Housing Development Corporation MidAtlantic
Remarks to the House Committee on Urban Affairs
September 21, 2022

Chairperson Brown
Representative Sturla
Members of the Committee:

My name is Claude Hicks. I reside in Lancaster and am representing Housing Development Corporation MidAtlantic, a Lancaster based 501c3 affordable housing developer, property manager, and resident services provider working in central Pennsylvania for the last 50 years.

I am here today to offer perspective on the lack of affordable housing options for low-income seniors in Pennsylvania. As many of you are aware, seniors represent over 30% of those Pennsylvania residents who are extremely low income. That is approximately 130,000 seniors who do not have the income capacity to afford the rapidly rising costs of rental housing. The lack of housing availability is pushing our low-income seniors into homelessness. The current market is unable to help. HDC's senior properties are experiencing a 2 to 3 year waiting list for an apartment.

HDC is asking your continued support of the programs that Pennsylvania Housing Finance Agency is implementing across the state to produce more housing. But we need more help. We need an increase in funds from the Realty Transfer Tax or PHARE funds for affordable housing; we need property tax relief for affordable senior developments; and we need support to address the physical and mental health issues that our seniors face daily.

This is not an issue that can be set aside for future consideration. Seniors are the most rapidly rising segment of the Pennsylvania population. Pennsylvania ranks third in the nation in senior population, and the numbers are rising.

Thank you for all that you continue to do to affect the lives of those most vulnerable in our communities. Let's work together to address this need.

Claude Hicks
Senior Vice President for Real Estate Development

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Presbyterian Senior Living is a Not-for-Profit Organization providing high-quality housing and retirement services for more than 90 years. We serve over 30 locations and more than 6,000 seniors across the mid-Atlantic region of PA, MD, OH and DE. We provide a diverse offering of housing and services so that we can provide seniors with a wide variety of services no matter their economic strata. We have a dedicated team that supports our 23 affordable housing locations. As you are probably aware there is an ongoing housing crisis, especially for lower income seniors, due to the limited number of available apartments that are considered affordable. Pennsylvania seniors are experiencing this crisis since the state has the 8th highest median age in the United States. In 2021, 19% of Pennsylvania's population was 65 years and older and is expected to grow to 23% by 2040 (~3.5M). This reality is evident to us just by reviewing some of our community wait lists, which have a 5 year wait or longer.

From a developer standpoint, the challenges have increased over the past 10 years. We depend on the 9% Low-Income Housing Tax Credits to provide affordable housing. In exchange for the Low-Income Housing Tax Credits, the project must limit occupancy to one of the following thresholds: 1) At least 20% of the total units must be rents at 50% of the Area Median Income or below or 2) At least 40% of the total units must be rented at 60% of the Area Median Income or below. Maximum rents are based on the tenants at maximum income paying no more than 30% of their income for housing. These rents are published by HUD by county annually so owners may not exceed these published rents for any unit funded with tax credits.

The funding for Low Income Housing Tax Credits is extremely important but also extremely competitive. Pennsylvania receives approximately $35M per year in an allocation so on average only 1 out of every 3 projects are awarded each year. Therefore, it typically takes several years to obtain those credits. In recent years the development costs are significantly higher than the funds provided by the credits so other alternative sources are needed to fill the financing gap. Traditional bank loans do not typically succeed in these projects due to the limited cash flow on these projects. These debt terms have set repayment terms. Other limited sources of funds are available such as PHARE, PennHOMES and National Housing Trust Funds, but each source of funding added to a project will increase the restrictions on the project. For example, with PennHomes, for each apartment funded it must be operated at a more restricted rent which historically has been lower than the tax credit rent. Smaller programs are also available in the local community such as HOME funding or Community Based Development Grants (CDBG). Again, each of these programs places additional restrictions on the project and can cause an undue operational burden due to all of the challenges remaining in compliance of the program regulations. These sources of funds are typically soft debt meaning they are only paid back if cash flow allows, which is a huge benefit to the projects. In the past, Presbyterian Senior Living has funded that gap on our own for the most part. However, we have funded over $80M towards past developments and are no longer able to continue that trend. Due to COVID challenges for our business, escalating construction costs and inflation of operating costs we have not submitted any applications over the past few years.

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In addition to the 9% tax credit program there is also a 4% program. This program is less competitive, but the challenge is the financing gap is much larger and must be funded from other sources while still requiring rent restrictions. These credits typically fund 35% of project costs. These deals work better in an urban area where higher market rate rents on unfunded units help pay for the debt service.

Our last project approved in the 2019 round was completed in April 2022. It is a 48-apartment passive house senior apartment building in Huntingdon, PA. It has 40 tax credit apartments and 8 market rate rents so it is a mixed-use building. Market rate apartments are not covered by tax credits so that is an out of pocket expense to the developer. Total development costs were $14.5M. Tax credits paid for $8.2M of the cost and $6.3M was covered by the sponsor. We had to find an additional $500K before the project even started due to the escalation in costs that took place from the time we submitted our application to PHFA to the point it was awarded. In addition, we had cost overruns of $150,000 that were not anticipated. Each time this happens we have to sacrifice plans for another organizational need.

If a project receives LIHTC funds, the developer must agree to restrict the rents for over 30 years. That requirement has increased in recent years, which only increases the difficulty to develop these projects. Each of these funds develops a capital replacement reserve which is built up over time. However, the funds allow us to replace basic project needs like air conditioners, appliances and flooring. Traditionally around year 15, there is a need to do more significant rehabilitation which is problematic due to the limited cash flow on these projects from the restricted rents. Many developers look for grants or other funds from HOME, FHLB etc. to help with the rehabilitation costs. However, these funds are also very popular and limited.

Operationally, these buildings are challenging to manage. Our communities range from 35 units to 84 units. There is a sweet spot that must be achieved in regards to the unit size in order to make these projects work. PHFA requires a 15-year cash flow as part of their application but that cash flow is minimal. Based on our historical expenses, we believe that we need at least 48 units to make these projects successful in the current environment. Anything more is better as it will provide some cushion to the cash flow. Our budgets assume a 3% increase in annual expenses. However, that is not what happens. Our property insurance costs have more than doubled over the past few years and that is just one example of the escalating operational costs that we must adjust for. We are only able to utilize part-time staff to obtain the cash flow requirements. Our goal is to try and develop these projects in proximity to each other so that we can share staffing resources when needed. It is critical to our success.

We provide supportive services at our communities. The supportive services goal is to enhance the quality of life for our residents through community building, socialization and other programs. It is our desire to provide more health services to allow residents to age in place. However, we have found it difficult to serve our residents in a meaningful way because of the cash flow requirements.

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Although the program is challenging, Low Income Housing Tax Credits are is vital to providing affordable housing. Without this funding we would not be able to provide such quality housing and keep it affordable for our residents.

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