

**State College Homestead Investment Program
FINAL REPORT
September 24, 2014**

**A Program of the
State College Borough Redevelopment Authority**

Prepared for the State College Borough Council

by

State College Borough Planning Department

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Making a Case for the Homestead Investment Program

Several assumptions lie at the core of why the Borough should institute the Homestead Investment Program (HIP). These assumptions include:

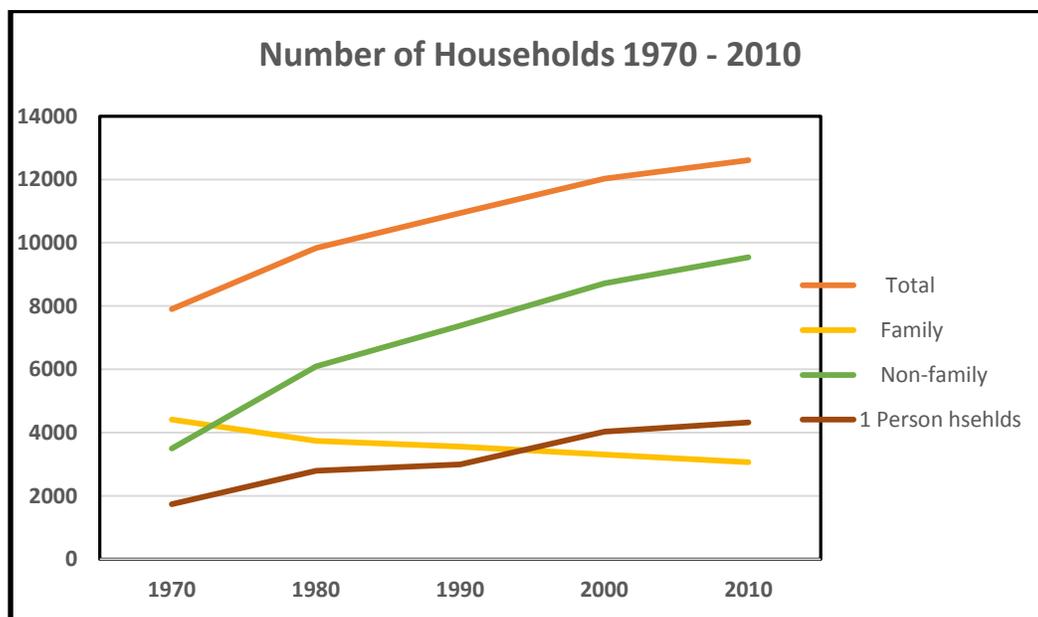
- In neighborhoods near campus, rental property operators can out-bid potential owner occupants for available single-family homes.
 - As the number of registered Student Homes and single family rentals increases, owner occupants are less likely to compete for houses on a street.
 - A disproportionate number of Student Homes causes some residents to experience lifestyle conflicts with their neighbors.
- The demand for housing, particularly rental housing related to University students, has led to housing costs that exceed that which is within financial reach of many households that want to live in State College Borough.

Neighborhood Trends

A review of available data sources was conducted in an which attempt to substantiate or refute these above stated assumptions. It is generally believed that the data presented below tends to substantiate these assumptions.

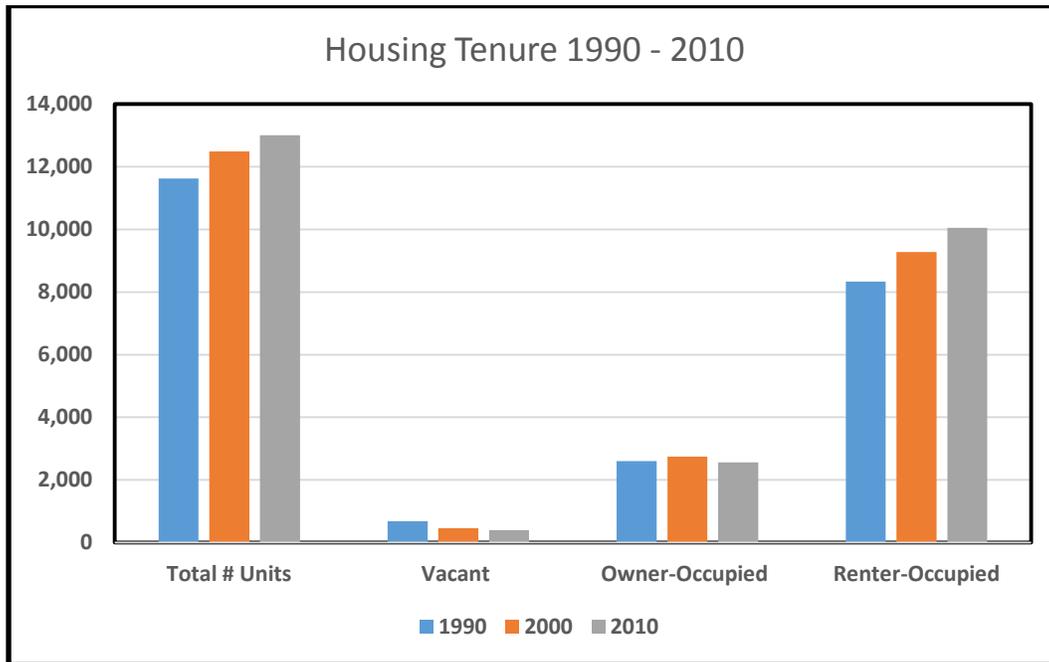
Demographics

Since 1970, the US Census reports that State College Borough has experienced a steady decline in the number of family households, as well as an increase in the number of non-family and one person households.



Source: US Census 1970-2010

Additionally, the US Census reports that owner-occupied housing units, as a percentage of total housing units in the Borough, have declined since 1990. In fact, in 1990, owner-occupied housing represented 22% of all housing units in the Borough, with rental housing representing 72%. By 2010, owner-occupied housing accounted for 20% of all housing units, while rental accounted for 77%.



Source: US Census 1990 - 2010

A locally derived data set that can be used to determine trends in owner- and renter-occupied housing is the rental housing permit report, which is provided each month by the Centre Region Code Administration. This report provides a tool for tracking the number of single-family homes that are rented in the Borough over time. According to these reports, the number of single family homes that are renter-occupied increased from 285 in 1990 to 535 in 2013. These figures represent 10.4% and 19.8%, respectively, of all of the single-family homes in the Borough.

A second local data source that provides an indication on the rate of owner- and renter-occupied homes is the number of residential properties that qualify for the Real Estate Tax Homestead Exclusion (HE). A property is eligible for the HE for a portion of its property tax only if it is not rented. Between 2012 and 2013, the number of HE eligible properties in the Borough declined from 2,186 to 2,171. This indicates that approximately 15 more residential properties are ineligible because they are income producing properties rather than the primary residence of the owners.

The trends in the number of family households and the percentage of housing units that

are owner occupied indicates that owner occupants are not able to successfully compete with rental property investors for single-family properties in the Borough.

