Policy Recommendations to Improve Access to Affordable Housing across the Commonwealth of Pennsylvania

A capstone project submitted to
The Pittsburgh Community Reinvestment Group (PCRG)

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Abstract

In this project, the CMU team sought to analyze barriers to affordable housing across the Commonwealth of Pennsylvania, with a special focus on Western Pennsylvania, and provide actionable recommendations on how to address some of those barriers. This report first documents a Needs Assessment, which estimates the supply and demand for affordable housing in Western Pennsylvania. This report then documents eleven major obstacles inhibiting residents from accessing affordable housing in Pennsylvania, which the team identified through ethnographic interviews with housing experts across the state. Lastly, this report outlines three key recommendation areas where the team believes progress can be made on state-level policies which would improve access to affordable housing. These three recommendation areas include case study comparisons to other states and provide specific and actionable ideas on how to move forward with policy implementation. The three recommendation areas are: increase landlord participation in the Section 8 Housing Choice Voucher Program, increase funding to land banks, and increase funding to Community Land Trusts.

Abbreviations

Acronym	**Definition**
ACHA	Allegheny County Housing Authority
ACS	American Community Survey
AMI	Area Median Income
BAMP	Builders Association of Metropolitan Pittsburgh
CARES	Coronavirus Aid, Relief, and Economic Security
CLRC	County Land Reutilization Corporation
CLT	Community Land Trust
CMU	Carnegie Mellon University
CDBG	Community Development Block Grants
CHAS	Comprehensive Housing Affordability Strategy

FHA	Federal Housing Administration
HACP	Housing Authority of the City of Pittsburgh
HAMFI	HUD Area Median Family Income
HCV	Housing Choice Voucher
HDAP	Housing Assistance Development Program
HIB	Housing Infrastructure Bond
HOME	HOME Rental Assistance Program
HUD	U.S. Department of Housing and Urban Development
IZ	Inclusionary Zoning
LIHTC	Low Income Housing Tax Credit
MHFA	Minnesota Housing Finance Agency
MPC	Municipalities Planning Code
MR	Mod Rehab
MTW	Moving to Work
NOAH	Naturally Occurring Affordable Housing
NHPD	National Housing Preservation Database
NHTF	National Housing Trust Fund
OHCS	Oregon Housing and Community Services
OHFA	Ohio Housing Finance Agency
OHTF	Ohio Housing Trust Fund
OIG	Office of Inspector General
PBV	Project Based Vouchers
PCRG	Pittsburgh Community Reinvestment Group
PH	Public Housing
PHA	Public Housing Authority
PHARE	Pennsylvania Housing Affordability and Rehabilitation Enhancement
PHFA	Pennsylvania Housing Finance Agency
RAD	Rental Assistance Demonstration
RACP	Redevelopment Assistance Capital Program
RHS515	Rural Rental Housing Loans Section 515
RTT	Realty Transfer Tax

S202	Section 202
S8	Section 8
TIF	Tax Increment Financing
USDA	U.S. Department of Agriculture

Executive Summary

This report documents findings from a sixteen week research project that a Carnegie Mellon University (CMU) team conducted at the request of the Pittsburgh Community Reinvestment Group (PCRG). In this project, the CMU team sought to analyze barriers to affordable housing across the Commonwealth of Pennsylvania, with a special focus on Western Pennsylvania. This report includes a Needs Assessment, which estimates the supply and demand for affordable housing in Western Pennsylvania. It also documents eleven major obstacles inhibiting residents from accessing affordable housing in Western Pennsylvania, which the team identified through interviews with housing experts across the state. Lastly, this report outlines three key recommendation areas where the team believes progress can be made on state-level policies which would improve access to affordable housing

Needs Assessment

The team completed a Needs Assessment which analyzed data on both the supply of and demand for affordable housing units in Western Pennsylvania. In this Needs Assessment, we chose to analyze three different categories of Western Pennsylvania counties: rural, suburban, and urban. For rural, we used Greene County, for suburban - Butler County, and for urban - Allegheny County. Allegheny County has 28,662 units (408 projects), Butler County has 1,043 units (26 projects), and Greene County has only 709 units (8 projects).

Survey of Barriers

The team conducted ethnographic interviews with subject matter experts in the affordable housing ecosystem across the Commonwealth to develop a survey of critical barriers. The team interviewed a total of 23 experts on affordable housing consisting of representatives from state and local government, community development organizations, the Federal Reserve Bank, private development companies, academics, and journalists. Our findings surfaced three different categories of barriers: political, legal, and financial barriers. These barriers are summarized in the graphic below.

Political Issues

1. Waning Political Support for Public Housing.
2. Pennsylvania's Deteriorating Affordable Housing Stock.
3. Investor Speculation and Gentrification Leading to Displacement.
4. Lack of Programs and Policies Focused on Affordable Homeownership.

Legal Issues

1. Discrimination Against Section 8 Housing Choice Voucher Participants.
2. Legal Setbacks Regarding Inclusionary Zoning.

Financial Issues

1. Lack of LIHTC Funding.
2. Lack of PHARE Funding.
3. Lack of RACP Funding Specifically Dedicated to Affordable Housing.
4. Lack of Consistent Funding for Land Banks & Community Land Trusts.
5. Unsustainable Costs for Construction of New Affordable Housing.

Recommendations

Lastly, the CMU team concluded their research by providing three actionable recommendations. The recommendations are based on both the quantitative research and qualitative research that we have conducted over the last sixteen weeks. The first recommendation is to increase landlord participation in the Section 8 Housing Choice Voucher Program. The second recommendation is to increase funding to land banks. The third recommendation is to increase funding to Community Land Trusts. These recommendations aim to address the needs identified in both our Needs Assessment section and the Survey of Barriers section.

Problem Statement

This report has been produced at the request of the **Pittsburgh Community Reinvestment Group (PCRG)**. PCRG is a non-profit organization located in Western Pennsylvania. Since 1988, PCRG has advocated for sound public policy and government practices to revitalize low- to moderate-income communities at the local, state, regional, and federal levels.

In this project, we sought to analyze barriers to affordable housing across the Commonwealth of Pennsylvania, with a special focus on Western Pennsylvania. Next, in completing this task, we examined other states with similar barriers and policies to identify areas of possible policy improvements. Finally, we sought to provide a few specific and actionable recommendations on state-level policies which would improve the environment for affordable housing.

Project Focus

- **Analyze barriers to affordable housing across the Commonwealth of Pennsylvania, with a special focus on Western Pennsylvania**
- **Examine other states with similar barriers and policies to identify areas of possible policy improvements**
- **Provide specific and actionable recommendations on state-level policies which would improve the environment for affordable housing**

Background

The American Dream was defined, in part, as the ability of a household to own a single family home. Half a century ago, that aspiration seemed more or less attainable for most Americans. Fast forward to today and that dream has become significantly harder - if not impossible - for so many American families and individuals.

The U.S. government's mission to support and enable affordable homeownership generally started with the establishment of the Federal Housing Administration (FHA) in 1934, and the U.S. Housing Act of 1937. In ensuing decades, the federal government, along with state governments, non-profits, and private entities, have experimented with various other policies and programs to promote homeownership, create new affordable rental units, and subsidize low-income families to pay their housing costs.

In the late 1950s and 1960s, Congress created several programs which offered low interest rates to private owners to spur affordable housing construction, while also investing in public housing through the Department of Housing and Urban Development (HUD). Federal policies affecting the affordable housing space largely pivoted away from public housing in the 1970s. In January 1973, for instance, President Richard Nixon signed a moratorium on the construction of new rental and homeownership housing via HUD programs. In addition, the following year, the Housing and Community Development Act made significant changes to a variety of federal housing programs, marked by a focus on block grants and an increase in the authority granted to local jurisdictions (often referred to as "devolution of authority"). This act was also the origin of the Section 8 Housing Choice Voucher Program (S8), a supply-side program which distributes money to low-income households via housing vouchers which can then be used to pay rent.

In the mid-1980s came the creation of the Low Income Housing Tax Credit (LIHTC) program, a federal subsidy that helps to finance the construction and rehabilitation of low-income affordable rental housing. Then, since the late 1980s, federal investments in affordable housing steadily decreased.

More recently, as the Great Recession took hold starting in 2007, demand for housing increased significantly while the supply of new housing units plummeted. Families were squeezed out of the home ownership market, adding upward pressure on demand for rental properties. Meanwhile, few households were building new housing, leading to a massive lull in housing construction.

In the fifteen years since the Great Recession, the supply of new single-family and multifamily buildings has grown. However, construction has not kept pace with the rise in demand, as reflected in falling vacancy rates across the country, increasing rents, and increasing home sale prices. Thus, both home ownership and rental market costs have spiraled upward, especially throughout the Pandemic, leading to the housing affordability crisis of today.

On a national level, the United States is facing a shortage of affordable housing -- for households wishing to both rent and own. The shortage is most severe for households which are 'cost burdened,' which HUD defines as household incomes at or below the federal poverty level or 30% of their area's median income (AMI), whichever is higher. In Pennsylvania, 682,420 of owner households (19.6%) are cost burdened. Similarly, 42% of renter households, or 660,720 [1] statewide, are also cost burdened.

Because the federal government has both decreased its funding for housing programs and delegated a large amount of its authority over housing policies, state policy plays a major factor in the housing market. Moreover, as Pennsylvania is a Dillon's Rule state, policy made at the state level typically determines what local cities and municipalities can and cannot do to make housing more affordable.

Dillon's Rule Versus Home Rule

Dillon's Rule takes a narrow approach to local authority, essentially stating that local governments only have the powers expressly granted to them by the state's legislature. Home Rule, in contrast, gives local governments greater autonomy and limits the power of the state government to interfere in local affairs.

Most of Pennsylvania follows Dillon's Rule; however, some Pennsylvania municipalities have adopted Home Rule charters. Thus, starting in 1951 with Philadelphia, the PA legislature transferred some of its authority to these home rule municipalities, meaning that these municipalities typically have greater leverage to act, but only where where specifically authorized by state law. Examples of home rule municipalities include Philadelphia, Pittsburgh, and Norristown.

For example, the Pennsylvania General Assembly has largely delegated the power to plan and regulate land use to local municipal governments. Much of

[1] CHAS HUD Data based on ACS 2015-2019

this power is granted through Pennsylvania's Municipalities Planning Code (MPC), but several other state statutes also empower local governments with land use controls. In this way, Pennsylvania state policy often enables local municipalities to make local zoning decisions, which can significantly affect housing affordability. This is not always the case, however, as some municipalities within Pennsylvania have Home Rule Charters. Those municipalities may only make housing policies which align with policies authorized by the state legislature.

In addition to municipal authorization, funding for affordable housing is another key lever which the state legislature controls. For example, the Pennsylvania General Assembly recently established a new funding program called the Whole Home Repair Program. The program received a $125 million appropriation in the Commonwealth's 2022-2023 budget. Through that program, up to $50,000 for repairs will be available as grants for low and moderate-income homeowners and loans to small landlords renting affordable units. State funding programs like this are essential in combating the affordable housing crisis, yet, as we will discuss below, several of these programs are chronically underfunded and would benefit from significantly more investment.

Research Methodology

In order to identify state policies that would help to expand access to affordable housing in Western Pennsylvania, the team considered two core research questions.

1. ***What is the need for affordable housing in Pennsylvania, and more specifically, Western Pennsylvania?***
2. ***What does the current landscape of programs, policies, barriers, and opportunities look like for affordable housing in Pennsylvania?***

As PCRG requested, our policy recommendations below reflect statewide needs; however, we also provided special analysis on Western Pennsylvania due to PCRG's core geography, and our ability to access local experts on affordable housing.

To answer the first question, we completed a Needs Assessment which analyzed data on both the supply and demand of affordable housing units in Western Pennsylvania. We chose to analyze three different categories of Western Pennsylvania counties: rural, suburban, and urban. For rural, we used Greene County, for suburban - Butler County, and for urban - Allegheny County.

Figure 1: Map of 3 Pennsylvania target counties

We determined supply by identifying and compiling the number of affordable housing units provided by all federal programs found in the National Housing Preservation Database (NHPD) 2022.[2] Conversely, demand was estimated by counting both the number of households eligible for affordable housing (i.e. those earning below 80% of the HUD Area Family Median Income (HAMFI)) and the number of households experiencing cost burden at the same time.[3] We found this information via two sources: the Census Bureau's American Community Survey (ACS) of 2016-2021 and HUD's Comprehensive Housing Affordability Strategy (CHAS) database.

To answer the second question on barriers and existing policies to affordable housing, the team conducted ethnographic interviews with subject matter experts in the affordable housing ecosystem across the Commonwealth to develop a survey of critical barriers. The team interviewed 19 experts consisting of representatives from state and local government, community development organizations, the Federal Reserve Bank, private development companies, academics, and journalists.[4] Objectives of these interviews were to understand what barriers to affordable housing exist in Western Pennsylvania, what current local and state policies are most helpful to affordable housing, and what examples of successful analogous policies can we learn from.[5]

[2] About the Database - National Housing Preservation Database (NHPD)

[3] Cost burden as identified by HUD: people who pay 30% or more of their income for rent or housing costs

[4] Discussion of interview outcomes is in the section titled Survey of Barriers to Affordable Housing

[5] See Appendix 1 for an interview template with sample questions

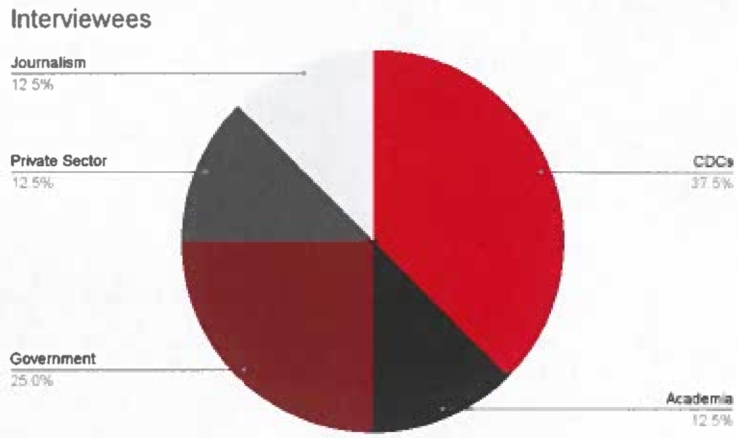

Figure 2: Breakdown of industries of the interviewees

As a result of the interviews, the team identified a list of possible policy recommendations. Next, the team narrowed down this list to focus on three core policy recommendations, along with the development of case studies for each of these policy recommendations. While doing this research, the team conducted four additional interviews with people who specialized in these three focus areas.

Needs Assessment

Analysis on the Supply of Affordable Housing in Western PA

In our analysis of Pennsylvania's affordable housing supply, we focused our efforts on housing which is or has been supported by a federal affordable housing program. Thus, our supply analysis likely reflects an undercount, as some affordable housing is developed without the support of federal subsidies. Nevertheless, we made this choice due to data availability, as the NHPD is a robust dataset which was most readily available.

The NHPD incorporates housing data from HUD and the US Department of Agriculture (USDA) and includes all federally subsidized housing programs. The housing programs which are active in Pennsylvania, the target area of this research, are: Section 8, Low-income Housing Tax Credit, Section 202, Public Housing, FHA programs with affordability restrictions, Rural Rental Housing Loans Section 515, HOME Rental Assistance, Project Based Vouchers, and Mod Rehab programs.

According to the NHPD, there are 2,832 affordable housing projects with a total of 182,595 units subsidized by federal programs across the Commonwealth of Pennsylvania. Most of these projects are concentrated in or near Philadelphia (34,197 units) and Pittsburgh (28,662 units) and their respective counties. This makes intuitive sense, as Philadelphia County and Allegheny County are the most urban and dense counties in the state. Outside of those two counties, all other counties have less than 100 federal affordable housing projects.

With respect to our three counties of our interest, Allegheny County has 28,662 units (408 projects), Butler County has 1,043 units (26 projects), and Greene County has only 709 units (8 projects). Analysis below will further elaborate on features and distributions of these federally subsidized affordable housing projects.

Most federal affordable housing projects in our three counties of interest are funded by S8, LIHTC, HOME Rental Assistance, Public Housing, and FHA Programs.

A.H. Program	S8	LIHTC	HOME	PH	FHA	PBV	RHS515	S202	MR
Number of Projects	216	149	94	76	72	14	5	2	2

Figure 4: Number of Projects Supported by Different Affordable Housing Programs

The majority of these affordable housing projects are subsidized by one program; however, some are funded via a combination of federal resources. For instance, almost 40% of affordable housing projects across the Commonwealth of Pennsylvania are funded via a combination of two or more federal programs.

Active Subsidies	1	2	3	0	4	5
Number of Projects	271	117	28	19	6	2

Figure 5: Number of Projects Supported by a Combination of Affordable Housing Programs

A clear majority of projects are funded solely by S8, LIHTC, HOME Rental Assistance, and Public Housing; combinations of LIHTC with other federal programs support most other projects with two or more funding sources.

