Brian A Hudson Statement

Senate Urban Affairs Committee Hearing

Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE)

June 11, 2014

Good morning, my name is Brian A. Hudson. I am the Executive Director of the Pennsylvania Housing Finance Agency (PHFA).

I would like to thank Senator Argall, Senator Brewster and the other members of the committee for the opportunity to provide these written comments on the ongoing implementation and impact of the Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE, Act 105 of 2010) Fund since it began receiving funding under Act 13 of 2012 (Marcellus Shale Impact Fee).

As background, I want to provide a bit of context for these comments. The Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE) was signed into law in November of 2010 (Act 105) with the purpose of providing a statewide fund and vehicle for the creation, rehabilitation and preservation of much needed affordable housing across the state. One of the primary provisions of Act 105 is that “at least 30% of the funds must be used for households below 50% of the median area income”. Since its enactment in 2010, PHARE had not received any funding for the program and consequently, was not implemented. The PHARE legislation (Act 105, 2010) only requires implementation when monies are deposited into the Fund. The other provisions of PHARE that are relevant for this hearing are that PHFA is required to create an annual plan for how the funds will be used and allocated, the goals that will be achieved and the process expected for deploying the funds. This plan is posted for public comment before being adopted by the Agency’s Board of Directors. Additionally, the PHARE legislation requires an Annual Report to the legislature and the inaugural report was submitted in March, 2013.

With the enactment of the Marcellus Shale Impact Fee legislation and signature of Governor Corbett on February 14, 2012 (Act 13) one of the provisions in the Act provided for funds to be deposited into PHARE and managed by PHFA. For the initial year of drilling operation (2011) $2.5 million was deposited, and for 2012 and beyond, there will be $5 million deposited annually into PHARE. In addition, PHARE will receive any excess/spillover funds from local municipalities. (A municipality may only receive the greater of $500,000 or 50% of their annual operating budget and any funds in excess of that amount will be added to the PHARE program.) To date, the PHARE Fund at PHFA has received $16.7 million ($8.7 million in 2013 and $7.9 million in 2012) from the PUC to address critical housing needs in the 36 impacted counties.

It should also be noted that addressing housing is also an eligible use of the "local share" of funding that is provided counties and municipalities under Act 13. PHFA has worked with counties, municipalities and a variety of stakeholder groups to ensure that there is maximum leverage of local Act 13 funds with the PHARE dollars to address housing needs.

Additionally, Act 13 stipulates that the funds deposited into PHARE will be available only to counties that have drilled unconventional wells located within municipalities in the county. Based on information from the Pennsylvania Public Utility Commission (PUC) 36 counties are included in the monies they have received from drilling companies. A further provision of Act 13 requires that "not less than 50% of the funds are to be used in fifth, sixth, seventh and eighth class counties". To date, nearly 80% of the PHARE Funds awarded have gone to counties meeting this designation.

Beyond these specific provisions, both Act 105 and Act 13, allow for the funds to be used for a wide range of housing activities, that include housing programs (rental assistance, down payment and other forms of housing assistance, rehabilitation of existing homes/units) as well as new construction, substantial rehabilitation of existing homes, acquisition and related efforts for both homeowners and renters. This broad range of potential eligible activities has made the funding much sought after as a resource for leveraging other funding for programs and projects.

PHFA has incorporated a number of policy objectives into the Request for Proposals that it developed as a strategy for awarding funding to various projects and programs. The objectives attempt to make the program most effective at addressing the impacts on housing in the Marcellus region of the State as the gas industry continues to develop. These objectives have included the goal of ensuring that eligible counties and municipalities are put in the lead in determining how best to utilize the PHARE funds in their own communities. The eligible applicants for the funds are counties and municipalities with funds deposited into PHARE. PHFA has also established a goal for PHARE of returning, to each county, (the most heavily impacted municipalities), the amount of funding that they have deposited into the PHARE program (under the "surplus/spillover" provision) from the presence of active wells. (E.g. if Bradford County has $500,000 deposited into the program, PHFA will, assuming viable applications are developed, return that level of funding to the County.) There are six counties most directly impacted by this objective that include; Bradford, Greene, Lycoming, Susquehanna, Tioga and Washington.

