

Part 1: Executive Summary



PART 1

EXECUTIVE SUMMARY

The Lehigh Valley

The Lehigh Valley is home to over 235,000 households. New housing development has contributed to the robust economy of the region where 17,000 new residential units were approved between 2001 and 2005. Many residents are new to the area, finding the housing very affordable when compared to where they are relocating from – New Jersey, New York and Philadelphia. But this scenario is developing at a cost to many in the region who find it difficult to secure affordable housing.

The following terms (relative to 2005 income levels) are used in this report with the given meanings:

- **Very Low Income:** Households having less than 50% of the median annual income. (Lehigh County: up to \$24,478; Northampton County: up to \$26,847)
- **Low Income:** Households with an annual income that is between 50% and 80% of the median annual income. (Lehigh County: \$24,479 to \$39,165; Northampton County: \$26,848 up to \$42,956)
- **Cost Burdened:** A household that spends more than 30% of its gross monthly income on housing. (Lehigh County: \$1,224; Northampton County: \$1,342).

Households earning the median incomes in Lehigh County and Northampton County in 2006 could not afford to buy the median priced housing unit. The median income of \$48,957 (Lehigh County) and \$53,696 (Northampton County) was insufficient to pay 30% or less of the costs associated with a house costing \$189,000.

The majority of very low income households, both renters and homeowners, are cost burdened. In 2000, 66.2% of 26,348 very low income households that rented were cost burdened. In 2000, 60.7% of the 20,662 very low income households who were homeowners were cost burdened.

The number of cost burdened very low income households who were renters increased from 14,734 in 1990 to 17,452 in 2000. The percentage of these households who were cost burdened decreased because of the large increase in the number of very low income households. The number and percentage of cost burdened, very low income households who were homeowners increased. The number of cost burdened, very low income homeowner households increased from 10,132 in 1990 to 12,550 in 2000. The percent of cost burdened households increased from 51.2% to 60.7%.

Many low income households, both renters and homeowners, are cost burdened. In 2000, 25.9% of the 14,404 low income households that rented were cost burdened. In 2000, 35.3% of the 25,355 low income households who were homeowners were cost burdened.

Concern over this situation spurred the Lehigh Valley Planning Commission to address the issue of affordable housing on a regional basis.

The Challenges Facing the Lehigh Valley

The primary issue confronting the Lehigh Valley is how to create affordable housing opportunities for households with lower incomes. Many of these households include hard-working people who provide for their families and others, but cannot afford market rate housing, whether they are renters or home owners looking to move. The challenges facing these households are numerous.

Vital community occupations and some rapidly increasing occupations provide insufficient income to purchase the median value housing unit. In 2006, one-income households where the wage earner was a janitor, retail salesperson, warehouse worker, licensed practical nurse, police officer or elementary school teacher could not afford to buy the median priced housing unit at \$189,000 without becoming cost burdened.

Some rapidly increasing occupations provide insufficient income for renting a one-bedroom apartment without being cost burdened. A one-income household where the wage earner was a retail salesperson, janitor or warehouse worker would be cost burdened if they wished to rent a one-bedroom apartment at the HUD fair market rent of \$668 in 2006.

The demand for subsidized housing exceeds the supply. The five public housing authorities have a total of 6,024 applicants on their waiting lists for Section 8 vouchers and public housing units. The overall public housing occupancy rate of 98% reflects a critical undersupply of affordable rental housing units.

Development projects underway by public and private non-profit sectors will result in a reduction in the number of affordable housing units. A total of 616 affordable housing units are proposed or planned over the next several years. Of these units, almost three-fourths are connected to projects that will actually reduce the number of affordable housing units. Demolition associated with housing construction by the Allentown and Easton Housing Authorities under the HOPE VI Program will eliminate a total of 659 units from the region's affordable housing inventory. The 616 new units planned for construction (including 454 new public housing units) will result in a permanent net loss of 43 affordable housing units. (While the two HOPE VI projects will also provide 591 Section 8 vouchers in addition to the new units planned for construction, the vouchers will not add new affordable housing units to the region's inventory.)

Existing affordable rental housing may be converted to market rate housing. Housing financed through with Low Income Housing Tax Credits is obligated to remain as affordable housing for a set period of time. After that period, the owners are able to rent the units at market rates. The obligations end for 688 units before the end of 2007. The obligations will end for an additional 577 units between 2008 and 2012. Given current market conditions, owners have strong financial incentives to convert the units to market rents and thus terminate their affordability status.

Housing sales have been most active in the urban school districts of Allentown, Bethlehem and Easton. But, according to local real estate agents, there is a lack of supply of affordable and decent for-sale units for low and moderate income households, including first-time homebuyers.

The Opportunities Available for the Lehigh Valley

While the challenges may seem complex, innovative opportunities also exist. Both counties were recently designated federal entitlement communities under HUD's Community Development Block Grant Program. Both counties have well-established Housing Trust Funds. These financing resources, as well as others, provide for the creation and implementation of an innovative strategic housing plan.