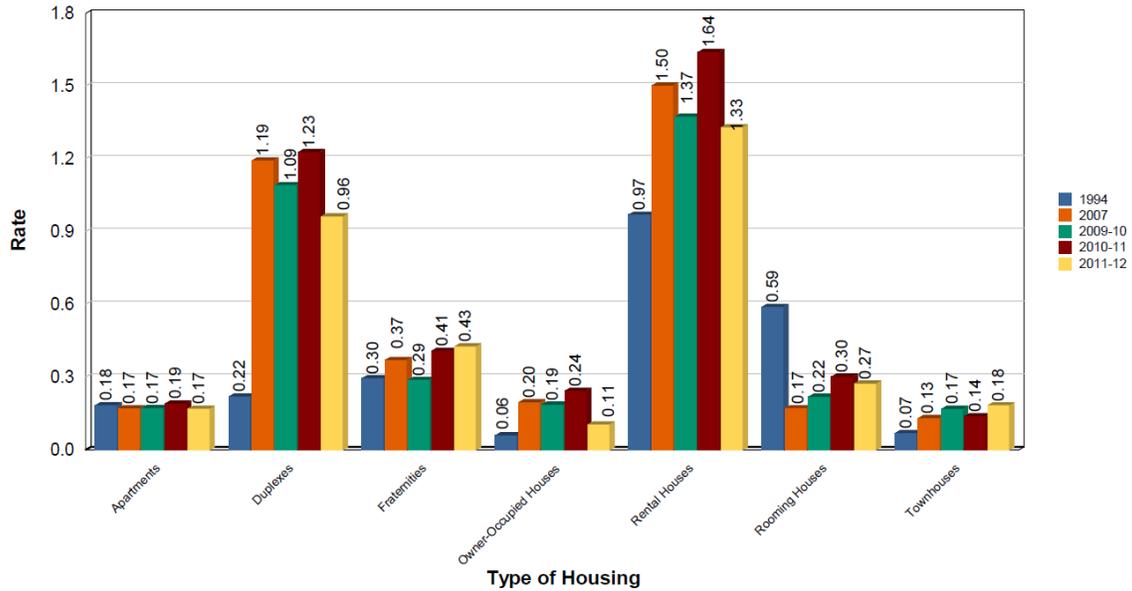
Quality of Life

The third assumption, that a disproportionate number of Student Homes creates conflict in neighborhoods, is one that cannot be tested directly. Locally derived data on property maintenance and ordinance violations is not tracked on the basis of whether or not a property is registered as a Student Home. However, there are a number of tools that help in the analysis of the impact of non-owner occupied housing on neighborhood conditions. For example, in the annual Neighborhood Sustainability Report, data are tracked and reported each year on the number of violations based on housing type. Additionally, the annual F8 report tracks information on the demographics of violators.

The 2012 Neighborhood Sustainability Report contained the following chart that is helpful in looking at the impact of rental houses in Borough neighborhoods. This chart indicates the number of “quality of life” violations by housing type. These include such violations as disorderly conduct, noise and over-occupancy. It indicates that these violations are highest in rental houses and duplexes.

Chart 4b. Violation Rates by Housing Type

Comparison 1994, 2007, 2009-10, 2010-11, and 2011-12



**** Violations used in this comparison:**

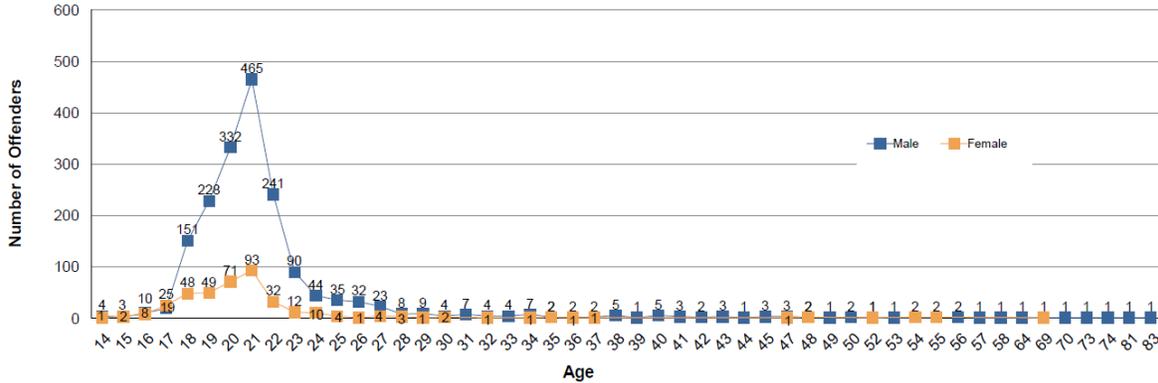
- Disorderly Conduct
- Liquor
- Noise
- Over-Occupied
- Refuse
- Snow
- Weeds

Excerpt from 2012 Neighborhood Sustainability Report

The F8 report provides data on violations that occur in the three neighborhoods that surround downtown and campus from the start of fall semester to Thanksgiving weekend. This report contains an analysis of the demographics of the offenders. Student status is not tracked in this report; however, age of the offender is tracked. The majority of the people that received violations are in the age ranges typically associated with undergraduate students, and though it is not a perfect proxy of student status, it is logical to conclude a percentage of these offenders are students. The chart below is taken from the F8 Report for 2012.

Chart 8a. Offenders* by Age/Gender

2006 - 2012



Excerpt from 2012 F8 Report

Financial Impacts from Growth of Rental Housing

As is the case with older core communities in Pennsylvania and across the nation, State College is faced with challenges in maintaining its fiscal health. This challenge is succinctly captured in the 2011 Financial Trends Monitoring Report. This report indicates that trends for the Borough’s financial state is favorable in terms of the Operating Position category, neutral in the Community (i.e., demographics) and Expenditures categories, and both neutral and favorable in the Debt Structure category.

However, the picture in the Revenues category is more mixed. This is apparent from the excerpt from the 2011 Financial Trends Monitoring Report provided below.

REVENUES			
General Fund Revenue			FAVORABLE
General Fund Revenue (constant dollars)			NEUTRAL
General Fund Revenue per capita			NEUTRAL
Real Estate Tax Revenue			FAVORABLE
Real Estate Tax Revenue (constant dollars)			FAVORABLE
Assessed Valuation			ALERT
Earned Income Tax Revenue			NEUTRAL
Earned Income Tax Revenue (constant dollars)			UNFAVORABLE
Earned Income Tax Revenue per capita			UNFAVORABLE

Performance Indicators	
FAVORABLE	= trend is an indicator of positive financial health
UNFAVORABLE	= trend is an indicator of negative financial health
NEUTRAL	= trend is neither positive nor negative
ALERT	= trend should be analyzed in greater detail and action taken

Excerpt from 2011 Financial Trends Monitoring Report

As can be seen, a number of these indicators are trending towards unfavorable or alert conditions. That is, growth in constant dollar terms is not keeping up with the rising costs experienced by the Borough. It has only been possible to report a favorable trend in real estate tax revenue because the Borough has increased real estate tax rates from 4.0 mill in 2003 to 11.04 mills in 2013. Without these millage increases, the trend in real estate tax revenue would also be unfavorable.

It should be noted that the increases in real estate tax rates coincided with the repeal of the Business Privilege Tax and the implementation of the Homestead Exclusion (HE) program. Developing a strategy to help reduce loss of family households is one step that can be taken to help stabilize the Borough's real estate and income tax base.