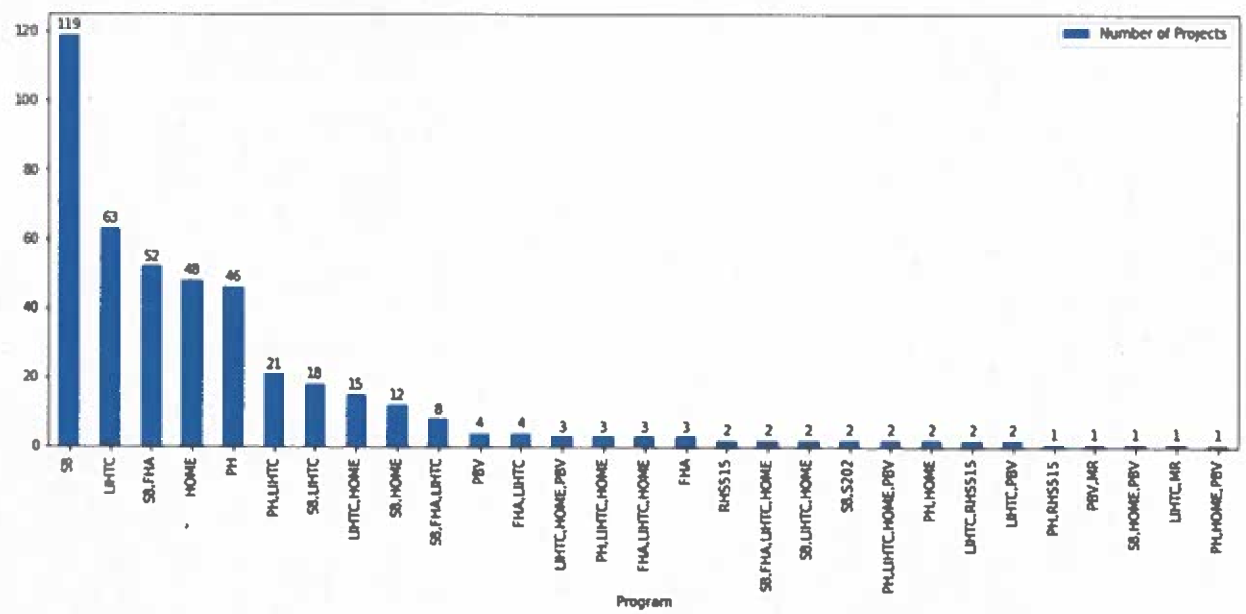

Figure 6: Distribution of Affordable Housing Projects Supported via Different Federal Programs

By examining units per project, we were able to identify stark differences between our rural, suburban, and urban target counties. For example, projects in Greene County typically provide the highest average number of units per project, meaning that the few affordable housing projects in Greene County are all fairly large projects. Greene County projects also have the highest minimum value at 31 units and the highest median value at 150 units per project. The project with the highest unit count, Northview Heights, however, is located in Allegheny County with 555 units.

	count	mean	std	min	25%	50%	75%	max
Allegheny	408.0	70.25	68.37	1.0	25.00	50.0	98.0	555.0
Bulter	26.0	40.12	36.66	1.0	20.75	26.5	50.0	137.0
Greene	9.0	78.78	47.21	31.0	34.00	75.0	120.0	150.0

Figure 7: Basic Statistics on Affordable Housing Projects per Target County

In regards to the number of units subsidized per federal program, projects subsidized by S8, LIHTC, Public Housing, and FHA provide the highest number of units compared to other programs. The average number of units per LIHTC project is more consistent, whereas the number of units per Public Housing project varies much more vividly.

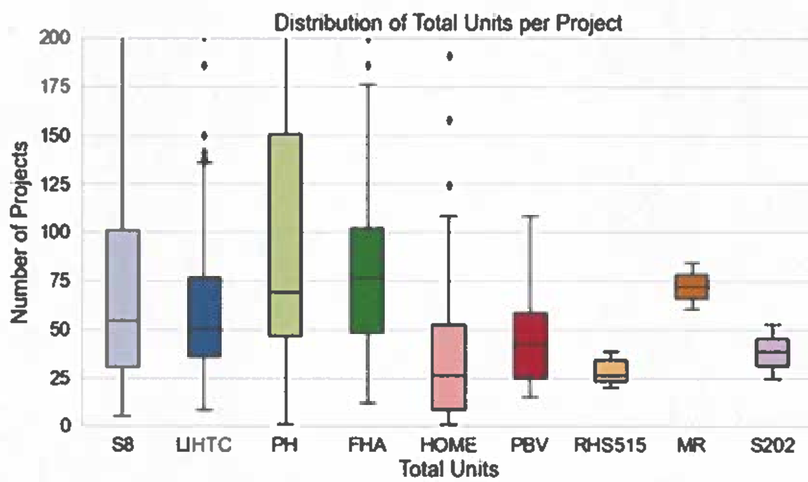

Figure 8: Average Number of Affordable Units Provided per Project

The distribution of units per project subsidized by different federal programs can explain county-level project unit distribution to some extent, as the average number of units subsidized by Public Housing are the highest among the three target counties.

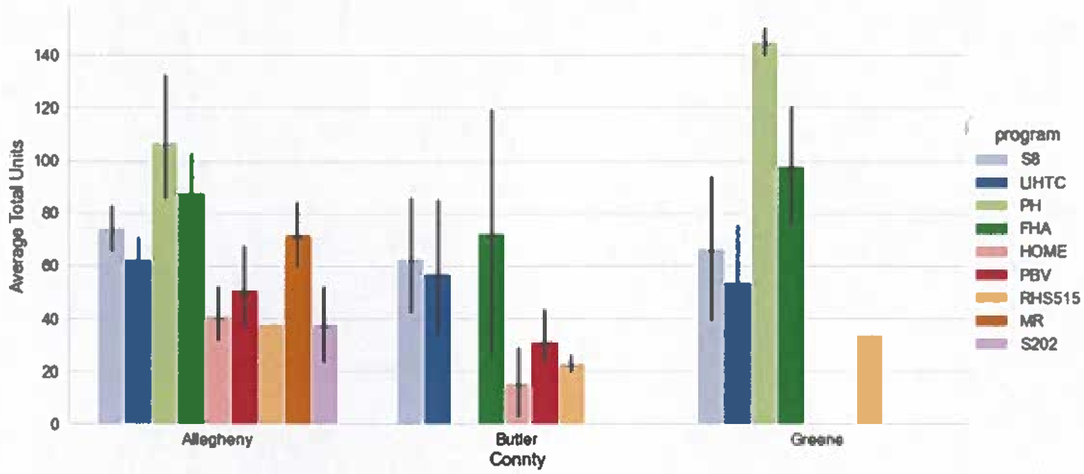

Figure 9: Average Number of Affordable Units Provided per Project Supported by Federal Programs

Among all owner types, profit-motivated organizations and public entities (typically housing authorities) provide the largest number of affordable housing units available in Pennsylvania, with S8 and public housing programs contributing to over 70% of total units. Purely for-profit organizations only rank 4th among all affordable housing developer types, with LIHTC-incentivized projects accounting for the majority. Overall, data on Pennsylvania's affordable housing units suggests that profit-motivated landlords, public entities, and non-profit organizations are the primary suppliers of affordable housing units in Western Pennsylvania, while for-profit private developers have not yet taken on as many projects / units.

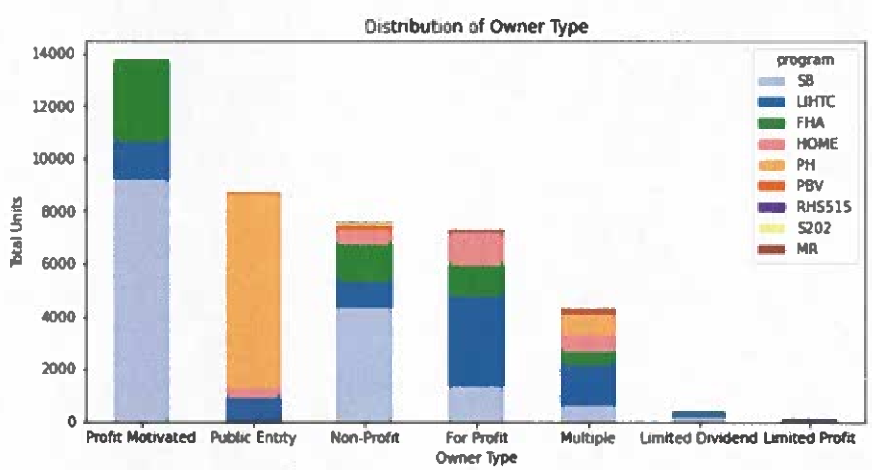

Figure 10: Distribution of Total Affordable Units, Grouped by Owner Type

Families and the elderly are the major beneficiaries of federal affordable housing programs in Allegheny County, Butler County, and Greene County. Different federal programs also have a different focus on specific target tenants. S8, Public Housing, and FHA funded projects typically favor more elderly and disabled people, while LIHTC projects are typically focused on families.

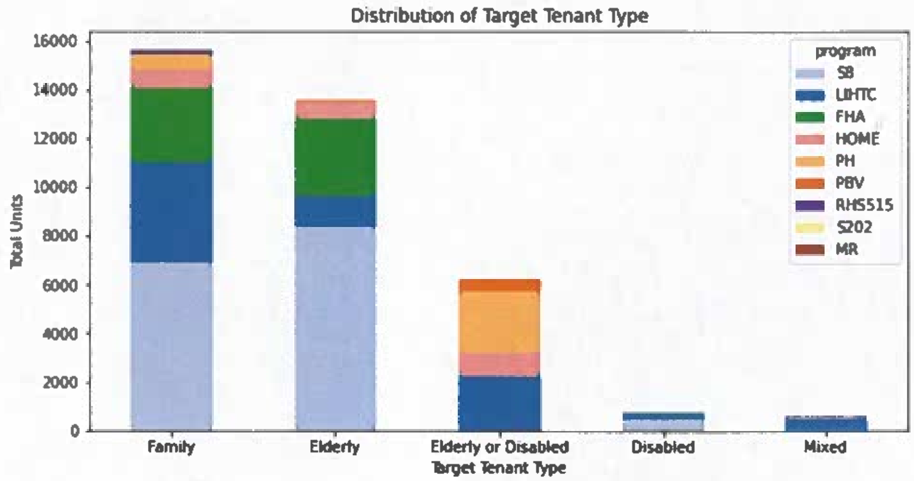

Figure 11: Distribution of Total Affordable Units, Grouped by Tenant Type

Analysis on the Demand of Affordable Housing in Western PA

In addition to the supply analysis, the team also conducted a population analysis of our three target counties to better understand the demand for affordable housing in Western Pennsylvania. Our analysis included general demographic information and an estimate of the number of households in need of affordable housing by calculating how many households earn 80% of HAMFI and are also cost burdened.

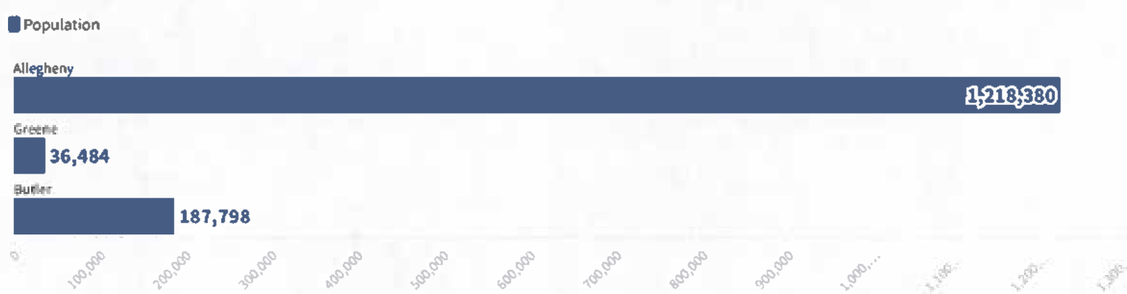

Figure 12: Total Population by County

The three counties we analyzed were selected to represent different development and market conditions across Pennsylvania. Allegheny County is the second most populous county in the Commonwealth of Pennsylvania with a population of over 1.2 million people. Butler County, located north of Allegheny County, has a population of around 180,000 people. Greene County is a rural county in Western Pennsylvania and is the smallest in terms of population with only 36,000 residents.

Populations in Allegheny, Butler, and Greene Counties are roughly similar in terms of gender, age, and racial composition, except that Allegheny County has a larger share of Black and Asian populations compared with Butler and Greene Counties.

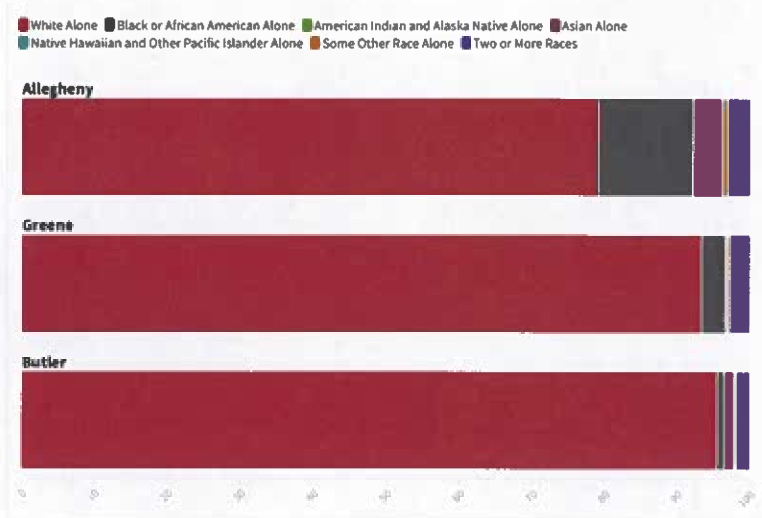

Figure 13: County Population Composition by Race

Employment status shows that Butler County and Greene County have about 60% of their populations employed, while Allegheny County has a larger proportion of people 16 years and older who are not active in the labor force. This is likely due to a large share of residents who are students in higher education institutions in Allegheny County.

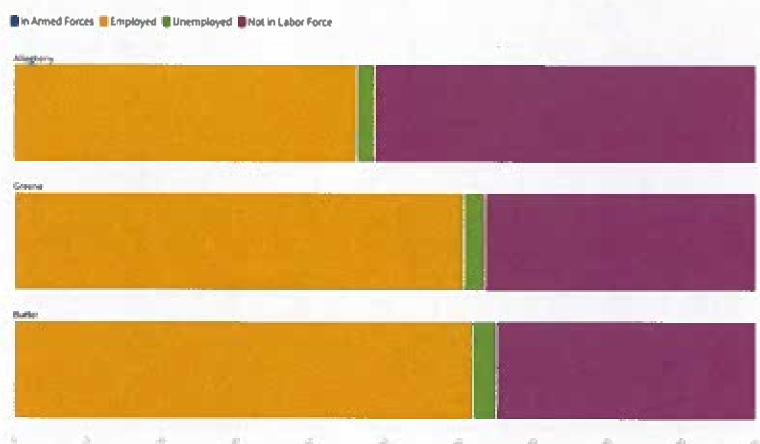

Figure 14: Employment Status for Population 16 and Older

The team calculated the demand for affordable housing by focusing on low income populations that are simultaneously cost burdened. To do this, we used an income level that qualifies a person for participation in affordable housing programs, which is 80% of HAMFI. To designate a household as cost burdened, the team used HUD's definition that a household is cost burdened when it spends 30% or more of its income towards either rent, or mortgage/utilities/taxes (in the case of homeowners).[6]

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[6] CHAS Affordability Analysis

We sourced our data from the HUD CHAS database which quantifies the number of households at each income level (0 to 30%, 30%-50%, 50%-80%, 80%-100% of HAMFI) and the number of people who are cost burdened at each income level and their residency type (owner or renter).[7]

The team found that in Allegheny County, 22% of households both earn below 80% of HAMFI and pay over 30% of that income for housing expenses. In Butler and Greene Counties, that number is slightly lower: 17% in Butler and 17% in Greene.

