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Pennsylvania is home to 5.2 million households and offers residents a variety of neighborhoods and homes in which to live. From the elite Main Line and North Hills, to the charm of Gettysburg, to the sidewalks of Center City Philadelphia, Pennsylvania is home to some of the most beautiful communities in the nation. Our home prices are affordable, our housing stock varied and our neighborhoods diverse. But the dynamics of population, housing development, affordability and finance in Pennsylvania are under stress.

- Our homes are affordable, yet we have one of the highest foreclosure rates in the nation.
- We are developing housing at one of the fastest rates in the nation, yet we are the third slowest growing state.
- Our most affordable housing stock is located in communities with the highest property tax burdens, but the worst performing schools. It's a perverse dynamic that perpetuates concentration of our low and moderate income households in our least advantageous communities.
- We are home to more elderly than most states in the nation and an increasing number have some type of disability.
- Over sixty-seven federal and state programs distribute almost $4 billion in housing dollars annually, yet it is not done with any long-term vision or plan. Historically, we've spent but have not invested.

Concern is growing within the Commonwealth. In 2003, Governor Rendell created the Office of Housing and Community Revitalization to coordinate housing policy for the Commonwealth. The Pennsylvania Housing Finance Agency and the Banking Department, together, are studying the growing foreclosure trend. The Department of Community and Economic Development is developing outcome measures for its programs. Taken together, these efforts represent a new approach — and a new momentum — around housing investment in Pennsylvania.

With funding from the William Penn Foundation, we spent the last year collecting data, conducting interviews and discussing findings with officials in the Commonwealth's housing and community development agencies. In this report, we compare Pennsylvania to the nation and to neighboring states. We compare communities within Pennsylvania and we look for trends. Wherever possible, we map the data to illustrate differences among Pennsylvania communities.

In the end, we recommend that the Commonwealth create a comprehensive Statewide Housing Strategy that articulates a vision for housing investment that is driven by current market information. Today's market data tells us that we need to *preserve* our existing homes and homeowners; *revitalize* our core communities so they can become places of choice; *maximize* public funds to move the larger private market; *create* affordable housing opportunities in advantageous areas of the state; and *plan* ahead for the needs of our growing elderly population.

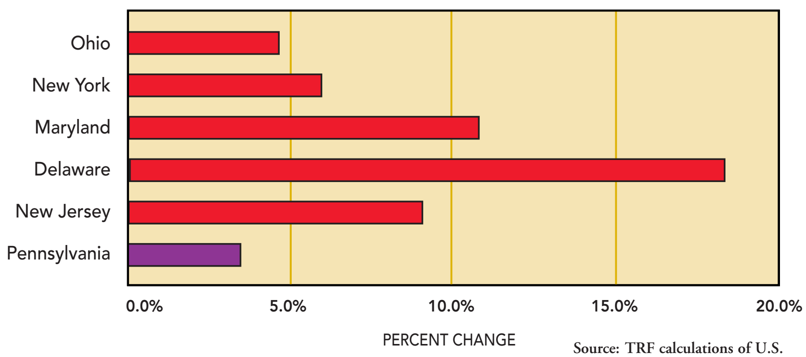
Officials within the Commonwealth have welcomed this study and indicate a will to develop and implement such a strategy. We submit this report as a start for further discussions on housing development, on affordability, on investment strategies — on *Choices in Pennsylvania.*

Pennsylvania is the third slowest growing state in the nation yet is *home to two of the fastest growing counties in the nation.*

## Pennsylvania's population grew by 3.4% between 1990 and 2000.

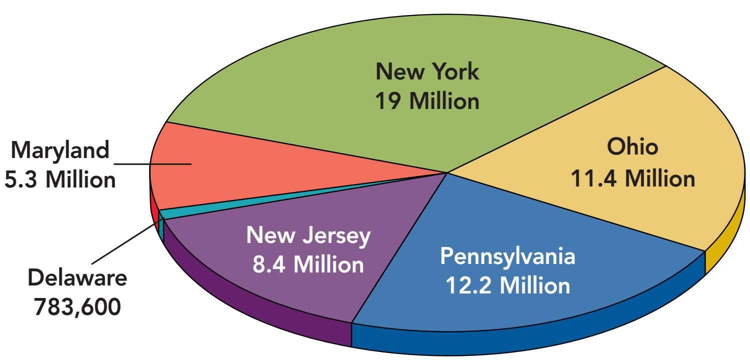
While the United States grew by 13.2% between 1990 and 2000, Pennsylvania grew a mere 3.4% and was *the third slowest growing state* in the country. Not surprisingly, Pennsylvania grew more slowly than any of its neighboring states — except West Virginia (not shown here).

**Population Change, 1990–2000**




Source: TRF calculations of U.S. Census, 1990 and 2000 data

**With a population of 12.2 million in 2000, Pennsylvania remains the second largest state in the MidAtlantic.**




Source: U.S. Census, 2000

## Population growth varied geographically with significant population increases in select areas of the state, stability in others and decline in many.

Growth was strongest in Northeastern Pennsylvania, in Southeastern Pennsylvania — at the outer edges of the region — along the state's southern border and around Pittsburgh. The fastest growing part of the state was the Northeast — with Pike and Monroe Counties leading as the fastest growing counties in the Commonwealth and among the fastest growing nationally. They grew by 65.6% and 44.9% respectively. According to the U.S. Census Department one of the highest state-to-state migration flows in the United States between 1995 and 2000 was from New York to Pennsylvania.[1] The migration of New Yorkers to Pennsylvania's northeastern counties accounts for this extreme growth. These counties have, in essence, become bedroom communities for workers commuting to New York.

**Fastest Growing Counties in Pennsylvania**

| County | Percent Growth 1990-2000 | County | Percent Growth 1990-2000 |
|---|---|---|---|
| Pike | 65.6% | York | 12.5% |
| Monroe | 44.9% | Lancaster | 11.3% |
| Wayne | 19.5% | Berks | 11.0% |
| Adams | 16.6% | Juniata | 10.6% |
| Chester | 15.2% | Montgomery | 10.6% |
| Union | 15.1% | Bucks | 10.4% |
| Butler | 14.5% | | |

Source: TRF calculations of U.S. Census, 1990 and 2000 data

1. U.S. Department of Census. State-to-State Migration Flows, 1995 to 2000, August 2003

*Of the 2,576 communities for which population data was available for both 1990 and 2000, only 515 (20%) grew faster than the national rate.* But, for many of these communities, growth was extreme: 220 (43%) of these communities grew twice as fast as the national rate, *with 19 more than doubling in population over the last ten years.*

*1,110 communities (43%) experienced population loss.* Because of their size, Philadelphia, Pittsburgh, Scranton and Chester City lost the greatest number of people and their losses had a large impact on the slow population growth in the state. At the same time, many small and mid-sized boroughs — particularly those in the center of the state and south of Pittsburgh — experienced a greater proportional loss, with 233 losing over 10% of their population since 1990.

**Communities Whose Population More than Doubled from 1990 to 2000**

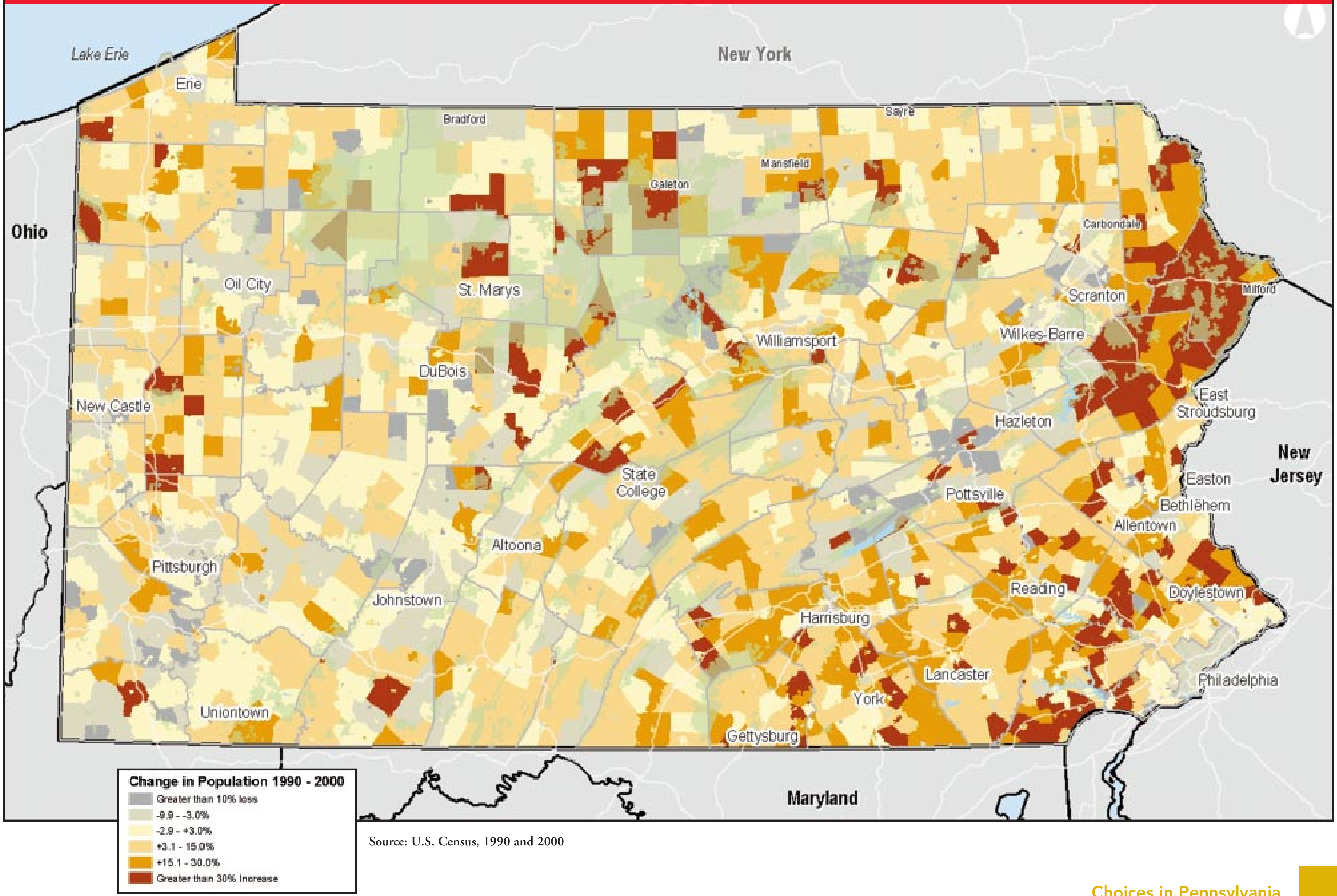
| County | Community | Population (2000) |
|---|---|---|
| Montgomery | Limerick Township | 13,534 |
| | Perkiomen Township | 7,093 |
| Bucks | Warwick Township | 11,977 |
| Chester | Thornbury Township | 2,731 |
| | Elverson Borough | 957 |
| Monroe | Tunkhannock Township | 4,983 |
| | Coolbaugh Township | 15,205 |
| Pike | Lehman Township | 7,515 |
| | Porter Township | 380 |
| Adams | Carroll Valley | 3,287 |
| Butler | Seven Fields Borough | 1,980 |
| Somerset | Seven Springs Borough | 65 |
| Tioga | Ward Township | 147 |
| Lebanon | Cold Spring Township | 77 |
| Union | Gregg Township | 4,687 |
| Schuylkill | Foster Township | 1,128 |
| Elk | St. Mary's City | 14,502 |
| Clearfield | Woodward Township | 3,527 |
| Erie | Conneaut Township | 3,908 |

**Communities with More than a 10% Population Loss from 1990 to 2000 (with populations in 1990 between 5,000 and 10,000)**

| County | Community | Population (2000) | % Loss by 2000 |
|---|---|---|---|
| Montgomery | Skippack Township | 8,790 | -25.3% |
| Luzerne | Jackson Township | 5,336 | -16.5% |
| Delaware | Chester Township | 5,339 | -14.7% |
| Allegheny | Duquesne City | 8,525 | -14.0% |
| Allegheny | McKees Rocks Borough | 7,691 | -13.9% |
| Beaver | Baden Borough | 5,074 | -13.7% |
| Luzerne | Pittston City | 9,389 | -13.7% |
| Northumberland | Shamokin City | 9,184 | -12.8% |
| Allegheny | Stowe Township | 7,681 | -12.7% |
| Westmoreland | Monessen City | 9,901 | -12.4% |
| Allegheny | Clairton City | 9,656 | -12.1% |
| Allegheny | Tarentum Borough | 5,674 | -12.0% |
| Allegheny | Glassport Borough | 5,582 | -10.6% |
| Erie | Edinboro Borough | 7,736 | -10.2% |

Source: TRF calculations of U.S. Census, 1990 and 2000 data

## Change in Population, 1990 – 2000




Source: U.S. Census, 1990 and 2000

Pennsylvania's senior population is growing faster than in surrounding states.

## Pennsylvania has one of the largest senior populations in the nation.

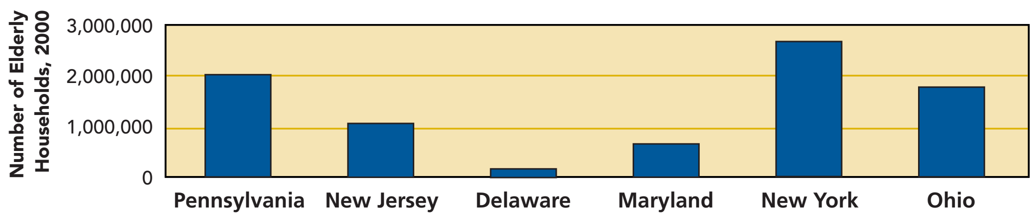
Compared to neighboring states, Pennsylvania has the highest percentage of people 65 years and older (16%) and its number is growing. Nationally, Pennsylvania had the fifth largest senior population in the nation. In 1990, Pennsylvania was home to 1.7 million people aged 65 or older. In 2000, that number grew to 1.8 million.

Some of the highest concentrations of elderly people in metro areas in the nation live in three Pennsylvania cities: Pittsburgh, Erie and Allentown. All had concentrations that put them among the top elderly metro areas in the nation.

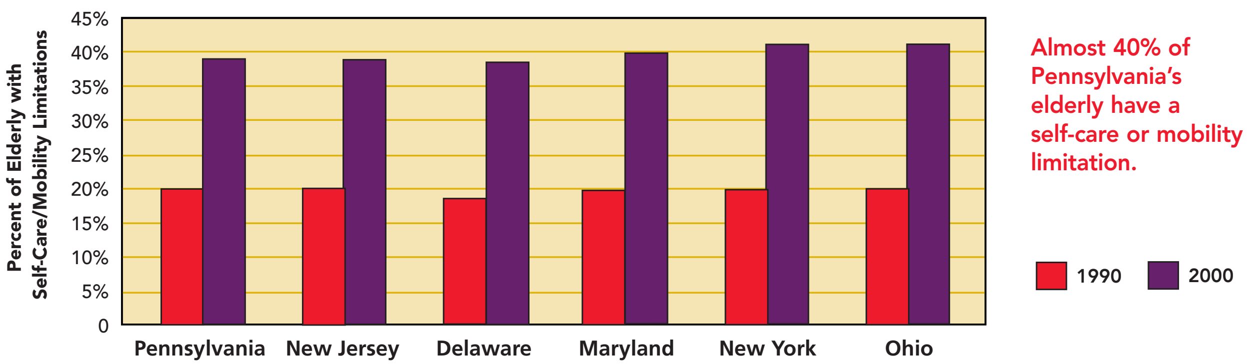
## An increasing percentage of Pennsylvania's elderly population has a disability.

In 1990, 20.2% of all persons over 65 of age in Pennsylvania had a disability. In 2000, 39.4% had a disability. Elderly populations with disabilities are scattered throughout the state. Philadelphia, Pittsburgh and Scranton are home to the highest number of elderly in the state — and almost half in each place have a disability. Additional populations are concentrated in cities with both high numbers (over 2,000) and high percentages (over 40%) of elderly people with disabilities: Reading, Wilkes-Barre, Altoona, Bristol, Bensalem, Johnstown, Hazleton, Harrisburg, Lancaster, Chester City, New Castle, York, McKeesport and West Mifflin.

Pennsylvania is home to almost 2 million elderly households (65 years of age or older).



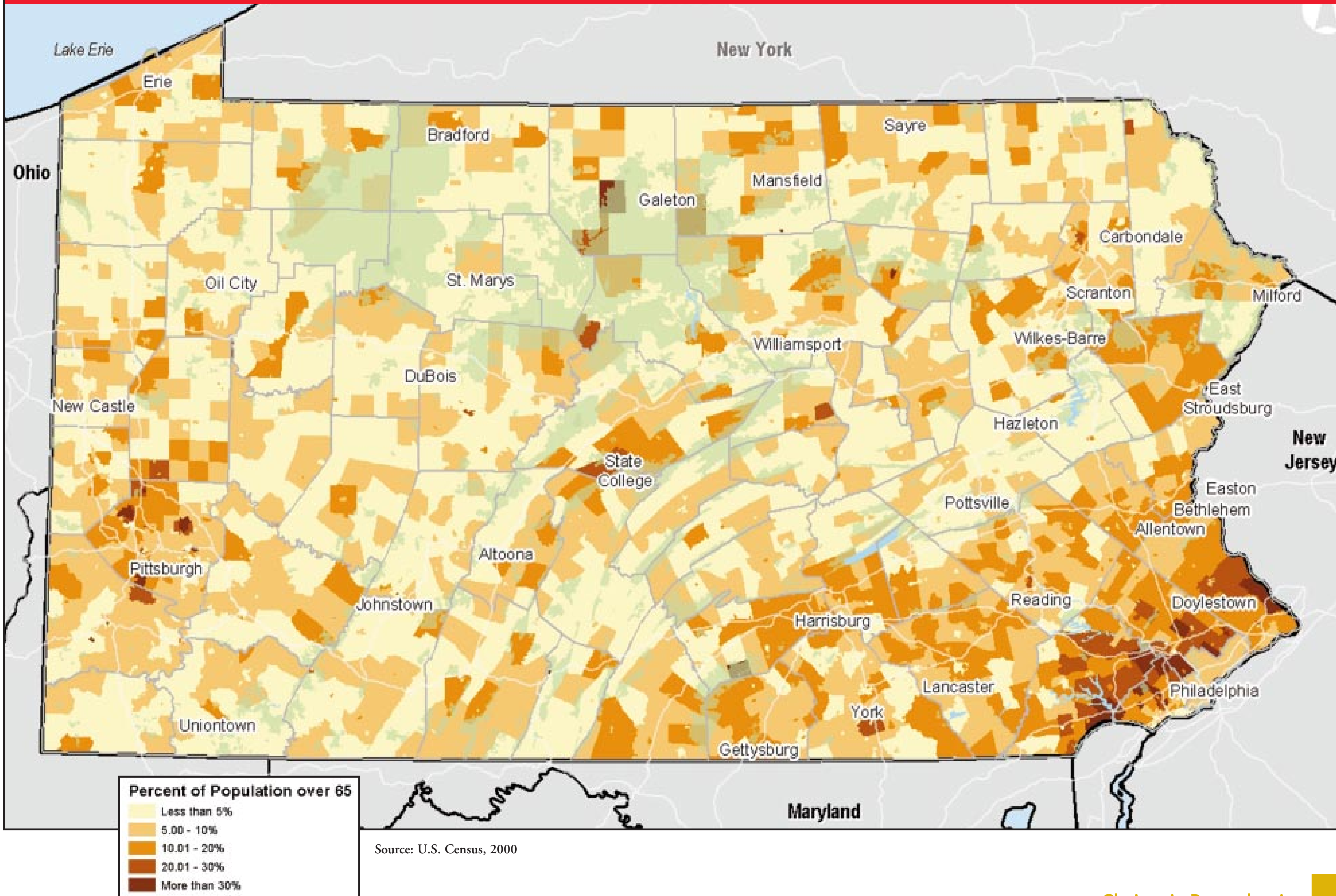

Source: U.S. Census, 2000




Almost 40% of Pennsylvania's elderly have a self-care or mobility limitation.