Other communities in Pennsylvania which host universities, have experienced similar issues with respect to revenue impacts. In 2005, a Pennsylvania Economy League study showed that municipalities that host universities consistently collect less revenue per capita through all forms of taxes than municipalities that do not host a college or university. The study also found that these municipalities also have higher per capita taxes than non-university municipalities.

Ensuring long-term financial viability is not the only reason to implement strategies that counter the demographic trends that the Borough is experiencing. Factors contributing to community quality of life such as improved property maintenance, expanded social and civic engagement, and improved civic participation all benefit from stable housing and stable neighborhoods.

State College is not entirely unique in experiencing the out migration of family households and their replacement with non-family households, many of which are comprised of unrelated university students. Virtually all communities that host a college or university have faced increased "studentification" of the neighborhoods near campus. "Studentification" has been defined by British geographers as the dislocation of professionals, middle class and working class families by student residents, and a resulting change in the character of these neighborhoods due to this transformation. This results in the decline of the perceived quality of life in the neighborhoods when measured by any number of variables. One variable is the ongoing conflict that exists between student and non-student neighbors as a result of differing lifestyles and behavior. This has certainly been the case in State College as significant population shifts have occurred over the past four decades.

Similar conflicts have also been documented in the United Kingdom (UK) and Canada where property prices have escalated, thereby contributing to cultural and retail transformations and the out-migration of established populations and local community resistance to students.

Housing Costs

Borough staff, through work completed as part of its HUD Consolidated Plan for the use of CDBG and HOME funding from the federal government, has documented the impact of the high cost of housing in the Borough. The following excerpt from the 2010-2014 Consolidated Plan provides a brief summary of the affordable housing needs in State College Borough. The complete 2010-2014 Consolidated Plan is available on Borough's web site using the following URL: <http://www.statecollegepa.us/DocumentCenter/Home/View/284>

Estimate of housing needs for various populations

This includes information on the housing needs in the Borough by household type, income and tenure. The Department of Housing and Urban Development had special tabulations of the 2000 U.S. Census data compiled. The Comprehensive Housing Affordability Strategy (CHAS) data were used to complete the following assessment.

HUD defines various housing problems as:

- Households with a housing "cost burden," means housing costs including utilities exceeds 30% of household gross income
- Households with a "severe cost burden," means housing costs including utilities exceeds 50% of household gross income
- Occupied-housing units which have physical defects (such as lacking a complete kitchen or bathroom)
- Units with overcrowded conditions (a housing unit with more than one person per room)

Table 19, below, shows the number and distribution of households in the Borough in 2011, and identifies the percent of each household type which has a housing problem. Household types include elderly, small families, large families and other households, which includes single persons. (The CHAS data were not provided in a manner making it possible to isolate single persons.) As the table indicates, 61.7% of all households in the Borough have a housing problem; out of renter households, 70.6% have a housing problem, and of owner households, 23.5% have a housing problem.

Table 19. Borough Households with a Housing Problem

Household Types		Total Number	% With A Housing Problem
Renter Households	Elderly	475	47.4%
	Small Families	1,265	47.8%
	Large Families	100	69.0%
	Other Households	8,130	75.5%
Total Renters		9,970	70.6%
Owner-Occupied Households	Elderly	850	22.4%
	Small Families	1,070	19.2%
	Large Families	28	64.3%
	Other Households	365	35.6%
Total Owner		2,313	23.5%
Total Households		12,283	61.7%

Source: HUD 2007-2011 CHAS data, Table 16

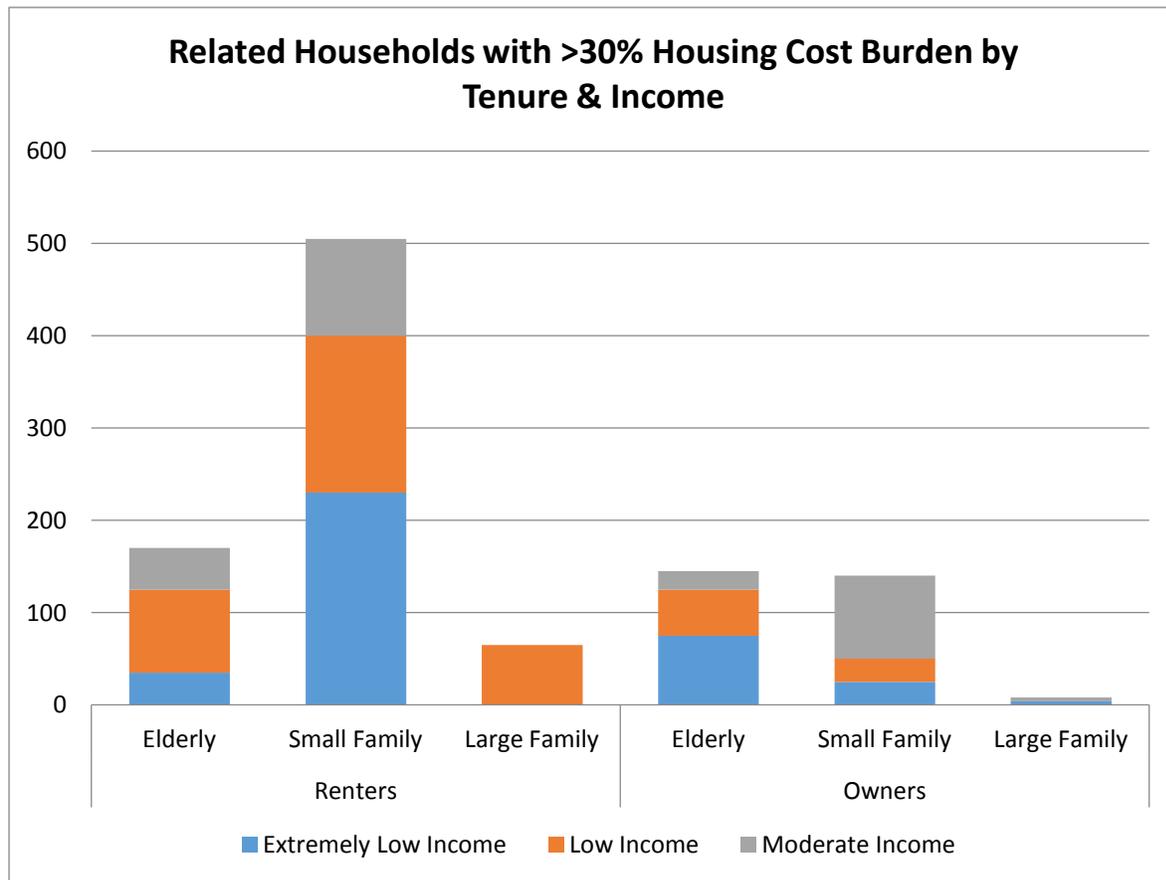
Related vs. non-related households

When identifying housing needs, it is necessary to separate out “related” households from “un-related” households. This is not done to discount housing problems faced by unrelated households, which include student residents. Rather, it is necessary to base our needs assessment on related households because students, whom are living together and are unrelated, are generally not eligible for federally funded housing assistance through programs such as CDBG or HOME. Those eligible include extremely low, low, and moderate-income families (related by blood, marriage, adoption or who have shown a stable family relationship); extremely low, low, and moderate-income persons with special needs; and extremely low and low-income elderly.