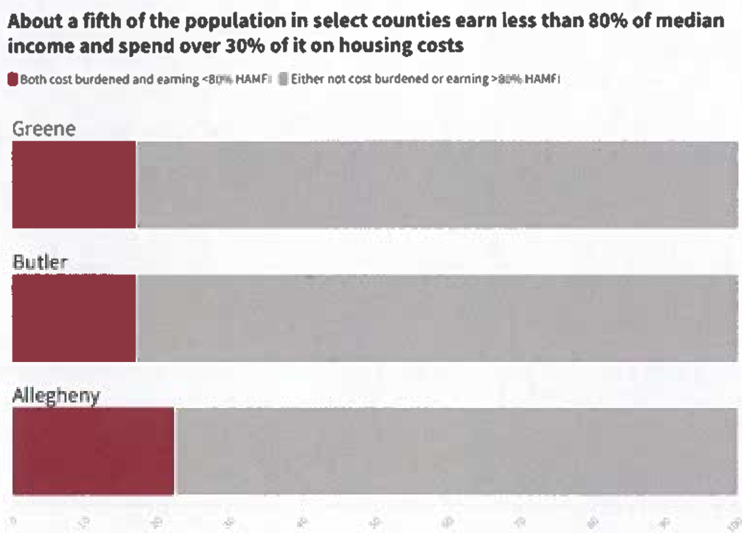

Figure 15: Share of the population that is cost-burdened and earns less than 80% of HAMFI

The team also identified an increased likelihood of renters to be low income and cost burdened. 67% of all renters in Allegheny County earn 80% of HAMFI or less as compared to 34% of all owners. In addition, 40% of renters are cost burdened versus only 16% of owners. In Butler County, 31% of owners and 65% of renters earn less than 80% of HAMFI. 37% of renters and 15% of owner households are cost burdened in Butler County. Lastly, in Greene County, the share of the population earning 80% of HAMFI among owners is 35% and 69% among renters. Cost burden affects 16% of owners and 26% of renters in Greene County.

Data Tables Per Target County

The tables below illustrate how many households are cost burdened, earn 80% of HAMFI or less, or both, as well as the percentage these households represent from the total number of households in the county.

[7] Consolidated Planning/CHAS Data | HUD USER

Allegheny County						
Total households:	Cost-burdened (30%)		Earning 80% of HAMFI or less		Both	
541,540	in absolute terms	as a share of total households in the county	in absolute terms	as a share of total households in the county	in absolute terms	as a share of total households in the county
Owner	56,900	11%	116,920	22%	47,195	9%
Renter	76,560	14%	128,980	24%	73,885	14%
Total number of households	133,460	25%	245,900	45%	121,080	22%
In all Pennsylvania					1,170,510	23%

Figure 16: Summary table of cost burden and low income in Allegheny County

Butler County						
Total households:	Cost-burdened (30%)		Earning 80% of HAMFI or less		Both	
76,500	in absolute terms	as a share of total households in the county	in absolute terms	as a share of total households in the county	in absolute terms	as a share of total households in the county
Owner	8,795	11%	17,945	23%	6,630	9%
Renter	6,755	9%	12,050	16%	6,385	8%
Total number of households	15,550	20%	29,995	39%	13,015	17%
In all Pennsylvania					1,170,510	23%

Figure 17: Summary table of cost burden and low income in Butler County

Greene County						
Total households:	Cost-burdened (30%)		Earning 80% of HAMFI or less		Both	
14,230	in absolute terms	as a share of total households in the county	in absolute terms	as a share of total households in the county	in absolute terms	as a share of total households in the county
Owner	1,705	12%	3770	26%	1485	10%
Renter	944	7%	2475	17%	940	7%
Total number of households	2,649	19%	6245	44%	2425	17%
In all Pennsylvania					1,170,510	23%

Figure 18: Summary table of cost burden and low income in Greene County

Needs Assessment Findings

Across the Commonwealth of Pennsylvania, **the share of households that we estimate to be in need of affordable housing is 1.17 million people, or 23% of the state's population.**

Allegheny County reflects this reality, with 121,080 households, or 22%, in need of affordable housing. In comparison, Butler County and Greene County populations are slightly better off. Both Butler and Greene Counties have a slightly smaller proportion of the population in need at 17% (13,015 households for Butler County and 2,425 for Greene County).

This demand analysis reveals that a considerable fraction of households in all three county types (urban, suburban, and rural) are vulnerable in terms of their low earnings and housing costs. Going back to our research question, what is the need for affordable housing in Western Pennsylvania? We conclude that about a fifth of the state's population is in need of affordable housing.

Survey of Barriers to Affordable Housing

After measuring the scope and extent of Pennsylvania's housing affordability problem and establishing the need for affordable housing at approximately 20% of the state's population, we identified and examined different barriers to affordable housing across the Commonwealth.

In order to identify these barriers, our team compiled a list of experts associated with affordable housing across Western Pennsylvania and at the state level. We then conducted outreach and interviewed these individuals. Through these interviews, we identified eleven core barriers which surfaced during these interviews, often multiple times. Some barriers, like Pittsburgh's challenges to inclusionary zoning, are more legal in nature, while others, like waning support for Public Housing, are more political. Others yet are focused more on funding and financial issues. These eleven barriers are represented in the table below. Each of these barriers is then described in the text below.

Political Issues	Legal Issues	Financial Issues
• Waning Political Support for Public Housing • Pennsylvania's Deteriorating Affordable Housing Stock • Investor Speculation and Gentrification Leading to Displacement • Lack of Programs and Policies Focused on Affordable Homeownership	• Discrimination Against Section 8 Housing Choice Voucher Participants • Legal Setbacks Regarding Inclusionary Zoning	• Lack of LIHTC Funding • Lack of PHARE Funding • Lack of RACP Funding Specifically Dedicated to Affordable Housing • Lack of Consistent Funding for Land Banks & Community Land Trusts • Unsustainable Costs for Construction of New Affordable Housing

Waning Political Support for Public Housing

Public housing refers to the provision of housing via the government. Pre 1960, Americans could find affordable rents in public housing built across the country and funded by the federal government. Often these units were occupied by white working class tenants living in cities. Now, public housing comes in all sizes and types, from scattered single-family houses to high rise apartments, and different public housing sites are reserved for different vulnerable populations, including eligible low-income families, the elderly, and persons with disabilities.

As mentioned in the Background Section above, different policies starting in the 1970s, including the Housing and Community Development Act, shifted the U.S. government's affordable housing policies away from the direct provision of public housing, and to other programs geared more towards the private market.[8] This is represented most acutely by the introduction of the Section 8 Housing Choice Voucher program, in conjunction with a steep decrease in funding toward public housing projects.

In addition, in 1998, the Congress passed the Faircloth Amendment, which caps the construction of new public housing units if their construction would result in a net increase in the number of units a Public Housing Authority (PHA) owned.[9] This has effectively halted the new construction of public housing across the country. This amendment was successful largely because many politicians across the country had come to equate all public housing with "the Projects" -- massive public housing structures in big cities like Chicago and LA known for their concentrated poverty and crime. It is worth noting that these public housing projects were often intentionally located in neighborhoods suffering from a lack of economic development and job opportunities. Moreover, these public housing units often fell into disrepair due to a lack of funding and maintenance from the PHAs managing them. Overall, this led to a national movement to replace public housing funding with the funding of housing vouchers.

Public Housing Downsizing

In recent decades, housing advocates have alleged that the city of Pittsburgh has demolished public housing at faster rates than other cities of comparable size. They cite, for example, recent public housing projects like the Heritage Highlands development, which demolished the Hawkins Village development of 198 "barracks style" units built in 1941, and will replace it with 105 "modern" units with more green space. *11*

PHAs across the United States still own and maintain hundreds of thousands of units across the country, with 1.2 million households living in public housing. These public housing units are managed by roughly 3,300 different PHAs.[10] For example, the Housing Authority of the City of Pittsburgh (HACP) administers about 3,150 public housing units,[11] while the Allegheny County Housing Authority (ACHA) owns and manages 3,300 public housing units.[12]

[8] Housing and Community Development Act, pg 5
[9] Faircloth Amendment
[10] US Public Housing Units
[11] Pittsburgh Public Housing Units
[12] Allegheny County Public Housing Units
[13] Heritage Highlands Public Housing Development

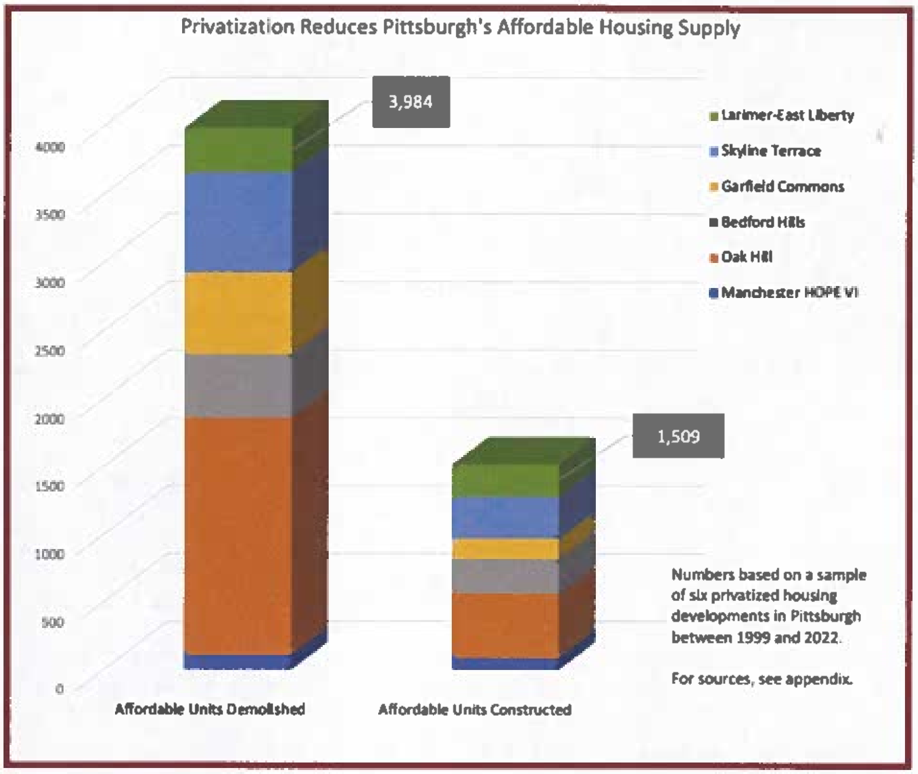

Figure 19: Graph illustrating the demolition of Pittsburgh's Affordable Housing Supply [14]

Overall, political support for funding public housing has dwindled, especially at the federal level. This is illustrated by the passing of the Faircloth Amendment and decades of disinvestment in new housing and inadequate funding for the maintenance of existing public housing. Instead, the federal government has largely pivoted towards Section 8 Housing Choice Vouchers as a public-private solution for affordable housing in the United States.

Possible Recommendations: The state of Pennsylvania could increase the use of HUD's Rental Assistance Demonstration Program (RAD) as a means to inject private equity into existing public housing stock within the state.[15] Additionally, the state could leverage the Choice Neighborhoods program to facilitate the infusion of public and private funding for the revitalization of public housing neighborhood communities within the state.[16]

Pennsylvania's Deteriorating Affordable Housing Stock

The preservation of naturally occurring affordable housing (NOAH) through public or non-profit purchase of formerly privately owned housing is typically considered to be a cheaper alternative than constructing new housing. However, the current state of those housing units may require significant renovation or rehabilitation. Therefore, preservation can be just as expensive as a new construction.

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[14] Pittsburgh Affordable Housing Crisis: Is Privatization the Solution? | NNIP
[15] Rental Assistance Demonstration (RAD)
[16] Choice Neighborhoods

The biggest expense for housing rehabilitation is the repair of failing roofs and windows - the building envelope. When the unit's seal is broken and water is able to get into the unit, the resulting damage subtracts significant value from the house.

Western Pennsylvania's housing stock is particularly old and in disrepair: 71% of units were built before 1960.[17] Funding to rehabilitate these old houses and units has been identified as a critical policy issue for the Pennsylvania State Legislature. Subsequently, the body recently passed the Whole Home Repair Program to benefit low-income homeowners and small landlords in Pennsylvania. However, the funds are one-time money, which means there is no guarantee the program will be funded in future budgets.

Possible Recommendations: The state of Pennsylvania could allocate long-term funding from the state budget for the Whole Home Repair Program on an annual basis.

PA's Whole Home Repair Program

Pennsylvania's new Whole Home Repair Program received a $125 million appropriation in the Commonwealth's 2022-2023 budget and has been well regarded for its bipartisan support. Through this program, up to $50,000 for repairs will be available as grants for low and moderate-income homeowners and loans to small landlords renting affordable units. This grant money is intended to be utilized to revitalize deteriorating homes across the Commonwealth of Pennsylvania.

The program is still being designed and will likely be released to the public in 2023.

Investor Speculation and Gentrification Leading to Displacement

The presence of investors in a local real estate market can lead to great profits for those investors, but that presence can also lead to inflated home values (disconnected from market realities) and, eventually, displacement for local residents.

Investors utilize various investment strategies on different properties. One strategy has the investor purchase and hold onto those properties, squeezing them for rental income while making few repairs or improvements on the property, all the while using the decreasing value of that property as a depreciation write off on taxes. Obviously, this predatory approach is harmful to renters, and the lack of investment in the property can be harmful to local homeowners. Another strategy is the investor buying, renovating, and selling all within a quick time period, generating a quick profit off of a flip. While some may laud this investment model as a way to generate rising home values, the speed at which flipped properties rise in their values can be detrimental for local neighbors, who can no longer afford increased property taxes. A third strategy has the investor putting the property into short-term rentals, like AirBnB or VRBO. This strategy is less prevalent in most Western Pennsylvania markets, aside from very specific locations near tourist attractions, mostly in Pittsburgh. Regardless, these short-term rentals prioritize profit over housing, and can lead to significant displacement, especially in these most desirable neighborhoods.

Gentrification, similarly, can lead to displacement. Gentrification is the transformation of a city neighborhood from low value to high value via the introduction of new, higher income residents to the area.[18] These new high-income residents invest in their properties raising average property values and

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[17] Pittsburgh Climate Action Plan

[18] Gentrification: Definition, Causes, Pros & Cons

rents. In addition, they bring with them purchasing power for higher cost goods and services, meaning that traditional commercial outlets in the area may get pushed out. Altogether, through increased property values and changing commercial availability, lower-income residents become displaced.

Neighborhoods across Pennsylvania have been impacted by both investor speculation and gentrification; however, these processes typically affect more densely populated areas the most. In 2019, Pittsburgh was identified by the National Community Reinvestment Coalition as the eighth most gentrified city in America.[19] Within the city, specific neighborhoods like the Central Business District and the East Liberty neighborhood have gentrified most rapidly, leading to significant displacement of former residents, who were predominantly African American.

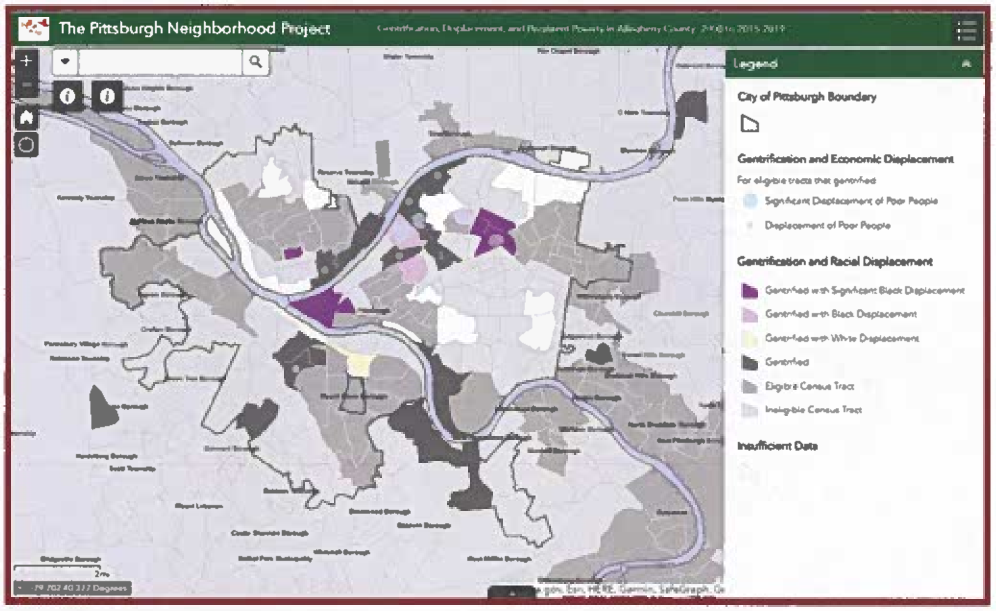

Figure 20: Map of Pittsburgh's Most Gentrified Neighborhoods[20]

In Allegheny County, there is a public policy meant to counter the effects of gentrification and investor speculation: the Homestead Exemption rule. This rule states that if someone has lived in their dwelling for more than 10 years, there is a limit on how much their property assessment can increase from year to year. Other Pennsylvania cities actually have stronger rules which limit allowable percentage increases on property values from one assessment to the next. At this point in time, however, there is no state-level law or regulation limiting property value increases or investor speculation.

Possible Recommendations: The state of Pennsylvania could limit the amount that large landlords may increase rent on their properties, strengthen renter protections (via eviction notices, rent increase notices, etc.), or adopt anti- housing speculation legislation to decrease radical housing value shifts.

