PIMA COUNTY
COMMUNITY DEVELOPMENT

To:	Hank Atha, Deputy County Administrator Nicole Fyffe, Executive Assistant to County Administrator Margaret Kish, Department Director
From:	Betty Villegas, Affordable Housing Program Manager
Date:	May 2, 2014
Subject:	Pima County General Obligation Affordable Housing Bond Program

Issue

There is a common belief that the recent economic downturn has helped alleviate affordability issues in housing due in large part to the decrease in value and prices of housing. This perception, according to a review of recent post-recession reports, is not supported by data.

Assumptions

According to the Bond Election Planning update and recommendations provided to the Bond Advisory Committee on September 20, 2013, it is assumed that $10 million is sufficient for the proposed 2015 bond address and fund the projected housing demand in Pima County. It is also assumed that there is a deficiency in the matched or leveraged funds for projects located within the City of Tucson boundaries.

Purpose and Scope of Analysis

This analysis utilized a general review of literature produced by government agencies, policy think tanks, and large foundations as well as local data to assess the needs for and potential benefits of funding for affordable housing in Pima County. Additionally, it looked at the impact of the previous Bond funding on affordable housing in bringing about leveraged investment from other jurisdictions (most notably The City of Tucson) and entities. The conclusion to be drawn from the review and analysis is that investing in safe, decent (high quality), energy efficient affordable housing is a public benefit that provides both economic and social impacts to Pima County. Further, bond funds invested in projects within the geographic boundaries of the City of Tucson has been matched with over $12.8 million of the City of Tucson's federal funds and approximately 14 acres of below market or donated land. The leverage or match sources are provided on the summary page of the Annual Report for each project. (See Annual Report attachment).

<u>Relevant Post-Great Recession Trends for Affordable Housing and its Consumers in Pima County</u>

Several reports have been issued since and about the deleterious effects of the "Great Recession," which spanned from December 2007 to June 2009, on the housing market, and specifically on affordable housing. [1] While the reports look at different indicators and data, the general consensus of the most recent reports and studies seems to be that affordable housing continues to be a challenge for the low-wage earner, special populations, and low to moderate income families.

- **The Great Recession Disproportionately Hurt Low-Income Households**
  According to reports from both the Pew Charitable Trust's Economic Mobility Project and the Economic Policy Institute in 2012 and 2013 respectively, lower income households disproportionately suffered during and after the Great Recession especially when measured in terms of lost wealth and living standards. From 2007 to 2010 families living in high poverty areas lost over 90% of their overall wealth compared to a 47% loss in areas of low poverty (Pew 2012). In Arizona, the percentage of homeowners has declined from a pre-recession high of 71.6% at the beginning of 2006 to 66% in 2010 with a further decline to 62.6% in 2012. Predictably the percentage of renters saw a corresponding increase during the same time periods (US Census Bureau; American Surveys). Additionally, the U.S. Census Bureau reported an increase in "shared households" (two or more households sharing living accommodations) to alleviate economic strain. Again, this increase disproportionately affects low-income households that tend to be most susceptible to negative swings in the economy.

- **Job and Personal Economic Instability Outweighed Opportunities Created By Declining Housing Prices**
  While some will accurately point out that the Great Recession has provided some first-time homebuyers previously priced out of the housing market an opportunity for homeownership due to drops in home prices, it would be hard to argue from a review of the literature that these opportunities offset the other economic hardships experienced by the majority of low to moderate income households.[2] Wage stagnation, reduction of work hours, and job losses are contributing factors to the ongoing post-recession problems low to moderate income families experience according to a 2012 Pew Charitable Trust report. The net effect of the downturn saw homeownership rates in Arizona decline from 66% in 2010 to 62.6% in 2012 while the percentage of renters increased from 34% to 37.4% in the same time period according to the US Census Bureau's American Surveys.

- **Affordable rentals are needed - especially for specific subsets among low income households**
  As mentioned above, it is important to note the large proportion of single head of households (mostly female), a growing number of underemployed in the workforce, and special populations for whom wealth and homeownership take a back seat to the need for a safe, decent, sanitary, and affordable place to rent for their families. To this end, according a 2012 report from the National Low Income Housing Coalition, almost half of single female headed households are living in poverty and according to 2010 Census data just under 20% of all households in Pima County are single female headed.

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[1] *BLS Spotlight on Statistics: The Recession of 2007-2009.* Rep. Bureau of Labor Statistics, Feb. 2012. Web. 2 May 2014. <www.bls.gov/spotlight>.