Extremely low-income households are those earning less than or equal to 30% of the Area Median Income (AMI); low-income is 30.1% to 50% of the AMI, and moderate-income is 50.1% to 80% of the AMI. In the year 2009, the moderate-income threshold was \$52,650. In 2014, the moderate-income threshold for a family of four living in State College was \$62,640.

Chart 2, on the following page, shows the number of extremely low, low, and moderate-income “related” households with housing problems compared to the number of related households of moderate-income and above with housing problems.

Chart 2. Related Households with Housing Problems by Tenure & Income



Source: CHAS Data Report, 2007-2011 ACS Data compiled for HUD.

Cost Burden

Most housing problems in the Borough are related to cost burden. Table 20, below, provides information on the cost burden experienced by extremely low, low, and moderate-income Borough residents. Affordability is a factor when a family is paying more than 30% of gross monthly income for housing plus basic utilities. In 2014, 71.9% of the Borough’s extremely low, low, and moderate-income renter households were living in housing that is not affordable. And, 45.4% of extremely low, low and moderate-income homeowners had a housing problem associated with a cost burden.

In the Borough in 2011, there were a total of 1,840 “related” renter households (elderly, small and large families combined); 1,285 are extremely low, low, or moderate-income. 62.4% (or 740) of these “related” renter households were paying over 30% of their income on housing; and 35% (415 households) were paying over 50%.

There are a total of 1,948 “related” owner-occupied households in the Borough; 423 are extremely low, low or moderate-income. 69.3% (or 293) of these households had a cost

burden over 30%; 44.6% (189 households) had a cost burden over 50%.

Table 20. Extremely Low, Low, and Moderate-Income Households in State College Experiencing a Cost Burden in 1999

		Extremely Low-Income Households 0-30% Median Family Income (MFI) In 2014 30% of MFI = \$23,490 (4 person household)			Low-Income Households 31-50% Median Family Income (MFI) In 2014, 50% of the MFI = \$39,150			Moderate-Income Households 51-80% Median Family Income (MFI) In 2014 80% of MFI = \$62,640		
Household Type		Total	Cost Burden >30%	Cost Burden > 50%	Total	Cost Burden > 30%	Cost Burden > 50%	Total	Cost Burden > 30%	Cost Burden > 50%
RENTERS	Elderly	35	100.0%	100.0%	100	90.0%	25.0%	95	47.4%	0.0%
	Small Family	265	86.8%	81.1%	200	85.0%	42.5%	410	25.6%	2.4%
	Large Family	0	n/a	n/a	65	100.0%	69.2%	15	0.0%	0.0%
	Other Renters	4,435	88.6%	84.1%	1,315	89.4%	55.1%	1,135	52.9%	13.2%
	Total Renters	4,735	88.6%	84.1%	1,680	89.3%	52.4%	1,655	45.3%	9.7%
OWNERS	Elderly	75	100.0%	86.7%	70	71.4%	21.4%	125	16.0%	0.0%
	Small Family	25	100.0%	60.0%	25	100.0%	100.0%	90	100.0%	72.2%
	Large Family	4	100.0%	100.0%	0	n/a	n/a	4	100.0%	0.0%
	Other Owners	35	71.4%	71.4%	20	100.0%	50.0%	25	76.0%	16.0%
	Total Owners	139	92.8%	78.4%	115	82.6%	43.5%	244	54.5%	28.3%
TOTAL HOUSEHOLDS		3,626	83.2%	72.6%	2,284	81.2%	34.2%	1,863	38.5%	6.0%

Source: 2007-2011 CHAS data, Table 7; HUD FY2014 MFI data

Relationship to Strategic Plan

The State College Borough strategic plan, adopted by Borough Council in the fall of 2009, established six major goals to be pursued by the municipality. This list, which can be found on Page 2 of the Strategic Plan, included the goals of maintaining safe, stable attractive neighborhoods (Goal 1) and expanding housing opportunities (Goal 4). Pages 31 and 32 of the Strategic Plan outline initiatives that the municipality will undertake to attain the six goals. As stated in the Strategic Plan, the strategic initiatives for Goals 1 and 4 are as follows:

Goal 1 of the plan addresses the importance of maintaining safe, stable and attractive neighborhoods. This will be accomplished through continued efforts to support and enhance neighborhood programming, including working with existing neighborhood groups and organizations. In addition to efforts to empower organizations and groups within their neighborhoods, the borough seeks to expand housing initiatives by encouraging and fostering home ownership. A variety of strategies will be employed including working with property owners and private developers to encourage investment to maintain and enhance neighborhoods.

Goal 4's primary focus is on developing additional housing and especially workforce housing within the borough. This will include strategies to work with the university and other major employers in the region to develop initiatives and provide incentives for the development of housing in the downtown areas. Over the long run, efforts will also include analyzing demand for student housing and identifying growth and selecting specific areas for the continued development of student housing.

The Homestead Investment Program (HIP) is an initiative intended to respond to the strategies outlined in these two goals. As envisioned, the HIP does so in two primary ways: by expanding the level of resources available for home ownership activities and by providing additional resources to capitalize on opportunities to expand the diversity of housing, especially through expanding workforce housing, in the Borough.

The Homestead Investment Program involves the investment of public funds. Therefore, the Borough has a fiduciary responsibility to its tax payers to ensure these funds are invested wisely and produce the maximum desired results for the minimum investment of resources. In order to assure this program meets its fiduciary needs, it is imperative to establish adequate and measurable outcomes that can be used to determine to what extent the program succeeds in meeting its goals. There are several more specific points within the Strategic Plan's goals to consider when establishing measurable outcomes.

For example, Goal 1, "Maintaining safe, stable, and attractive neighborhoods," is a very broad goal that requires a multi-pronged approach to succeed. The primary element of Goal 1 that the HIP will address is expanding housing initiatives by encouraging and

fostering home ownership.

Goal 4, “Developing additional housing, especially workforce housing, in the borough,” is a much more narrowly defined goal and the primary element of this goal that the HIP will address is expanding the supply of workforce housing. This will take place either through expanding affordable home ownership programs or through increasing the supply of affordable rental housing for households where one or more of the members of the household are employed.

Selecting Properties for Acquisition through the Homestead Investment Program

An important consideration in designing the HIP is identifying the pool of properties that could potentially be suitable for the program. According to rental housing permit data, there are 535 single-family, 333 two-family, and 634 townhouse rentals in the Borough. There are an additional 91 owner-occupied dwellings for which a rental permit has been issued for an apartment or 1 or 2 rooms. In addition, rental housing permits have been issued for 34 apartment buildings with 5 or fewer units. These smaller apartment buildings may be suitable for conversion to workforce, non-student market rate housing, or mixed income rental housing use. This is a total potential target inventory of 1,627 units.

According to data compiled by the Borough's Planning Department, there are 310 registered Student Homes in the Borough in zoning districts where a minimum distance separation between Student Homes applies. Limited data are available regarding student-owned homes. Because Student Homes are rental properties, they are included in the one of the categories of rental housing listed in the preceding paragraph.