Source: U.S. Census, 1990 and 2000

## Percent of Population Over 65 Years of Age, 2000




Source: U.S. Census, 2000

**Pennsylvania is developing housing at a much faster rate than its slow population growth warrants — and development is disproportionately dominated by single family units.**

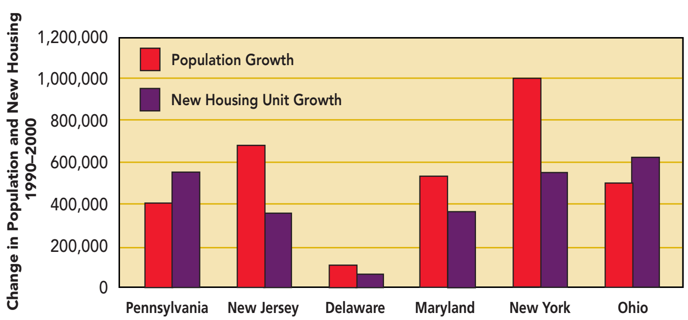
## Compared to neighboring states, only Pennsylvania and Ohio are developing new housing at a faster rate than their population growth warrants.

Between 1990 and 2000, Pennsylvania built an estimated 546,277 new units, while its population only grew by 399,411 people. Between 1995 and 2000, this new development was scattered across Pennsylvania, but was most concentrated in a few places. Most of these places are townships, a few are boroughs, and none are cities.

Not surprisingly, these places also experienced some of the highest population growth during the last ten years. That Pennsylvania's population is moving to these newer townships and abandoning older boroughs and cities is not a new revelation. That this may be happening at a faster rate than in neighboring states should give us pause.

Of equal concern is the fact that the majority of these fast developing places have median home values that are higher than the state median housing value of $97,000.

In both Pennsylvania and Ohio, housing units were built at a rate that exceeded population growth from 1990 to 2000.



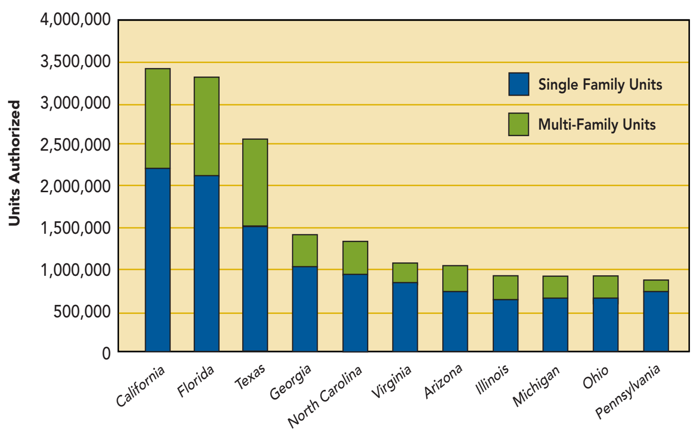

Source: TRF calculations of U.S. Census, 1990 and 2000 data

(See page 13 for a list of those areas that developed more than 20% of new housing between 1995 and 2000 and their median housing values in 2000.)

## More than almost any other state in the nation, single family units dominate housing development in Pennsylvania.

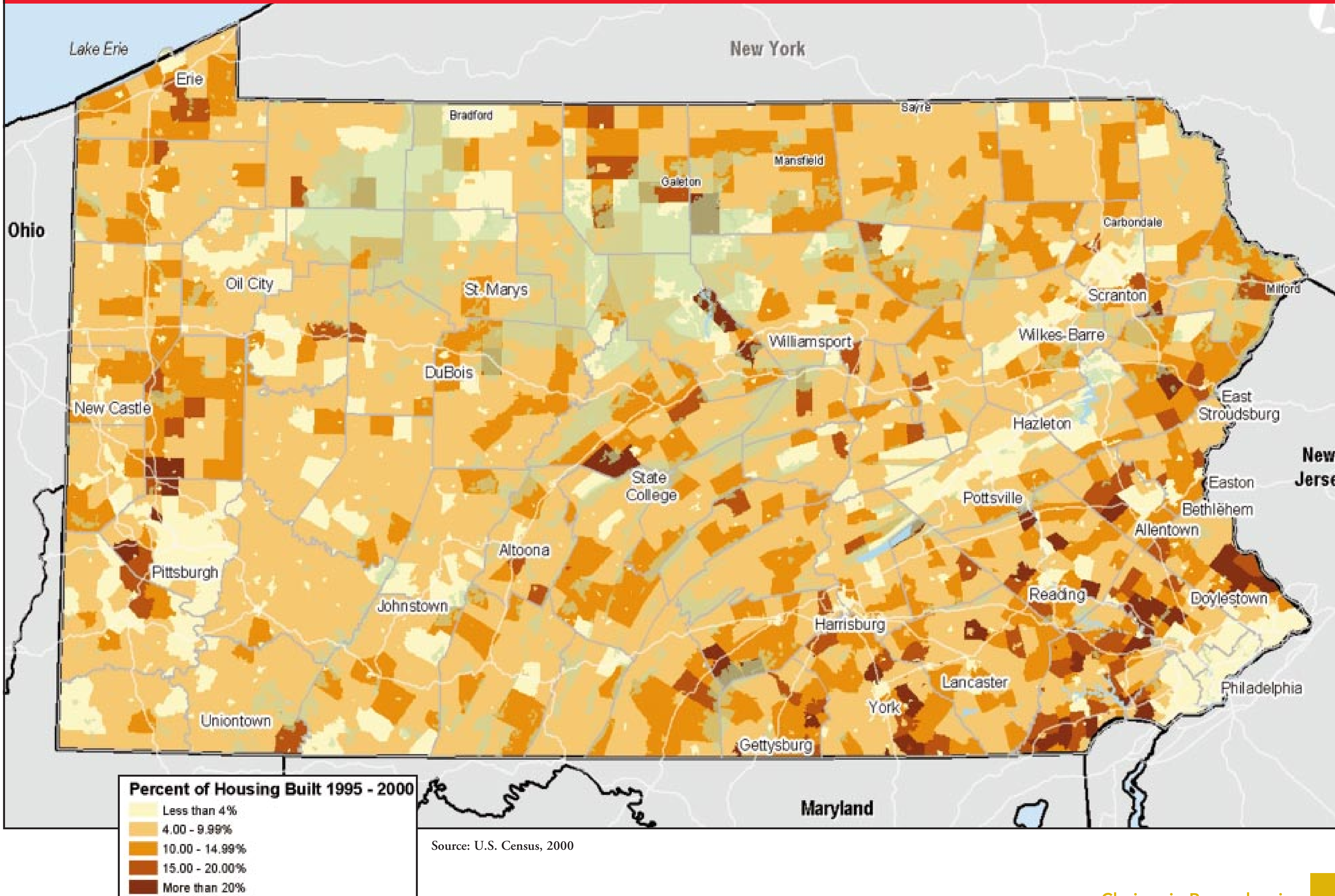
Nationally, 68.8% of all building permits authorized between 1980 and 2001 were for single family units. The U.S. Census classifies a single-family unit as a "one-unit structure" and includes fully-detached, semi-detached, rowhouses and townhouses. In Pennsylvania, 82.4% of all units authorized were single family. When compared to all 50 states, Pennsylvania had, in fact, the second highest percentage of single family development — trailing Maine and tied with Delaware. In all, Pennsylvania authorized 871,542 units with building permits, ranking 11th among all states.

Compared to other rapidly developing states, Pennsylvania builds fewer multi-family structures.




Source: TRF calculations of U.S. Census, Residential Building Permits, 1980-2001

## Percent of Housing Built Between 1995 and 2000




Source: U.S. Census, 2000

Image provided by Ryan Homes.

Most communities in Pennsylvania with high percentages of new housing development have median home values that are significantly higher than the state median, reflecting the fact that development has taken place in higher value areas and that the new homes themselves are significantly more expensive than existing ones.

## Places in Pennsylvania with over 20% of housing units built between 1995 and 2000

| Place Name | County | % New Homes | Median Home Value |
|---|---|---|---|
| Thornbury township | CHESTER | 53.07 | $191,800 |
| Elverson borough | CHESTER | 48.91 | $128,700 |
| Seven Fields borough | BUTLER | 45.70 | $226,400 |
| Adams township | BUTLER | 42.06 | $97,500 |
| Warwick township | BUCKS | 40.91 | $146,900 |
| Limerick township | MONTGOMERY | 40.52 | $146,300 |
| Charlestown township | CHESTER | 36.94 | $151,500 |
| Concord township | DELAWARE | 35.00 | $147,700 |
| Cold Spring township | LEBANON | 33.33 | $148,900 |
| Elk township | TIOGA | 32.95 | $108,900 |
| Plumstead township | BUCKS | 32.73 | $95,900 |
| Franklintown borough | YORK | 32.65 | $92,800 |
| Buckingham township | BUCKS | 31.84 | $218,700 |
| Trappe borough | MONTGOMERY | 30.79 | $159,300 |
| Carroll Valley borough | ADAMS | 30.32 | $198,700 |
| Birmingham township | CHESTER | 29.79 | $100,900 |
| East Nottingham township | CHESTER | 28.31 | $144,700 |
| Upper Macungie township | LEHIGH | 28.12 | $118,400 |
| Bethel township | DELAWARE | 28.01 | $142,700 |
| Perkiomen township | MONTGOMERY | 27.03 | $91,000 |
| Upper Providence township | MONTGOMERY | 26.47 | $361,700 |
| Cooke township | CUMBERLAND | 26.32 | $94,200 |
| New Garden township | CHESTER | 25.01 | $149,600 |
| Abbottstown borough | ADAMS | 24.56 | $191,800 |
| Manchester township | YORK | 24.54 | $128,700 |
| Wayne township | CLINTON | 23.39 | $226,400 |
| Amity township | BERKS | 23.29 | $97,500 |
| New London township | CHESTER | 23.24 | $146,900 |
| Worcester township | MONTGOMERY | 23.18 | $146,300 |
| West Brandywine township | CHESTER | 22.85 | $151,500 |
| Maidencreek township | BERKS | 22.76 | $147,700 |
| Skippack township | MONTGOMERY | 22.50 | $148,900 |
| Warwick township | LANCASTER | 22.45 | $108,900 |
| Schuylkill township | CHESTER | 22.32 | $95,900 |
| Oxford township | ADAMS | 21.96 | $92,800 |
| Ohio township | ALLEGHENY | 21.92 | $218,700 |
| Cranberry township | BUTLER | 21.90 | $159,300 |
| Lower Heidelberg township | BERKS | 21.71 | $198,700 |
| New Freedom borough | YORK | 21.65 | $100,900 |
| Hopewell township | YORK | 21.48 | $144,700 |
| Tilden township | BERKS | 21.47 | $118,400 |
| East Prospect borough | YORK | 21.40 | $142,700 |
| Lehigh township | WAYNE | 21.39 | $91,000 |
| Pine township | ALLEGHENY | 21.08 | $361,700 |
| Penn township | CHESTER | 21.04 | $94,200 |
| Warrington township | BUCKS | 21.00 | $149,600 |
| Gallagher township | CLINTON | 20.91 | $191,800 |
| Ferguson township | CENTRE | 20.86 | $128,700 |
| Windsor township | YORK | 20.81 | $226,400 |
| Jackson township | MONROE | 20.70 | $97,500 |
| North Fayette township | ALLEGHENY | 20.65 | $146,900 |
| Upper Makefield township | BUCKS | 20.59 | $146,300 |
| Southampton township | CUMBERLAND | 20.21 | $151,500 |
| Halfmoon township | CENTRE | 20.07 | $147,700 |

**State Median Housing Value = $97,000**

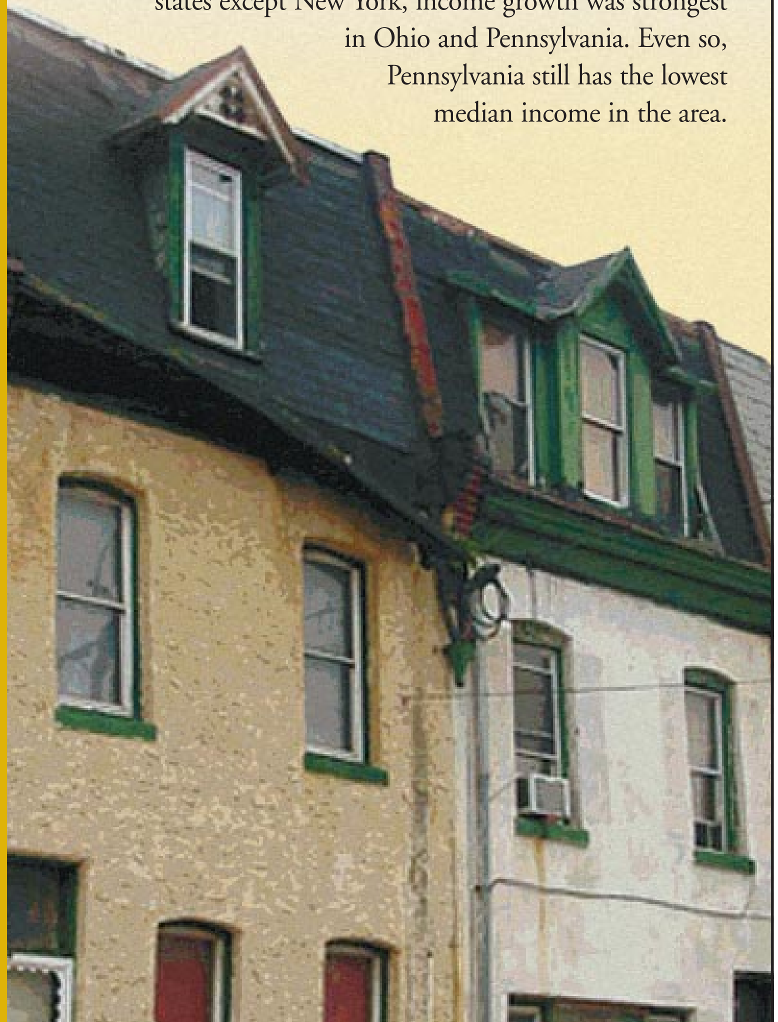
Source: TRF calculations of U.S. Census, 1990 and 2000 data

**Income growth in Pennsylvania has been strong compared to neighboring states, but median income in Pennsylvania is still lower than in surrounding states.**

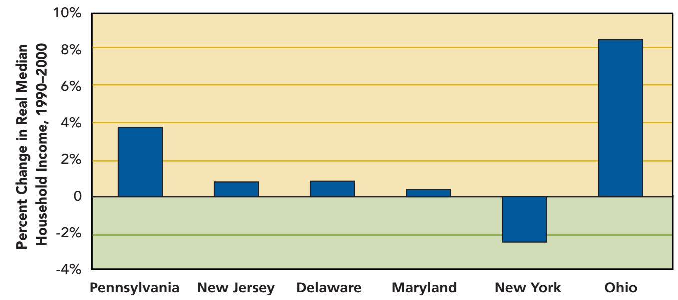
## After inflation, the median household income in Pennsylvania grew by 4% between 1990 and 2000.

In 2000, the median household income in Pennsylvania was $40,106. After inflation[2], this represents a 4% increase since 1990. Pennsylvania income is only slightly lower than the national median of $41,994.

While incomes grew faster than inflation in all neighboring states except New York, income growth was strongest in Ohio and Pennsylvania. Even so, Pennsylvania still has the lowest median income in the area.

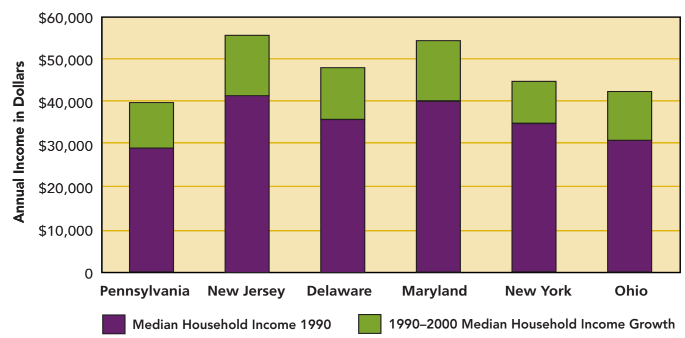


**Median household incomes rose faster than inflation in all MidAtlantic states with the exception of New York. Incomes rose most in Ohio and Pennsylvania.**




Source: TRF calculations of U.S. Census, 1990 and 2000 data

**By 2000, household income was lowest in Pennsylvania.**




Source: TRF calculations of U.S. Census, 1990 and 2000 data

## Highest income households are concentrated in a very few select counties in Pennsylvania — most are located in southeastern Pennsylvania townships.