[2] *State of the Nation's Housing 2012, the Joint Center for Housing Studies at Harvard University Report*

- **The Great Recession did not alleviate the cost burden of housing**
  Another trend made clear by the reports is that the economic downturn, while decreasing the price and value of housing, did not alleviate the housing cost burden of our low-income population, especially those at the lowest incomes. Roughly 70% of households earning less than the annualized minimum wage of $15,000, according to a 2013 study from the Harvard's Joint Center for Housing Studies, are paying more than 50% of their gross income for rent which designates them as severely cost burdened. The increase in households in this category during the 3-year period of 2007 to 2010 was nearly double the increase during the previous 6 years from 2001 to 2007. According to the City of Tucson's 2012 Poverty and Urban Stress, 77.2% of total renter occupied housing whose household income is less than $35,000 is cost-burdened, paying more than 30% or more of their income for housing costs.

- **Pima County's low wages continue to exacerbate the issue of housing affordability.** A single-parent family with two young children would need to earn annual salary of $47,731 in order to meet its basic needs without public assistance.[3] An analysis of American Community Survey 2006-20010 data for Pima County shows 41.2% of all families make less than this amount.

- **There is less, not more affordable housing stock post-recession**
  A shortage of affordable housing stock has been another result of the recent downturn. The shortage of affordable units was most acute among households with the lowest incomes. Between 2007 and 2011, the number of renter households with extremely low incomes (at or below 30 percent of the area median income) increased by 2.5 million. Lower income households face the current housing industry with stagnant pay, increased costs of living, tightened credit standards, depleted savings, depreciated home values (for those who still own) and higher monthly rents.[4] Again, while cheaper land might be seen as an opportunity to provide more affordable housing, the reality of the post-recession housing market is that new housing developments continue to favor those at the upper income levels. Recently there have been many reports and articles on how *new housing developments* favor the upper income levels. An article in the New York Times states that "money for affordable housing has dried up at a time when it is needed most." A study released on December 9, 2013 by the *Joint Center for Housing Studies "America's Rental Housing: Evolving Markets and Needs* states that for many middle and lower income people, high rents prevent them from spending on other goods and services, impeding the economic recovery. Lower-income households with severe housing cost burdens spend significantly less on food, healthcare, and retirement savings, with direct implications for their current and future well-being. The study included a U.S. map that showed Arizona's cost burdened renters are paying 50% or more for housing expenses. Federal HOME funds have been cut in half over the last decade, and rental subsidies for eligible families have also decreased.

- **Federal funding for affordable housing has seen drastic cuts when it has been needed most.** Pima County HOME funds, a federal entitlement program created to stimulate housing development and housing preservation, decreased by 56% from 2010-2014. This decrease means the county has less funding for non-profit and for-profit

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[3] *Joint Center for Housing Studies of Harvard University. "The State of the Nation's Housing, 2013." (2013): 29-30.*
[4] *State of the Nation's Housing 2012, the Joint Center for Housing Studies at Harvard University Report*

developers who rely on these funds for gap in order to keep housing affordable for low to moderate income renters and potential homebuyers.

- **Current Housing Market Adversely Affect LMI Buyers**
  A headline from the most recent Southern Arizona Housing Market Letter (dated April 18, 2014) conflicts with many people's general impression of an improving housing market. It reads, "Where Has the Demand Gone?"[5] Permits have dropped 17% from the previous six month average which may be due to the inventory of resale homes decreasing over the same period (pulled permits were used to bring properties to resale standards).

  The majority of low to moderate income (LMI) home buyers continue to buy resale homes. The report shows the price for resale homes has increased (when you take the foreclosed sales out of the equation) to a median price of $169,000 for a single family dwelling. The affordable foreclosed homes available for sale almost always need substantial repairs to bring them to a safe, decent, and livable standard. LMI homebuyers do not have the extra funding needed to make these repairs, and a mortgage lender may not approve a loan without them.

  The report also states that demand for the first-time homebuyer market is down 17% - a troubling statistic but really no surprise when one considers the recent decrease in median incomes for Pima County. Homeownership rates are down to their lowest level in 19 years, according to data released by U.S Census Bureau just last month.

Current Area Median Incomes & Fair Market Rents

In addition to post-recession trends, recent data supports claims of declining local incomes. With declining income, there has also been a lowering of Fair Market Rents which are a key factor for developers to determine the feasibility of developing affordable rental units through the Low Income Housing Tax Credit (LIHTC) program. With low wages and incomes, demand from potential homebuyers is weak in Pima County. It is difficult for LMI households to qualify for a mortgage without any government assistance. According to recently released calculations from HUD, the Area Median Income for a family of 4 persons dropped 4.8% from 2013 to $56,300 in 2014. This change will have an adverse effect on all first time homebuyers – especially lower income households who rely on federal funds for down payment assistance. This is the first time in the 22 year history of the HOME Program that the area median income and fair market rents have been reduced.

