two bedroom, well below the current market. Pennsylvania requires that units be affordable for 40 years.

The tax credits bring corporate investors into the affordable housing community and they come and inspect their projects four times a year. Pennsylvania gets about $30 million in tax credits per year. It's a very competitive process. The tax credits are allocated based on scoring criteria. Here in Pennsylvania they look at energy efficiency. Are you close to services, grocery, bus stops, schools, parks?. Does the community support it? And what amenities do you give to the residents? Those amenities determine how the project is funded.
The state also looks at the need and State College and Centre County are identified by the state as having a tremendous need.

Background of LIHTC

Section 42 of the Internal Revenue Code introduced in Tax Reform Act of 1986

Brings private corporate investors into the affordable housing market

Replacement to direct development subsidy to developers from HUD projects- Most successful affordable rental production program in US history

Largest Multi Family Housing Financing Provider- 75-80k units annually, creating 100,000 jobs annually, adds $7.1 b in income and very bipartisan.

Tax Credits to incentivize "widely held C- Corps, larger institutional investors" to affordable housing

Passive Loss Rules limit the impact of these credits to larger corporations

Basic Tenets of LIHTC

Must provide housing for households with less than 60% Area Median Income

Affordable for 15-45 years, depends on state

Strict compliance regulations by HFA

Must have project complete within 2 years of credit award

All rental, though Lease Purchase provision by Year 15

Each State HFA allocates credits in varying fashions

Scoring criteria allocate credits

- Points awarded for energy efficiency
- Proximity to services
- Community support
- Amenities to residents
- Supportive Services

In PA, 1/3- ¼ applicants receive credits

2020- 90 applicants, 36 awards

HUD Area Median Income (AMI)

Every housing funding source that is utilized presently by for sale and rental basically starts with the HUD* Area Median Income (AMI) This is the income level used as the “base” for calculating affordability.

For Centre County, the HUD Area Median Income for a family of four is $88,700 for the entire county, It’s adjusted for family size. Every county has its own AMI. Most funding resources require 80 percent or less of AMI. A lot of inclusionary housing projects go up to 125% of AMI.

To figure out the rent take 30 percent of their gross income. Anything they are paying over that for rent is determined to be “housing or rent burdened.” For instance a family earning $24,000 per year (or $2,000 a month): 30 percent of that would be $600 a month for rent. If the family is paying $1,000 a month for rent that $400 difference would be considered “rent burdened”.

*HUD== Department of Housing and Urban Development, established in 1965, that administers federal aid to local housing agencies that manage housing assistance programs.

Where to start….HUD Area Median Income

Centre County		Family Size							
		1	2	3	4	5	6	7	8
Area Median Income		$ 62,090	$ 70,960	$ 79,830	$ 88,700	$ 95,796	$ 102,892	$ 109,988	$ 120,632
Adjusted	120%	$ 74,508	$ 85,152	$ 95,796	$ 106,440	$ 114,955	$ 123,470	$ 131,986	$ 144,758
	110%	$ 68,299	$ 78,056	$ 87,813	$ 97,570	$ 105,376	$ 113,181	$ 120,987	$ 132,695
	80%	$ 49,672	$ 56,768	$ 63,864	$ 70,960	$ 76,637	$ 82,314	$ 87,990	$ 96,506
	60%	$ 37,254	$ 42,576	$ 47,898	$ 53,220	$ 57,478	$ 61,735	$ 65,993	$ 72,379
	50%	$ 31,045	$ 35,480	$ 39,915	$ 44,350	$ 47,898	$ 51,446	$ 54,994	$ 60,316
	40%	$ 24,836	$ 28,384	$ 31,932	$ 35,480	$ 38,318	$ 41,157	$ 43,995	$ 48,253

Area Median Income….

All local, state, federal and most not for profit funding sources uses the HUD Area Median Income as the “base” for calculating affordability.

County Level- each County has its own HUD AMI

Housing burdened- HUD (and other programs) use 30% of the Gross Income for determining proof of burden

i.e. Family earns $24,000 per annum. $24,000/12 = $2000 x 30% = $600. Anything the family pays over this they are “rent burdened”

Most funding programs target 80% AMI or less. Some Inclusionary Zoning programs go up to 125% AMI

<u>Confronting the "negative image" of Affordable Housing</u>

A negative image lingers from the history of Affordable Housing.

The year 1937 was the start of the initiative to create large housing projects that are federally funded. (Addressing housing hardships caused by the Great Depression). The focus of that time was on high density developments that also removed blight in urban areas.

The Death and Life of Great American Cities, written in 1961 by urban planner and pioneer Jane Jacobs decried the negative impact of these large density subsidized housing projects on neighborhoods and small towns

People began to realize that 1,000 units like Cabrini-Green (the former Chicago public housing project) or the four or five story housing buildings in any moderate size city in Pennsylvania that was funded through a direct loan or housing subsidies had now become basically slums**.**

They were not well managed. The private sector developer who built it typically took the financing and built the project and then had no real management rules to oversee the project. As long as they kept it affordable and rented to people there was very little credit or criminal checks of tenants. And some of them became, especially in urban areas, areas of crime. They became more open to special needs. So those senior projects in those small towns have now become a mixture of senior housing and people with severe development needs. And that started to change the position of planners and housing professionals.