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[19] Pittsburgh is one of the most gentrified cities in the U.S.
[20] The Pittsburgh Neighborhood Project

Lack of Programs and Policies Focused on Affordable Homeownership

Several interviewees noted that the affordable housing programs outlined above can actually perpetuate the cycle of poverty. They claimed that children growing up in public housing or "Section 8" rental neighborhoods tend to have worse life and career outcomes after they reach adulthood. In addition, they noted that people living in affordable rental programs cannot build equity and then have more difficulty retiring later on in life. Lastly, they also communicated that some affordable rental housing programs seem to incentivize people to live below income requirements, so they can maintain program eligibility. Collectively, each of these examples illustrates how affordable housing programs may perpetuate poverty or lead to other negative outcomes.

Possible Recommendations: The state of Pennsylvania could look beyond affordable rental housing as a primary policy focus, and consider creative ways of transitioning more residents toward affordable home ownership. Some of these policies already exist, but remain underutilized.

For example, Section 8 Housing Choice Vouchers can be applied to mortgage payments, with the involvement of banks to underwrite a loan that factors in the value of a voucher. The main barrier that exists for this process is getting banks to underwrite mortgage loans, because section 8 recipients tend to have lower credit scores. However, non-profit organizations across Western Pennsylvania have been working on this issue by providing financial literacy programs as well as other credit management programs to low income households.

Discrimination Against Section 8 Housing Choice Voucher Participants

The Section 8 Housing Choice Voucher Program (HCV) provides rental assistance to low-income families living in privately-owned rental properties. This program is meant to empower consumers with the choice of where to live. In reality, however, many people with HCV are not able to use them before they expire because many landlords are less likely to accept tenants wishing to use these vouchers.

In many cities and states, it is voluntary for landlords to participate in HCV. This means that landlords can legally discriminate against rental applicants based on the source of their income. This includes applicants who use housing vouchers. Thus, many landlords will specifically deny rental applicants who attempt to use housing vouchers. (See Figure 21 for states with source of income statutes)

Landlord non-participation in the HCV program exists due to both stigma against housing voucher recipients as well as red tape policies associated with the HCV program. For example, delays in the housing inspection and approval process (which are both required to participate in the HCV program) can cause significant wasted time before a housing voucher recipient can begin using their housing voucher. Thus, landlords are forced to wait weeks or even months for the housing authorities to approve the rental units for the HCV program and begin to process these vouchers. This delay incentivizes landlords to pursue rental applicants who do not use housing vouchers and who can make rental payments more immediately.

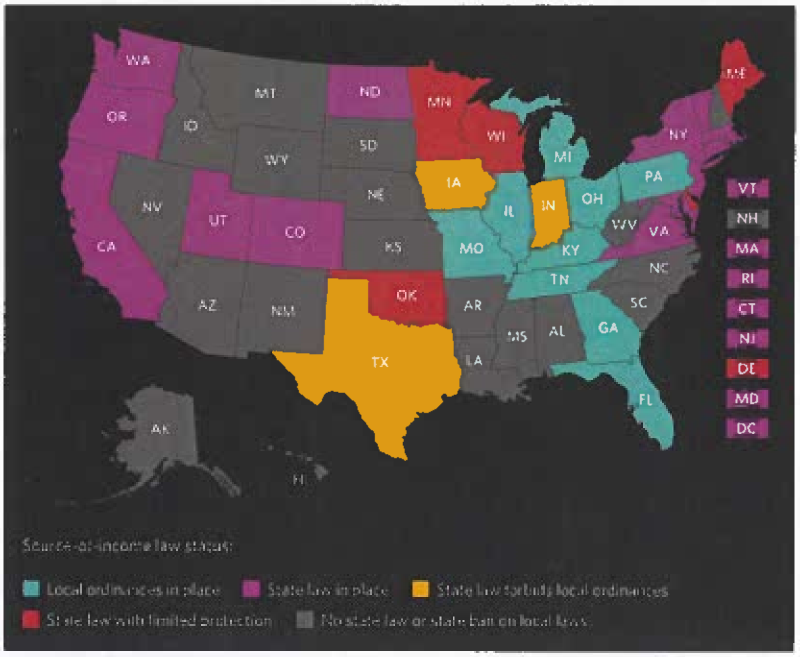

Figure 21: Source of Income Statutes by State[21]

HACP currently administers about 7,450 HCVs[22], and ACHA administers over 5,000 HCVs[23]. While nationally, an estimated 30% of people cannot use their housing vouchers, the local situation is worse. In 2016, 41% of people with housing vouchers from HACP were not able to use their vouchers before voucher expiration.[24] This represents a significant barrier for HCV households looking for affordable housing, especially if they are navigating the housing market without assistance.

Section 8 Nondiscrimination Ordinance Overturned Due to Home Rule Charter [15]

The City of Pittsburgh attempted to pass a 'source of income' anti-discrimination ordinance in 2015; however, a lawsuit by the Apartment Association of Metropolitan Pittsburgh (AAMP) led to the ordinance being struck down due to the Business Exclusion of the City's Home Rule Charter. Specifically, the court ruled that the Business Exclusion invalidated the ordinance because landlords were being asked to undertake specific duties and engage in business activity that was previously voluntary.

Due to the legal gridlock from that lawsuit, it does not appear that the City of Pittsburgh will be able to pass an anti-discrimination ordinance at this time. However, it is notable that the city of Philadelphia does have a source of income anti-discrimination ordinance, as their Home Rule Charter was written differently.

*** Reference the discussion on Dillon's Rule on page 6 for more information about Home Rule Charters**

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[21] Source of Income Laws by State
[22] Pittsburgh Housing Choice Voucher Units
[23] Allegheny County Housing Choice Voucher Units
[24] Pittsburgh HCV Returned Unused

Most HCVs are distributed in urban areas, with 14,825 HCV recipients total in Allegheny County and a per capita HCV distribution rate of 1.2%.[25] Representing suburban areas, Butler County has 692 HCV recipients in total and a per capita HCV distribution rate of 0.36%. Greene County has 333 HCV recipients in total and a per capita HCV distribution rate of 0.94%. It is notable that Greene Country, a mostly rural area, has a per capita HCV distribution rate that is almost triple the HCV distribution rate of the suburban area of Butler County. In fact, the HCV distribution rate of Greene County is relatively close to the rate for Allegheny County.

Possible Recommendations: The state of Pennsylvania could create a state program which provides landlords with incentives to participate in the Housing Choice Voucher Program through subsidies or tax credits, or the state could require greater efficiency on behalf of its housing authorities.

Legal Setbacks Regarding Inclusionary Zoning

Zoning is the regulation of land use, where a municipality decides which parcels can be used for which purposes and how a building could be built on those parcels. For example, zoning rules may state that only single family residential units may be built in a certain neighborhood, or that only industrial plants of a certain size may be located in certain areas of town.

In Pennsylvania, municipal governing bodies (like zoning boards or town councils) typically set their own zoning policies. Interviewees from our research noted that town councils in more suburban areas, specifically, are often extremely protective of this zoning control.

Different forms of zoning, like single-family zoning or low-density zoning, can be a major impediment to affordable housing, as it prohibits additional, smaller units to be built. For that reason, many affordable housing advocates are campaigning for inclusionary zoning across the country.

Inclusionary zoning (IZ) is a public policy which some municipalities have adopted which requires housing developers to produce a certain percentage of units as 'affordable units' for a certain period if the development project is at a certain size. In Pittsburgh, legislation was signed into law on May 2, 2022, stating that if a developer is developing more than 20 units, 10% of them must be affordable for a period of 35 years. This policy is currently in place for three Pittsburgh neighborhoods -- Lawrenceville, Bloomfield, and Polish Hill. Proponents of IZ claim that this is a mechanism to force private developers to build affordable units within these rapidly developing neighborhoods.

[25] Calculations based on data from the National Housing Preservation Database

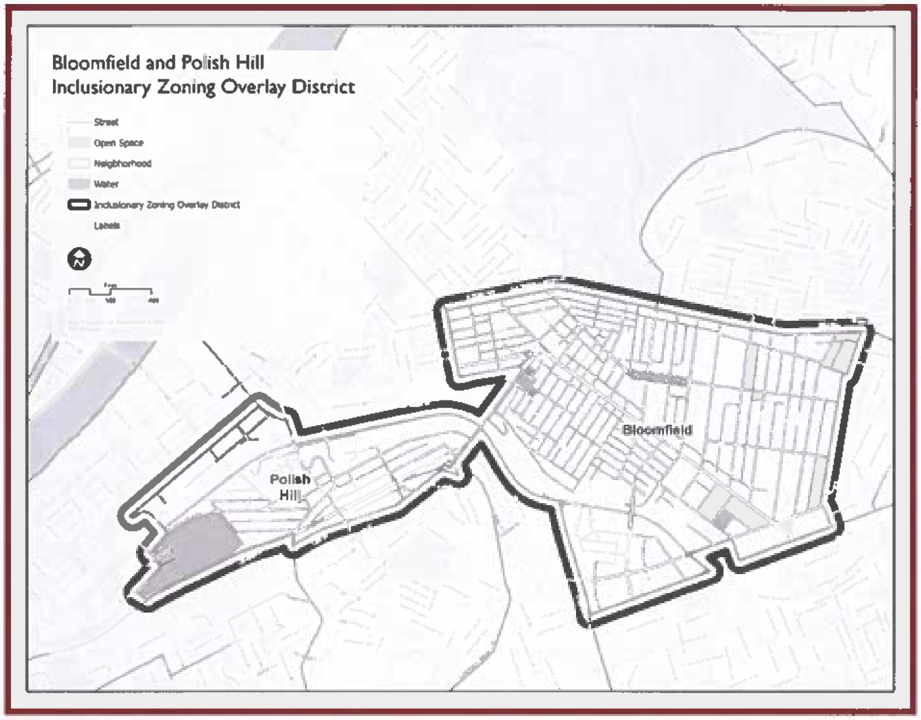

Figure 22: Map of Pittsburgh's Bloomfield and Polish HIll IZ Overlay District [26]

Pittsburgh's IZ policy has been challenged in federal court by the Builders Association of Metropolitan Pittsburgh (BAMP) as a forced 'taking' of private property. If the policy survives the current legal challenge, city officials plan to expand it further, namely to the neighborhood of Oakland. Some have even advocated for the plan to be adopted city-wide.

Outside of BAMP's legal challenge, there is additional criticism which focuses on the legality of IZ as a public policy. These criticisms argue that any policy requiring IZ would violate Pennsylvania's Dillon's Rule set-up, which currently restricts cities', towns', and counties' authority to act outside of specific policy guardrails.[27]

Even if local IZ policies were to be ruled on favorably in the court system, it is worth noting that IZ will likely only work at a certain population / housing density level. Thus, in growing Pennsylvanian cities, inclusionary zoning may prove to be a very helpful tool. However, in more rural Pennsylvanian communities, inclusionary zoning is likely not going to be a major source of affordable housing.

Possible Recommendations: The state of Pennsylvania could produce enabling legislation empowering local municipalities to use inclusionary zoning as one of their tools.

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[26] City of Pittsburgh

[27] Housing Policy Library: Inclusionary Zoning

Lack of LIHTC Funding

The Low-Income Housing Tax Credit (LIHTC) program provides a tax incentive to construct or rehabilitate affordable rental housing units for low-income households. Since the mid-1990s, the LIHTC program has supported the construction or rehabilitation of about 110,000 affordable rental units each year.[28] LIHTC now accounts for approximately 90% of subsidized affordable units across America (approximately 2 million units in total), and is now generally considered the most important resource of affordable housing funding in the United States.[29]

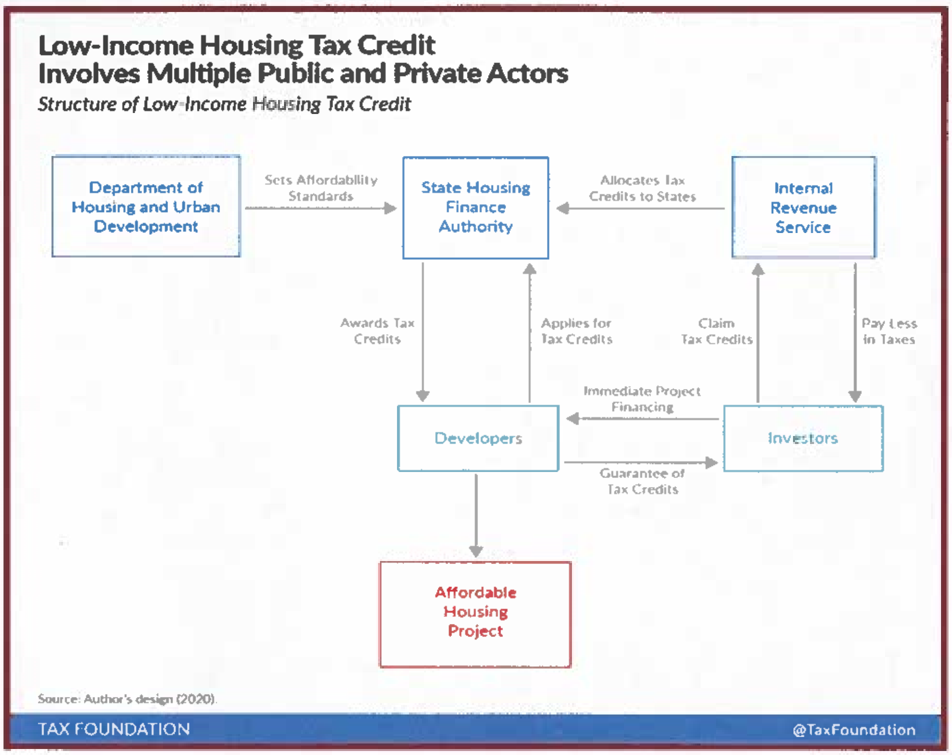

Figure 23: LIHTC Flow Chart [30]

LIHTC was first introduced in 1986 through the Tax Reform Act. Through this program, HUD provides annual tax credit allocations to states and territorial governments. State housing finance agencies then award the credits to private developers of affordable rental housing projects through a competitive process. Developers generally sell the credits to private investors to obtain equity. Once the housing project is placed in service (essentially, made available to tenants), investors can claim the tax credit over a 10-year period.

Our research identified a number of flaws and obstacles that plague the efficiency of Pennsylvania's LIHTC program. Mainly, LIHTC funding is in short supply, and therefore, incredibly competitive. Almost all of our interviewees mentioned that the LIHTC program could be expanded significantly, and that there would still be competition to receive the funds. Next, the current Pennsylvania Housing Finance Agency (PHFA) application guidelines for LIHTC are incredibly complex and require significant expertise. This

[28] What is the Low-Income Housing Tax Credit and How Does It Work?
[29] Low-Income Housing Tax Credit (LIHTC) | HUD USER
[30] Guide to the Low Income Housing Tax Credit

complexity requires developers to commit a significant number of staff hours toward LIHTC applications, meaning that these evaluation guidelines are consequently biased toward larger, more experienced developers with more flexible staffing.[31]

Lastly, the 4% tax credit, one of two offered through the LIHTC program, has been challenging for developers to utilize specifically in less dense or less desirable locations, as rents are typically too inexpensive to make the investment financially sound. While some interviewees mentioned that Pittsburgh's increasingly desirable housing market may make the city a better candidate for use of the 4% credit, more rural areas outside of Pittsburgh and across the Commonwealth with less density and desirability will not likely be able to take advantage of that tax credit. For example, to date, Greene County has only built 1 project (75 units) using the 4% credit, and Butler County has only built 5 projects (219 units) using the 4% credit. Meanwhile, Allegheny County has built a total of 51 projects (2839 units) using the 4% credit. In comparison to the more generous 9% credit, all of these values are low.

In March of 2021, PHFA announced the creation of the Developer Opportunity Fund to help promote the growth and financial capability of Women-owned Business Enterprises, Minority-owned Business Enterprises and community developers that are building affordable housing within Pennsylvania through the LIHTC Program. This new fund seems to react to criticism regarding the complexity of the program and its bias toward larger developers.

Possible Recommendations: The state of Pennsylvania could legislate more money to add to the LIHTC funding pool, increasing the total amount of funding available for future LIHTC projects.