Communities with the highest median household income (i.e. where income is more than twice the state median) are concentrated in 6 counties. The vast majority of these communities are townships, a few are boroughs and none are cities.

2. Inflation rate of 1.34 as reported by the Bureau of Labor Statistics.

## Communities with Incomes More Than Twice the State Median

| County | Community |
|---|---|
| **ALLEGHENY** | Fox Chapel borough |
| | Sewickley Heights borough |
| | Ben Avon Heights borough |
| | Marshall township |
| | Edgeworth borough |
| | Bradfordwoods borough |
| | Franklin Park borough |
| | Upper St. Clair township |
| | Rosslyn Farms borough |
| | Pine township |
| | Thornburg borough |
| **BUCKS** | Upper Makefield township |
| | Lower Makefield township |
| | Solebury township |
| | Wrightstown township |
| | Northampton township |
| | Buckingham township |
| | Warwick township |
| | Doylestown township |
| | Newtown township |
| **CHESTER** | Birmingham township |
| | West Pikeland township |
| | East Bradford township |
| | Pocopson township |
| | Upper Uwchlan township |
| | East Marlborough township |
| | Easttown township |
| **CHESTER** *(Continued)* | London Britain township |
| | West Vincent township |
| | Charlestown township |
| | Wallace township |
| | Schuylkill township |
| | Kennett township |
| | Westtown township |
| | Thornbury township |
| | Pennsbury township |
| | Tredyffrin township |
| | Uwchlan township |
| | Franklin township |
| **DELAWARE** | Rose Valley borough |
| | Edgmont township |
| | Concord township |
| | Bethel township |
| | Chadds Ford township |
| | Swarthmore borough |
| | Thornbury township |
| **MONTGOMERY** | Whitpain township |
| | Lower Merion township |
| | Lower Moreland township |
| | Upper Dublin township |
| **WASHINGTON** | Green Hills borough |

**Median Household Income in Pennsylvania = $40,106**

Source: TRF calculations of U.S. Census, 2000 data


## 27% of all communities in Pennsylvania have median household incomes of less than $32,000 (80% of the Pennsylvania median).

Unlike the highest income communities, these lower income communities are scattered around the state. Most are small boroughs with a population in 2000 of under 5,000 people. The largest of these lower income communities (with populations larger than 20,000) are listed here.

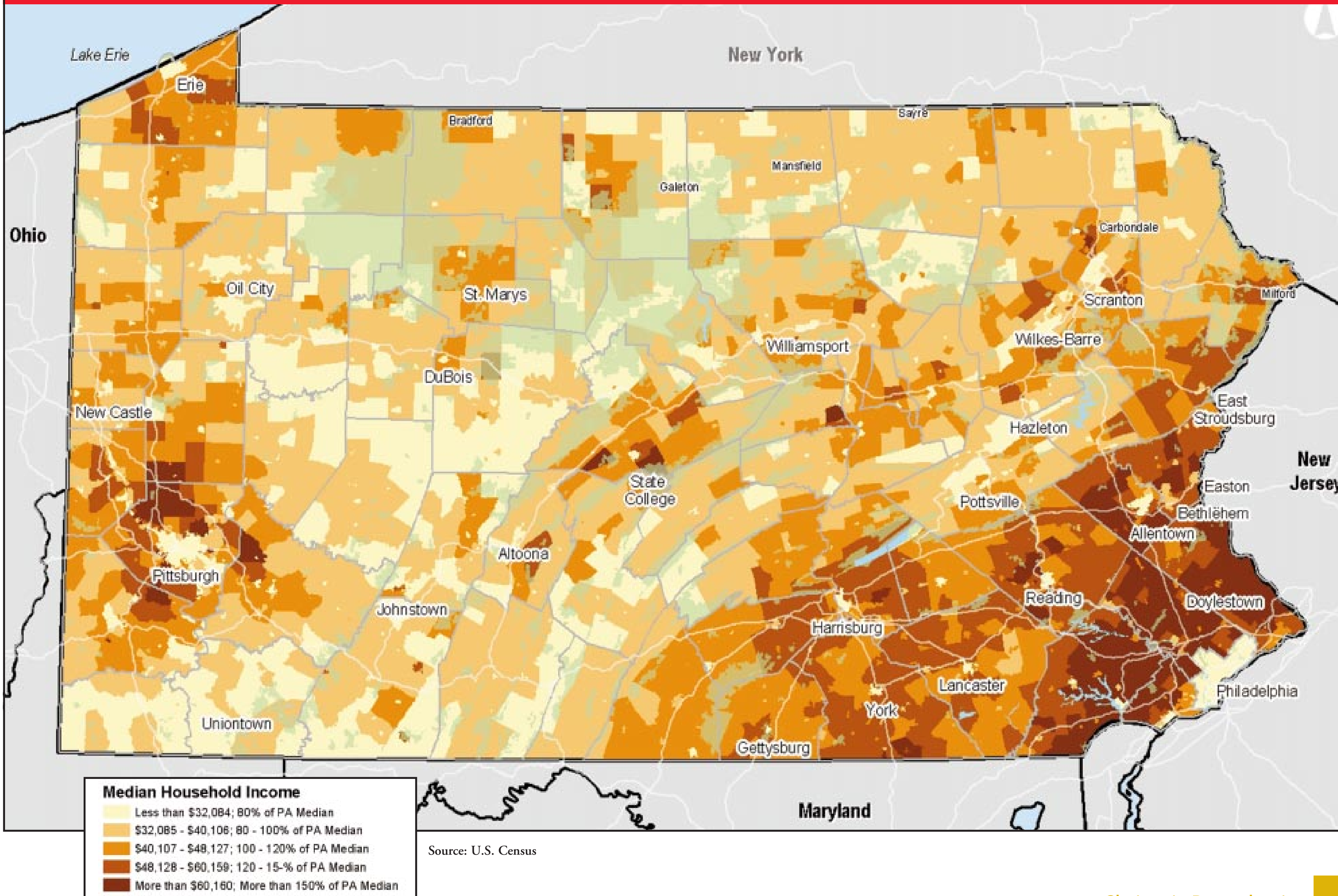
Additionally, 66% of all of Pennsylvania's lower income communities lost population between 1990 and 2000. Of these larger low-income communities, only Reading and Lancaster gained population.

**Large Communities in Pennsylvania with Low Median Incomes (Populations over 5,000)**

| Community | Population (2000) | Income | Population Change Since 1990 |
|---|---|---|---|
| Johnstown City | 23,906 | $20,595 | -15.0% |
| State College | 38,420 | $21,186 | -1.3% |
| McKeesport City | 24,021 | $23,715 | -7.7% |
| New Castle City | 26,311 | $25,598 | -7.1% |
| Chester City | 36,854 | $25,703 | -12.0% |
| Williamsport City | 30,706 | $25,946 | -3.8% |
| York City | 40,889 | $26,475 | -3.1% |
| Reading City | 81,201 | $26,698 | 3.6% |
| Wilkes-Barre City | 43,123 | $26,711 | -9.3% |
| Harrisburg | 49,100 | $26,920 | -6.3% |
| Lebanon City | 24,261 | $27,259 | -1.4% |
| Hazleton City | 23,264 | $28,082 | -5.9% |
| Altoona City | 49,525 | $28,248 | -4.5% |
| Erie | 103,725 | $28,387 | -4.6% |
| Pittsburgh | 334,563 | $28,588 | -9.5% |
| Scranton | 76,415 | $28,805 | -6.6% |
| Lancaster | 56,347 | $29,770 | 1.4% |
| Philadelphia | 1,517,550 | $30,746 | -4.3% |

Source: TRF calculations of U.S. Census, 1990 and 2000 data

## Median Household Income, 2000




Source: U.S. Census

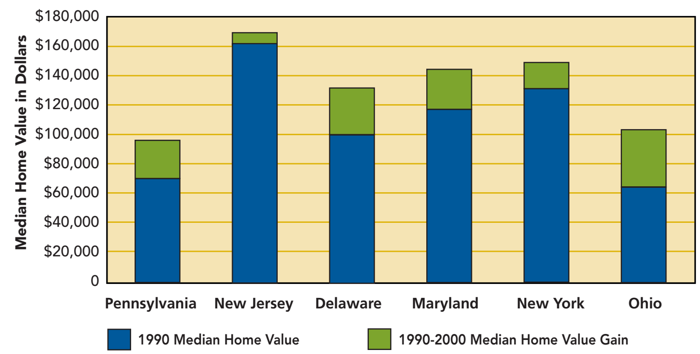
**Pennsylvania's median home value is lower than both the nation's and those of neighboring states.**

According to the U.S. Census, the median home value in the nation in 2000 was $119,600 and represented an 18% increase since 1990, after adjusting for inflation. In Pennsylvania, the median home value was $97,000 in 2000 — an appreciation of only 5.2% since 1990. Compared to neighboring states, Pennsylvania had the lowest home value in 2000.

## The most expensive housing in the state is in counties and communities in southeastern and northeastern Pennsylvania, and around the metro areas of Pittsburgh, Erie and State College.

The top ten most expensive communities with housing values more than triple the state median are: Sewickly Heights, Fox Chapel, and Edgeworth in Allegheny County; Green Hills in Washington County; Upper Makefield and Solebury in Bucks County; and West Vincent, Birmingham, Thornbury and Easttown in Chester County.

**In 2000, Pennsylvania had THE LOWEST median home value in the MidAtlantic.**

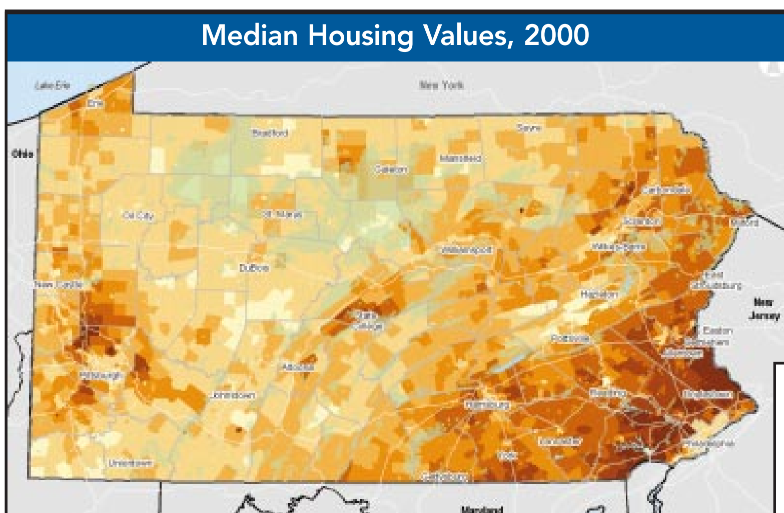


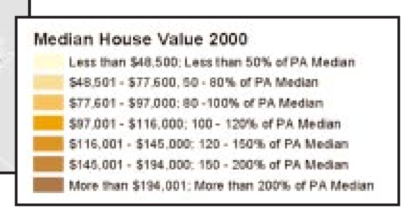

Source: U.S. Census 1990-2000

## The least expensive housing is concentrated in counties and communities in the mid-western section of the state.

The ten least expensive communities with housing values less than half the state median are: Seven Springs in Fayette County; Braddock and Rankin in Allegheny County; Gilberton, Shenandoah and Mahanoy in Schuylkill County; Glasgow in Beaver County; Marianna in Washington County; Coaldale in Bedford County; and Westover in Clearfield County.

Among the 245 large cities in the United States (places with population of 100,000 or more), Philadelphia and Pittsburgh ranked as the seventh and eighth *lowest* value places in 2000. Both had median values of $59,700 in 2000.




Source: U.S. Census, 2000

**Pennsylvania communities — particularly those on the eastern side of the state — saw higher appreciation rates during the end of the 1990s and early 2000s than they experienced during the earlier part of the 1990s.**

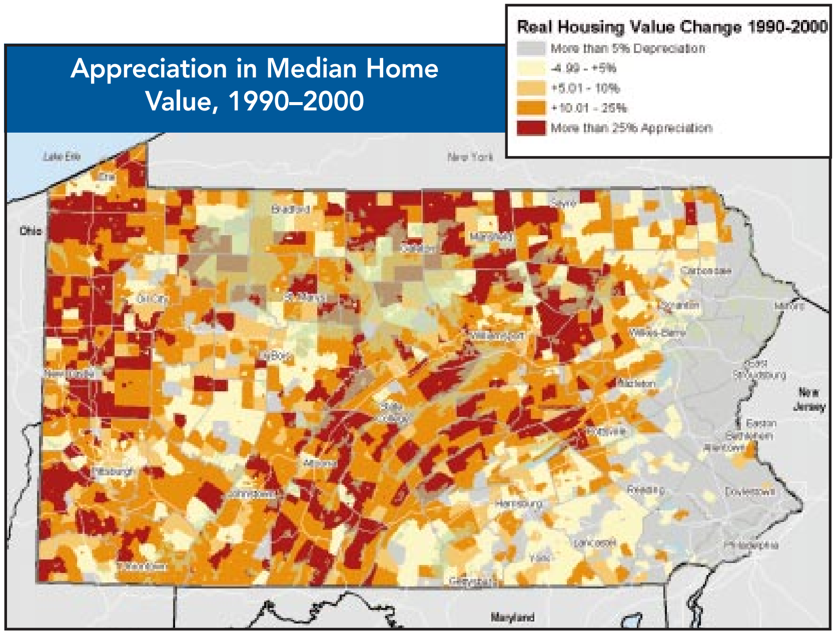
Appreciation rates can vary dramatically depending on the time period analyzed because of variations and cycles within the real estate market. To best gauge appreciation, TRF analyzed two sets of data covering two different time periods: U.S. Census home value estimates for 1990 to 2000 and Home Mortgage Disclosure Act (HMDA) data for 1998 to 2001. (HMDA data represent originated purchase money mortgages by covered lenders.)

These data reveal that:

1. Much of the eastern part of the state, which is home to some of the highest home values, experienced depreciation between 1990 and 2000. Between 1998 and 2001, however, many of these areas experienced extremely high appreciation rates ranging from 125% in parts of Lower Merion to 180% in parts of Monroe County. This variation reveals the extent to which housing prices along the eastern border have escalated in recent years.

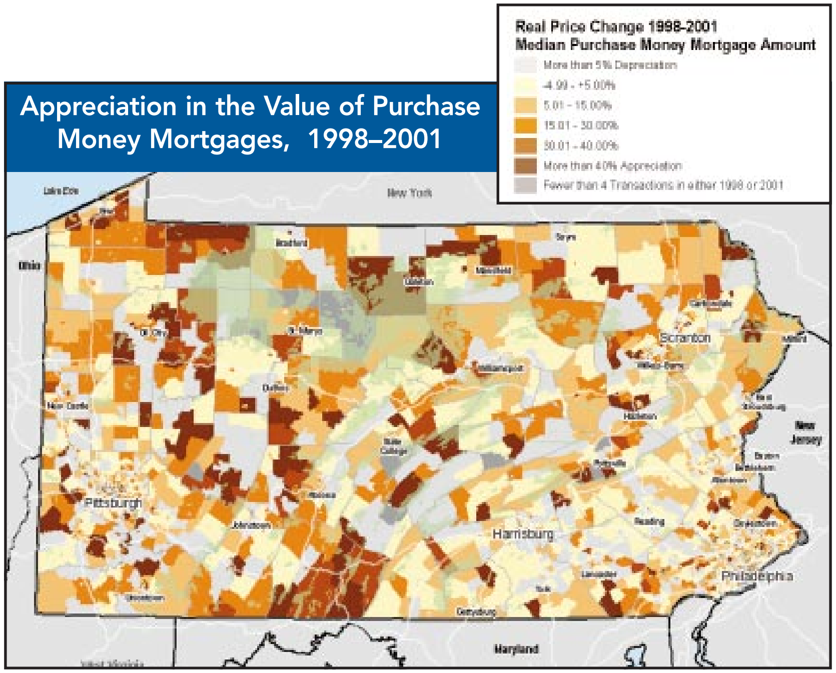
2. Areas such as Monroe Township in Bedford County or Spring Township in Crawford County saw high appreciation rates during the 1990s and tended to be communities with median home values that were lower than the state median. This may be a reflection of the fact that even a small change on a lower-valued home results in a greater percentage change than it would on higher-valued homes.

**Appreciation in Median Home Value, 1990–2000**




Source: TRF calculations of U.S. Census home values for 1990 and 2000 and inflation rate of 1.34 as published by the Bureau of Labor Statistics.

**Appreciation in the Value of Purchase Money Mortgages, 1998–2001**




Source: TRF calculations of HMDA data for 1998 through 2001.

**The stability of homeownership in Pennsylvania is at risk.**

## More homeowners are now paying over 30% of their income for housing costs than in 1990.

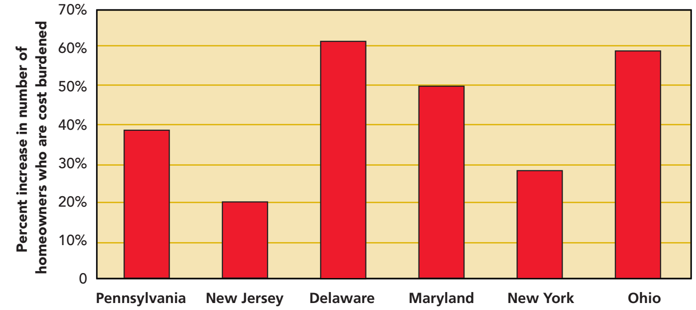
While Pennsylvania maintains low home values and a high homeownership rate, more owners are now burdened by housing costs and pay more than 30% of their income toward housing.[3] In 1990, 16.7% of all homeowners were paying more than they could afford; by 2000, 20.8% were cost-burdened. Additionally, the percentage of homeowners who were more severely burdened (paying over 35% of income) rose from 11.6% in 1990 to 15.2% in 2000.

## More homeowners — at every income level — were burdened in 2000 than were in 1990.

Within all income groups:

- The percentage of homeowners earning between $35,000 and $49,000 who are burdened more than doubled.
- Lower income households are still far more likely to face housing cost burdens than any other income group.

**The percentage of homeowners burdened by housing costs in Pennsylvania rose by over 35% between 1990 and 2000.**




Source: TRF calculations of U.S. Census data, 1990 and 2000.