In addition, housing developers who use private funds such as the Low Income Housing Tax Credit (LIHTC) programs are affected by the HUD income limits and will further limit available assistance for low income households. Developers depend on Fair Market Rents published by HUD that have decreased for all units types (2.7% for a 3bdrm) and the HOME Program Rents have seen decreases and no increases for many types of units, which puts a strain on the subsidized rental properties owners – both existing and new developments coming on line this year. The decreased rents jeopardize the cash flows needs of projects which in turn jeopardizes their feasibility. The result is alternative types of development such as the recent trend of building high end single family homes as well as luxury apartments. Many families are shut out

[5] *The Southern Arizona Housing Market Letter April 18, 2014, Ginger G Kneup, Publisher*

of buying homes because their income is too low, they don't qualify for a mortgage, or they are burdened by other debt.

Conclusion

Counter to some popular perceptions of the post-recession affordable housing landscape, the affordability of housing (in both rental and ownership markets) is worse, both nationally and locally, for LMI households. This conclusion is supported by a wealth of recent reports, literature, and data from government agencies, policy institutions, and vested national foundations and organizations focused on poverty issues and affordable housing. In light of the market and funding trends stated above, General Obligation Bond Funds for Affordable Housing represent a proven tool to increase the supply of safe, decent affordable housing locally. The Affordable Housing portion of the upcoming General Obligation Bond Program should be of sufficient size to meet the growing local needs for affordable housing.

Attachments:
Staff Comments
Annual Report

(Attachment A)

Staff Comments and Recommendations for Potential Uses of Future Bond Funds

- Families are shut out of buying homes because their income is too low, they don't qualify for a mortgage, or they are burdened by other debt. The only opportunity for safe decent affordable housing is through local government programs such as General Funds, General Obligation Housing Bond Funds, and Housing Trust Funds. Federal funds for housing have decreased – with largest HUD program – the HOME Investment Partnership Program being cut by 56% over the past 4 years (from 20 Billion to 10 Billion nationally), with no signs of gaining back the lost funding in the near future.
- Private lenders have increased their underwriting standards for homebuyers and developers, making it more difficult for both to qualify and secure funds needed.
- With the decrease in federal funds Developers of low-income housing will require additional layers of funding –including "soft" gap funding like our Affordable Housing G.O. Bonds, in order to complete quality developments in the current economy.
- There is a shortage of affordable rental housing for Arizona's poorest households. (80% of very low-income households in Pima County pay more than 30% of their income for housing).
- The additional bond funds will allow County to fund new affordable housing developments that are transit oriented and location efficient providing better access to, employment, health care, schools, recreation and entertainment.
- New housing developments will provide a boost for our local economy, providing increased jobs and local revenues from taxes and fees generated both during and after construction:
    - The National Association of Home Builders (NAHB) estimates that each new single-family home generates:
        - 3 new jobs,
        - $67,000 in federal taxes
        - $23,000 in state and local taxes.
    - According to NAHB, the estimated one-year local impacts of building 100 apartments in a typical family tax credit development include:
        - $7.9 million in local income,
        - $827,000 in taxes and other revenue for local governments, and
        - 122 local jobs.
    - The additional, annually recurring impacts of building 100 apartments in a typical family tax credit development include:
        - $2.4 million in local income,
        - $441,000 in taxes and other revenue for local governments, and
        - 30 local jobs.
- Bond funds can be used to preserve and improve existing affordable housing by leveraging the Green Rehabilitation of existing vacant/foreclosed homes that can be rented or sold to low-income households who will benefit by reduced utilities and operating costs.
- Bond funds have been utilized to help meet the housing needs of our growing aging/elderly population by rehabilitating existing units and construction new units of housing designed for the elderly and physically disabled. Developments like Ghost

Ranch Lodge Apartments and Martin Luther King Jr. Apartments are prime examples of quality affordable housing developed for low-income Elderly & Disabled persons.

- Bond funds can be used to build sidewalks, walkways and bike paths for new developments. The affordable housing bond program has frequently included these items and shall continue to support projects that incorporate elements of healthy living in subdivision designs.
- Leveraging bond funds to develop & preserve affordable housing in rural areas like Ajo, AZ, is an importance component needed improve rural economy by attracting new business opportunities and is an effective use of limited government resources in meeting the needs of residents living in rural areas of Pima County.
- Leveraging bond funds to renovate and build new affordable housing in urban areas will support governmental efforts to implement strategies that aim to strengthen urban development that supports mixed uses, mixed income groups and diverse art, cultural, ethnic, geographic and historical elements of the urban community.