Lack of PHARE Funding

The Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) fund was established in 2010 by the Pennsylvania legislature via Act 105 (the PHARE Act) to assist with the creation, rehabilitation, and support of affordable housing throughout the Commonwealth.[32]

PHARE funding mostly stems from three main funding sources: the Marcellus Shale Impact Fee, the Pennsylvania Realty Transfer Tax (RTT), and the National Housing Trust Fund (NHTF). The RTT, the largest of the three funding sources, is a 1% tax on all real estate transactions across the Commonwealth. Funding from the National Housing Trust Fund (NHTF) is fairly nominal. Collectively, PHARE funding is allocated via PHFA.[33]

[31] The Low-Income Housing Tax Credit: Overcoming Barriers to Affordable Housing in Rural America
[32] Pennsylvania Housing Affordability Fund
[33] 2022 PHARE Funding Awards

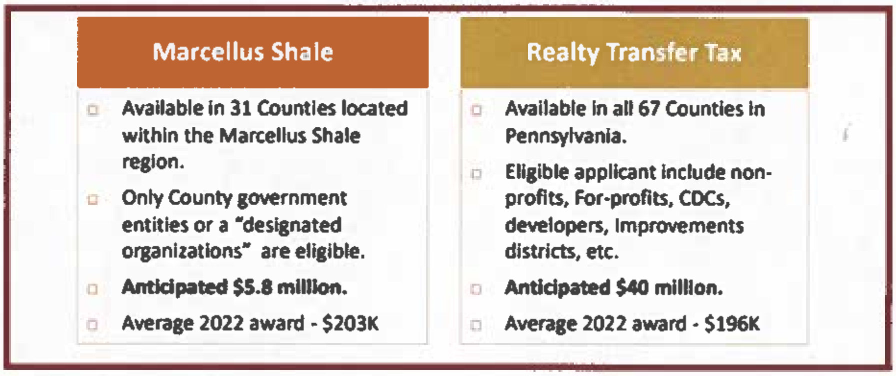

Figure 24: PHARE Funding Charts [34]

PHARE funding can be used towards a variety of purposes, including:

1. Providing dwellings for rent or purchase to low- and moderate-income individuals or families,
2. Increasing the availability or quality of housing for elderly persons and accessible housing for persons with disabilities,
3. Preventing and reducing homelessness,
4. Developing and rehabilitating the distressed neighborhoods,
5. Assisting mortgage or rental hardships; including housing counseling, foreclosure prevention and refinancing products,
6. Providing loans or grants to low- and moderate-income owner occupants for repairs or improvements of their homes.

Through the team's interviews with various affordable housing experts across the state, we found that the current RTT cap (recently pegged at $40 million, but recently increased to $60 million) is both arbitrary and still too low. In recent years, a strong housing market across the Commonwealth has resulted in a burgeoning RTT revenue stream. Thus, available revenue from this funding source now far exceeds the current $60 million funding cap. According to the Housing Alliance of Pennsylvania, in FY 2020-21, the RTT generated $91.5 million.[35] Consequently, $31.5 million could have been added to PHARE, instead of going directly to the state's general fund. It is possible that future RTT revenue streams may not be as robust and may not hit the $60 million cap; regardless, for years when transactions do run high, this cap seems arbitrary.

Possible Recommendations: The state of Pennsylvania could eliminate entirely, or expand, the current RTT cap, leading to a larger pool of PHARE funding for affordable housing

Lack of RACP Funds Dedicated to Affordable Housing

The Redevelopment Assistance Capital Program (RACP) is a Pennsylvania grant reimbursement program administered by Pennsylvania's Office of the Budget. RACP funds are mainly available for the acquisition and construction of regional economic, cultural, civic, recreational, and historical improvement projects.[36] Housing projects are typically only fundable via RACP when specialized funding specifically for

[34] 2022 PHARE Webinar Slides
[35] PHARE Funding Increase Campaign
[36] Pennsylvania Redevelopment Assistance Capital Program

that purpose is approved and remains unused. Act 87 of 2005 and Act 82 of 2010 each allowed $25 million (for a total of $50 million) for the construction of housing units using RACP funds.[37]

During our team's research, many local affordable housing experts communicated that RACP is a complex and restrictive funding mechanism when it is utilized for housing purposes. The interviewees also reported that working with the Office of the Budget can be difficult; reimbursements can take several years, which presents a major challenge for any organization, but especially community development organizations with smaller budgets. Additionally, overall funding for RACP that is dedicated towards affordable housing is relatively small and thus, limits the total amount of affordable housing projects which can be financed through RACP reimbursements.

Possible Recommendations: The state of Pennsylvania could increase the pool of RACP funding specifically set aside for housing projects.

Lack of Consistent Funding for Land Banks & Community Land Trusts

Land banks and community land trusts are two types of institutions which the Commonwealth of Pennsylvania has empowered to help address the state's affordable housing crisis. While addressing different parts of the housing ecosystem, both types of organizations have encountered a similar long-term operational challenge: funding.

Land Banks

Land banks are created by local jurisdictions – usually as a public entity but occasionally as an independent nonprofit – to hold abandoned, vacant, and tax-delinquent properties for future development. Not only does this provide local jurisdictions with land for future development, it also reduces the number of "problem properties" in a community by creating a process for management and disposition of vacant, blighted properties. Land banks also make it easier and cheaper for prospective buyers to redevelop blighted properties into homes and businesses, ultimately reversing cycles of economic decline and getting delinquent properties back on municipal tax rolls.

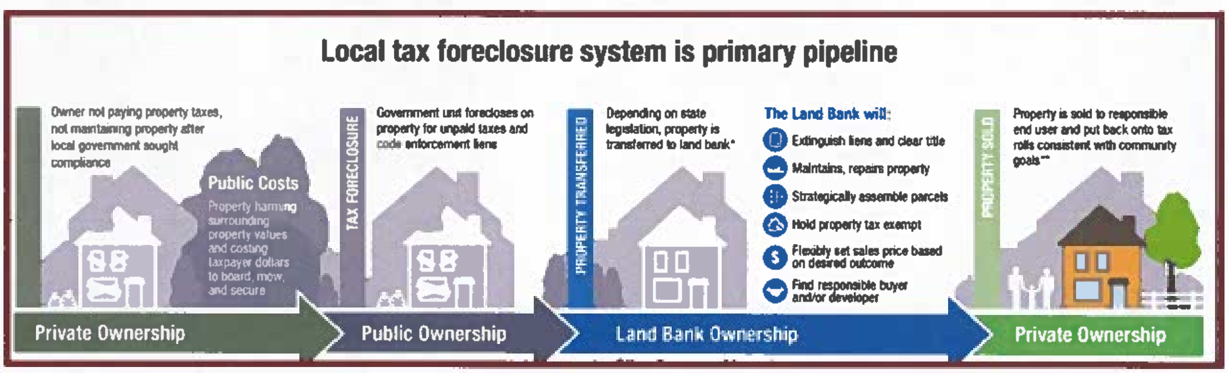

Figure 25: Graphic Representing the Land Banking Process [38]

[37] RACP Housing Funding
[38] The State of Land Banking 2022

The establishment of land banks was made possible in Pennsylvania by Act 153, the Land Bank Act, which was signed into law by former Governor Tom Corbett on October 24, 2012. Since 2012, communities throughout Pennsylvania have explored new and innovative ways to create and operate land banks. There are now 25+ land banks actively operating in Pennsylvania.[39]

Pennsylvania land banks have encountered several operational challenges over the last decade, including the long length of time required to take ownership of a property and clear its title. In addition to this inefficiency, the main challenge Pennsylvania land banks face is funding. While other states have legislated clear and consistent funding sources for their land banks, the Pennsylvania legislature has not. Therefore, Pennsylvania land banks must expend significant staff resources to raise funds, through grant applications, service agreements with local municipalities, or other pursuits. This constant focus on fundraising distracts land banks from their main mission, and limits the efficacy of these organizations.

Possible Recommendations: The state of Pennsylvania could seek to replicate the State of Ohio in how they consistently fund land banks using a 5% delinquency tax.

Community Land Trusts (CLTs)

Community land trusts (CLTs) are non-profit organizations that own land and develop it through an inclusive, community-based process. CLTs develop land according to the community's needs, which can include anything from open space to a multifamily rental project. Most often, however, CLTs are created to provide affordable homeownership opportunities to low- and moderate-income households. The United States has 225+ community land trusts nationally.[40]

The CLT model is structured around a ground lease. The CLT owns land which is leased to households who purchase the homes that sit on the CLT land. Removing the cost of land from the cost of purchasing the home provides a significant subsidy to the households. The ground lease limits the price at which the home can be resold, passing the subsidy on from one homeowner to the next. CLTs also often retain the right to repurchase the home in the case of foreclosure. CLTs are one form of shared equity homeownership.

It is important to note, however, that CLTs are less impactful when land prices are relatively low, for example, in more rural communities.

[39] Center for Community Progress Land Bank Map

[40] Grounded Solutions Network Overview on Community Land Trusts

Figure 26: Graphic Depicting the Community Land Trust Process [41]

While there are many additional CLTs forming in Pennsylvania, there are currently 10 established CLTs in Pennsylvania. They currently serve Allegheny, Centre, Lehigh, Northampton, and Philadelphia Counties and specific municipalities and cities like the State College Borough and Pottstown.

Similar to land banks, CLTs also suffer from a lack of consistent funding. Most often, CLTs must compile complex funding streams for each property and house they develop, slowing them in their mission and pivoting daily operations to fundraising.

Possible Recommendations: The state of Pennsylvania could use more creative financing methods like bonds to provide a more steady funding source to CLTs.

Unsustainable Costs for Construction of New Affordable Housing

Construction of new affordable housing has decelerated radically since the housing bubble collapse in 2008.[42] This slowdown is predicated on several factors, but one major reason is a dramatic rise in construction costs.[43] These costs include construction supplies (lumber, fixtures, etc.) along with increased labor costs (skilled and unskilled).

[41] What is a Community Land Trust
[42] There's never been such a severe shortage of homes in the U.S. Here's why
[43] Construction Costs are Rising

In addition to typical housing construction costs, different funding sources for affordable housing, from LIHTC to PHARE, come with additional construction requirements. These additional requirements vary from funding source to source, but often include environmental considerations, parking minimums, labor protections, and more. While laudable, these additional requirements increase costs, making it more difficult for developers to finance a project.

According to several of the interviewees we spoke to who help to develop new affordable housing units, one unit of affordable housing now typically costs approximately $250,000 in Western Pennsylvania.

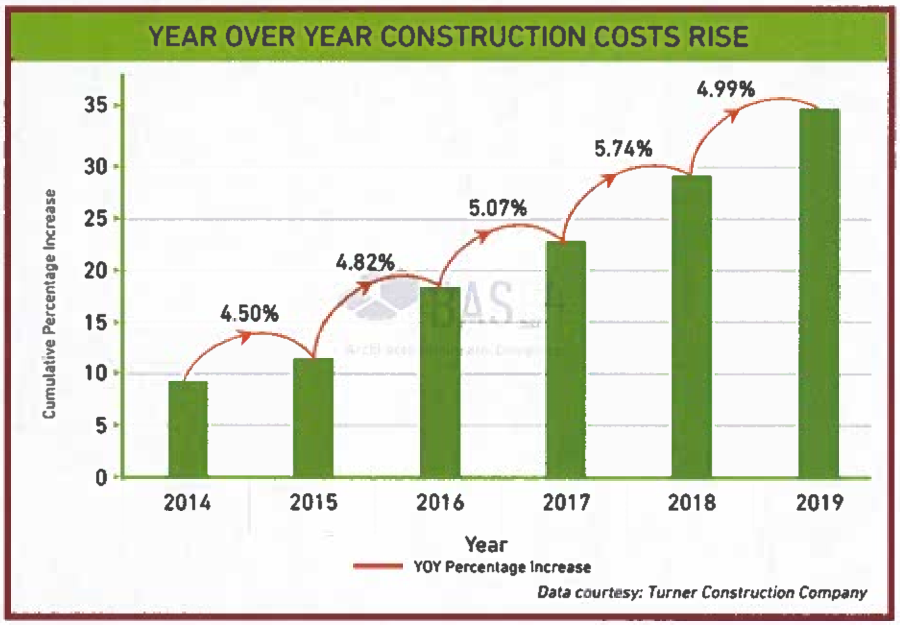

Figure 27: Graphic Illustrating the Rise of Housing Construction Costs [44]

Considering the rapid demolition of old housing occurring across Pennsylvania, developers building new affordable housing cannot satisfy demand across the Commonwealth.

Possible Recommendations: While the problem of rising affordable housing construction costs is national, local developers who we interviewed noted that some states have more effectively reduced those costs through loosened regulations for the construction of affordable housing. The Commonwealth of Pennsylvania could similarly loosen building requirements associated with its funding programs, or the Commonwealth could increase its funding to those programs to counteract rising costs.

[44] Construction Costs are Rising

Policy Recommendations

After completing a survey of barriers to affordable housing across the Commonwealth, the team chose three specific barriers to examine in more detail. For those three specific barriers, we identified potential policy recommendations, along with relevant case study rationale and implementation suggestions.

Policy Recommendation Focus

- **Increase landlord participation in the Section 8 Housing Choice Voucher Program**
- **Increase funding to Land Banks**
- **Increase funding to Community Land Trusts**

Increase Landlord Participation in Section 8

Overview

The Section 8 Housing Choice Voucher program was designed to help provide rental assistance to low-income families via a housing voucher, while simultaneously providing those families with the ability to use that voucher at privately-owned properties in the community of their choice. By utilizing a HCV, a family pays 30% of their household income towards rent and the housing voucher covers the rest of the monthly rent portion. Across the United States, 2.3 million low-income families use HCVs. These vouchers are administered by 2,170 Public Housing Agencies (PHAs).[45] Within PA, there are 85 PHAs that administer 76,200 HCV across the State.[46]

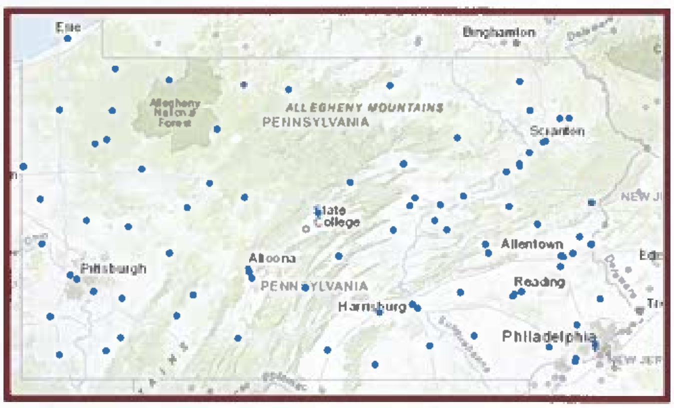

Figure 28: PHAs that administer HCVs in Pennsylvania [47]

The freedom to use an HCV anywhere in the community was supposed to be the strength of the S8 program, and was seen as an improvement to traditional public housing developments that were viewed as dense, cramped, and riddled with blight. However, in practice, many HCV recipients are unable to use their housing choice vouchers as they are not able to find landlords who will accept them. In addition, when HCV recipients can use their HCVs, they are often only able to utilize them in low-income neighborhoods, mirroring the problem that HCVs were supposed to solve.

[45] Policy Basics: The Housing Choice Voucher Program
[46] Federal Rental Assistance Fact Sheet PA
[47] PHAs in Pennsylvania

Landlord Acceptance of Housing Vouchers

According to a study conducted by the Urban Institute on landlord acceptance of Housing Choice Vouchers, landlords rejected rental applicants more than 66% of the time in three of the five cities outlined in the study.[48] Philadelphia had an average 67% landlord rejection rate in the study, but specific Philadelphia neighborhoods ranged from as low as 55% to as high as 83%. As shown in Figure 29, Philadelphia's average rejection rate at 67% is lower than that of two other major cities in the study, both of which lack source of income discrimination laws: Fort Worth (78% rejection rate) and Los Angeles (76% rejection rate).

This comparison across cities is notable, because even though the City of Philadelphia has a Fair Practices Ordinance which prohibits discrimination in housing, employment, and public accommodations, Philadelphia still has an HCV rejection rate that is far higher than other nearby cities such as Newark (31%) and Washington, DC (15%). This suggests that while source of income discrimination protections may have some effect on inducing landlord participation in the S8 program, these policies do not eliminate discrimination of HCV applicants completely. Thus, source of income discrimination ordinances may serve as a deterrent, but our research seems to suggest that they are difficult to enforce. Rejected HCV applicants would need to prove that they were discriminated against in court which would require legal evidence, as well as considerable time and resources, to open a legal case against a landlord that has rejected the HCV applicant.[49] As one might expect, low-income households using HCVs rarely take this route.