## High rates of burdened homeowners threaten the preservation of both low and high value communities.

In any given Pennsylvania community, at least 5% of homeowners are burdened by housing costs. In almost half of Pennsylvania's communities, over 15% of homeowners are burdened. Within 23 communities, over 30% of homeowners are burdened. Most of these 23 stressed communities are small boroughs and townships. Half have higher median home values and half have lower median home values suggesting that while some homeowners are burdened because they are low income, others have overextended themselves financially. The largest of these stressed areas are Darby borough in Delaware County, Dingman, Lehman and Delaware townships in Pike County, Tunkhannock township in Monroe County and Homestead borough in Allegheny County.

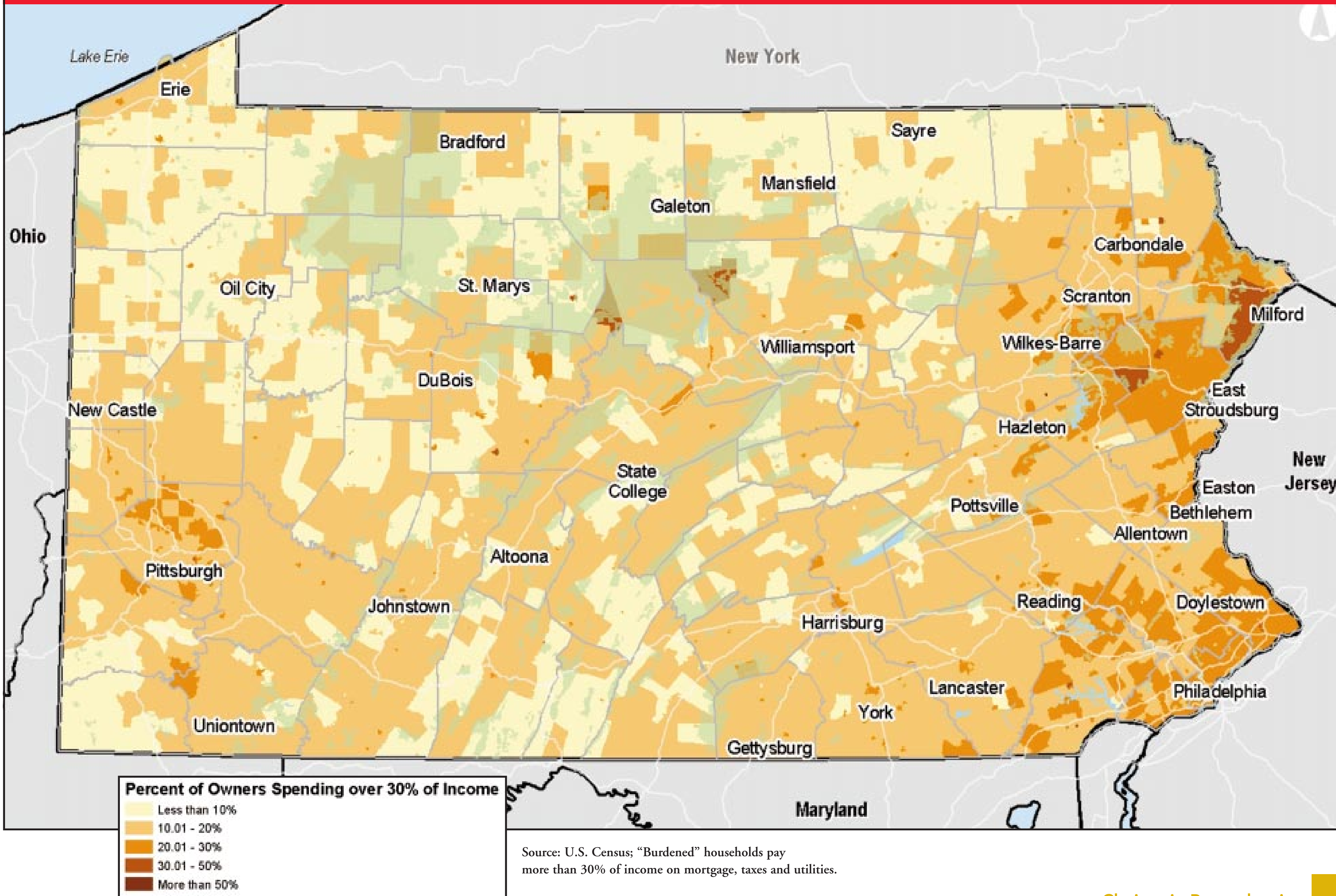
**Percent Homeowners Burdened**

| | 1990 | | | 2000 | | |
|---|---|---|---|---|---|---|
| Income | Homeowners | Burdened | % | Homeowners | Burdened | % |
| <10K | 254,027 | 163,656 | 64.4 | 151,599 | 112,469 | 74.2 |
| 10-19K | 402,463 | 97,637 | 24.3 | 295,743 | 138,550 | 46.8 |
| 20-34K | 648,452 | 98,848 | 15.2 | 508,428 | 156,489 | 30.8 |
| 35-49K | 559,958 | 47,54 | 8.5 | 500,477 | 99,916 | 20.0 |
| 50-74K | | | | 669,700 | 67,495 | 10.1 |
| 75-99K | 756,639 | 31,566 | 4.2 | 361,735 | 17,294 | 4.8 |
| 100-149K | | | | 260,196 | 6,841 | 6.5 |
| 150+K | | | | 141,606 | 1,663 | 1.2 |
| TOTAL | 2,621,539 | 439,247 | 16.7% | 2,889,484 | 600,717 | 20.8% |

Source: TRF calculations of U.S. Census data for 1990 and 2000; "Burdened" homeowners are those paying more than 30% of income on mortgage, taxes and utilities.

3. Housing costs include mortgage, property taxes, and utilities.

## Percent of Homeowners "Burdened' by Housing Costs



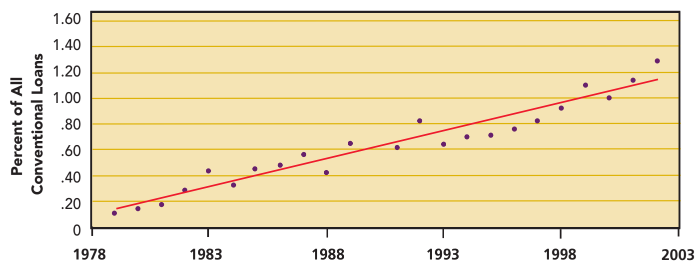

Source: U.S. Census; "Burdened" households pay more than 30% of income on mortgage, taxes and utilities.

**Pennsylvania now has the seventh highest foreclosure rate in the country.**

## Foreclosure data indicates expanding financial trouble for owners.

Between 1979 and 2002, the percent of all conventional loans in foreclosure in Pennsylvania increased from .12% to 1.43%. The fact that Pennsylvania now has the seventh highest foreclosure rate in the nation is particularly alarming.

**Percent of All Conventional Loans in Foreclosure at the End of the Quarter; Pennsylvania, 1979-2002**

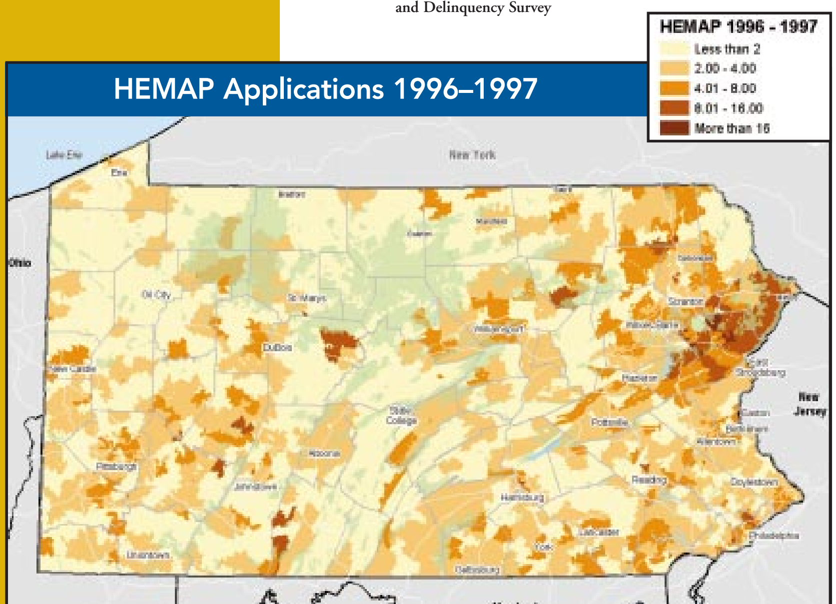


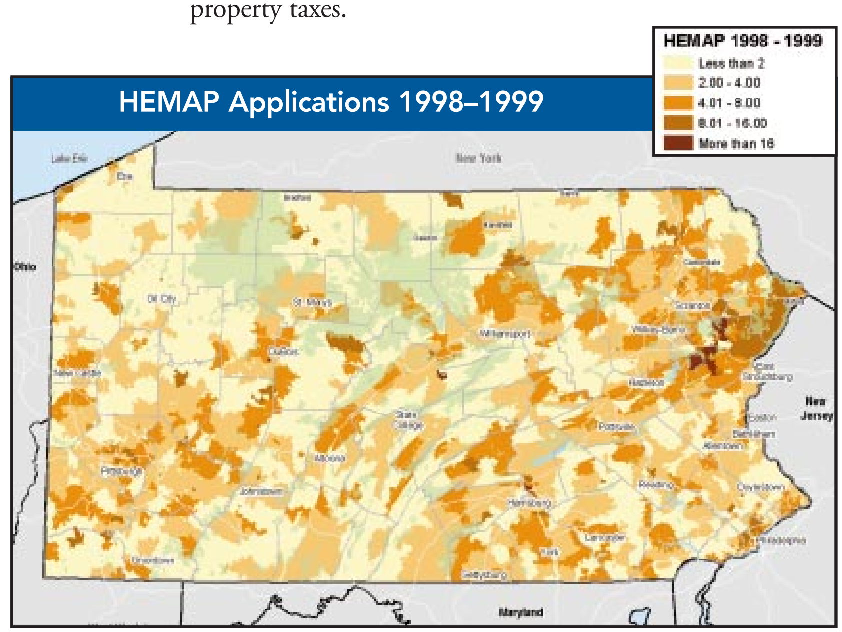

Source: Mortgage Bankers Association of America Default and Delinquency Survey

## In 1996, almost 5,700 households applied to the Commonwealth for mortgage assistance. In 2002, 8,900 did so.

The Pennsylvania Housing Finance Agency (PHFA) operates a program called the Homeowner Emergency Assistance Program (HEMAP). Designed to help homeowners keep up with mortgage payments during periods of unemployment or illness, the HEMAP program is one of the most lauded housing programs in the state.

At a time when incomes are rising faster than inflation and home prices are appreciating only modestly, it seems counterintuitive for homeowner cost-burdens and foreclosure rates to be increasing in Pennsylvania. Recent research suggests that a number of factors may be causing this trend: a weakening economy, increased and inappropriate access to credit, costs associated with an aging housing stock, abusive lending practices and the increasing burden of property taxes.




Source: TRF tabulations of PHFA data.
Applications are per 1,000 owner occupied housing units.

## Weakening economy

During the 1990s, jobs in Pennsylvania grew at just over half the rate of the nation. While employment grew by 19.6% in the nation, it grew by 10.2% in Pennsylvania.[4]

## Aging housing stock

A higher percentage of homeowners in Pennsylvania live in homes built before 1940 compared to surrounding states and the nation. In 2000, 29% of Pennsylvania homeowners lived in homes built before 1940 versus 14.2% nationwide. The costs associated with maintaining these older homes may be unmanageable for a growing number of Pennsylvanians.

## Increased & inappropriate access to credit

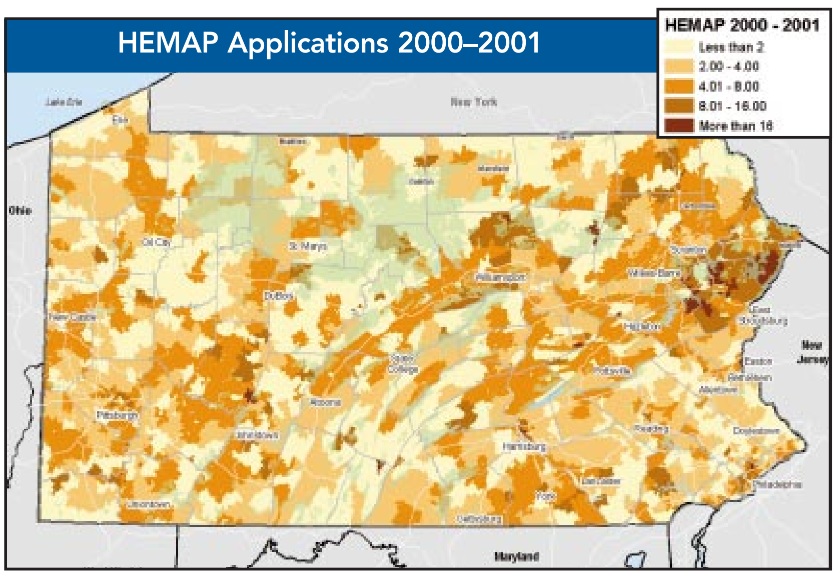
Over the past decade, subprime lending has grown at a tremendous rate. The number of subprime loans reported under HMDA increased tenfold — growing from 104,000 in 1993 to 1 million in 1999 across the nation. In 1994, the $35 billion in subprime loans represented less than 5% of all mortgage originations. By 1999, subprime lending had increased to $160 billion, almost 13% of the mortgage origination market.[5] While this growth has benefited borrowers who were previously unable to access credit through the prime market, the additional debt may be proving too much for many of these households to handle.

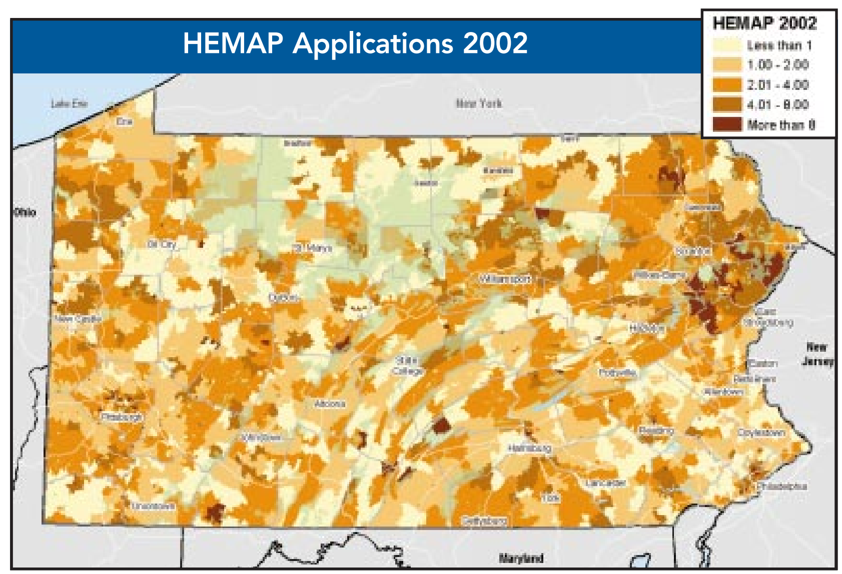
## Abusive lending practices

Studies across the nation suggest that a part of the growing subprime market steers inexperienced homeowners into overpriced loans. Higher than appropriate interest rates and fees, as well as deceptive lending practices, may be forcing these homeowners into foreclosure and financial distress.

## Increasing burden of property taxes

Pennsylvania's per capita property taxes increased 70% between 1989 and 1999 — faster than the 53% national increase. Pennsylvania's tax burden relative to income also increased in this 10 year period, while national trends decreased.[6] As a result, rising taxes may contribute to growing homeowner burdens in some communities.




Source: TRF tabulations of PHFA data

4. Issues PA, 2002.
5. Policy in the New Millennium, Subprime Market Growth & Predatory Lending. Allen Fishbein & Harold Bunce.
6. Pennsylvania's Property Taxes — Too High? Issues PA, 2002.

**Homeowners with the lowest home values are most burdened by property tax payments.**

In Pennsylvania, real estate tax is levied on land and buildings by three governmental entities: counties, municipalities and school districts. The state does not levy a property tax.

"County assessment offices establish the market value of each property and then apply a predetermined ratio to establish a property's 'assessed value.' The ratio could range from 20 percent to 100 percent, and varies from county to county. From this assessment each taxing jurisdiction levies a uniform tax millage rate against the assessed value of each property."[7]

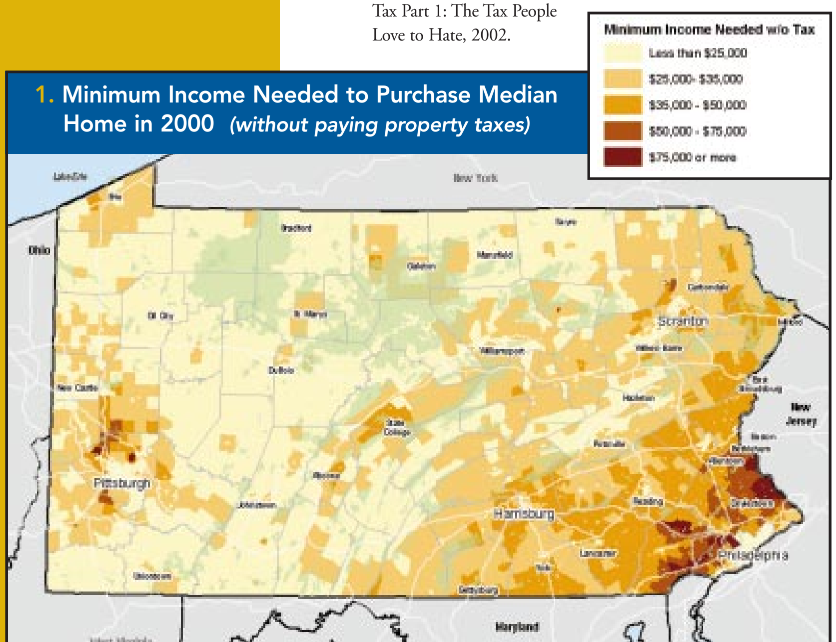
Levies are in tenths of a cent, a unit which is commonly called a "mill." Such levies are multiplied by the assessed value of a property to compute a property owner's real estate tax payment.