▪ LAND USE RECOMMENDATIONS

- **Develop a model inclusionary housing ordinance.** Such a tool could provide financial and other incentives to developers in exchange for the provision of a percentage of housing units to be set aside for households with incomes at or below 80% of the median income level.
- **Encourage the revision of local municipal ordinances to reflect more opportunities for the development of affordable housing.** Using cost-benefit analyses, demonstrate how multi-family housing and clustered housing design for single family units can be more cost-effective.
- **Conduct workshops with local planners and builders.** Present the challenges of affordable housing and offer best practice solutions.
- **Use the region's designated Urban Areas as an incentive to finance affordable housing applications.** Urban areas, as used in this report, are those parts of the Lehigh Valley that are recommended for urban development by the Comprehensive Plan of the Lehigh Valley...2030. Require that affordable housing projects that are seeking to secure county funds (such as CDBG or Housing Trust funds) locate the project within these designated areas.
- **Provide relief from impact fees to developers who build affordable housing units.** Developers of market-rate housing should be assessed the full impact fee amount, but developers who create new affordable housing units should be given relief from these assessments.
- **Advocate amending the MPC to require Fair Share Housing.**

▪ TAX POLICY RECOMMENDATIONS

- **Appeal tax assessments on tax credit projects.** Affordable housing developments typically operate on razor-thin cash flows. Landlords cannot arbitrarily raise rents to cover increases in operating costs. Act 39 of 2003 instructs assessors to consider rent restrictions and affordability restrictions in arriving at the actual value of subsidized housing developments. Owners of existing tax credit developments can retroactively appeal their tax assessments to reduce real estate taxes.
- **Organize a workshop on valuing tax credit developments.** In order to promote the concept of establishing reasonable assessed valuations for new tax credit housing, assessors from both counties should organize a workshop on valuing new tax credit developments in order to expand awareness and implementation of the new law.

- **HOUSING TRUST FUND RECOMMENDATION**
 - **Establish policy guidelines for the administration, distribution and investment of Act 137 funds.** It would be preferable to extend Act 137 funding to larger, high impact projects that are experiencing a financing gap. In determining whether a financing gap truly exists, the county should review the transaction in sufficient detail to insure that Act 137 funds will not supplant other available sources of funds. By establishing general priorities rather than a fixed, point-based selection criteria, the county will maintain maximum flexibility in selecting projects for funding.

- **TAX-EXEMPT MORTGAGE REVENUE BOND FINANCING RECOMMENDATION**
 - **Utilize tax-exempt mortgage revenue bonds to create a bi-county pool of funds for homeowner rehabilitation financing.** Bond proceeds would be loaned to homeowners to improve their properties. Each participating homeowner would grant a mortgage and note as collateral for the transaction. The bonds would be backed by the recorded mortgages. Furthermore, sources of subsidy could be used to create various tiers of borrowers based on household income. As homeowners repay their loans, the repayments would be used to service the debt on the bonds.

- **ADMINISTRATIVE POLICY RECOMMENDATION**
 - **Place the administrative responsibilities of the new CDBG program and the Act 137 Housing Trust Fund in the responsibility of one professional in each county.** Ideally, there would be one administrative entity in each county that would be charged with the responsibility of carrying out CDBG, HOME and Act 137 activities. This will insure a coordinated and systematic approach to implementing the Strategic Housing Plan.

- **FEDERAL CDBG AND HOME PROGRAM RECOMMENDATIONS**
 - **Affordable housing should become the priority of the new CDBG program in both Lehigh and Northampton Counties.** Both counties will become urban county entitlements under the Community Development Block Grant Program. Preliminary projections are that Northampton County will qualify for approximately \$1.8 million annually and Lehigh County will receive approximately \$1.2 million annually. It is strongly recommended that affordable housing become the emphasis of the new program in both counties. CDBG funds can be used to acquire sites for affordable housing, extend infrastructure to housing sites and to rehabilitate existing housing units.
 - **Establish the eligibility of both Lehigh County and Northampton County as a HOME Participating Jurisdiction (PJ).** Receiving HOME funds directly from HUD instead of PA DCED will provide both counties with the right of self-determination in terms of the type and location of projects that will receive HOME assistance. In addition, PJ status will enable each county to expand the capacity of its community housing development organizations (CHDOs) through the provision of CHDO operating assistance.

▪ **NON-PROFIT ORGANIZATION CAPACITY-BUILDING RECOMMENDATIONS**

- **Establish a mechanism to provide pre-development financing to nonprofit affordable housing developers.** Federal HOME funds and Housing Trust funds are ideal sources which can be utilized to help build capacity of area non-profit developers. Each county should create a predevelopment loan program to assist non-profits with necessary funding for upfront costs such as feasibility studies, option money to purchase sites, market studies, environmental reports, architectural schematics, and application filing fees.
- **Encourage partnerships between nonprofit and for-profit developers.** Partnerships between for-profit and non-profit developers can take on many different forms. Often the local non-profit has the vision and neighborhood relationships necessary to facilitate the creation of affordable units. However, most of the area non-profits lack available human and financial resources required to successfully compete for program funds. Joint venture arrangements between non-profits or for-profits will often provide the solution to close the divide between a goal and the means to accomplish the goal.
- **Provide a one-day affordable housing workshop for regional affordable housing professionals.** A one-day workshop would help to educate local affordable housing professionals about the Federal HOME program and its potential impact within the Lehigh Valley. In particular, efforts should be taken to expand the capacity of local CHDOs through the provision of hands-on technical assistance.
- **Encourage participation with the region's housing and redevelopment authorities.** The local housing authorities and redevelopment authorities bring a vast amount of development and management experience to the table. They understand the region's affordable housing needs and they control resources to address these needs. They may also have access or knowledge of available sites for acquisition. Furthermore, municipal officials should also be encouraged to share information about vacant and distressed properties which may lend themselves to an adaptive re-use.
- **Provide the necessary resources to get the job done.** Perhaps the quickest way to help create capacity is to provide the necessary financial resources to insure that the project gets completed in a timely manner. A major detriment to building capacity is the cost and length of time it takes to maneuver through the funding maze and to obtain necessary permits.