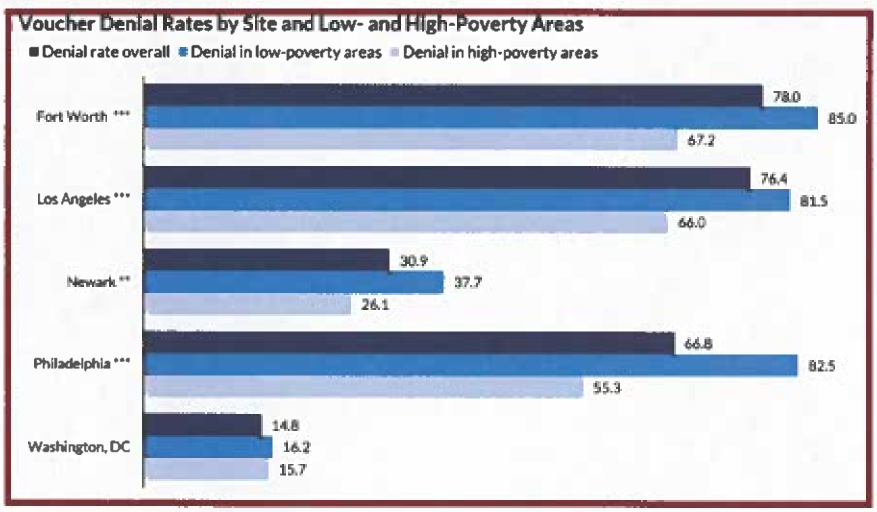

Figure 29: Urban Institute Study of HCV Landlord Denial Rates [50]

Washington, DC not only had the lowest HCV denial rates, but it also had very similar denial rates between low and high-poverty neighborhoods. This is likely because Washington, DC has higher HCV payment standards as well as neighborhood-level payment standards. These provisions increase the market rate in which HCVs pay landlords rent, and make HCV applicants more appealing for landlords leasing properties in lower-poverty neighborhoods. Therefore, according to this study, it appears that financial incentives seem to be a strong predictor of landlord participation in the HCV program.

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[48] Urban Institute Housing Voucher Acceptance Study
[49] Source of Income Discrimination in Philadephia
[50] Urban Institute Study of HCV Landlord Denial Rates

Mechanisms for Increasing Landlord Participation in HCV Program

In 2021, the Office of Inspector General (OIG) for HUD conducted a study to determine the potential effectiveness of using incentives to increase landlord participation and retention in the HCV program.[51] In this study, 28 PHAs chose to offer landlord incentives for their HCV programs. These 28 PHAs were selected to study as these specific PHAs were all participating in HUD's Moving to Work (MTW) program. The MTW program provides participating PHAs with greater program flexibility to test innovative, locally-designed policies to help increase housing opportunities for HCV recipients.

Overall, the landlord incentives tested in this study were framed to address the most common reasons that landlords choose not to participate in the HCV program; these include bureaucratic factors, financial considerations, and preconceptions about HCV recipients. The study included both monetary incentives and nonmonetary incentives that were chosen by the participating PHAs.

According to the OIG review, many of the monetary incentives were cited as effective at addressing landlord concerns about the HCV program. The most effective incentives are represented in Figure 30; they include: new landlord bonus, property damage reimbursement, vacancy loss payment / re-rent bonus, increased payment standard in high opportunity areas, new landlord in high opportunity areas bonus, and security deposit assistance.

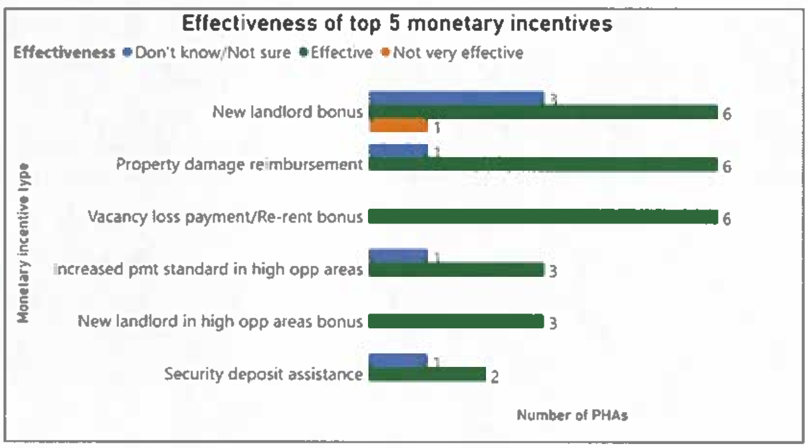

Figure 30: Effectiveness of Monetary Incentives in HUD's OIG Study[52]

The new landlord bonus was the PHAs' most popular monetary incentive, as it was deployed by ten PHAs engaged in the OIG study. For this incentive, landlords who had not previously rented to HCV recipients were given a bonus to participate in the HCV program by accepting applicants utilizing HCVs. The specific monetary amount of the bonus and policy requirements varied by PHA. Six of the participating PHAs stated that the new landlord bonus was effective for a variety of reasons, with one PHA noting that splitting a $1,000 bonus into two payments not only recruited new landlords, but also helped retain landlords in the HCV program. Another PHA noted that the new landlord bonus was often the deciding factor in a landlord's decision to participate in the program. Another PHA reported that the new landlord bonus was not very effective because its $100 new landlord bonus created an accounting problem for corporate landlords. However, it is also possible that this PHA found its bonus to be less effective due to its relatively low amount.

[51] Use of Landlord Incentives in the Housing Choice Voucher Program
[52] Effectiveness of Top 5 Monetary Incentives in HUD OIG Study

Overall, new landlord bonuses appeared to be one of the most popular and effective incentives employed by PHAs in this study. In addition, property damage reimbursement and vacancy loss / re-rent bonuses were also cited as highly effective, with six PHAs each rating those two incentives as effective. Overall, PHAs generally stated that the incentives they offered were at least somewhat effective.

Given the need for greater landlord participation in the HCV program, and the evidence for monetary incentives cited above, we propose that the Commonwealth of Pennsylvania should fund a statewide incentive program to increase landlord acceptance of Housing Choice Vouchers. Our team identified two policy alternatives that other states have implemented to encourage landlord participation in the HCV program: new landlord signing bonuses and a landlord guarantee program.

Case Study: Maine's Signing Bonus

In 2021, MaineHousing (Maine's State Housing Finance Authority) implemented a Landlord Participation Incentive Program in which participating landlords would be compensated with a signing bonus up to $750 for each unit they placed in the HCV program.[53] The program was funded in September of 2021 with $380,000 of HCV Program Administrative Fees from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. It is estimated that 352 units of affordable housing were made accessible to HCV tenants in 2021 because of the Landlord Participation Incentive Program.[54]

The incentive program also included other provisions such as funding to cover security deposits for HCV recipients, as well as landlord repair grants and damage reimbursement grants. In 2021, the Landlord Participation Incentive Program covered the security deposits on 238 units of affordable housing and distributed more than $120,000 to landlords for the repairs of 70 rental units.

Extension of the Landlord Participation Incentive Program

In 2022, MaineHousing announced that it had earmarked $750,000 from the state Housing Opportunity for Maine Fund to continue the provision of the Landlord Participation Incentive Program through its partnership with the public housing authorities of Maine. Officials for the Maine Association of Public Housing Directors noted that the decision to continue the program was due to the incentive program's success in facilitating 352 HCV lease-ups in the previous year. The officials stated that the leasing bonus incentive enticed new landlords to accept HCV rental applicants and motivated landlords to notify public housing authorities when they had vacant units.[55]

Program Details for Maine's Landlord Signing Bonus Incentive

For the Landlord Signing Bonus provision of the Landlord Participation Incentive Program, landlords receive a $750 signing bonus for every rental unit that they leased to an HCV participant. The signing bonus was paid to the landlord along with payment for the first month's rent.[56] In some locations, an additional $250 bonus would be paid to the landlord if the voucher holder was experiencing homelessness prior to moving into the unit. However, this additional $250 bonus varied by housing authority, and was not available across all housing authorities in Maine.

To qualify for the signing bonus, landlords must sign a one-year lease agreement with a new HCV tenant and sign a Housing Assistance Payments Contract with the appropriate local housing authority.

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[53] Maine Landlord Incentive Program

[54] Ibid.

[55] Ibid.

[56] Landlord Incentive Program Details

Additionally, the rental unit must pass a Housing Quality Standards inspection, and the landlord must not have any open housing discrimination cases.

Case Study: Oregon's Landlord Guarantee Program

In 2014, the Oregon Legislature directed the Oregon Housing and Community Services (OHCS) to develop and implement a Housing Choice Landlord Guarantee program to mitigate damages caused by HCV tenants as a result of their occupancy.[57] Under this program, OHCS manages a revolving fund appropriated by the State of Oregon, and HCV tenants must reimburse the program for any damages.

Program Administration

Program assistance applies to qualifying expenses related to property damage, unpaid rent, or other damages documented to OHCS. To be eligible, damage to the property must exceed normal wear and tear, and be caused as a result of the HCV tenant's occupancy. Expenses for repairs must be in excess of $500 but no more than $5,000 per tenancy.[58] To establish eligibility for assistance, a landlord must obtain a judgment against a tenant, and a claim for assistance must be submitted within one year of obtaining the judgment. Tenants must repay the full or partial amount of the mitigation payment made by the Landlord Guarantee Program. However, upon request the program can waive repayment requirements, when cause is justified.

Program Funding and Performance

Oregon's Housing Choice Landlord Guarantee Fund was created in the Oregon State Treasury and funded by approximately $475,000 from its Rent Guarantee Fund.[59] Additionally, the Oregon State Legislature appropriated $74,855 from the general fund to OHCS for the purposes of managing the program.

Since implementation in 2014, Oregon's Landlord Guarantee Program received 453 applications and approved 340 of them. Of those approved payments, 199 (59%) of them have been for payments between $4,000 to $5,000. The program has paid out roughly $1,388,000 to cover the 340 applications that it has approved since 2014.

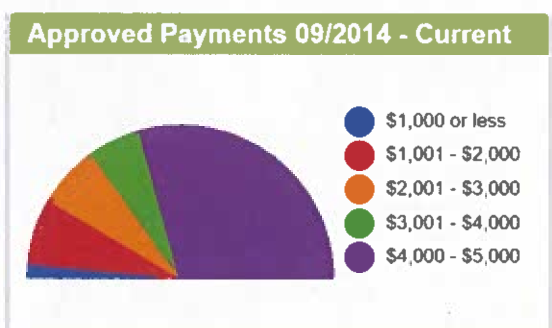

Figure 31: Approved Payment for Landlord Guarantee Program[60]

[57] Oregon Develops Landlord Guarantee Program
[58] Landlord Guarantee Program Factsheet
[59] Landlord Guarantee Program Funding
[60] Landlord Guarantee Program Dashboard

Final Recommendation

Given the critical need that the Section 8 Housing Choice Voucher program serves in providing housing opportunities for thousands of HCV households across Pennsylvania, it is necessary to craft policies which reduce the barriers that HCV recipients face. With a housing voucher denial rate of 67% in Philadelphia, the adversity that HCV households face is apparent.

While we could not find data for the housing voucher denial rate for all municipalities across Pennsylvania, it is likely that the denial rate is even higher across the rest of the state because most other cities in Pennsylvania do not have a source of income ordinance in place. While a statewide source of income discrimination protection would likely reduce the HCV denial rate, our team believes that the facilitation of landlord incentives would produce a more immediate and robust acceptance of housing vouchers across the Commonwealth (as illustrated by the Urban Institute study). Plus, a landlord incentive program would be more politically feasible than a state-wide mandate.

Specifically, we recommend that Pennsylvania implement a statewide incentive program, with a multifaceted approach similar to Maine. This program would include a landlord signing bonus worth $500 for every new rental unit leased to a HCV recipient. In addition, a landlord guarantee program should also be developed, in which landlords leasing to HCV participants are eligible to receive up to $3000 in repair damage reimbursement for any damages caused by HCV tenants during their lease.

This landlord incentive package would aim to both attract new landlords to the HCV program through the signing bonus, and also incentivize landlords to remain participants in the program due to the damage insurance they would effectively be receiving from the landlord guarantee provision. Unpaid rent would not be considered a qualifying expense for a landlord damage claim, as this provision greatly increased Oregon's Landlord Guarantee program costs during the COVID-19 pandemic.[61]

Funding to Community Land Trusts

Overview

Community land trusts (CLTs) are non-profit organizations that own land and develop it through inclusive community-based processes. Most CLTs develop these properties to provide affordable housing units to the local community, providing a significant benefit to the community. Nevertheless, CLTs suffer from a lack of consistent funding and most often, must compile complex funding streams for each property and unit they develop, slowing them in their mission and pivoting mission-focused operations to fundraising.

Community land trusts gain their funds both privately and publicly. In Pennsylvania, CLTs rely upon private donors, grants, municipal support, and state funding, including grants from the PHARE fund.

HUD's 1990s shift to federally-funded but locally-controlled affordable housing programs also helped to create additional funding pools that CLTs also rely on—Community Development Block Grants (CDBG) and HOME grants. However, funding for both programs has not kept up with inflation and these programs only account for a minor portion of HUD's current budget. Consequently, reduced funding for

[61] Oregon's Landlord Guarantee During COVID-19 Pandemic

the CDBG and HOME programs has increased pressure on state and local governments to provide more funding to meet the growing demand for CLTs.

To help with CLTs' financing issues in Pennsylvania, our team identified three possible policy alternatives: (appropriation) bond financing, Tax Increment Financing (TIF) set asides, and the use of other consistent state funding sources (like gap financing for LIHTC projects). Each of these policy alternatives show potential for creating new state-level funding for CLTs as demonstrated by outstanding practices in other states.

Case Study: Bond Financing in Minnesota

In 2012, the Minnesota Legislature first authorized the Minnesota Housing Finance Agency (MHFA) to issue Housing Infrastructure Bonds (HIBs), a form of appropriation bonds, to fund loans for certain housing development purposes.[62] Minnesota's HIBs successfully leverage local, federal and private investment and are flexible in their design to account for different local circumstances. At this point, HIBs have become the largest state source of capital for affordable rental housing and homeownership development in Minnesota.[63]

Details on Minnesota's HIBs

The Minnesota legislature approved a series of laws authorizing HIBs and guardrails for HIBs, including authorized amounts, purposes of HIB funding, appropriation caps, and more. MHFA issues the HIBs.

- **Bond Nature**: HIBs are appropriation bonds, which require distinct 1) payback methods, 2) constraints for proceeds, and 3) voting rules (compared with general obligation bonds). In particular, appropriation bond proceeds are less constrained than state general obligation bonds. Hence, HIBs can be used to fund the acquisition of or improvements to privately-owned property, which especially benefit CLTs and other affordable homeownership projects. [64]
- **Term and Payback**: HIBs typically have a 20-year term, and the principal and interest are paid solely from appropriations from the General Fund of the state. Full faith, credit, and taxing powers of the state are not pledged to repayment of the bonds, and only state appropriated money for debt service are to be used for payback of the bond. [65]
- **Use of Proceeds**: The proceeds of HIBs may be used by MHFA to fund non-recourse loans to finance the acquisition, rehabilitation, or construction of housing, including supportive housing for persons and families of low- and moderate-income. Loans funded with HIB proceeds can be structured with either 1) volume-limited private activity bonds, potentially qualifying the development for 4% tax credits, or 2) as deferred only loans. The deferred loans do not require any prepayment for the first 10 years from the date of the HIB mortgage note, but they can be repaid in full at any time after 10 years. CLTs are Section 501(c)(3) tax exempt organizations and mostly benefit from these deferred loans, as their loan payment can be either forgivable or repayable at maturity.
- **Project Selection**: About one third of loan applications typically get approved. In 2020, 35 eligible projects requested a total of $318 million in bond loans, which ended up with 14 of them being approved with a $98 million loan grant in total.[66]

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[62] HIB - Housing Infrastructure Bonds
[63] Housing Infrastructure Bonds
[64] State of Minnesota Senate Memo on MHFA Housing Infrastructure Bonds
[65] Supplement File to Minnesota Housing Finance Agency Series Bonds Official Statement
[66] Housing Infrastructure Bonds

Policy Impacts of Minnesota's HIBs

From 2012 to 2020, $400 million in HIBs were authorized leveraging over $775 million in total development costs. Over 4,700 units of housing have been created or preserved, including additional units in the development pipeline.[67] In 2022, the total authorized bond amount reached $515 million.

Year	Amount Authorized	Amount Selected/ Advanced*	# of Multifamily Projects	# of Single Family/Manuf. Housing Projects	Number of Units	Total Development Costs (MF)
2012	$30	$30	8	5	472	$59
2014	80	70	11	5	1,239	120
2015	10	20	4	4	162	35
2017	55	42	7	5	555	104
2018	80	29	14	6	464	61
2019	60	118	16	5	946	217
2020	100	102	14	10	872	178
Totals	$415M	$411M	74	40	4,710	$774M

*Amounts subject to change Minnesota Housing | mnhousing.gov

Figure 32: Results From HIBs from 2012-2020 in Minnesota [68]

Minnesota's HIBs also demonstrate the ability to leverage and grow government funds. In 2019, the amount of annual debt service for HIBs was projected to be $2.4 million for FY 2023 and $4.8 million per year thereafter.[69] In this sense, even with a conservative estimate, Minnesota's HIBs leverage about 20 times the value of public expenditure from private investments.