**Mills = $1 of tax per $1,000 of assessed valuation**

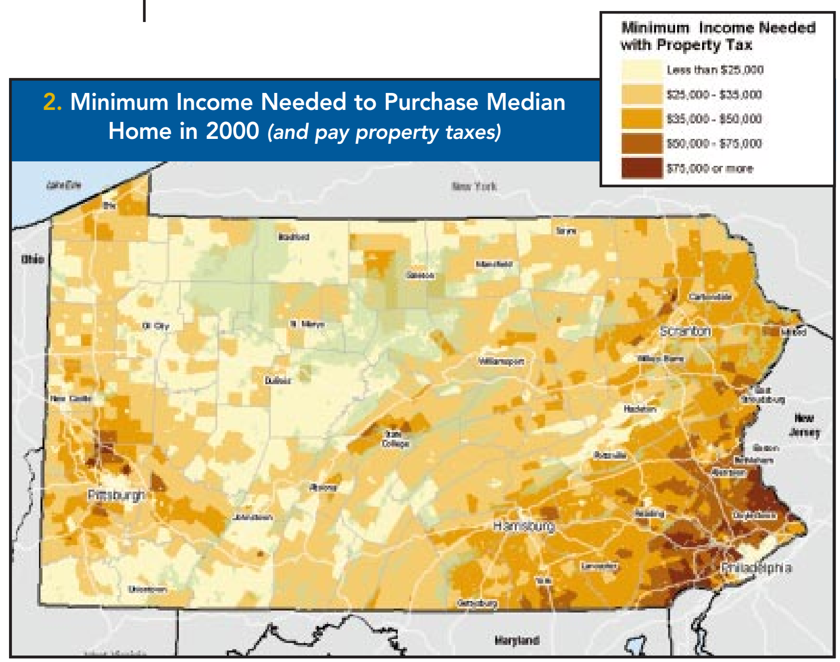
The burden on homeowners, as a result, is dependent upon how reflective assessed values are of market values in a given county and the local tax rate. While the Commonwealth has taken steps to equalize the burden, the burden is not equal among communities.

Since three entities levy taxes, TRF created an additional geographical unit — simply called the "tax unit" — to display and compare property tax burdens. Multiple school districts may serve a single municipality and multiple municipalities may be served by the same school district. As a result, the exact location of a property is important for taxing purposes.

7. Issues PA. The Property Tax Part 1: The Tax People Love to Hate, 2002.




**1. Minimum Income Needed to Purchase Median Home in 2000** *(without paying property taxes)*




**2. Minimum Income Needed to Purchase Median Home in 2000** *(and pay property taxes)*

Source: TRF calculations of U.S. Census, 2000

Counties
Municipalities
School Districts

Overlap in ways that create 2,619 "tax units"

Using this new tax unit, TRF compared the annual income a household would need to earn to purchase the median value home in each area with the annual income needed to purchase the home AND pay property taxes. Finally, TRF analyzed the percentage increase in mortgage payments as a result of property taxes in that area and found that:

1. The most extreme increases were in the Commonwealth's lowest home value areas suggesting that the disproportionate property tax burden in lower income communities may be a factor in forcing more homeowners into foreclosure. These burdened areas are shaded the darkest in Map #3 and include: Chester City, Parkside Borough, Chester Township, Upland Borough, Centralia Borough and New Morgan Borough.

2. The effect that property taxes have on communities can be seen by grouping communities by the income needed to purchase the median home in that area. As the table below indicates, the number of communities affordable to the lowest income households drops by almost half when property taxes are added and only become affordable at the next highest income category.

**Number of Communities with Median Home Values Affordable by Household Income**

| Household Income | Before Taxes | After Taxes | Number of HHs |
|---|---|---|---|
| Less than $25,000 | 1,394 | 840 | 1,456,507 |
| $25,000-$50,000 | 1,102 | 1,537 | 1,443,118 |
| $50,000-$100,000 | 108 | 216 | 1,387,343 |
| $100,000 or more | 5 | 16 | 492,218 |

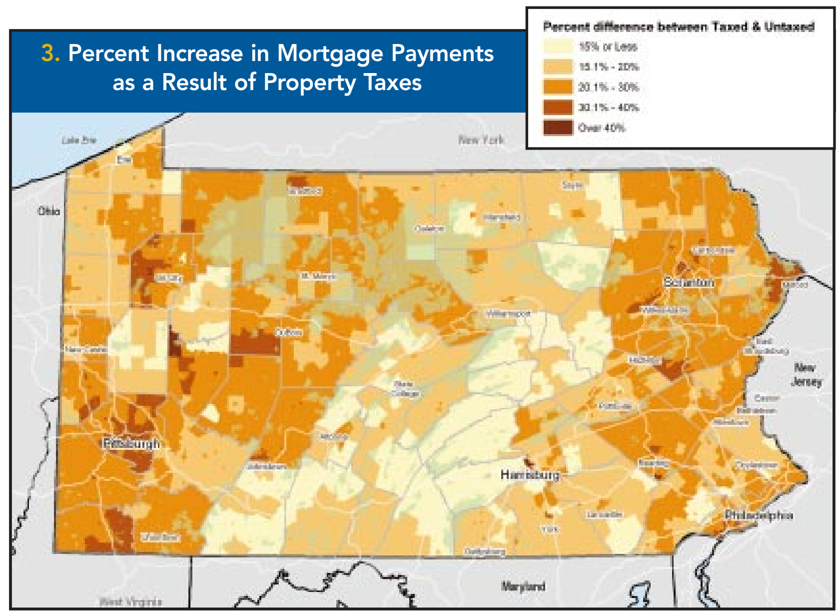
Source: The Reinvestment Fund, Tax Unit Analysis

### Methodology and Sources for Tax Unit Analysis

**MAP 1.** *TRF calculated the annual income a household would need to earn in order to afford the median value home in each "tax unit" in December of 1999. TRF calculated the mortgage payment using an interest rate of 7.97 and assumed that mortgage payments could not exceed 30% of a household's annual income in order to be affordable. (Interest rate from Mortgage Bankers Association average published rate in 12/99; Home Value from U.S. Census.)*

**MAP 2.** *TRF then added the estimated annual property tax for the median value home in that tax unit. TRF calculated the property tax by multiplying the median value by the Common Level Ratio in the county (assessed value), aggregating the county, municipality and school district tax rate in that tax unit and applying that rate to the assessed value. TRF then assumed that the mortgage payment and property tax payment together could not exceed 30% of a household's annual income in order to be affordable. (Common Level Ratios for 2000 from the State Tax Equalization Board; county, municipal & school district tax rates for 2000 from Pennsylvania Governor's Center for Local Government Services.)*

**MAP 3.** *TRF analyzed the percentage increase in mortgage payments as a result of property taxes in that area and displayed that increase.*

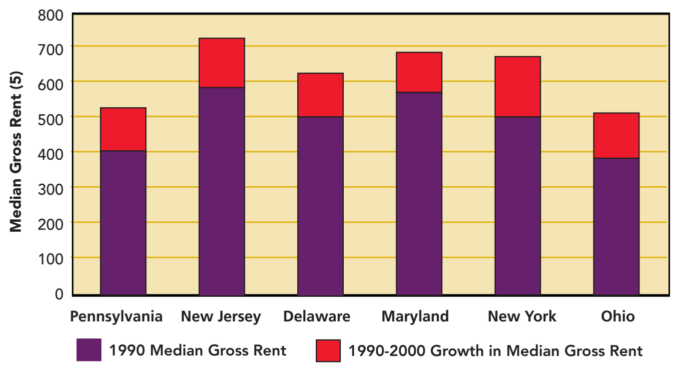



3. Percent Increase in Mortgage Payments as a Result of Property Taxes

**Consistent with national trends, rents were more affordable in 2000 than in 1990.**

While lower than the nation and most surrounding states, the median monthly gross rent in Pennsylvania increased from $404 in 1990 to $531 in 2000. Median income in Pennsylvania rose faster, however, during the 10 year period making renting on average more affordable.

**Median gross rents continue to be lowest in Pennsylvania and Ohio.**




Source: TRF calculations of 1990 and 2000 U.S. Census data

## Still, communities across the state have high percentages of renters who are paying too much for housing.

The highest rents in the state are located along the east side of the state, outside of Pittsburgh, in Altoona and in State College. Nonetheless, the percentage of renters who are burdened by housing costs is significant across most Pennsylvania communities. The largest communities (over 10,000 population) with the most significant percentage (over 50%) of burdened renters include: State College, Centre County; Franklin Park and Whitehall borough, Allegheny County; Indiana borough, Indiana County; and Middletown township, Delaware County.

## Renters are more likely to be burdened than homeowners.

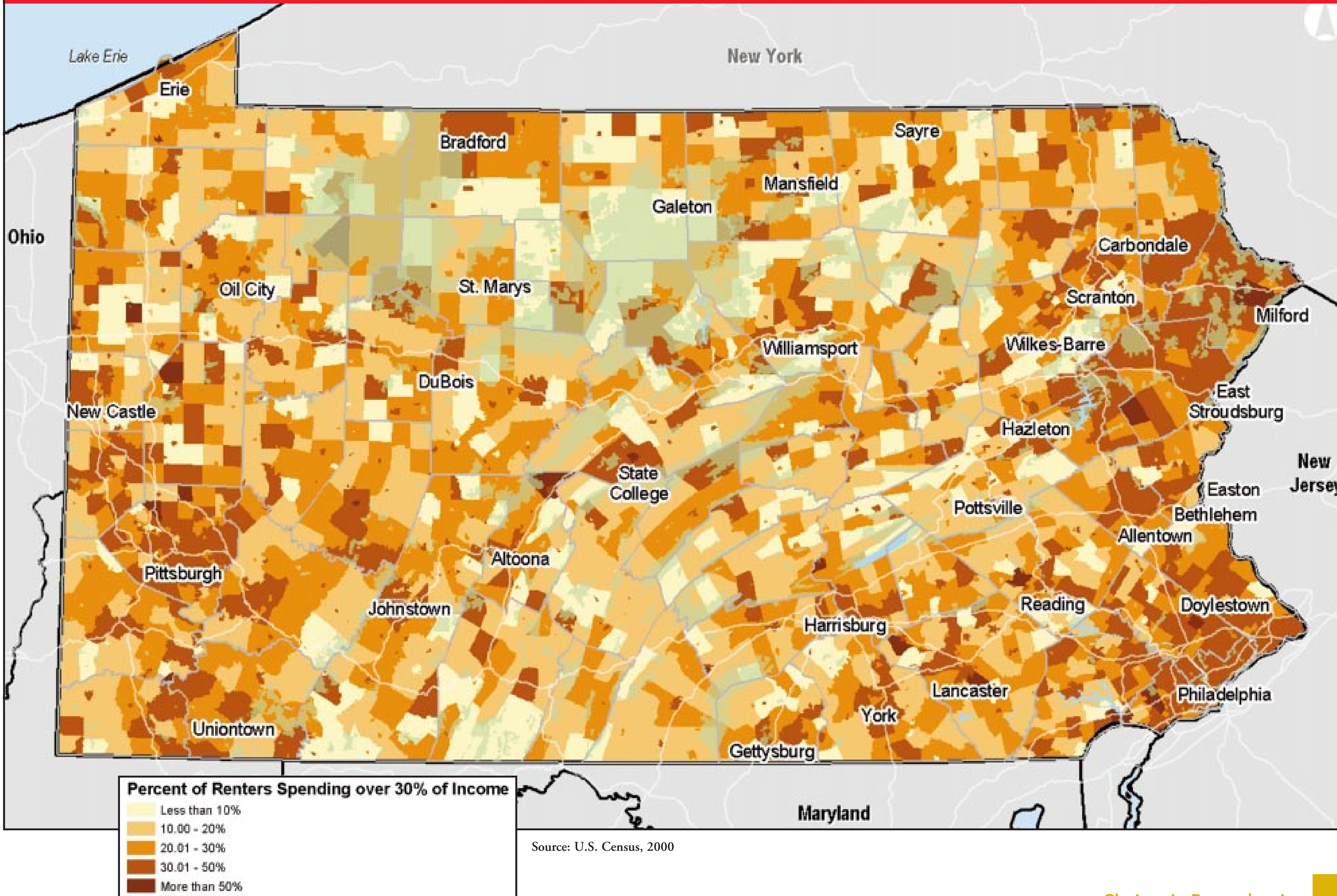
In 1990, renters were twice as likely to be burdened by housing costs than were owners (38% vs. 17%). By 2000, the percentage of renters who were burdened declined (to 33.3%), but the percentage of homeowners who were burdened increased (to 20.8%).

**Percent of Renters Burdened**

| | 1990 | | | 2000 | | |
|---|---|---|---|---|---|---|
| Annual Income | Renters | Burdened | % | Renters | Burdened | % |
| <10K | 377,103 | 268,974 | 71.3 | 272,998 | 185,226 | 67.8 |
| 10-19K | 319,272 | 167,916 | 52.6 | 288,081 | 155,392 | 53.9 |
| 20-34K | 337,723 | 45,395 | 13.4 | 334,007 | 90,503 | 27.1 |
| 35-49K | 156,708 | 4,960 | 3.2 | 207,738 | 13,269 | 6.4 |
| 50-74K | | | | 156,122 | 3,667 | 2.3 |
| 75-99K | 96,856 | 626 | .6 | 51,117 | 540 | 1.1 |
| 100+K | | | | 38,761 | 247 | .6 |
| Total | 1,287,662 | 487,871 | 38% | 1,348,824 | 448,844 | 33.3% |

Source: TRF calculations of U.S. Census, 1990 and 2000 data; "Burdened" is defined to be renters paying more than 30% of income on rent and utilities.

## Percent of Renters "Burdened" by Housing Costs, 2000




Source: U.S. Census, 2000

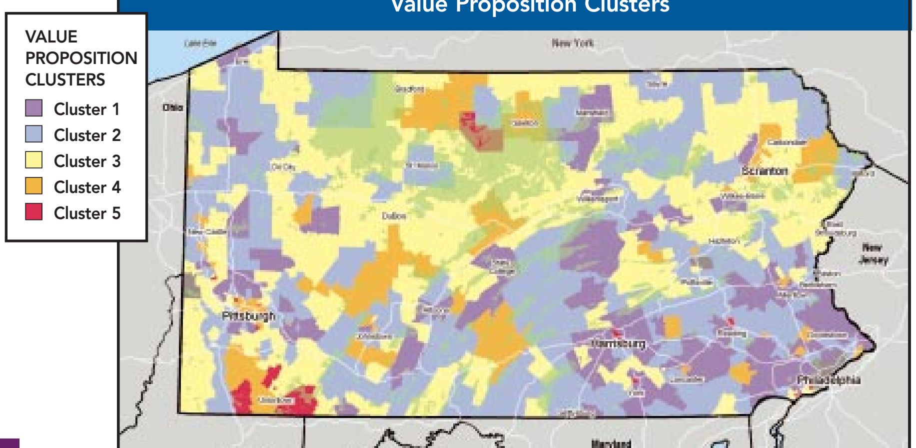
**Communities with the best schools, lowest tax burdens and excellent access to jobs tend to be characterized by high home values; a circumstance that makes it difficult for the state's low- and moderate-income households to take advantage of these assets.**

Households consider a number of factors when choosing where to live in Pennsylvania — such as *schools, taxes, home prices, proximity to work, crime, aesthetic quality of the neighborhood, and proximity to friends and family.*

Many have argued that four of these factors — schools, taxes, home prices and proximity to work — are the primary drivers of home buying decisions in the Commonwealth. For TRF, these factors are the components of what we term the "value proposition." Simply put, households weigh what they must pay in taxes and in a mortgage against the value of the bundle of assets they can obtain in a locality (i.e. schools, public safety, and municipal services). In the end, many households choose to live where they can get the most for their money. The sum of these choices over time creates the population and development patterns we observe in this report.

In an attempt to better understand how households weigh these factors when choosing a community, TRF collected data about each community in Pennsylvania, summarized the data at a community level, and saw that factors clustered together in five different types of community groupings.

### Value Proposition Clusters




Note: Philadelphia is not included in this initial analysis.

## Value Proposition Clusters

### Cluster 1

If you had enough money, you'd choose to live in one of these communities. Schools tend to be the best in the state, the impact of property taxes on a household's annual housing costs is lowest, and plenty of jobs are nearby. Not surprisingly, these areas boast the highest home values and household incomes in the state.

**Community Characteristics**

| | |
|---|---|
| Average SAT Score | 1060 |
| Average Job Category | 7 |
| Median Income | $46,101 |
| Median Home Value | $124,649 |
| Average Property Tax Impact on Housing Costs | 18.6% |

### Cluster 2

These communities tend to be more affordable than the state's most exclusive areas, but still have good schools and lower property tax burdens. Fewer jobs are, however, in the immediate area.

**Community Characteristics**

| | |
|---|---|
| Average SAT Score | 1008 |
| Average Job Category | 5.5 |
| Median Income | $38,778 |
| Median Home Value | $93,886 |
| Average Property Tax Impact on Housing Costs | 20.4% |

### Cluster 3

These communities have lower housing values and incomes, but still tend to have good schools. The impact of property tax on housing costs is, as a result, greater and these areas tend to be located furthest from job locations.

**Community Characteristics**

| | |
|---|---|
| Average SAT Score | 964 |
| Average Job Category | 4.5 |
| Median Income | $34,988 |
| Median Home Value | $76,918 |
| Average Property Tax Impact on Housing Costs | 22.7% |

### Cluster 4

These communities tend to have lower home values, lower school quality and rising tax burdens. At the same time, however, access to jobs is better than in communities in Cluster 3.

**Community Characteristics**

| | |
|---|---|
| Average SAT Score | 919 |
| Average Job Category | 5 |
| Median Income | $31,523 |
| Median Home Value | $70,199 |
| Average Property Tax Impact on Housing Costs | 22.7% |

### Cluster 5

These areas are hampered by low quality schools, lowest home values and highest property tax impacts. Their biggest asset is that they tend to have better access to jobs than any other group of communities in the state.