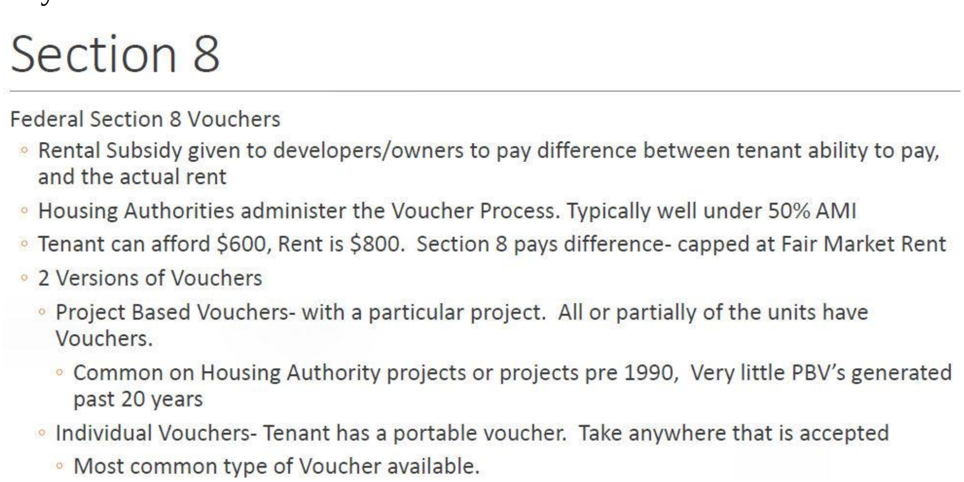
In 60s and 70s there was more emphasis on block grants given to local or states-- "let the local municipality and the state decide the best financing pool for low income housing."

<u>Section 8 Funding</u>

Formally created in 1974, **Section 8** is a form of government rent assistance. A rental subsidy is given to owners of apartment properties that pays the difference of what the tenant can pay and what the actual rent is. Most people there are well under 50% Area Median Income.

Currently 2.2 million households nationwide use vouchers to help pay their rent. The local housing authority sends the payments directly to the landlords. **Apartment owners view Section 8 positively** because they attract good tenants who are monitored better than years ago and follow the guidelines to keep their vouchers and it assures rent payment, stabilizing apartments.

There are two versions of vouchers—project based and individual. There hasn't been a project based voucher development in Centre County in 25-30 years. Individual vouchers are common where a tenant can take that voucher to apartments in the area that landlords accept and use that as their rent differential. The tenant typically will not pay more than 30 percent of their income. The voucher will make up the difference. So if the tenant can afford $600 and the rent is $800, the Housing Authority that administers Section 8 pays that $200 to the developer or owner of the project.



Major Types of Affordable Housing Financing Tools

Three tools are available for providing affordable housing whether to home buyers or developers and tenants

Single Family Homeownership Loans

The **PHFA (Pennsylvania Housing Finance Agency**) has a mortgage revenue bond program where they provide interest fixed rate loans through participating lenders to people who a normal bank may not do that loan with because they don't have the collateral or the credit or the down payment. They provide a source for that. Sometimes they provide a guarantee of the loan to banks in case the loan defaults.

The reality is that rates are so low now that these don't have the impact they once did. A lot of banks are giving loans at a very reasonable rate.

Single Family homeownership loans

- Typically direct to homebuyer
- Example, PHFA Mortgage Revenue Bonds
- FHA, Fannie Mae etc.
- Mixture of financing that provides guarantees or reduce lenders risk
- In environment of low interest rates, less impactful on affordability.

Multi Family Rental Development is where the money is.

Loans and grants and tax credits given to developers to either renovate or build new rental developments.

This is through the **Low Income Housing Task Credit (LIHTC),** through PHFA and still some HUD loans (but HUD has drastically reduced its participating in the lending market for multi family housing)

Many local governments are given **Community Development Block Grants** (CDBG) for public improvements into their low income areas in their municipalities . (However Patton Township does not receive funds from this program. Centre County does receive some funds that Patton Township can apply for and Patton Township received funding once in the past 20 years for a project related to affordable housing in Woodycrest.).

There is also **HOME** money which Patton Township doesn't get (must be of a certain population limit)

Act 137 is housing trust funds that comes out of several sources including the realty transfer tax you pay every time you sell a property, a portion of that is put into the state housing trust fund.

Multi Family Rental Development

- Loans, grants or credits to Developer to renovate, build new rental units
- PHFA- Housing Tax Credits, Low Interest Loans
- HUD Loans- Such as 232's More of guaranty, than a soft debt. Funding is reduced every year
- Local Government- HOME, CDBG or Act 137 (Housing Trust) funds
- Federal Home Loan Bank Affordable housing funding

Federal Home Loan Bank. There are 12 Federal Home Loan Banks across the country. They are typically a bank of smaller banks you belong to to access capital. They have an affordable housing program where they take 10 percent of their banks' profits from the previous year to give out as a grant to housing: For sale housing, rental housing, Habitat for Humanity housing, special needs housing. Is a good source for multi-family and single family housing.