Note: At the time of the preparation of this program, the Planning Department was in the process of verifying the use of one- and two-family rentals to ensure the actual use complies with the use listed on the rental housing permit. This process also aims to identify properties that are being rented without a rental housing permit or being used as a Student Home without zoning approval.

Property Characteristics

In order to narrow down the inventory of potential properties to purchase through this program, the following criteria shall be considered.

Owner-Occupied Properties

- Housing which is suitable for owner-occupancy and is in close proximity to downtown and campus
- Duplexes, townhouses, or small, multi-family buildings which could be suitable for workforce housing or mixed income housing and which are embedded into or adjacent to single-family, owner-occupied blocks.
- Properties that if converted to a rental would result in the majority of the properties on block being used as rentals
- Property is currently owner-occupied but is considered to be suitable as a non-student rental unit
- Condominium units located in primarily owner-occupied condominium buildings in or near downtown that would be suitable as housing for young professionals
- Sale price meets eligibility guidelines for affordability for a household earning 80-120% AMI.

Rental Properties

- One or two-family unit(s) which are currently rented Registered Student Homes, or properties eligible to become a Student Home, and Student-owned homes
 - *The Redevelopment Authority has indicated that these criteria should be of higher priority when considering the eligibility of a property for purchase through the HIP. Borough staff recommends giving lower priority to registered Student Homes and Student-Owned homes if they abut Atherton Street and Park Avenue due to the impact of traffic on the desirability of these homes for family occupancy.*
- Rental properties with an existing non-conforming status permitting occupancy greater than 3 unrelated persons.
- Rent for the unit(s) within this property meet the eligibility guidelines for affordable rent for a household earning 80-120% AMI.

Other Factors

- Rental properties which have a history as a problem property according to the Borough's Nuisance Property Ordinance
- Properties in the West End Area/Urban Village Zoning District that could be reused or redeveloped as a mixed-tenure building
- Property is a single-family home with a list price not exceeding \$400,000 or the seller is willing to negotiate a sale price not to exceed \$400,000. (Note: This cap should be revisited annually during Q1 to adjust for inflation and other factors.)
- Property is not completely or almost completely surrounded by fraternity houses.
- Property's overall condition, curb-appeal and salability appear to be favorable when compared to other home sales in the market.**
***Properties should be ranked as "excellent" and requiring very little to no maintenance for resale, "good" requiring a small amount of maintenance or cosmetic improvements, or "rehab needed" requiring a significant amount of maintenance or structural improvements.*
- Property is located on a block with more than 25%, but fewer than 75% of the housing units identified as rental units.

Geographic Area

In order to have a measurable impact on the balance of the tenure composition of a neighborhood, it is necessary to define geographic or spatial priorities for investing the HIP's resources. Research on the impact of student-oriented rental properties on neighborhood character, conducted by Smith Partners for St. Thomas University, St. Paul, MN, suggests that once the percentage of rentals on a block exceeds 30%, the character of the block changes. The research cites studies Smith conducted in Athens, GA, Athens, OH, and Milwaukee, WI as the basis for its conclusion on this tipping point in character from owner-occupied to renter-occupied. Other analyses conducted in Great Britain on the question of tipping point suggests that balance between renter occupied and owner-occupied occurs at lower percentages of rental property, as low as

10%. During the Spring of 2014, Real Estate students studying at Penn State University, suggested that for State College's peer University communities, a neighborhood became a "rental" neighborhood when 55% or more of the housing was renter-occupied.

Using rental permit data and GIS mapping, it is possible to estimate the percentage of rental unit for blocks in State College. The Appendix to this report includes maps showing all properties which have active rental permits, as well as properties with one-family and two-family rentals and those with Registered Student Homes throughout the Borough. Using these maps, we can identify those blocks with high concentration of rental properties and those where rentals are less numerous.

Blocks on which the predominant type of rental unit is within large, multi-family buildings are excluded from this analysis. Another factor that may influence the Borough's decision on homes to purchase is the proximity of a rental property in relation to fraternity houses. While many owner-occupied homes co-exist with fraternities, a single-family house that is completely surrounded or almost completely surrounded by fraternity houses may not be a prime candidate for conversion to owner-occupied status. This consideration led to the assumption that the best area of the Borough to target through the investment of Homestead Investment Program funds was roughly within ½ mile radius of the edge of the Penn State Campus. After discussion with the Redevelopment Authority, the decision was made to expand this target area to include all of the College Heights, Holmes-Foster and Highlands neighborhoods, as well as a small area of the northwestern portion of the State College South neighborhood. A map of this area is outlined in Appendix I of this program report.

Note: a Block is defined in the State College Borough Zoning Ordinance as the length of a street between two street intersections.

Homestead Investment Program Overview & Description:

In general, the Homestead Investment Program will:

- Use a \$5 million line of credit to purchase existing Student Homes, homes that have the potential to be converted to Student Homes, single-family rentals, and other properties determined to meet the program goals to resell as owner-occupied homes or non-student occupied rental properties.
- Establish deed restrictions or covenants that limit the use of the property offered for sale to owner-occupancy that is the owner's primary residence.
- Establish a policy that units acquired for reuse as rental units would not be rented to unrelated undergraduate students.
- The resale price for student homes and other rentals will be based on the value of the property without the Student Home or rental permit premium.
- Program will supplement existing affordable housing programs
- Program will allow purchase of homes by households with incomes above federal income guidelines and with after-rehabilitation values that exceed HUD limits
- Program will not limit purchase to first time home buyers.
- Program will primarily be targeted to neighborhoods most impacted by single-family conversion to rental properties
- Future funding will depend on the success of HIP in meeting the goals outlined in this program and on the Borough's success in forming partnerships to assist in funding the HIP in the future.

Funding

Initial funding to capitalize the program will be provided using lines of credit from local lending institutions. Funds for carrying costs (as outlined in the Program Management & Operations section) could be made available through the Borough's Annual Operating Budget or as part of the funds drawn from the line of credit for the program.

The Borough will continue to pursue opportunities to enlist local employers to participate in the program. This could be done through a number of Employer Assisted Housing Program models, whereas an employer could provide funds to the Borough for use in the program, or an employer could provide assistance directly to an employee for the employee to use in order to purchase a home through the HIP.

The line of credit will be established by the State College Borough Redevelopment Authority with the financing backed in the form of a Loan Guarantee by the full faith, credit and taxing power of the State College Borough.

- Meet with financial advisors, bond counsel, and solicitor to determine borrowing requirements and procedures for lines of credit.
- Meet with commercial loan officers and mortgage lenders from local

financial institutions to:

- review program goals, priority areas, and process
 - determine interest in establishing lines of credit that could be used to acquire property
 - determine criteria lenders would require to make funds available
 - explore opportunities to create a consortium of participating lenders
 - Incorporate funding for carrying costs into the borrowing for acquisition.
- Secure a commitment from State College Borough Council to guarantee the lines of credit and all loans drawn on the lines of credit
 - Work with the Redevelopment Authority and the Borough's financial advisors, bond counsel, and solicitor to prepare a solicitation for participation in a line of credit program
 - Solicit proposals from lenders either individually or as participants in a consortium
 - Prepare and execute loan agreements
 - Continue to explore or pursue opportunities for employer participating in funding the program

Single-Family, Market Rate Program Management and Operations:

The following outline provides a step-by-step process for the acquisition and resale process for market rate, single family homes through the Homestead Investment Program.