Case Study: Ohio's Use of the Housing Trust Fund

The Ohio Housing Finance Agency (OHFA) developed the Housing Development Assistance Program (HDAP) to preserve at-risk affordable housing, create new affordable rental housing, and develop affordable homeownership opportunities which benefit CLTs in Ohio. Funding from the Ohio Housing Trust Fund (OHTF), the HOME Program and the NHTF is allocated through HDAP and administered by OHFA.[70]

HDAP comprises three distinct programs specific to the size of project and type of funding requested by applicants. The programs are considered gap financing programs, which often work in conjunction with the LIHTC program. [71]

1. Housing Development Gap Financing (HDGF) program funded by OHTF and NHTF supports smaller projects not utilizing LIHTC by developers with less experience

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[67] Ibid.

[68] Ibid.

[69] State of Minnesota Senate Memo on MHFA Housing Infrastructure Bonds

[70] Amended Program Year 2021 Ohio Consolidated Plan Annual Action Plan

[71] Ohio Consolidated Plan Program Advisory Committee Meeting ——Housing Development Assistance Program (HDAP)

2. Housing Credit Gap Financing (HCGF) program funded by OHTF and HOME supports projects utilizing the 9% LIHTC (in addition to HDAP) by experienced developers
3. Bond Gap Financing (BGF) program funded by OHTF, HOME and NHTF supports projects utilizing the 4% LIHTC and multifamily bonds (in addition to HDAP) by experienced developers

HDAP funds are awarded in the form of either loans with different interest rates or grants depending on the funding source. Grants distributed from OHTF/HOME have stricter eligibility requirements; while loans are more generally used: [72]

- Loans from OHTF/HOME: 2% interest and mature at the end of the affordability period
- Loans from NHTF: 0% interest deferred loan with a term no less than 30 years

In 2021, HDAP awarded $40.3 million in total to affordable housing projects across the state of Ohio. These investments are an example of successfully leveraged federal money, as the OHTF only contributed 29% of total funding, while the NHTF, in particular, accounted for the largest portion of 2021 total funding. Altogether, this successful example of leveraging significantly benefited organizations working on affordable housing projects, namely, CLTs.

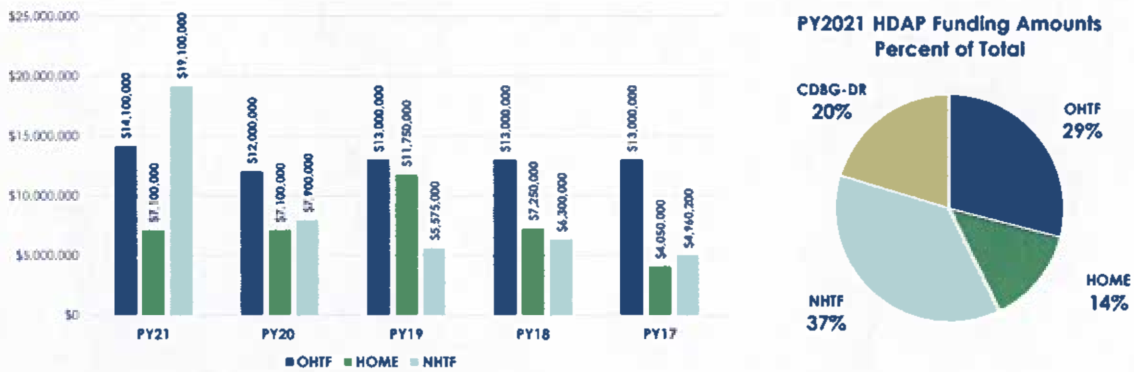

Figure 33: Funding Sources of the HDAP in Ohio [73]

Recommendations

Appropriation Bonds

Our team believes Pennsylvania could implement a similar model to Minnesota's HIBs, using state appropriation bonds to specifically finance affordable housing and homeownership projects, especially for the use of CLTs. Compared with general obligation bonds which need 3/5 of the votes for legislative approval, appropriation bonds only need a majority vote. PHFA could issue and administer these bonds once it gets authorization from the state legislature. After the issuance of the bonds, eligible developers, including CLTs, would apply for the proceeds of the bonds, in the form of deferred loans, as a new funding source.[74]

Concerns regarding this bond financing proposal are likely to come from the debt service required of those bonds. Fortunately, according to our analysis of Pennsylvania's treasury data, the Commonwealth

[72] Amended Program Year 2021 Ohio Consolidated Plan Annual Action Plan
[73] Ohio Consolidated Plan Program Advisory Committee Meeting ——Housing Development Assistance Program (HDAP)
[74] More details can be found in the case study of Minnesota HIBs.

of Pennsylvania has the capacity to issue new bonds and pay for additional debt service. For example, in terms of debt stock, the debt per capita in Pennsylvania was $3,833 in 2018, which is slightly higher than the 50-state median but still far lower than the states with more aggressive bond strategies like New York and New Jersey.[75] With respect to the debt service per se, it only accounts for a small fraction of current fixed costs (9%) to the state budget and also proportionally lower than the debt service in other states in a sense.[76] Therefore, either in the perspective of asset (total debt) or cash outflow (debt service), Pennsylvania demonstrates its capacity of carrying far more bonds and the feasibility of this alternative as well.

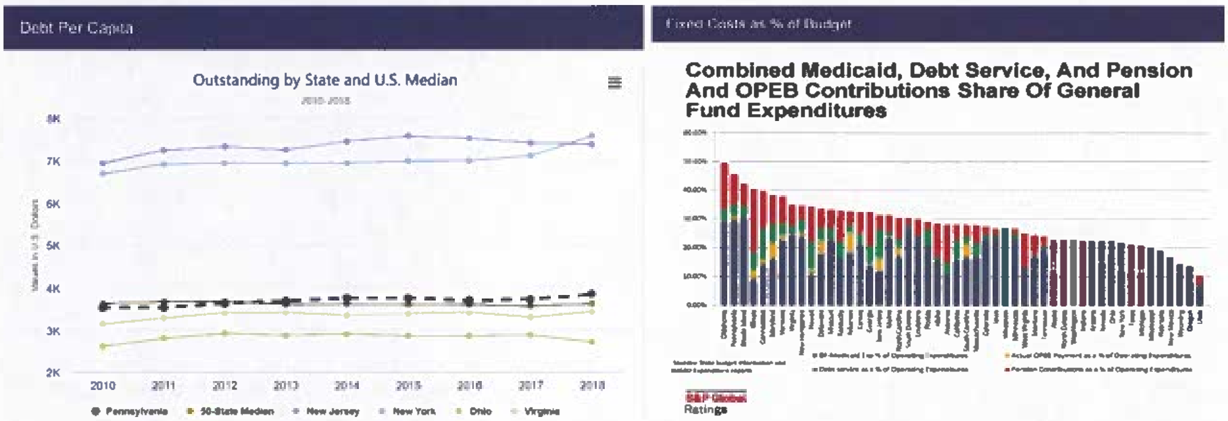

Figure 33: Debt Status of Pennsylvania [77]

Debt service for appropriation bonds is typically paid off using a variety of state appropriations, which suggests two possible funding sources for this repayment arrangement in Pennsylvania. One might be to use the state's general fund (which Minnesota uses), while the other might be the use of the state's housing trust fund, which in Pennsylvania is the PHARE fund. With recent increases to PHARE, it may be feasible to utilize the PHARE fund to cover this debt service.

Due to the exponentially larger size of the state's general fund, a greater number and greater value of bonds would be able to be issued. Hence, if the general fund becomes available to finance debt service, the number and value of bonds may correspondingly scale up.

Empirical data from Minnesota allows us to make a rough estimate about the annual impact of the use of bonds with different scales of debt service. For instance, a $5 million appropriation for debt service supported $100 million in authorized bonds, which funded additional affordable housing and incentivized construction worth over $200 million. Considering an average per unit construction cost of $225,000 in Pennsylvania, that $200 million would equate to approximately 889 new affordable housing units.[78] Thus, by issuing bonds, an initial $5 million appropriation from the Pennsylvania general fund or the PHARE fund, could create 889 affordable housing units in one year, demonstrating a strong multiplier effect.

[75] Pennsylvania Treasury Fiscal Health Scorecard
[76] Pennsylvania Treasury Fiscal Health Scorecard
[77] Ibid.
[78] Derived from the range $150,000-$300,000 suggested by our interviewees

Gap Financing

The team would also like to promote a similar gap financing mechanism as Ohio uses with HDAP for affordable housing and homeownership projects in Pennsylvania. PHFA can develop a similar gap financing program by itself through administrative process, using NHTF, HOME and the increased PHARE fund as funding sources. The main uncertainty related to this program would be its utilization of the NHTF, either the approval of this proposal to use NHTF funds, or more specifically, the amount potentially approved.

A gap financing program would help CLTs in Pennsylvania practically, as LIHTC is a critical funding source for all affordable housing in PA and some CLTs do benefit from LIHTC currently. Mosaic CLT is one that has significant experience using LIHTC funding.[79] Hence, as the needs for LIHTC have been proved, our team will thus expect a complementary gap financing program to stimulate more CLT projects correspondingly.

Empirical data from Ohio also suggested a 2-2.5 multiplication effect for this type of program. Specifically, with $10 million in new funding, which could come from the PHARE fund, such a gap financing program would be likely to receive $5-13 million in funding from NHTF and would ultimately create $20-25 million in total funding for affordable housing and homeownership projects in Pennsylvania. As the state fund contributes less than half of all available final funding, this approach of binding state and federal resources actually suggests a rather efficient way of utilizing state funds.

Other Possible Funding Ideas for CLTs

There are other approaches, including tax increment financing, that could also help to increase funding for Pennsylvania's CLTs. In 2006, Portland passed a TIF set-aside fund "to dedicate a percentage of Tax Increment Financing (TIF) revenues from all Urban Renewal Districts citywide to an affordable housing set aside fund"[80]. More recently, Maine used the TIF model to support affordable housing and associated infrastructure costs by collecting new property tax as revenue.

Our team, therefore, would also like to propose TIF set-aside funds in Pennsylvania to fund affordable housing and homeownership projects. Considering the fiscal and political feasibility, we would suggest that this TIF funding model be implemented on a small scale, likely at the city or county level, at first. One way to model the TIF could be to build affordable housing based on the tax increment of the assessed value on other affordable housing in the same area. Our interviewees noted that some current affordable housing projects have increased significantly in their assessed value, meaning that this increment could be viable in some locations.

Overall, all three alternatives have their own advantages and disadvantages, while the bond financing recommendation distinguishes itself through its huge potential impact. The gap financing program recommendation has its distinct advantages too, however, there is a feasibility concern with it, as several complex administrative processes would need to be navigated. Lastly, decisions involving establishment of affordable housing TIFs and bond financing would both require going through the legislative process and could encounter disagreement either politically or technically (considering the public budget). However, the bond financing policy alternative does have outstanding performance with regard to its significant multiplier effect, which would bring enormous opportunity to affordable housing in Pennsylvania and potentially reinvigorate the state economy in many ways.

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[79] Community Land Trusts in Pennsylvania Report

[80] Portland Housing Bureau History of TIF Set-Aside Policy

Funding to Land Banks

Overview

Land banks are public entities or non-profits which purchase abandoned, vacant, and tax-delinquent properties with the goal of transforming them into more productive use. Land banks typically have the discretion to sell property not for the highest offer but to the people most in-need. While land banks often facilitate affordable housing ownership by selling rehabilitated properties to low income families, it is important to note that affordable housing is not always their primary goal.

In 2022, there are 17 states with legislation enabling land banks. Michigan was the first state to legislate land banks in 2003. Ohio then passed its bill in 2009, and Pennsylvania followed in 2012. Today, there are 251 land banks in the country and 25 land banks across the Commonwealth of Pennsylvania.

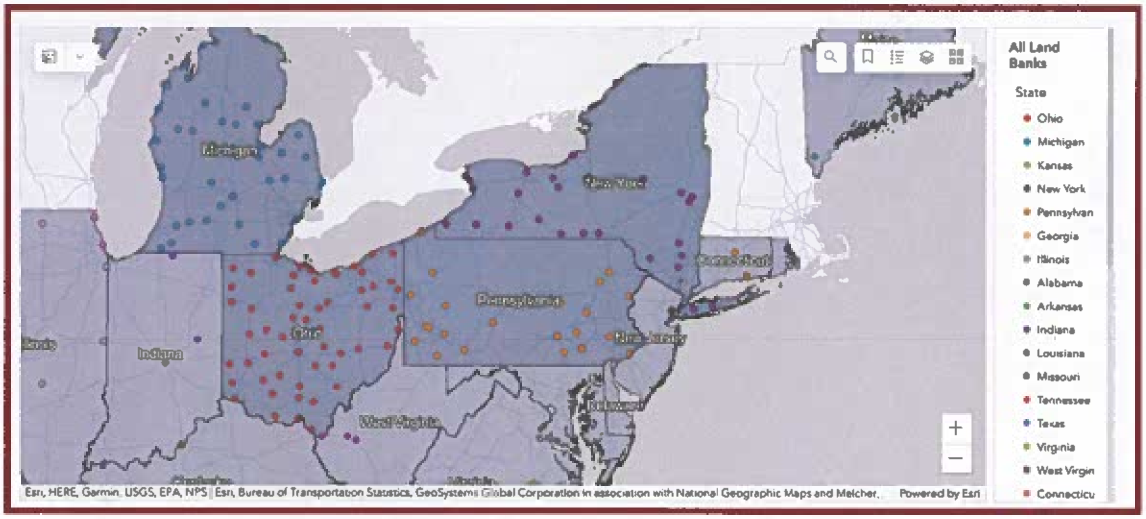

Figure 35: National Land Bank Map [81]

According to the National Land Bank Survey, 53% of land banks do not have adequate funding to cover basic expenses, 47% have a staff of one full-time equivalent or less, and 50% do not have the data and software necessary to identify current and potential inventory.[82] Our interviews with staff supporting Pennsylvania land banks surfaced similar issues regarding adequate funding.

The same survey showed that the largest source of funding for land banks is government grants (28%), followed by real estate sales (23%), and government appropriations (17%). The remaining 32% are other sources such as tax recapture, in-kind donations, membership fees and others.

[81] National Land Bank Map - Center for Community Progress
[82] The State of Land Banking 2022

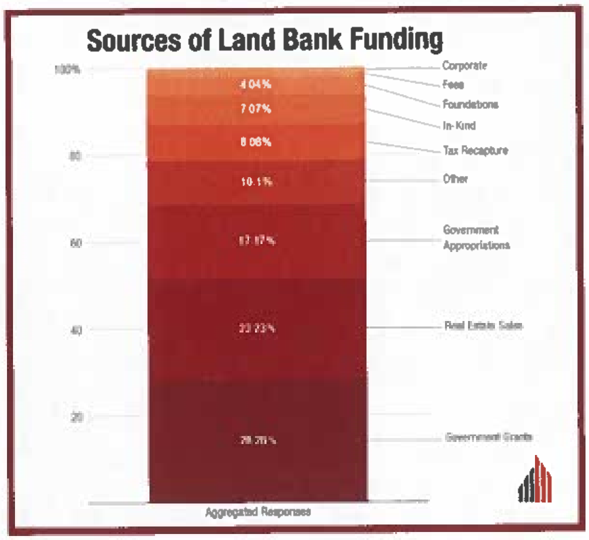

Figure 36: Sources of Land Bank Funding [83]

In Pennsylvania, land banks can be financed through various channels, like issuing bonds, borrowing, investing, charging rents, or collecting fees. Bonds created by land banks are tax exempt and municipalities may choose to guarantee these bonds. Land banks are also allowed to claim up to 50% of taxes on properties that they have returned to the tax roll for a period of up to 5 years. This tax recapture scheme is set up only per agreements with each participating municipality. Finally, land banks can gather funds through membership fees. For instance, Westmoreland Land Bank charges $5,000 per municipality.[84] While the 2012 Pennsylvania Land Bank Act allows for each of these funding mechanisms, the law does not allocate any consistent or dedicated funding for land banks on its own, nor does it provide seed grants for newly created land banks. The Housing Alliance of Pennsylvania and experts we interviewed confirm that this lack of a dedicated funding stream and seed funding for new land banks represent the main barriers to more land bank success in the Commonwealth.[85]

We propose three policy solutions to address the land bank funding problem in Pennsylvania. First, we recommend that Pennsylvania create a continuous state-level grant program for land banks. Second, we suggest the state provide seed grants to support new land banks in reaching economies of scale. Third, we suggest designating 5% of the Delinquent Tax Fund to land banks.

Case Study: Ohio

Slow and steady population declines since the 1970s drove a decades-long rise in vacancy rates across the state of Ohio. The 2009 recession then exacerbated Ohio's vacancy problem significantly, to the extent that Cuyahoga County - which includes Cleveland - was described as the epicenter of the foreclosure crisis.[86] 1 in 13 houses in Cleveland were vacant while Cuyahoga County experienced approximately 14,000 foreclosures.