**Community Characteristics**

| | |
|---|---|
| Average SAT Score | 831 |
| Average Job Category | 6.6 |
| Median Income | $29,688 |
| Median Home Value | $61,296 |
| Average Property Tax Impact on Housing Costs | 53.4% |

### The analysis reveals that . . .

1. The highest income communities are the most advantageous places to live in Pennsylvania. They offer the lowest tax burdens, the best schools and jobs in close proximity.
2. The lowest income communities endure a relatively higher property tax burden and poorer schools. Their single greatest asset is their proximity to employment, but it does not appear to be sufficient enough to raise incomes and values.
3. For the communities in between, the trend is clear. Higher home values bring lower property tax burdens and better schools creating a logical incentive for households to "choose," if they can afford to, communities with the best schools and lowest tax burdens.
4. In the end, proximity to work may not be a strong consideration for households when choosing where to live as communities in the middle income clusters have the poorest proximity to jobs.

| Value Proposition Factor | Data Source |
|---|---|
| **SAT Scores** | Average SAT scores by School District as reported by the Pennsylvania Department of Education for 2000. |
| **Job Category** | TRF calculated the estimated number of jobs available within a 10 mile radius using Zip Code Business Pattern data, and ranked areas 1 through 10 with areas 1 having the worst proximity and 10 having the best. |
| **Median Income and Home Value** | Median Income and Home Value by Municipality as reported by the U.S. Census in 2000. |
| **Property Tax Impact** | As calculated by TRF on pages 24 and 25 to include the combined school, municipality and county property tax on the median valued home in an area. |

5. Communities in the more disadvantageous cluster tend to have substantially larger minority populations than communities in the more advantageous clusters. Across the Commonwealth, communities such as Aliquippa City (35.5% African American), Chester City (75.7% African American), Harrisburg City (54.8% African American and 11.7% Hispanic), McKees Rocks Borough (14.1% African American), Reading City (12.2% African American and 37.3% Hispanic), and York City (25.1% African American and 9.9% Hispanic) serve as examples.

### And implies that the Commonwealth must . . .

1. Change the value proposition by making the cost and quality of public goods — most importantly schools — more competitive so that some of the state's most affordable areas compete as places of choice.
2. Ensure that low and moderate income households have access to advantageous communities and their better schools and lower taxes. To do this means to develop housing programs — such as Employer Assisted Programs — which can support lower income households in higher income areas while reducing problems associated with Not in My Backyard (NIMBY) sentiments.
3. Tailor and direct government housing investment in communities in order to maximize the impact of an investment while also meeting need. Examples might include:
   a. Preservation Activities: To support communities which still have affordable housing and good schools but are threatened by rising foreclosures, loss of population, or a decline in their economic base.
   b. Investment that Builds Local Strength: To leverage and strategically place additional private investment in communities with high taxes and challenged schools.
   c. Targeted Intervention: To provide additional opportunities for affordable housing in the most advantageous areas of the state, reward localities for increasing affordable development and support Employer Assisted Housing.

Federal and state government agencies spent an estimated $3.9 billion in housing in Pennsylvania in Fiscal Year 2002.

**Government funding represents a relatively small portion of the larger private mortgage markets in Pennsylvania. Using this $3.9 billion annually to move the private markets would allow the Commonwealth to have the greatest impact on housing in communities — but the current piecemeal system of public investment in Pennsylvania just isn't designed to do this.**

In 2002, Freddie Mac purchased $15.7 billion single-family loans in Pennsylvania, Fannie Mae, $20.1 billion and Ginnie Mae, $3.2 billion. Their $39 billion annual investment represents a substantial piece of the mortgage money in Pennsylvania — *and is ten times the public sector investment.*

The impact of this public sector investment is further diluted because the Commonwealth has no articulated rationale for guiding this investment, no entity responsible for coordinating investment programs and few outcome measures. The program descriptions and schematic included in the Appendix of this report lay out this complicated, piecemeal system of financing. Lodged in distinct silos, multiple federal and state agencies support more than 67 programs designed to assist localities, authorities, developers and non-profit organizations in the form of grants, loans and insurance investments. Programs are anything but strategic and cohesive. They focus inward on their outputs and not on their collective impact.

### The challenge for Pennsylvania is to:

1. Strategically invest the $3.9 billion in ways that can move these other markets, further the goals of the Commonwealth and propel local market-rate real estate activity. Developing a Housing Strategy as described in the next section can help the Commonwealth articulate its goals, and identify where, and in what way, it wants to invest in communities in order to move markets. The Commonwealth is in a position to directly influence the investment of this $3.9 billion either through legislative changes, executive orders, redesigned programs, board resolutions or negotiations with federal agencies.

2. Address the following problems related to the housing investment programs:

   Funding is dispersed among so many different entities — localities, developers, housing authorities, non-profit organizations — each with its own interests and goals:

   - Local government entities are guided by any one of numerous local housing plans: Consolidated Plans, Comprehensive Plans, Housing Authority Plans, and Land Use Plans.
   - Developers are driven by their ability to get land, acquire necessary funding, obtain local approvals and make a profit. Their activity is deal driven.
   - Non-profits such as CDCs are driven by community plans and their ability to obtain public financing.
   - None of the entities is guided by an overall vision for housing development in the state.

   Funding decisions are made at the state and local levels — not by evaluating the impact of an investment and its ability to move a market or meet a strategic need – but by:

   - Regulations that guide a program.
   - Political interest and the ability of select communities to "get things done."
   - State response to developer interest; developer connections.
   - Ability to create any development within the confines of local zoning regulations.

   Most of the programs do not distribute enough money to any one deal to enable it to simply happen. Most require so much leverage of other resources that the funding system acts as a deterrent to interested developers or unintentionally precludes certain development.

The findings presented here depict the dominant trends related to housing development, housing affordability and housing finance in Pennsylvania. Our recommended course of action to address these issues is to: (1) create a statewide housing strategy that guides investment in housing; (2) empower an individual in the Governor's Office with the responsibility and authority to implement and orchestrate the strategy; and (3) restructure and reorganize housing investment programs.

## 1. Create a Housing Strategy

The Commonwealth must fundamentally change its approach to housing development. It can no longer simply react — to a developer's request for funding; to a locality's interest or disinterest in affordable housing production; to the regulations that accompany funding programs. The Commonwealth wants to have a dynamic effect on real estate markets in Pennsylvania and it can, by creating an investment strategy that is completely counter to the grand funding schematic at the end of this report.

The Commonwealth needs to decide where it wants to go in the near- and long-term, articulate that vision and create goals, activities and funding sources designed to make that vision a reality. Most importantly, the Commonwealth must seek opportunities to strategically invest to move markets and incentivize localities and developers to pursue projects and activities that further the principles and the goals. The Commonwealth must also have in place reasonable and measurable outcomes to determine if it is indeed achieving what it has set out to do.

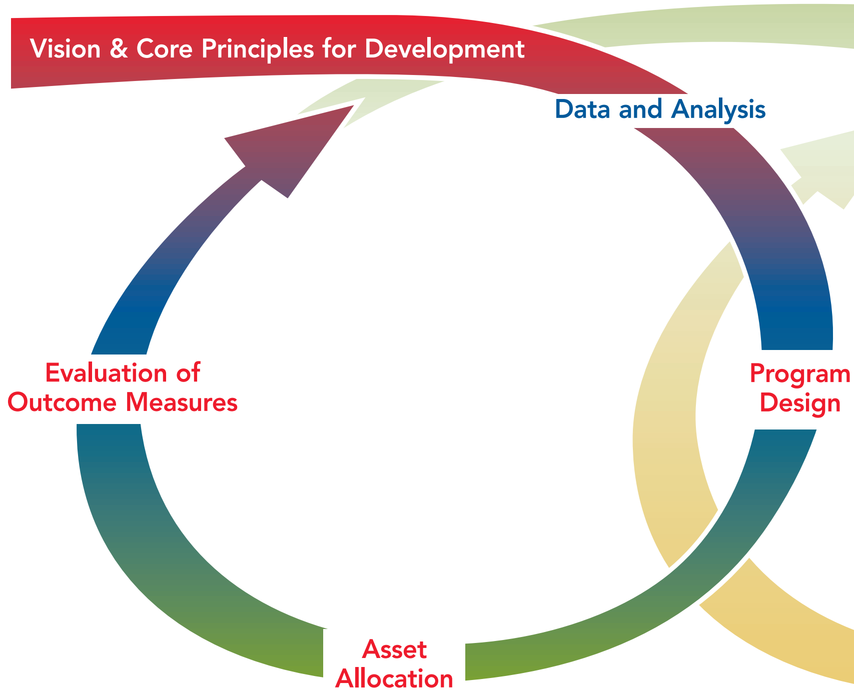
All of this can be accomplished in a Statewide Housing Strategy that:

- Articulates core principles, sets goals, and establishes outcomes to measure success in order to guide public and private housing investment decisions.
- Encompasses all housing development in the state — not just affordable housing production.
- Recognizes local control regarding development and does not mandate or prohibit particular development, but encourages or discourages it through a set of incentives.
- Establishes an objective system for rewarding applications that further these principles.
- More actively solicits interest for development that it wants to see happen.
- Creates a housing investment tool for determining where housing investment might have the greatest impact; finding ways to meet a need while also expanding and growing markets.
- Recognizes the need to "make deals." The Strategy does not replace this deal-making, but gives the political process a rational framework for making these decisions. The strategy establishes a platform to which housing deals should conform.

## Housing Strategy Architecture

The Commonwealth cannot view the creation of a housing strategy as merely a one-time "plan on paper," but rather as its commitment to understand and guide housing dynamics in Pennsylvania by structuring programs and allocating assets in ways that best meet needs and move markets.

The architecture of any strategy requires that systematically gathered data and data analysis guide the creation of the strategy's core principles; that those principles be supported by appropriate program design and asset allocation; and that the Commonwealth evaluate the impact of the strategy by measuring established outcomes. Evaluation can help the Commonwealth re-think what it did and how it will do it better the next year. In the end, the evaluation of those measures and new data analysis — as well as the Commonwealth's vision for itself — would lead to a continuous evolution of the housing strategy to reflect the current circumstances.




## 2. Appoint a Statewide Housing Official

Governor Ed Rendell has already taken this step with the appointment of Larry Segal. Unanimously, interviewees suggested that the state needs someone who is "in charge" of housing within the state — and the menu of 67 programs calls for it. Interviewees described numerous occasions where collaboration among programs failed because it lacked an independent, responsible senior official. Mr. Segal's position can, and should, help free housing programs of their distinct silos.

## 3. Reorganize and Restructure Investment Tools

This report presents key indicators related to housing development, affordability and finance; describes troubling trends; and recommends to the Commonwealth a mechanism for improvement. While the report lays out all of the programs that fund housing in Pennsylvania and discusses the need for a Housing Strategy to guide the use of this funding — it follows that some reorganization of programs and delivery mechanisms will be necessary. This report recommends that the Commonwealth more closely evaluate each of the investment tools presented in the Appendix to better understand the array of changes that should be made to best meet the principles and goals of the evolving Housing Strategy.

# The Commonwealth Must:

### Focus on preservation investments.

Pennsylvania should target preservation investments in communities where schools are fundamentally sound and housing is affordable, but escalating economic and social stress indicators threaten stability.

### Increase the supply of affordable rental units.

Rental cost-burden data point out the need to increase the supply of affordable rental units. Moreover, escalating foreclosure rates and homeownership cost-burdens among low-income households may suggest that government programs over encouraged low-income homeownership during the 1990's.

### Incentivize market-building development in core communities.

As part of its overall commitment to rebuilding Pennsylvania towns and cities the state should incentivize development projects that increase the supply of market-rate housing opportunities in core communities.

### Provide opportunities for moderate income households to access better advantaged communities.

To do this means to develop housing programs — such as Employer Assisted Programs — which can support lower income person in higher income areas while reducing problems associated with "Not in My Backyard" sentiments (NIMBYism).

### Address the crisis of the elderly.

The data makes clear that more seniors have disabilities and mobility problems and the Commonwealth needs to structure programs that can meet their emerging needs.

### Maximize impact of the Commonwealth's housing investment.

Multiple federal and state agencies support over sixty-seven programs that expended over $3.9 billion in FY02 in housing in Pennsylvania. Although this funding represents a very small piece of the larger housing market, the Commonwealth has the ability to direct and influence much of it. The Commonwealth must maximize the impact of this funding by coordinating planning and financial mechanisms — and more importantly by investing in ways that will move the private market.

## And Needs a Strategy That Strives to:

1. Preserve Pennsylvania's existing housing stock and revitalize cities, small towns and boroughs.
2. Incentivize development of affordable housing in advantageous areas of the Commonwealth.
3. Strategically plan for the housing needs of the homeless, elderly and persons with disabilities.
4. Maximize the impact of available housing funds.

# Elements of a State Housing Strategy

**Any housing strategy developed by the Commonwealth must include four essential elements and can be implemented by the new Office of Housing and Community Revitalization through a proposed Implementation Plan. These concepts are outlined here and discussed more fully on the following pages.**

## VISION:

The Pennsylvania Housing Strategy establishes a vision for housing and community development that guides the investment of federal, state and local dollars throughout the Commonwealth.

## PRINCIPLES:

The Pennsylvania Housing Strategy supports four essential principles that define what the Commonwealth wants to see happen as a result of its investment.

## MEANS:

The Pennsylvania Housing Strategy identifies the means by which it intends to fulfill the principles of the Strategy.

## OUTCOMES:

The Pennsylvania Housing Strategy establishes "outcome measures" for determining if the Strategy is having the desired impact on communities and residents in the State. Outcomes are reasonable and measurable.

## Implementation Plan

***Design and articulate Statewide Housing Strategy.***

***Appoint a Statewide Housing Official to oversee implementation of the strategy.***

***Develop a "housing investment tool" for allocating housing resources to achieve greatest impact.***

***Create a point system to give funding preference to housing development that fits with the investment tool and achieves the principles of the strategy.***

***RFP or solicit interest from communities, non-profit and for-profit developers to create development that not only is supported by the investment tool, but also furthers the principles of the strategy.***

PRINCIPLE 1

## Preserve Pennsylvania's existing housing stock and revitalize cities, small towns and boroughs.

**OUTCOMES:**

**Building permit activity in core communities**
**Home sale prices in core communities**
**Home sales in core communities**
**Population in core communities**
**Vacancy rate**
**Foreclosure rate**
**Change in cost burdens for homeowners and renters**

## PRESERVATION

### MEANS

**a. Support communities across the Commonwealth which are threatened with high numbers of homeowners who are cost burdened and facing rising foreclosure rates.**

*Not all communities in the Commonwealth need new housing development. Many would benefit more from assistance to help preserve what they have. The Commonwealth recognizes the valuable assets that homeowners bring to communities and must find ways to support those that are struggling.*

- Evaluate the types of housing products needed to support struggling homeowners, understand where this type of assistance would be most beneficial and implement appropriate programs.

**b. Address rising foreclosure rates and homeowner burdens.**

- *Further study foreclosure trends* throughout the state and prepare a plan to thwart the growing trend.
- *Rethink the notion that homeownership is a universal good* and review state supported homeownership programs. Evaluate foreclosure rates among these programs, determine if programs are encouraging households not ready for the financial burden of homeownership to become homeowners and if program participants are experiencing appreciation with their homes.
- *Recapitalize the HEMAP program.*

**c. Aggressively combat abusive lending practices.**

- *Create an additional source of money to assist victims of abusive practices and replenish that source through affirmative litigation by State Attorney General.*
- *Increase consumer education programs.* If the subprime market has expanded financial opportunities to groups of households previously without access, the Commonwealth should ensure that these households are equipped with the knowledge to make these financial decisions.

## REVITALIZATION

### MEANS

**a. Increase redevelopment of vacant land by addressing its legal, political and financial barriers.**

*Addressing these barriers will help to streamline the process — making it cheaper, simpler and faster for localities to acquire and dispose of vacant land and buildings.*

- **Reform state foreclosure and eminent domain laws** to give municipalities greater ability to acquire and convey abandoned properties quickly and strategically.

- **Make abandoned property owners accountable** for the condition of their property by creating incentives for owners to maintain property; require municipalities to report tax liens to credit agencies and criminalize abandonment.

- **Adopt a rehabilitation subcode** as part of Pennsylvania's new BOCA building code.

**b. Restore real estate markets by using new and more creative financial tools.**

*Core communities around the Commonwealth need more market-rate housing to restore market vitality and must create it with enough scale to affect real growth in demand, financial value, new opportunities and products. Localities need to continue improving their areas to ensure that their communities emerge as places of development. A statewide housing policy should:*

- **Create a residential mirror to Keystone Opportunity Zones** or provide tax abatements for rehab or new construction in core areas of the state.

- **Encourage localities to use Tax Increment Financing (TIFs) to develop market-rate housing** — TIFS, which have generally been used by economic development ventures, can be used to lower the costs of new market-rate construction. Once a project is designated for a TIF, any increases in property taxes resulting from new development are removed from the locality's general revenue stream and used to pay loans that finance the deal.

- **Reduce costs associated with building in urban centers and core communities.**

  - *Urban Centers* — The cost of construction in the Commonwealth's urban centers is a barrier to increasing development in these areas. Some of the increased cost is the result of union work rules. Some, particularly in subsidized development, is the result of federal, state and local regulations. The Commonwealth must evaluate its regulations and ensure that none is raising construction costs unnecessarily.

  - *Core Communities* — While construction costs are more burdensome in the state's urban centers, a recent court ruling may negatively affect smaller core communities. The Court found that TIFs constituted government money, thereby requiring any construction project using a TIF to pay prevailing wage rates. While the prevailing wage may be close to local market rate in the state's urban centers, such is not the case throughout the state. The effect will be excessive cost of construction that will inhibit new development in core communities. If this ruling is found to also cover commercial development, developments like Vanguard or QVC will become harder to attract.

- **Create non-categorical funding to expand markets** — In communities with weak or untested markets where large-scale new development is planned, the state should consider subsidizing the sale price of initial homes in the development to "jump-start" the market.

- **Support Employer Assisted Housing (EAH)** — Expanding on the success of the University of Pennsylvania's effort, the state should support other employer efforts to encourage employees in core communities to live near their place of work. The Commonwealth could consider matching an employer's contribution to an EAH plan, or could create a plan of its own.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- **Expand PHFA's Homeownership Choice Program** — The large-scale, mixed use developments funded by this PHFA program include affordable homeownership and commercial and industrial uses. Their sheer scale and diversity essentially create markets that can increase demand and real estate values.

- **Target new Housing and Redevelopment Assistance (HRA) monies** — As suggested by Governor Rendell, the state's HRA appropriation should be increased and the increase targeted at blight elimination activities particularly such cost-prohibitive pre-development stages such as early architectural, engineering and legal costs.

- **Target a portion of Private Activity bond financing to residential development** — Again, as suggested by Governor Rendell, the state should target the private activity bond volume cap increase for specific use in urban development projects to encourage private investment.