Identify Target Areas

Prepare an inventory of existing 1- and 2-family rentals, townhouse rentals, and apartment buildings with 5 or fewer units. Utilize this list to evaluate properties within the target area that may become available for sale.

- Sources of data for this inventory include rental housing permit records from CRCA; homestead exclusion lists; refuse billing list; real estate tax parcel list
- Determine if this will necessitate a door-to-door inventory of all 1- and 2-family homes to ensure all rental properties are identified
- Identify townhouse complexes and apartment buildings that should be included in the program

Acquisition Process

In this part of the process, the buyer is the State College Borough Redevelopment Authority (RDA). The RDA's Executive Director (ED) is the State College Borough Manager; the Ed may further assign his authority to a designee, mostly likely the

Planning Director, to perform his functions.

This process assumes that an eligible property has been identified within the target area, meets one or more of the criteria on pages 15-16 of this report, and the ED, or his designee, and the RDA Chair agree that it is a good investment for the program's funds.

1. ED **chooses Real Estate Broker of Record** using a rotating system except when the seller is represented by a Realtor™. (Note: If a seller offers a home for sale without the use of a Listing Agent, the seller will be required to utilize a transaction licensee. In such cases, the Buyer's Agent's commission should be the prevailing rate up to 3%.)
2. Broker of Record **assigns a Realtor™** to be buyer's agent using only agents with experience listing and selling properties within the Borough of State College.
3. **Consumer notice** is signed – it explains relationship between Buyer and Buyer's agent (Note: The established rate of commission for a real estate agent representing the RDA should be the prevailing wage up to 6%.)
4. ED and Agent arrange for a **showing** of the property – ED, RDA Chair & agent attend – usually takes ½ to ¾ hour
5. ED with approval by RDA Chair **decides whether to pursue a selected property. RDA must ratify** the decision to purchase at the next meeting.
6. Seller's **property disclosure** & annual expenses are provided to buyer
7. If interested in acquiring property, ED & buyer's agent **prepare an offer** (initial dollar amount willing to pay) on the property – usually negotiated. (Note: Consideration may be needed regarding the seller's/investor's Capital Gains Tax, which might include the possibility of a "1031 Exchange" if seller is an investor.)
8. If a sales agreement is executed, Buyer must make deposit on purchase by paying the listing real estate office **earnest money** (usually \$1000) - paid to insure buyer doesn't walk away from sales agreement
9. At this point, the **sale is pending** and other buyers are locked out. Sale pending sign is posted on property
10. **Earnest money** is deposited in seller's office trust account and is credited toward buyer's account at settlement (closing)
11. Buyer may have an **appraisal** done – usually required when borrowing money for the purchase, but is not mandated for RDA's line-of-credit
12. The **offer is contingent** upon satisfactory home inspections and the appraisal (if an appraisal was sought) along with any other conditions the agent suggests, all of which are spelled out in the sales agreement
13. ED & buyer's agent **decide what inspections** need to be conducted – buyer pays for inspections
14. Within 10 to 15 days of execution of sales agreement, buyer's agent makes arrangements for **home inspections** - buyer should be present for inspections

15. With receipt of **inspection report** buyer and its agent identify repair items they wish the seller to complete or for which the seller will provide assistance to the buyer to complete.
16. Within 5 days, seller's agent responds to the **reply to inspections**
17. **Seller can choose** to do requested items, reject, or negotiate the repairs with buyer through its agent.
18. If proposal is rejected, buyer has option of **terminating the offer to purchase** as specified in sales agreement
19. ED or designee will notify the lender and provide it a copy of **Agreement of Sale**
20. **Closing date** is chosen
21. Buyer's Solicitor performs **title search** and issues **Title Insurance** Policy in an amount equal to purchase price. **Note:** Subsequent purchaser may have reduced reissue premium.
22. Prior to closing, seller's agent presents a fully **executed deed** in favor of Buyer to the Buyer's (RDA's) Solicitor for review
23. RDA Solicitor prepares **HUD-1 Settlement Statement** and provides it for ED's review at least 24 hours before settlement
24. RDA Solicitor conducts the **closing**

Jobs While RDA is Property Owner

1. RDA Solicitor places restrictive covenant on deed requiring owner occupied with rental exceptions for sabbaticals and other just cause established by the RDA
2. Property maintenance (lawn, snow, repairs, heat) – staff time
3. Pay taxes, insurance, utilities – staff time
4. Collect rents on rental properties that are acquired or maintained. (Note: Decision must be made regarding properties purchased that are rental and have existing leases that must be honored until expired.)

Resale Process

In this part of the process, the State College Redevelopment Authority (RDA) is now the seller. The RDA's Executive Director (ED) is the State College Borough Manager; the Ed may further assign his authority to a designee, mostly likely the Planning Director, to perform his functions.

This part of the process assumes that the property has not been identified as a property eligible for the Borough to maintain as a non-student rental property, nor to resell as an affordable unit utilizing locally-established affordability guidelines.

This part of the process requires that the RDA will not participate in a Dual Agency arrangement where the same Realtor™ represents both the buyer and the seller in a single transaction.

1. ED contacts **Broker of Record** to assign an agent. Broker of Record is selected by using the rotating system – next agencies on the list
2. Seller's agent is offered predetermined **sales commission** (5% or 6%). Seller's agent assists RDA in **determining the listing price** – requires a meeting by RDA to approve listing price
3. **Property is then marketed** through Centre County Multiple Listing Service and other Real Estate services (websites, etc.)
4. **Restrictive covenants** are revealed in marketing materials and are made available through MLS supporting documents.
5. Seller's agent presents **all offers** to ED and provides advice on negotiations
6. Offer must be accompanied by deposit of **earnest money** and offer must be accompanied by a **mortgage preapproved letter** from buyer's lender or other proof of funds.
7. After negotiations and upon acceptance of offer, ED, with approval by the RDA Chair, signs **sales agreement** and buyer's earnest money is deposited in the Real Estate office's trust account
8. Upon final agreement, RDA Solicitor prepares **deed in favor of buyer**. Deed includes covenants limiting use and resale, and is forwarded to ED for signature and then it goes to buyer's settlement agent
9. Buyer's lender and settlement agent are responsible for preparing **closing documents**, including HUD-1 Settlement Statement which must be reviewed by ED
10. ED has option to **attend closing**, but may designate the seller's agent to sign HUD-1 on behalf of RDA and do the closing

It should be noted that any future resale of a property purchased through the market rate component of the HIP will occur on the open market. The restrictive covenant will run with the property, but the actual real estate transaction will be a "willing seller-willing buyer" transaction not subject to approval by the Borough.

Deed Restriction/Covenant Compliance

Planning staff will maintain a database of all properties purchased and sold through HIP. Planning staff will monitor real estate transfers on a weekly basis to identify when a HIP property is transferred to a new owner. Planning staff will contact buyer to ensure continued adherence to deed restriction/covenants.

Planning staff will evaluate all applications for rental housing permits to ensure compliance with deed restrictions/covenants.