In order to ensure that the agency can meet the legislative requirement that "at least 30% of the funds be used to assist households below 50% of the median area income" we are requiring that each application commit to setting that same percentage of the funds to assist households below 50% of the median area income". In addition, in keeping with the overall affordable housing intent of the PHARE program, funds may not benefit households above 200% of the median area income. So far, that program has exceeded this requirement with nearly 40% of the PHARE Funds benefitting these targeted households.

As part of the approved plan for the PHARE program a set of principles were enumerated that embody how the agency will approach both Act 105 and Act 13 funds. The principles include maximizing resource leveraging, addressing greatest need, fostering partnerships, and making certain the process is effective, efficient, equitable and transparent. Also, a set of primary plan elements has been incorporated into the approach for assessing projects for this program. The elements include, an analysis of need, understanding of the real estate market, high quality design and construction, targeting of resources and stakeholder input.

With the design and implementation of any new program it is crucial that PHFA be flexible in listening to the pressing needs from a variety of stakeholders as they explore the priority issues and determine how best to use the PHARE funds to address local housing needs. The Agency has conducted extensive training and technical assistance to communities about PHARE and a number of counties have developed long range and comprehensive plans and projects that will be using the program resources. These communities have recognized the value of a long term approach to meeting their housing needs using PHARE as one tool.

Let me turn now to the impact of the PHARE Funds in helping to address the housing needs in the impacted communities.

Over the first two years of program implementation PHFA has received 78 applications for PHARE funds (requesting over $32 million) and has been able to fund 59 projects. Those 59 projects have been awarded $16.2 million in funding from the program to meet priority housing needs in their communities.

Based on the applications that have been funded the Agency anticipates that the $16.2 million will leverage over $160 million in other funds from a variety of sources including local Act 13, federal, state, local and private resources. This means that for every $1.00 of PHARE funds that $10.00 of other funds will be secured; a very significant level of leveraged support for the program and its projects.

This combined level of investment in housing will results in over 1,700 housing units developed and families assisted. Most significant is the addition of support for 484 new rental units developed, 490 homes rehabilitated or repaired, 518 households helped with rental assistance and 272 homes that will be created from future developments as well as 48 new single family homes. This is an impressive list of accomplishments for a program that has only been up and running for two years but a significant testament to the overwhelming level of interest and demand for the program and the flexibility of its funding.

Before concluding let me outline a few challenges that the agency has experienced in rolling the PHARE Fund and where we are headed in 2014.

One of the challenges has been to ensure that the overall program meets the minimum low income set aside required by PHARE, given that the requests exceeded the available funds, and therefore it is critical for counties and municipalities to carefully evaluate their own local housing needs and prioritize where these funds could be used for maximum leverage and impact. The role of public/private partnerships, to effectively deploy the funds, is the most effective strategy for making sure that the funds are having the greatest impact, and that has involved the need for communities to look at other sources of funding, that could be added to a project or program application to make it feasible. Given the retrenchment of many other sources of funding for housing it has become even more important for communities to plan, prioritize and leverage for maximum impact and sustainability.

PHFA realizes that the PHARE funds are not likely to be sufficient to fully fund any project and therefore other funding sources are critical – including county housing trust fund (Act 137) monies, Marcellus Shale Impact Fee Local Share funds and other state/federal/local and private dollars are very important to make the projects viable.

The 2014 PHARE process has begun with the Plan being approved by the PHFA Board of Directors at the March, 2014 meeting. On April 1, 2014 the drilling companies made payments to the PUC, for wells that were drilled or active in 2013. The PUC is currently reviewing all the payments to determine the geographic location and will then provide PHFA with that data.

The agency anticipates that the Request for Proposals (RFP) will be released in mid-June and applications from counties or their designees will be due by mid-August, 2014. Recommendations for funding awards are expected to be made to the PHFA Board of Directors at the October, 2014 meeting and the contracting process will begin to get the funds out to the applicants in as short a period as possible. The Agency expects that this will be the annual timeline for the foreseeable future and expects that demand for PHARE funding will continue to grow.

In closing, let me thank Chairman Argall, and members of the committee for the opportunity to provide this update on the PHARE Fund. I would also like to acknowledge the leadership of Senator Yaw, as instrumental, to ensuring that the PHARE Fund was utilized as a vehicle to address the housing needs that have arisen in communities. He saw the flexibility of PHARE as an effective and efficient approach to deploying that Act 13 funds that we set-aside for housing. On behalf of PHFA, I look forward to working with the committee as we continue to evaluate how best to implement and improve the PHARE program. .