Single Family First Time Homeownership Development

Typically done in subsidy to the developer to offset their costs.

Local communities like State College and Centre County have land trusts where they assist nonprofits in securing land or houses to sell housing to people under a certain Area Median Income (AMI) and the land trust continues to hold the land so it's resold again to an affordable home buyer.

In general there is not a lot of funding for single family <u>first time</u> homeownership development or single family <u>affordable</u> home ownership development in this state or in this country. Most of the funding that is available for affordable housing goes toward multi-family rental development.

There has been talk over the years of a home ownership tax credit which would stimulate affordable home ownership but it's never gone for any federal legislation to move forward.

Single Family First Time Homeownership Development

- Subsidy to Developer to offset site and building costs
- Subsidy allows final sales price to be affordable to households at or below 80%-120% AMI.
- 2nd mortgages or down payment assistance to Homebuyer.
- PHFA (Homeownership Choice Program) expired
- Local Municipalities, HOME funds, Tax Incremental Financing (TIF), Housing Trust Funds CDBG funds
- Centre County/Borough SC Land Trust, SC Borough. Centre County First time Home Buyer Program

<u>Non Subsidy Tools: Inclusionary zoning and Fee in lieu of</u>

Inclusionary zoning is a tool to encourage or require developers to build affordable housing in larger developments. It might be paired with a density bonus where if you do so many affordable units or workforce housing that instead of getting 5 units per acre you'll get 8 units per acre which has an effect on your cost.

One of the struggles of inclusionary housing is the resale management.. Ferguson Township had long discussions about legacy housing. If you do workforce housing for that first time home owner, how do you keep it affordable for the next 15 years versus allowing that person to resell that house on the market and make money off of it? How do you manage it 10 years from now under the inclusionary zoning? Who's involved in the resale?

I think inclusionary zoning works well where there's a high density of housing. In communities where you have a large density of housing-- 50 to 100 units—it does work. **Our problem here** is that unless it's a student housing development, it's very hard to build the density to make it work.

Some communities (like State College Borough) have an impact fee.called **Fee in lieu of** where developers can contribute to a fund to be used for Affordable Housing programs they have. Seattle has an option to pay "fee in lieu of" and their studies show that it is producing more affordable housing than if the housing is built on site.

<u>Terminology: Work Force, Low Income or Affordable?</u>

"Work force housing" sounds better than "low income" housing. The "Low Income Housing Tax Credit" is in the process of changing its name

To me "work force" is affordable housing. "Work force" is more politically correct than "low income" or "affordable" and so you'll be seeing that in some narratives you see.

Challenges to Affordable Housing

Nimbyism It is the biggest challenge we face. ("Not in My Back Yard" resistance.)

Costs in the Centre Region:

$50,000 per house or unit for land and site development -your roads, your sidewalks your sewer and water line

$200,000 - $250,000 for new construction from the foundation up for a basic house

$7,000 Tap fees for sewer and water are very high –twice of any other area we build in

Huge Market Demand

A lot of national student housing developers are coming to this area that will pay double what I can afford as an affordable housing developer. If I'm a land owner, why would I take away money from my family to sell my land for affordable housing?

This market demand has really taken off in the past 10 years. The land I bought for Stonebridge apartments we paid $10,000 a unit. I could probably sell that land now for $25,000-30,000 a unit.

The acquisition cost of the land -- How much the raw land costs is a huge factor in the development of Affordable Housing. I can go 20 minutes outside of the State College region and my land acquisition costs will be half of what they are in the Centre Region.

Tough Centre Region Codes

The other side of land development in Centre Region is that the Centre Region codes are tough. They take a long time to review. Compared to other code agencies they really get in and look at projects in much more detail than other communities. You must have a good architect to be sure they are covering everything. If the architect doesn't understand how strict Centre Region is or some of their requirements that could be a cost that you haven't factored into your budget.

Banks' Security Costs

Banks and Investors for market rate housing or affordable housing are so scared of a project failing. They want more security in case a project fails. All of these cost more money- legal fees, appraisers, environmental review.

All of these add costs to the project and it's hard to do something affordable when looking at $300,000 a unit.

Challenges to Affordable Housing

Land development, site development average approximately $50k per unit

New construction of homes range from $200-250,000 per house

Tap Fees (Sewer and Water) are approximately $7000 per unit. (2x in this region v other areas)

Market demand- why sell the property for ½ of what you could for student housing

Acquisition costs of land are challenging to developing affordable housing. If raw land costs over $20,000 per house/unit, chance of affordability suffer

Land Development Plan process takes 2 years to get approvals.

NIMBY ism, high cost of Centre Region Code requirements, high property taxes reduce affordability. Higher operating costs result in higher cost of housing costs.

Bank/Investor challenges- financing requirements add costs to project, higher reserves, appraisals, length of review prolong the development window

Respectfully submitted by Anita Thies, Task Force Co-Chair and Patton Township Supervisor