Marketing and Outreach

Borough staff and the RDA will foster a relationship with Realtors™ and employers in the area to promote the goals of the Homestead Investment Program. In order to foster this relationship, the following steps should be taken to build support for the program:

- Meet with Realtors™ to review program goals, priority areas, and process
- Invite feedback on program and revise as appropriate
- Work with Realtors™ to market the benefits of home ownership in the Borough
- Discuss interest by Realtors™ to participate in program by advising SCB of new listings that meet programmatic goals
- Identify Realtors™ interested in becoming partners with the Redevelopment Authority in program operations, by establishing a list of participating Real Estate firms that have sold properties in the Borough in the last year
- The RDA will utilize this list to rotate through participating Realtors™ for each acquisition and sale of properties through the HIP
- Meet with human resource managers/recruiters at PSU and other major employers to ensure they are aware of the program and encourage participation by current and future employees. Include meeting with CBICC as part of this process.
- Complete a direct mail announcement for all State College Borough homeowners notifying them of the program and the program goals.

Affordable Units Program Management & Operations

Determining Affordability Thresholds for HIP

One goal of the HIP is to expand the stock of affordable, owner-occupied homes in the Borough. The number or percent of units that are affordable will depend on the cost of homes on the market in the priority areas, but it is currently believed that setting the target that 25% of all homes purchased for resale through the HIP are affordable units is a reasonable starting point.

Properties that are determined to be affordable will be resold using existing First Time Home Buyer (FTHB) programs to market and sell these homes. A description of this process is available in Appendix IV.

Existing FTHB programs follow either HUD guidelines that set an upper income limit of 80% of Area Median Income (AMI) or locally established income limits of 81%-115% of AMI. The actual income level is adjusted for household size. Currently, the FTHB programs operated by the State College Community Land Trust (SCCLT), Temporary Housing Foundation (THF), and State College Borough's low/mod program all use the

HUD guidelines of 80% of AMI as the upper limit on eligibility. State College Borough's Middle Income FTHB program uses the locally established income limits of 115% of AMI.

State College Planning Staff recently calculated that the median sale price for 1-family homes sold during the period of May 1 – July 31, 2014 in State College Borough is \$269,075.00. Transfers listed as \$1 were not included in the calculation. A total of 50 homes were included in the calculation, ranging in price from \$2,385.00 to \$594,000.00. 12 of these 50 properties included in the calculation sold for less than \$200,000.00.

For 2014, 100% of AMI for a three-person household is \$63,100.00. Using this income amount, Planning Staff calculated that \$222,422.00 is the maximum purchase price that a three-person household earning 100% of the Area Median Income (AMI) can afford. Using these data, the number of 1-family homes that would be "affordable" without a substantial subsidy is very limited even if the upper bound of the income limit is increased to 100% of AMI. If the Borough were to use the 80% of AMI (\$50,500) as the upper limit of eligibility to participate in HIP, the maximum home purchase price without subsidy falls to \$175,611.00. Only 4 of the 50 properties used to calculate the current median price for 1-family homes sold for \$175,611.00 or less. (Note: One property was sold for less than \$3,000.00, but appears to have been sold between family members and, therefore, was not included.)

In addition to limitations on purchase price faced by low- and moderate-income households interested in becoming homeowners, the Borough's experience has been that these households do not have the economic wherewithal to fund needed home improvements. The current FTHB programs that base eligibility on HUD's income guidelines include a rehab component that improves basic systems before the houses are sold to the first time buyers. Up to \$20,000.00 for rehab and \$10,000.00 for lead mitigation are provided as part of these FTHB homes. The funds used for rehab are structured as a forgiveness loan; funds for lead mitigation are provided as a grant.

As noted above, the Middle Income FTHB allows applicants to make up to 115% of the AMI. Participants in the Middle Income FTHB program are also eligible for \$3,500.00 in assistance for rehab. Even at this higher income level, staff's experience is that it is difficult for a potential buyer to find a house that is affordable. Staff recommends increasing the upper limit on income to be eligible to participate in the Middle Income program to 120% of AMI (\$75,720 for a 3 person household in 2014). Using 120% of AMI as the upper income limit to participate in HIP would increase the maximum home purchase price to \$269,306.00. 25 of the 50 properties used to calculate median 1-family home sale price sold for less than \$222,000.00.

Rental Property Program Management & Operations

As documented in the introduction to this program outline, a well-defined need for affordable and market rate non-student rental housing exists in State College. The third

component of HIP is to purchase properties that are suitable for use as rentals for non-student households. The goal is to ensure that 50% of all properties purchased for use as rental units are affordable units.

The priority for the types of property that would be purchased through HIP included the following types of rental property:

- Duplexes, townhouses, or small multi-family buildings that are suitable for workforce housing or mixed income housing that embedded in or adjacent to Single-family owner occupied blocks.
- Condominium units in primarily owner occupied condo buildings in and near downtown that would be suitable as housing for young professionals

In addition, there may be instances when 1-family homes are good candidates to continue or become rentals. This will be decided on a case-by-case basis.

The basic process for acquiring properties that will be used as rentals will be the same as acquisition of properties that will be used as owner occupied homes. That is, potential purchases will be evaluated based on the suitability of a property as an affordable rental, market rate rental, or mixed income rental. Any property determined to be a good investment would be purchased using the lines of credit established with lenders.

Following acquisition, rental properties will be operated by State College Borough. Revenues generated from rental income would be used to pay debt service and provide operating revenues to administer HIP. Day-to-day property management would be provided by retaining a property management company or utilizing Public Works Laborers. Fees associated with this service would also be covered by the rental income.

Rental Housing Program Review

Twenty-four months after the initial rent-up of any properties retained as rental units, Borough staff will prepare an evaluation of the rental housing component of HIP for consideration by Council. As part of that evaluation, staff will present any proposed changes to the program that, in the opinion of staff, are needed to ensure the rental housing component is meeting program goals.

Program Review

Six months after the start of implementation, staff will report to Council on the success of the process outlined herein for acquiring properties for inclusion in HIP. As part of