### c. Incentivize localities to manage and sell vacant land and buildings.

*Housing and job growth in suburban and once rural areas of the Commonwealth is a dynamic that consumes open land at a widely disproportionate rate. A statewide housing strategy can help to thwart the trend by encouraging redevelopment in core communities.*

- **Encourage the development of a statewide land bank** — The Commonwealth should make it easy for developers to learn about available land in core communities. Similar to the Brownfield Inventory that the Commonwealth keeps and posts on the Internet, it should encourage localities to inventory their vacant land and buildings. The state could provide localities with a financial incentive for keeping such an inventory as it does with its Brownfield Inventory Grants (BIG) — or it could require all localities to do so through a legislative mandate.

- **Reward new housing developments that occur on vacant abandoned land through tax incentives, gap financing, acquisition dollars and infrastructure investments** — Financing of this kind can be difficult to obtain. State dollars directed towards these activities may help to incentivize development.

- **Reward communities that establish improved business practices around land disposition** — While state legislation provides localities with the basic tools to dispose of vacant land, many communities adhere to antiquated, expensive and time-consuming processes that are not required by law. Localities should be encouraged financially to eliminate these practices.

- **Develop a reasonable framework for the disposition of HUD foreclosure properties** to ensure maximum positive impact upon Commonwealth communities.

PRINCIPLE 2

# Incentivize development of affordable housing in advantageous areas of the Commonwealth.

**OUTCOMES:**

**Number of affordable units developed in identified strategic areas**

**Participation rate of employer-assisted housing programs**

**Number of municipalities with zoning amenable to affordable development**

## MEANS

**a. Incentivize the development of affordable housing in advantageous areas of the state.**

Developing affordable housing in advantageous areas is one of the most difficult challenges, especially in communities with regulatory barriers and strong NIMBY sentiments. The Commonwealth cannot afford to leave this issue alone and must develop mechanisms for creating these affordable opportunities while cultivating support.

- **Identify areas where housing investment makes sense — places where schools are good and jobs are close.**
  - Solicit development in these areas and/or create a point system that rewards development projects in certain areas.
  - Ensure the point system for such development favors mixed-income and multi-family developments.
  - Reward localities for their participation in the development through non-categorical funding.
- **Ensure that housing development accompanies economic development decisions in the state.** The Commonwealth has historically encouraged businesses to move into an area, but has not considered the impact of the move on communities. Housing is not always available for employees and zoning does not always allow for lower income, more dense housing. The state needs to ensure that the housing needs of new workers can be met. Solicit development in areas where new businesses will require workers who would benefit from the opportunity to live closer to their work — and reward localities for their participation in the development through non-categorical funding.
- **Support Employer Assisted Housing (EAH) around non-urban employment centers.** Employers located in high-income areas can use an EAH program to help employees purchase homes in areas near their place of work where, without assistance, they would not be able to afford to live.
- **Reward localities through non-categorical funding for implementing any of the tools designed to reduce barriers to affordable housing.**
  - *Regulatory restriction reductions* — eliminating cost barriers such as impact fees, reduction of permit fees and easement of specified development standards.
  - *Density bonuses* — allowing developers to build more units than local laws would normally allow in exchange for constructing affordable units.

- *Property tax waivers and Tax Increment Financing* — designating increased property tax from an affordable housing development to pay the loans used to finance the project, provide for maintenance or operational subsidies or fund a housing trust.

- *Zoning for Accessory Dwelling Units* — allowing homeowners to rent out a garage apartment or third floor apartment by creating zoning that permits their construction — particularly in higher income communities.

- **Develop model building codes for affordable housing in Pennsylvania.**

- **Evaluate the impact of expiring Section 8 contracts in advantageous areas of the Commonwealth and develop plans for ensuring the long-term availability of those units.**

# PRINCIPLE 3

## Strategically plan for the housing needs of the homeless, elderly and persons with disabilities.

**OUTCOMES:**

**Poverty rate**

**Per capita income growth**

**Vacancy/Absorption rate of special needs housing**

## MEANS

### a. Fully understand the extent and nature of the needs of most vulnerable populations.

Most housing programs in Pennsylvania are designed to create opportunities for lower-income households as well as those with special needs. These programs can have greater impact on the people they serve by adhering to the first three principles presented in this Strategy, and by better understanding the needs of these households — ensuring that individual programs are designed to help households prosper.

- **Bi-annually conduct a study that examines housing trends and needs throughout the state.** Study should include census, home sale, and foreclosure data.

### b. Respond to changes in needs by re-evaluating program purpose and delivery.

Given the data presented in this "Choices in Pennsylvania" report, the Commonwealth must:

- **Adequately provide for growing number of elderly with self-care or mobility limitations.**
    - *Allow Medicaid funding to provide direct and adequate financial support for services for low and moderate income elderly in Assisted Living Facilities.*
    - *Work with Housing Authorities to develop and/or convert existing housing facilities into Service Enriched Housing and/ or Assisted Living Facilities.*
- **Create outcome measures for all programs.** The Department of Community and Economic Development (DCED) is creating outcome measures for its programs. This should be expanded across all housing programs. Outcomes should be reasonable and measurable.
- **Make data-based decisions** regarding the number and location of low-income, senior and affordable housing units. Use results of bi-annual housing study to guide decisions regarding need.

PRINCIPLE 4

# Maximize impact of available housing funds.

**OUTCOMES:**

**Additional investments leveraged**
**Price stability**
**Positive impact on local housing prices**
**Housing starts**
**Vacancy rate**

## MEANS

### a. Invest in areas and projects with the greatest potential impact for the community.

- Develop a data driven strategic Housing Investment Tool for allocating housing and community development investments. The tool should provide a more sophisticated and transparent method for allocating investments that reflects both a comprehensive understanding of real estate markets in Pennsylvania AND supports the Commonwealth's vision and principles for housing development. The tool should allow the Commonwealth to determine which investments have the greatest potential to move markets.

• *Build from Strength* — The State should support new development in strategic areas that has the potential to not only provide for decent and affordable housing, but also to increase opportunities for those that live in those communities to prosper and to spur other development needed in a community;

• *Create Preservation Strategies* — Similarly, the State should support communities that are not in need of new development but rather need assistance to maintain and improve residential and commercial areas.

### b. Coordinate the multitude of housing planning entities.

- **Require one plan at the county level to represent all housing agencies (i.e. housing authority, redevelopment agency, housing office and planning commission.)** — The state housing strategy should require that this one plan conform to the state's housing strategy, guide all housing development in a particular county and cover all of the relevant agencies' needs.

- **Require counties to set goals for reducing vacant land and preserving open space, and to plan for a mix of housing types in close proximity to employment and transportation opportunities while maximizing opportunities to save land.**

- **Require the housing plan to support the county or regional plan for growth.**

- **Require that all new housing development (of any kind) conform to county housing plans.**

- **Provide non-categorical funding to counties that plan for housing on a regional or inter-county level.**

### c. Re-think funding mechanisms.

- **Open up Act 179.** Reconsider how this $60 million is invested to generate the greatest impact possible. The current practice of annually distributing the Commonwealth's HUD dollars to every non-entitlement community (61) in Pennsylvania dilutes the impact. In the end, money is spread so thin that it has little impact. Most communities are able to use this money to support a local planning person's salary expenses or support a small housing program and many — particularly the smaller ones — rely on this annual support. This is a politically sensitive issue among the boroughs and municipalities that count on this funding, but the $60 million could generate far greater impact if invested strategically.

- **Provide Section 108 loan authority for non-entitlement communities.** If communities throughout the state were able to borrow against future entitlement dollars, they could fund larger and more economical projects — ensuring they get a bigger "bang for their buck."

- **Encourage communities — particularly those near emerging employment centers and within good school districts — to use a greater portion of their CDBG entitlement for housing, and not infrastructure.** While entitlement communities are free to use their CDBG monies in any way they choose, the current pattern of Philadelphia and Pittsburgh prioritizing funding for housing while the outside ones prioritize for infrastructure may serve to concentrate poverty in core communities.

- **Encourage counties to develop housing trust funds.** Enabled by Act 137, County Trust funds have been a major source of affordable housing development finance. Currently, 38 of 67 counties have adopted county trust funds.

- **Identify and address inconsistencies in funding programs, such as the inconsistencies in PHFA and USDA regulations which result in lost opportunities in rural areas:**

  - USDA Multi Family housing dollars must be used in conjunction with PHFA tax credits to be feasible. But, the credits only work for larger deals when many times a rural area needs a smaller development.

  - Work with the federal government to change lead paint regulations. Older housing stock can be a natural asset but can become too costly to rehabilitate because of lead-based paint regulations. Rural areas in the state generally do not have the money to deal with lead-based paint costs and turn to a combination of USDA and PHFA assistance. PHFA will not, however, finance a home built before 1978 — and USDA programs are going underutilized as a result.

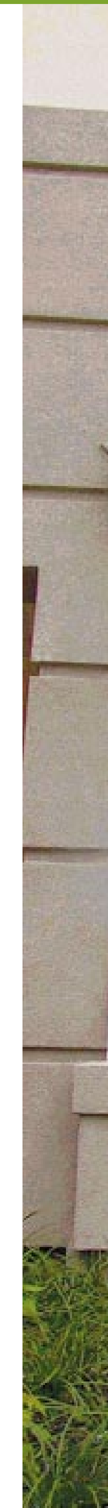
- **Support an independent entity to promote new housing and development concepts in Pennsylvania.** Around the country, cluster and mixed-use housing developments have proven to increase affordability by reducing costs and have become popular in parts because of their efficient use of land. Pennsylvania municipalities remain hesitant to embrace such concepts because they fear higher-densities will mean lower income residents and lower property tax revenues. Municipalities need to be made aware of these best practices and encouraged through funding to pursue higher density development.

- **Allow more sources to be used for critical "gap financing."**

- **Develop statewide plan for the distribution of (Housing Choice Vouchers Section 8) certificates that is based on prioritizing certificates for working households and providing the house near their place of work.**

### d. Restructure current publicly funded housing programs.

- The Housing Strategy Architecture requires that the principles and goals of the strategy be supported by appropriate asset allocation. The Commonwealth must undertake an evaluation of these programs and determine which can best support the strategy and which must be reshaped in order to do so.



## PUBLIC INVESTMENT IN HOUSING

*Understanding where and how housing investment takes place in Pennsylvania is critical. This report takes a closer look at two different types of funding in Pennsylvania to shed light on a few of the problems with the current finance system. These are by no means the largest sources of funding available for housing in the Commonwealth, but are two valuable resources for which we were are able to obtain data. (The report recommends that the Commonwealth evaluate each of its programs in this same way.)*

# Community Development Block Grants

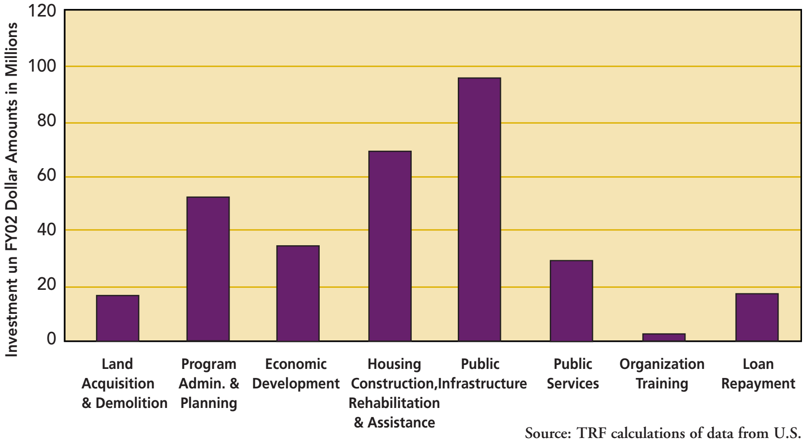
Each year, the Department of Housing and Urban Development (HUD) distributes grant money to 44 entitlement communities (including the Commonwealth) in Pennsylvania. Grants are distributed by a formula that takes into account a community's needs, population, poverty, housing overcrowding and age of housing stock. The largest and most flexible of these grants is the Community Development Block Grant (CDBG).

In addition, the Department of Community and Economic Development receives CDBG funding which it then passes on by a formula created in Act 179 to those communities in Pennsylvania that do not receive direct funding from HUD. Currently, the state distributes funds to 54 counties and 161 boroughs and townships communities in Pennsylvania.

CDBG funding can be used to support a wide-range of housing and community development improvements including housing development, infrastructure, planning, and administrative costs. Understanding how communities across the state choose to spend this funding reveals three underlying problems with the system.

1. HUD distributed $207.9 million in FY02 in CDBG monies to 44 entitlement communities in Pennsylvania. Philadelphia, Pittsburgh and Allegheny County are the three largest entitlement communities in Pennsylvania and received 45% of all CDBG monies in Pennsylvania. They use their funding to support affordable housing development more than than any other eligible. Outside of Philadelphia, Pittsburgh and Allegheny County, the majority of entitlements use their funding to support infrastructure improvements. While infrastructure needs may be great in these communities, the state might be allowing affordable housing to end up concentrated in core areas — apart from more advantageous areas.

**CDBG Investments in PA Entitlement Communities in FY02 by Purpose**




Source: TRF calculations of data from U.S. Department of Housing and Urban Development

2. HUD's formula for distributing CDBG monies takes population into account. The larger an eligible community's population — the larger the grant. In an environment where declining population is a sign of deterioration for a community, HUD money should not decline, but rather increase to help revitalization.

3. Pennsylvania received $58.2 million in CDBG funding in FY2002 and distributed that funding to the 54 counties and 161 municipalities. Many argue that the funding is dispersed among so many communities, regardless of need, that few are able to undertake significant projects with the money.

# Low Income Housing Tax Credits

The Low Income Housing Tax Credit Program (LIHTC) is administered by the Pennsylvania Housing Finance Agency (PHFA) and provides federal tax incentives for the development and preservation of affordable multifamily rental units in the Commonwealth. Tax credits are allocated according to an allocation plan that creates set-asides for: 1) different regions in the state based on the number of households with incomes less than half of the state's median; 2) preservation and rehabilitation; and 3) non-profit organizations.

Developers can apply for tax credits during one of PHFA's credit cycles. Applications are reviewed by PHFA staff and awarded points based on Selection Criteria that take into account:

- need
- amenities (such as laundry or common rooms)
- neighborhood characteristics (such as the availability of transportation)
- involvement in a community revitalization plan
- percentage of low-income residents
- affordability of rents
- special needs and supportive services
- family units
- long term commitment
- developer experience
- ability to proceed

Staff evaluations and points are presented to the PHFA Board where final funding decisions are made. PHFA administers an annual allocation of approximately $20 million for the Commonwealth.

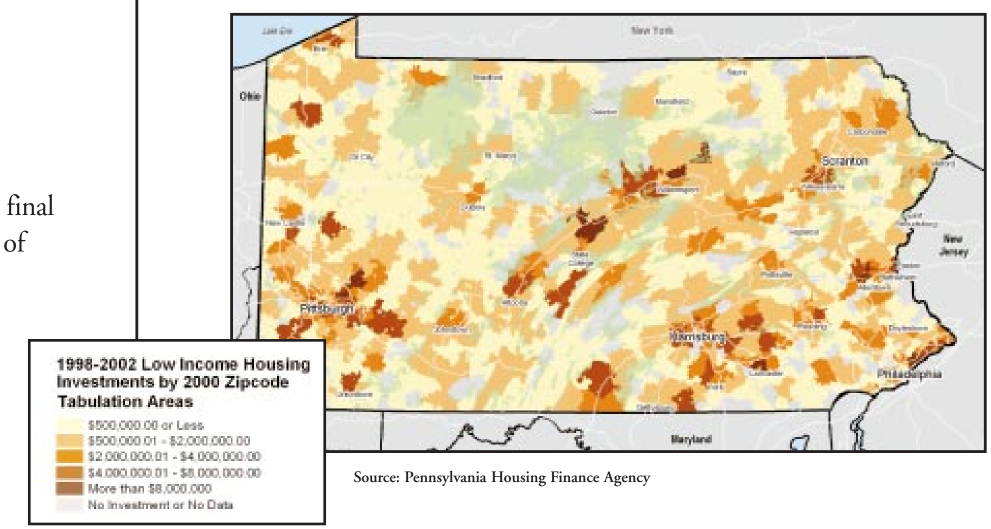
The LIHTC is often described as one of the best housing programs in the Commonwealth, yet tax credits are going unused. At a time when housing advocates are asking the Commonwealth for more money, why is this crucial program underused? Interviews across the Commonwealth suggest the following causes:

Developers must cobble together money from so many different sources, that some feel it is no longer worth it. Interviewees suggest that more developers — possibly some of the more prominent for-profit ones — would enter the affordable housing arena if the funding process was simpler.

Regulations differ among programs making it impossible to pair certain pots of money with others. One example regards USDA and PHFA:

- USDA Multi Family housing dollars must be used in conjunction with PHFA tax credits to be feasible. But, the credits only work for larger deals, when many times a rural area needs a smaller development.

- Lead-based paint regulations are costly. Older housing stock can be an asset but can become too costly to rehabilitate because of lead-based paint regulations. Rural areas in the state generally do not have the money to deal with lead based paint costs and turn to a combination of USDA and PHFA assistance. PHFA does not, however, finance a home built before 1978 — and USDA programs are going underutilized as a result.




Source: Pennsylvania Housing Finance Agency

The diagram provided at the end of this publication depicts the flow of funds of over 67 public sector programs. Here are brief descriptions of these programs.

## U.S. DEPARTMENT OF AGRICULTURE

**Community Renewal:** Rural Enterprise Communities provide tax incentives and exemptions to encourage sustainable economic and community development. Designated sites receive federal grants and tax incentives to stimulate local economic and community development projects. Partnerships including all levels of government, for-profit companies, and non-profit organizations, oversee these efforts. The program's four key principles include: Strategic Vision for Change; Community-based Partnerships; Economic Opportunity; Sustainable Community Development.

**Single Family Home Ownership Loan Guarantees:** This program guarantees private lenders' loans for the purchase of new or existing homes in rural areas with populations of 10,000 or less.

**Single Family Home Ownership Loans:** These 33-year, amortized loans cover up to 100% of the market value or cost of purchasing, building, improving, rehabilitating or repairing homes in rural areas with populations of 10,000 or less.

**Single Family Home Repair Loans and Grants:** Applicants 62 years old and older, living in rural areas with populations of 10,000 or less and with limited incomes, are eligible for these loans and grants. Program funds support efforts to remove health and safety hazards or make other necessary property repairs, including: winterization, the purchase or repair of heating systems, structural work, and water/sewer improvements.