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[83] The State of Land Banking 2022

[84] PA Land Bank Resource Guide - Housing Alliance of Pennsylvania

[85] Ibid.

[86] Cuyahoga Land Bank 10 year Economic Impact Report

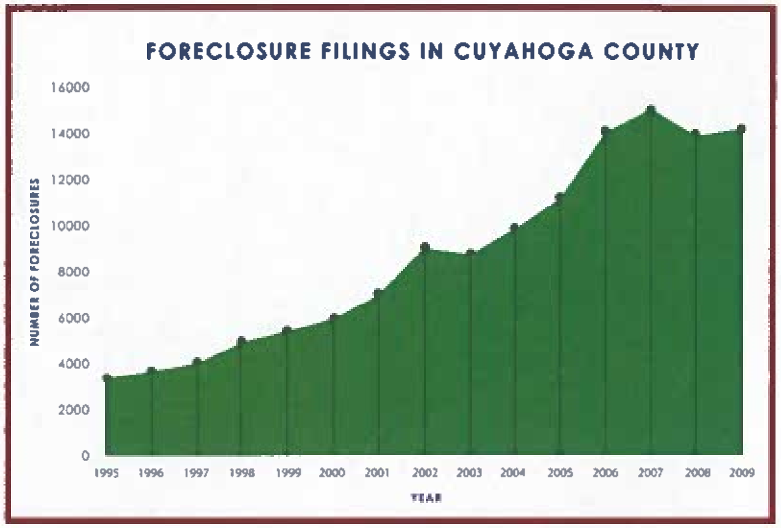

Figure 37: Foreclosures in Cuyahoga County [87]

In the aftermath of the 2009 housing recession, Ohio's housing stock took a severe downturn. Home vacancies typically lead to other economic and social problems, as vacant lots become places of criminal activity, they increase the risk of fires, they lead to devaluation of neighbor properties, and cause a loss of taxes for the state.[88]

The Solution: A New Law

Prior to 2009, Ohio had a land reutilization program which allowed land banks to hold vacant properties for the future, but not redevelop them. In addition, Ohio signed additional legislation related to vacant properties which decreased the time of the foreclosure process from 2 years to 4 months. Both of these policies laid the foundation for the future success of Ohio's land banks.

In 2009, in reaction to the foreclosure crisis, Ohio passed a new law that would allow counties to create County Land Reutilization Corporations (CLRCs, or more commonly, land banks). Under this law, CLRCs are nonprofit corporations that have the power to develop, manage, rehabilitate, and reutilize vacant, abandoned, tax-foreclosed, or other real property.

Via this new law, Ohio gave counties significant discretion in funding their land banks through various means. For example, Ohio's land banks could apply for grants and loans and request county authorities to issue bonds and use tax increment financing on their behalf. Moreover, the law also gave counties the ability to initiate a voter-approved property tax specifically to fund land banks. Additionally, the law gave the county commissioners the authority to to use funds from the county's general or property tax revenue in order to fund land banks. Lastly, county commissioners could send 5% of all

- Grants & Loans
- County-issued Bonds
- Tax Increment Financing
- Voter-approved Property Tax
- 5% of Delinquent Property Tax Fund

[87] Cuyahoga Land Bank: 10-year Economic Impact Analysis
[88] The State of Land Banking 2022

delinquent property taxes collected from across the county to their county land bank.[89]

The reason why 5% of delinquent property tax funds was chosen to support land banks is because when delinquent taxes are collected, there's an extra 10% penalty that is paid to the government. Therefore, authors of the new Ohio bill decided that 5% of this fund would not divert tax money away from other public necessities like libraries, schools, and police. Land banks would be financed out of the penalty, not the principle of the tax itself.

The Law in Practice

Since 2009, Ohio has seen the development of many successful CLRCs, or land banks. Since 2015, all counties in Ohio regardless of population size were allowed to initiate land banks and most counties used this opportunity.[90]

In the section below, we discuss how Summit and Cuyahoga Counties have financed their land banks since 2009 to present day. Although land banks' operations can scale and they can eventually rely on profit from property sales and demolition reimbursements, this income is still not typically enough to fund all their programs (especially in counties with a more severe vacancy problem). We conclude that land banks are effective at fighting blight, facilitating affordable home ownership, and generating economic development conditional on continuous financial support from the government.

Summit County

Summit County is the 4th largest county in the state of Ohio with a population of over 500,000 people. In 2012, the Summit County Council created the Summit County Land Reutilization Corporation (land bank) with the purpose of "reclaiming, rehabilitating and reutilizing abandoned, vacant and blighted property."[91] Until 2017, Summit Land Bank focused solely on demolitions of blighted properties. In 2017, it expanded its operations to include property rehabilitation through its Welcome Home program. By 2018, it sold or leased 27 properties to residents in need (e.g. an apartment building solely devoted to homeless female veterans with children).[92]

In the first year of its creation, Summit Land Bank had a budget of slightly over $260,000, all of which came from delinquent property taxes from Summit County.[93] Over time, Summit Land Bank increased and diversified its funds, so much so that in 2020, the land bank had over $7 million in assets.[94]

In 2018, the largest portion of Summit Land Bank's funding was from grants (60%), followed by delinquent property taxes (28%), and program revenue (12%). In 2021, program income (mostly from demolition reimbursement) became the majority share of the land bank's funding, with over $4 million in revenue. Only $1.8 million came from delinquent property taxes and only $130,000 from grants. Figure 38 from the land bank's 2018 report shows the rise of program revenue over the years.[95]

[89] Analysis of House Bill 602
[90] 2015: All Ohio counties are now eligible to form land banks
[91] Mission — Summit County Land Bank
[92] Summit County Land Bank Community Impact Report 2018
[93] Financial Statement 2012 Summit County Land Reutilization Corporation
[94] Financial Statement 2020 Summit County Land Reutilization Corporation
[95] Financials — Summit County Land Bank

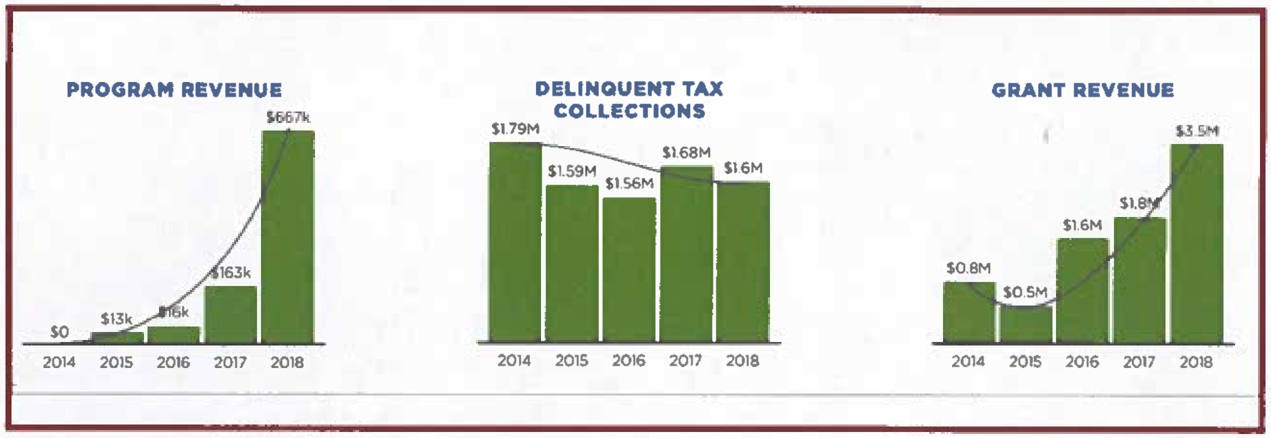

Figure 38: Summit County Land Bank's Sources of Funding 2014-2019 [96]

Our hypothesis, supported by expert interviews, is that strong initial funding enables land banks to reach economies of scale and start generating revenue from operations. We also believe the converse is true: without strong seed funding, land banks will struggle and will be less likely to be effective in their mission.

Cuyahoga County

Cuyahoga County's land bank is widely regarded as the most successful and innovative land bank in the United States. It was established in 2009 by the same people who worked to pass the original 2009 legislation. The land bank has three core principles: 'returning property to productive use, returning property to the tax duplicate, and accelerating economic or housing activity in the Cuyahoga County communities.' The land bank quickly scaled and within a year operated with a budget of $16 million. In 2022, it is still a model for other land banks as well as a source of information on funding policies. Since its creation, Cuyahoga Land Bank has demolished over 7,000 blighted properties and completed 2,100 rehabilitations. Independent auditors estimate Cuyahoga Land Bank's economic impact to be $1.43 billion of value created in contrast to only $178 million spent from 2009 to 2019.[97]

From the beginning, Cuyahoga County Council approved 5% of its delinquent tax fund to be diverted to the local land bank, but it set a cap at $7 million. During the first year of its creation, Cuyahoga Land Bank received $4 million in revenues.[98] In 2010, it already had a total balance of $16 million, $13 million of which was undesignated. During that same year, Cuyahoga Land Bank issued $9 million worth of bonds.

Over the years, Cuyahoga Land Bank has received significant grants from different governmental programs and agencies. Its most significant grants include:

- $70 million from the federal government through the expansion of the Hardest Hit Funds[99]
- $50 million from Cuyahoga County specifically for demolition efforts[100]

[96] Financial Statement 2020 Summit County Land Reutilization Corporation
[97] Cuyahoga Land Bank: 10-year Economic Impact Analysis
[98] State of Ohio Regular Audit, For the Year ending December 31, 2009
[99] Ohio Land Banking 2009-2021: From Legislation to Operation
[100] Ibid.

- $41 million from HUD through the Neighborhood Stabilization Program[101]
- $11.8 million from the Office of the Ohio Attorney General[102]
- $5 million from the Office of the Cuyahoga County Prosecutor[103]

In 2013, $7 million from the delinquent property tax fund made up 26% of the budget whereas 61% came from various grants, and only 13% from property sales, demolition reimbursements and other.[104] In 2017, the land bank's budget composition looked similar: 29% was from the delinquent property tax fund, majority still from the grants at 54%, and sales and other increased to 17%.[105] Most recent financial statements show that as of 2021 Cuyahoga Land Bank holds over $26 million in assets and $1.6 in liabilities and that delinquent property tax funds are 25% of its total budget.

Year	Grants	Delinquent Property Tax Fund	Property Sales, Demolition Reimbursement, Other
2013	61%	26%	13%
2017	54%	29%	17%
2021	N/A	25%*	N/A
* estimated from Cuyahoga Land Bank's 2021 Financial Statement			

Figure 39: Cuyahoga County Land Bank Budget Structure [106]

Cuyahoga Land Bank's revenues from sales increased from $150 thousand in 2010 to about $1.8 million in 2018 with a peak of $2.7 million in 2013.[107] Despite the increase, sales revenue is less than a fifth of the land bank's funding structure.

Final Recommendation

Recommendation 1: Establish a Land Bank Grant Program at the State Level

Our research suggests that land banks provide necessary public service and therefore require a reliable stream of funding in order to operate most effectively and deliver on their mission. Setting up a yearly and renewable grant program at the state level would ensure that land banks have enough resources to conduct their business. Without consistent funding, land banks cannot easily acquire, demolish, or rehabilitate properties. Moreover, this steady funding would remove the burden of land banks searching for funding every year and free up staff's time to do more programmatic work. Finally, such a grant program would encourage additional municipalities to start their own land banks, which would be very beneficial to the places in Pennsylvania where land banks do not currently exist. A greater number of functioning land banks spread across the state would translate into revitalized neighborhoods, a return

[101] Annual Report 2013 Cuyahoga County Land Bank
[102] As part of the national legal settlement with 5 lenders responsible for the 2008-2009 foreclosure crisis
[103] Annual Report 2013 Cuyahoga County Land Bank
[104] Ibid.
[105] Community Impact Report 2018 Cuyahoga County Land Bank
[106] Table based on information from 92, 94 and Regular Audit 2021
[107] Ibid.

of properties to the tax roll, and most importantly, the increased generation of affordable housing units for people most in need.

Recommendation 2: Allocate Seed Funds to Land Banks

The Commonwealth of Pennsylvania should support newly created land banks by providing them with seed funding. This grant, given once at the creation of a land bank, would ensure that the land bank can cover startup costs like hiring, renting office space, acquisition of properties, etc. The size of the grant would depend on the population size, geography, and vacancy problem in the area this land bank serves. If a new municipality were to join a land bank agreement, additional funding would be made available. Such short-term grants would incentivize municipalities to establish new land banks and ensure their work until they can generate revenue from operations.

Recommendation 3: Create a Streamlined Process for Land Banks to Receive 5% Designations from Local Delinquent Taxes

Similar to the Ohio model, Pennsylvania could formally establish a practice of designating 5% of collected delinquent taxes to finance land banks. This recommendation would enable land banks the authority to formally request a 5% share of the delinquent taxes a municipality (or multiple municipalities) collect. This model also mirrors the model the Tri-COG Land Bank has developed on its own in the Pittsburgh area.

Funding land banks through tax funds is justified because they help return properties to the tax roll and produce more tax revenue for the local government in the long run. This model ensures a stable and consistent source of funding and allows municipalities to create land banks without the fear of running out of funds and to take advantage of a fast-moving market. It also does not require qualifying or competing for a grant because it provides the funds specifically designated to land banks.

Conclusion

Pennsylvania's lack of affordable housing is a massive problem that cannot be solved with one method or by one institution. We believe that appropriately funded land banks can serve as agents of neighborhood transformation and positively affect the provision of affordable housing. Our theory of change is that successful land banks can 1) directly create more affordable housing units through rehabilitation of vacant and foreclosed properties, and 2) indirectly by making low-income neighborhoods safer and more attractive for further investment.

As our case study has illustrated, without substantial financial inputs from the county, state, or federal government, the work and impact of land banks in Ohio would not have been impossible. Therefore, our recommendations focus on making funding for Pennsylvania's land banks both stable and reliable. These recommendations can be implemented separately, although we believe that they would work best in combination. Recommendations 1 and 3 are ambitious and would provide significant effects in the long-term. However, we anticipate that it may be more difficult to pass them at the state level. Therefore, our second recommendation is a less costly option that could serve as a starting point for ensuring sustainable funding sources for land banks.

Conclusion

In the course of sixteen weeks, our CMU research team 1) determined an estimated need for affordable housing across the Commonwealth, 2) examined various barriers which inhibit residents from accessing affordable housing, and 3) developed recommendations on three main topic areas which could address those barriers and help to provide more residents with affordable housing.

In this report, we presented our findings from our quantitative Needs Assessment study which examines the supply and demand for affordable housing in Western Pennsylvania. This study estimates that, across the Commonwealth, 1.17 million households, or 23% of households, are in need of affordable housing. We broke that statistic down further via our three local target counties: Allegheny County at 22%, and Butler County and Greene County at 17% (13,015 households for Butler County and 2,425 for Greene County).

We also communicated results from our survey of barriers. The team compiled this survey utilizing open-source data and interviews with 23 housing experts across the state. Through this research, our team identified eleven core barriers to affordable housing. These barriers can be bucketed into three major categories: political, legal, and financial.

Lastly, in this report, our CMU team developed recommendations on three main topic areas: increasing landlord participation in the Section 8 Housing Choice Voucher Program, increasing funding to Land Banks, and increasing funding to Community Land Trusts. For each of these topic areas, we identified specific policy recommendations, along with relevant case study examples and implementation suggestions, which would address some of the barriers we identified above. The case studies reflect learned experiences and best practices from across the country, including examples from Maine, Oregon, Minnesota, and Ohio.

Altogether, our team is hopeful that this report proves to be both educational and pragmatic in its analysis and recommendations. While the housing affordability crisis is a nation-wide problem, specific states are finding success by tackling different issues in different ways. Consequently, we are hopeful that policy leaders in Pennsylvania can use the findings from this study to advocate for improved policies and programs which would address several of the barriers identified in this report, and allow that many more households to access affordable housing across the Commonwealth.

Appendix 1: Interview Questions

This is an interview template. Please copy this document into the 'interview notes' folder and put 'Name, date' as a title. Click here to copy this doc.
Remember to structure your notes according to research topics so that we can copy the relevant part of the interview to our research documents.

Interview with	
Date and time	
Team Members Present	

General
Present yourself and other people.
Ask for permission to take notes and store them on a private google drive.

Introduce Our Project

1. We are students at CMU's Heinz College
2. This is our capstone project
3. We are working with PCRG (Ernie Hogan)
4. We are researching barriers to affordable housing in Western PA

Questions

1. Can you tell me about your work and how it relates to affordable housing in Western PA?
2. What factors do you think most affect affordable housing in Western PA?
3. What policies have been helpful for affordable housing in Western PA?
4. What do you think the state/city/county should do differently to improve access to affordable housing?
5. What cities are success stories for improving access to housing?

Wrap-up
Thank you! Do you have any questions for me?