**Self-Help Housing Loans and Grants:** Self-Help Housing Loans support the construction of new housing in rural communities with populations under 10,000. Loans, awarded to individuals working under the supervision of a non-profit housing organization, support site acquisition, construction materials, and the cost of skilled labor. The cooperating non-profit receives a grant to fund a supervisor position and pay other related administrative expenses.

**Rental Housing for Families and Elderly (Section 515):** This program supports the construction or substantial rehabilitation of rental housing in rural areas with populations of 20,000 or less. Program loans extend for up to 30 years with a 50-year amortization. Certain qualified borrowers can receive interest rates as low as 1%.

**Guaranteed Rental Housing for Families and Elderly (Section 538):** This program guarantees loans supporting the construction or substantial rehabilitation of rental housing in rural areas with populations of 20,000 or less. For non-profit borrowers, loans can be as large as 100% of the market value or cost of the project; for-profit organizations can borrow up to 97%. Guaranteed loans must be fully amortized after 40 years.

**Farm Labor Housing:** These loans and grants support the new construction or substantial rehabilitation of rental housing in rural areas with populations of 20,000 or less. Loans can cover up to 100% of the market value or cost of the project and extend for as many as 33 years at a 1% interest rate.

**Housing Preservation Grant:** Housing Preservation Grants support programs that finance the repair or rehabilitation of housing owned or occupied by low-income residents in rural areas with populations of 20,000 or less.

## U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### Community Planning and Development

**Community Development Block Grants (CDBG) — to Entitlement Communities:** HUD distributes CDBG funds to "entitlement communities" — central cities, cities with at least 50,000 residents, and urban counties with at least 200,000 residents (excluding those living in entitled cities). Grant levels are determined by a formula measuring characteristics such as area poverty rates, housing overcrowding, amount of older housing and population decline. The program supports localities' provision of decent housing and increasing economic opportunities, primarily for low- and moderate-income residents. Eligible projects include property acquisition, rehabilitation, or demolition; or the construction of public facilities and infrastructure.

**Community Development Block Grants (CDBG) — to States:** CDBG monies allocated to states based on a statutory formula which incorporates population, poverty, and housing conditions. States then distribute these resources to non-entitlement communities. In the case of Pennsylvania, the state's Department of Community and Economic Development (DCED) oversees these distributions.

**Community Renewal:** HUD's Renewal Communities, Empowerment Zones and Enterprise Communities Initiatives mobilize communities around revitalization by encouraging public-private partnerships to pursue sustainable economic and community development. Designated sites receive federal grants and tax incentives to stimulate local economic and community development projects. Partnerships including all levels of government, for-profit companies, and non-profit organizations, oversee these efforts. The program's four key principles include: Strategic Vision for Change; Community-based Partnerships; Economic Opportunity; Sustainable Community Development. (The U.S. Department of Agriculture is a partner in the Renewal Communities Initiative.)

**Economic Development Loan Guarantee Fund (Section 108):** This tool lets local governments transform a small portion of their CDBG funds into federally guaranteed loans to support large-scale neighborhood revitalization projects and encourage private investments in distressed areas. Local governments use current and future CDBG allocations as security for the loan.

**Brownfields Economic Development Initiative (BEDI):** These competitive grants must by used in conjunction with Economic Development Loan Guarantee Fund (Section 108) to support the redevelopment of contaminated sites for economic development purposes.

**Rural Housing and Economic Development (RHED):** The program supports: 1) Capacity Building and 2) Support for Innovative Housing and Economic Development activities. Possible capacity building activities include staff training, receiving technical assistance, and strategic planning. Development-related activities might include the preparation of plans and architectural drawings, property acquisition or demolition, homeownership and financial counseling, financial assistance for homeowners, businesses, and developers; funds can also support the establishment of CDFIs, lines of credit, revolving loan funds, micro enterprises, and small business incubators. NOTE: Nothing was allocated to Pennsylvania during HUD's 2002 fiscal year.

**Home Investment Partnerships Program (HOME):** The HOME Program provides grants to participating jurisdictions (state and local governments) to support the development of decent, affordable housing for low and very low-income families.

**Self-Help Housing Opportunities Program (SHOP):** SHOP funds can be used by eligible non-profit organizations to purchase properties or make infrastructure improvements in order to set the stage for sweat equity and volunteer-based homeownership programs for low-income persons and families.

**Homeownership Zones:** A combination of competitive grants and loans enable communities to create "Homeownership Zones," or new neighborhoods of single-family homes. These developments let cities replace vacant and blighted properties, increase homeownership, and promote economic revitalization. NOTE: Money was allocated to Pennsylvania only in HUD's 1996 and 1997 fiscal years.

**Emergency Shelter Grants (ESG):** ESG funds support the provision of basic shelter and essential supportive services for homeless individuals and families. Monies can also fund shelter operation, homelessness prevention, and assistance to households facing eviction, foreclosure, or utility shutoffs.

**Supportive Housing Program (SHP):** SHP monies fund the development of supportive housing and other services that help homeless households transition into permanent housing and independent living situations.

**Shelter Plus Care (S+C):** The Shelter Plus Care Program provides rental assistance for hard-to-serve homeless persons with disabilities. This assistance is used in connection with supportive services funded by other sources.

**Housing Opportunities for Persons with AIDS (HOPWA):** The HOPWA Program addresses the specific needs of persons living with HIV/AIDS and their families, and provides funding for housing assistance and related supportive services.

## Public Housing

**Capital Fund Program:** The Capital Fund allocates annual subsidies to Public Housing Agencies (PHAs) to support the development, financing, and modernization of public housing sites as well as for implementing management improvements.

**Housing Choice Vouchers:** Housing choice vouchers allow very low-income families to rent or purchase safe, decent, and affordable privately-owned housing. Both project-based and tenant-based, vouchers pay for the portion of rent or housing costs exceeding 30% of household income.

**HOPE VI Revitalization Grants:** The HOPE VI program supports the transformation of the country's most distressed public housing projects into mixed-income, rental and home-owner neighborhoods. Redevelopment relies on partnerships between various government agencies, local governments, nonprofit organizations, and private companies.

**HOPE VI Demolition Grants:** The HOPE VI program supports the transformation of the country's most distressed public housing projects into mixed-income, rental and homeowner neighborhoods. Redevelopment relies on partnerships between various government agencies, local governments, nonprofit organizations, and private companies.

## Multi-Family Programs

**Basic FHA:** Includes all FHA loans except those financing improvements or additions on apartment or cooperative projects and hospitals. These loans typically finance up to 97% (but can finance 100% for nonprofit owners or as much as 102% for first-time homebuyers) of a home's purchase price. Other benefits include low closing costs and more relaxed credit, debt ratio, and job requirement guidelines.

**Section 202 — Supportive Housing for the Elderly:** Through the Section 202 program, HUD provides interest-free capital advances to finance the construction, rehabilitation and/or acquisition of supportive housing for very low-income elderly persons. Once the projects are built, HUD ensures that housing is affordable for residents through rent subsidies.

**Section 811 — Supportive Housing for Persons with Disabilities:** Through the Section 811 program, HUD provides interest-free capital advances to finance the construction, rehabilitation and/or acquisition of supportive housing for very low-income adults with disabilities. Once the projects are built, HUD ensures that housing is affordable for residents through rent subsidies.

**Insured Mortgages (Sections 207, 213, 220, 221, 223, 231, 232, 236, 241, & 542):** HUD insures mortgage loans to finance the construction or rehabilitation of a broad range of rental housing for low- and moderate-income households, including apartments, single room occupancy (SRO) units, cooperatives, assisted living facilities, nursing homes, and manufactured home parks.

### HUD Building Inventory

**HUD Held Properties:** Buildings currently held by HUD are returned to private or nonprofit ownership through various multi-family and single-family programs.

**HUD Owned Properties:** Buildings currently owned by HUD are returned to private or nonprofit ownership through various multi-family and single-family programs.

### Single-Family Programs

**Mortgage Insurance — 203(b):** HUD insures mortgage loans made by lenders and used to purchase or refinance a household's principal residence.

**Mortgage Insurance — 203(k):** FHA's 203(k) mortgage program allows buyers to finance both the purchase price and cost of needed repairs.

**Officer Next Door:** The Officer Next Door (OND) program makes homeownership easier and more affordable for Law Enforcement Officers. Qualified bidders receive a 50 percent discount on any HUD home in a designated Revitalization Area. Coupled with an FHA-insured mortgage, officers can finance all closing costs and make a down payment of only $100.

**Teacher Next Door:** The Teacher Next Door (TND) program makes homeownership easier and more affordable for teachers. Qualified bidders receive a 50 percent discount on any HUD home in a designated Revitalization Area. Coupled with an FHA-insured mortgage, teachers can finance all closing costs and make a down payment of only $100.

**Dollar Homes for Local Governments:** "HUD's Dollar Homes initiative lets local governments purchase certain HUD-owned homes for $1 each to create housing for families in need and to benefit neighborhoods. (Eligible properties include those acquired by the Federal Housing Authority through mortgage foreclosure that FHA is unable to sell for six months.) This discount leaves more money available for the rehabilitation and resale of purchased properties. Local governments can combine this with other programs or partner with non-profit homeownership organizations to maximize benefits for low- and moderate-income families and area neighborhoods." (Department of Housing and Urban Development)

**Sales to Non-Profits:** HUD also sells HUD-owned properties to community-based non-profit organizations for as much as 30 percent off the appraised value. This discount leaves more money available for the rehabilitation and resale of purchased properties to first-time homebuyers and low- and moderate-income families. As with other programs, organizations can combine these subsidies with favorable FHA insured mortgage financing terms and opportunities for down payment assistance programs.

## PENNSYLVANIA DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

**Community Development Block Grant (CDBG) Program — Entitlement Grant:** DCED's CDBG program provides assistance for local community and economic development projects. Entitlement grants are one type of CDBG funding. This annually supports eligible activities in 27 third-class cities, 127 boroughs and townships, and 54 counties.

**Community Development Block Grant (CDBG) Program — Competitive Grant:** DCED's CDBG program provides assistance for local community and economic development projects. Competitive grants are a second type of state CDBG funding and support selected activities in any non-federal entitlement municipality in the state.

**Community Development Block Grant (CDBG) Program — Technical Assistance Grant:** DCED's CDBG program provides assistance for local community and economic development projects. Technical assistance grants are a third type of CDBG funding; these monies are distributed to organizations to support municipalities' local planning efforts.

**Community Economic Development Loan Program (CEDLP):** This program supports low-interest loans to stimulate self-help initiatives and individual and community-wide asset-building in distressed communities. Eligible projects include property acquisition, building construction or renovation, and working capital.

**Communities of Opportunity:** This program supports local community revitalization and economic development activities. Funding priorities include efforts addressing business retention, expansion and attraction, as well as community revitalization and the development of affordable housing.

**Community Revitalization Program (CR):** The Community Revitalization Program provides grant funds to support local neighborhood stabilization efforts. Eligible activities include the construction or rehabilitation of infrastructure, housing, and community facilities; and planning efforts that identify community assets, address issues surrounding crime and public safety, and assess neighborhood recreation and job training opportunities.

**Community Services Block Grant (CSBG) Program — Entitlement Grant:** CSBG funds support a range of programs aimed at reducing poverty, revitalizing low-income communities, empowering low-income families, and promoting economic self-sufficiency. A network of 44 Community Action Agencies (CAA) and Limited Purpose Agencies (LPA) receive annual Community Service Block Grant disbursements. Eligible activities include housing and economic development efforts, case management, job training, counseling, and educational programming.

**Community Services Block Grant (CSBG) Program — Discretionary Grant:** CSBG funds support a range of programs aimed at reducing poverty, revitalizing low-income communities, empowering low-income families, and promoting economic self-sufficiency. Discretionary funds make up 5 percent of the total CSBG allocation. These awards go to nonprofit community-based organizations to support special or demonstration projects conducted in conjunction with Community Action Agencies.

**Employment and Community Conservation (ECC):** Through ECC, the state funds the initiation or continued implementation of projects that increase economic opportunities for low-income communities and individuals. Eligible activities include job readiness and training, life skills training, and the rehabilitation of vacant properties for housing or community centers.

**Emergency Shelter Grant (ESG) Program:** The ESG Program provides grants to local governments and nonprofit organizations to increase shelter space for homeless individuals and families. Eligible activities include developing new facilities, rehabilitating or upgrading existing facilities, and providing new social services.

**Family Savings Account (FSA) Program:** Family Savings Account Program grants allow localities and nonprofit organizations to match low-income households' own savings. Money saved (both personal and matching contributions) can then be put toward the purchase of a home, education for any family member, or a new business.

**Home Investment Partnerships Program (HOME):** The HOME Program provides grants to participating jurisdictions to support the development of decent, affordable housing for low and very low-income families.

**Infrastructure Development Program (IDP):** This program distributes grants and low-interest loan financing for both public and private infrastructure projects. Eligible activities include the development of new transportation facilities or water and sewer systems, as well as brownfield remediation. (DCED partners with the U.S. Environmental Protection Agency on the Infrastructure Development Program.)

**Industrial Sites Reuse Program (ISRP):** ISRP distributes grants and low-interest loans to support environmental site assessments and remediation efforts on former industrial properties. (DCED partners with the U.S. Environmental Protection Agency on the Infrastructure Sites Reuse Program.)

**Keystone Opportunity Zone (KOZ/KOEZ/KOIZ) Program:** The Keystone Opportunity Zone (KOZ) Program, signed into law in 1998, stimulates development in economically distressed urban and rural communities by reducing state and local taxes to almost nothing. Tax benefits take the form of abatements, credits, waivers, and comprehensive deductions in 12 regional KOZs and 20 sub-zones (including more than 37,000 acres). These areas are prioritized locations for other community and economic development initiatives. The program was expanded to include Keystone Opportunity Expansion Zones (KOEZ) in 2000 and Keystone Opportunity Improvement Zones (KOIZ) in 2003.

**Lead Based Paint Training:** This program distributes information and technical assistance related to lead based paint remediation and safety. (DCED partners with the U.S. Environmental Protection Agency on Lead Based Paint Training.)

**Land Use Planning and Technical Assistance Program (LUPTAP):** LUPTAP provides funds to localities to prepare community comprehensive plans and implement them. The program's technical assistance component both promotes cooperation between municipalities and ensures that eventual land use decisions will adhere to the Land Use Executive Order 99-1.

**Neighborhood Assistance Program (NAP):** NAP is a tax credit program designed to encourage nonprofit organizations and for-profit companies to donate capital for projects serving low-income persons or distressed neighborhoods. Eligible services include crime prevention, education and job training, and neighborhood revitalization efforts. In addition to the general program, DCED also oversees the NAP Comprehensive Services Program and the NAP Enterprise Zone Tax Credit.

**Pennsylvania Access Grant Program:** The Pennsylvania Access Grant Program increases accessibility for low- and moderate-income persons with permanent disabilities by making necessary modifications to their homes. (DCED partners with the Pennsylvania Department of Public Welfare on the Pennsylvania Access Grant Program.)

**Weatherization Assistance Program:** The Weatherization Assistance Program, a federal program, works to reduce energy costs for low-income, elderly and handicapped citizens. The program funds client education activities and also provides high quality weatherization services.

## PENNSYLVANIA HOUSING FINANCE AGENCY

**Homestead Second Mortgage Program — Loan and Closing Costs:** Homebuyers qualifying for the “Homestead” program can borrow from $1,000 to $15,000 in no-interest loans to put towards their down payment or closing costs. (Borrowers are expected to pay at least 3% of overall purchase price and PHFA provides the remainder. In certain cases, PHFA may cover more of the costs to make the property affordable to the buyer.) Homestead loans require no regular monthly payment; repayment is due when the first mortgage is repaid, or at the time of sale, transfer, or refinancing.

**Lower Income Homeownership Program — Loan and Closing Costs:** This program targets certain households (families with children or persons with disabilities) with incomes at or below 80 percent of the median income for the county in which they plan to purchase their first home. First-time homebuyers may also be eligible for closing cost assistance of up to $2,000. Support includes loans, closing cost assistance, and housing counseling.

**Statewide Homeownership Program — Loan:** The flagship of PHFA's programs, the Statewide Homeownership Program provides 30-year, fixed-rate home mortgage loans to first-time homebuyers at below-market interest rates. Loans also have small origination fees, liberal underwriting terms, and year-round availability, and can be used with conventional, FHA-insured, VA-guaranteed or Rural Housing Service (RHS)-guaranteed loans. Income and purchase price maximum limits apply to all loans

**Low Income Housing Tax Credit (LIHTC) Program:** The LIHTC Program provides affordable rental housing owners and developers with tax credits that offer a dollar-for-dollar reduction in their tax liability. (Tax credits are typically sold to investors; proceeds are used to cover project costs.)

**Construction Loan Program:** PHFA's Construction Loan Program makes below market-rate construction loans available to sponsors of rental housing projects where at least 20 percent of the residents have incomes under 80 percent of the area's median income.

**PennHOMES Loans:** The PennHOMES program, PHFA's primary multifamily production program, offers interest-free, deferred payment loans to support the development of affordable rental housing for lower-income residents. Individuals as well as both for-profit and nonprofit entities — including joint ventures, partnerships, limited partnerships, trusts, and corporations — are eligible for loans.

**Homeowner Emergency Mortgage Assistance Program (HEMAP):** HEMAP provides short-term, temporary funding to cure loan delinquencies, by providing mortgage payments to lenders on behalf of qualifying homeowners for up to 24 months. Repayment of assistance is required.

**Homeownership Choice Program:** The HCP supports the construction of for-sale single family homes in urban communities, built in concert with a municipality's comprehensive approach to developing mixed-income communities and encouraging homeownership. The HCP also encourages market-sensitive and innovative land use planning concepts that work with other community and downtown revitalization efforts.

## LOCAL GOVERNMENT HOUSING PROGRAMS

**Housing Trust Funds:** Pennsylvania's Optional County Housing Trust Fund was established in 1992 through Act 137. The Act enables participating counties to double their document recording fees if the revenue raised is designated for local affordable housing efforts. Today, over fifty counties (51 of 67) use County Housing Trust Funds to support homeownership counseling and related services, the development of affordable and senior housing, the maintenance and rehabilitation of older housing, and "Brownfields for Housing."

**Capital and Operating Budget:** Pennsylvania's 2,584 municipalities also use their own money — both operating dollars and capital funds — to support housing-related activities, including homeownership counseling, housing maintenance and rehabilitation, infrastructure improvements, and new development.

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- Pennsylvania Affordable Housing Coalition
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- Monroe County Redevelopment Authority
- Alliance for Building Communities
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