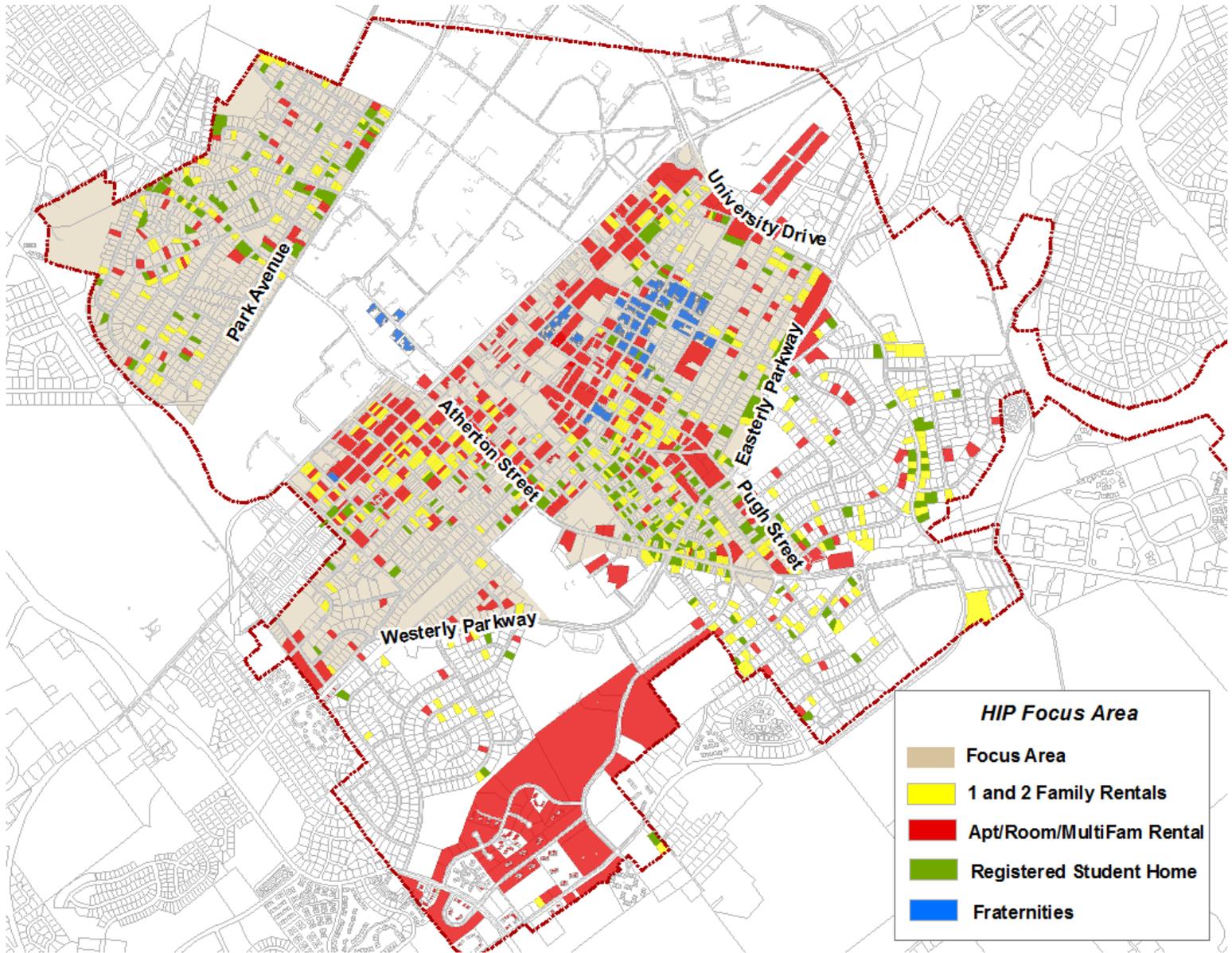
that report, staff will advise the Redevelopment Authority, who will report to Borough Council, on any modifications to the acquisition process staff believes are necessary to improve the success of the HIP. These modifications could include changes to the proposed process or retooling of the acquisition process to replace the one proposed above to one based on retaining a buyer's agent to handle identifying properties for consideration as purchases and the actual purchase of individual properties.

Additionally, as the program is implemented, potential metrics which are listed in Appendix III can serve as a guide to measure both the operational and quality of life performance of the program. Metrics may change and evolve as implementation of the program is ongoing.

Activities to be Completed by Prior to Implementation

- Preparation of agreements with lenders willing to participate in the program. - **Complete**
- Approval and execution of contract with Management company to maintain property for time between purchase and resale to an owner-occupant or between purchase and conversion to a rental. - **If needed**
- Council approval and execution of agreements- **If needed**
- Preparation of documents for market rate component of program. - **Complete**
- Preparation of documents for affordable and rental components of program. **Refer to existing programs**
- Update working documents, including a Policy & Operations Manual- **Complete**

Appendix I- Focus Area Map

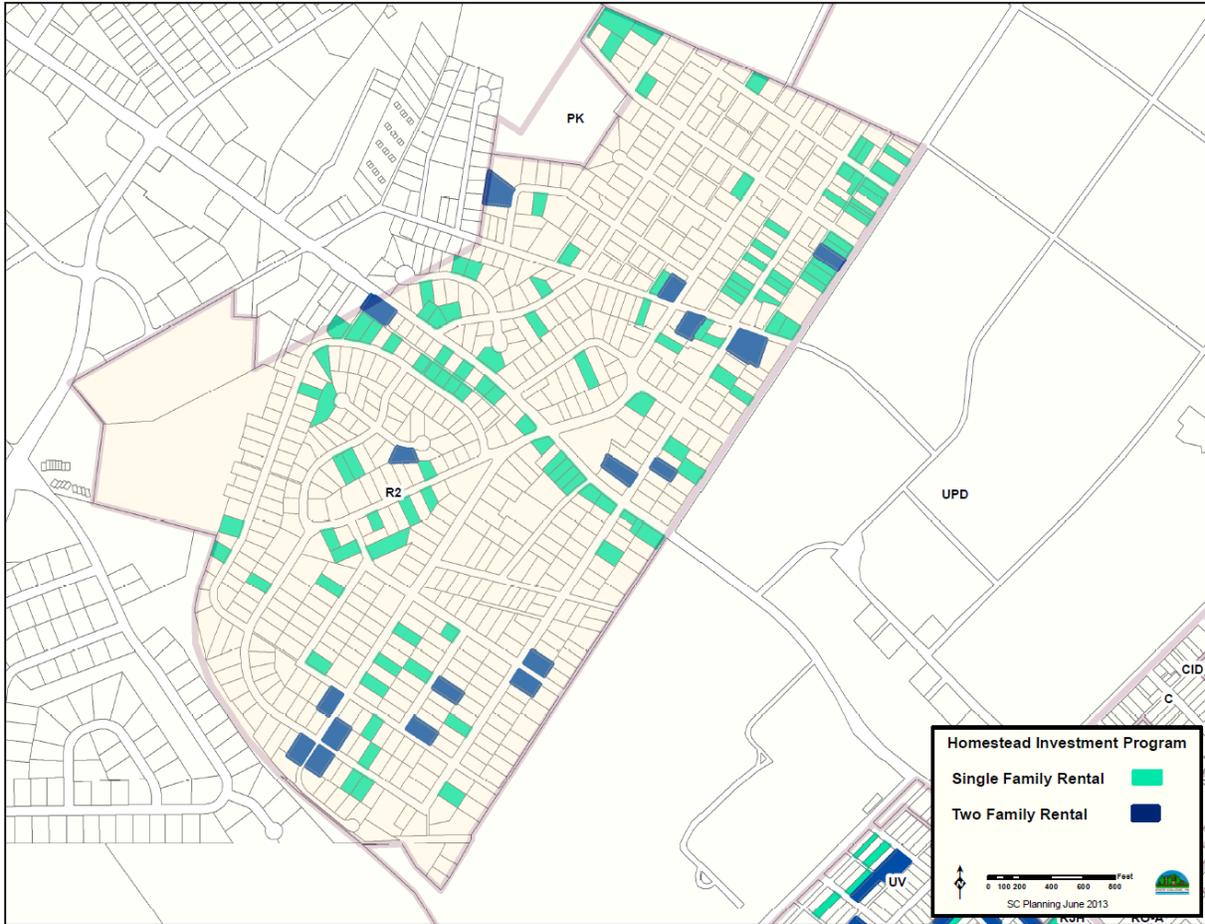


Source: State College Planning Department, December 2013 Rental Housing Permit & Registered Student Homes Lists

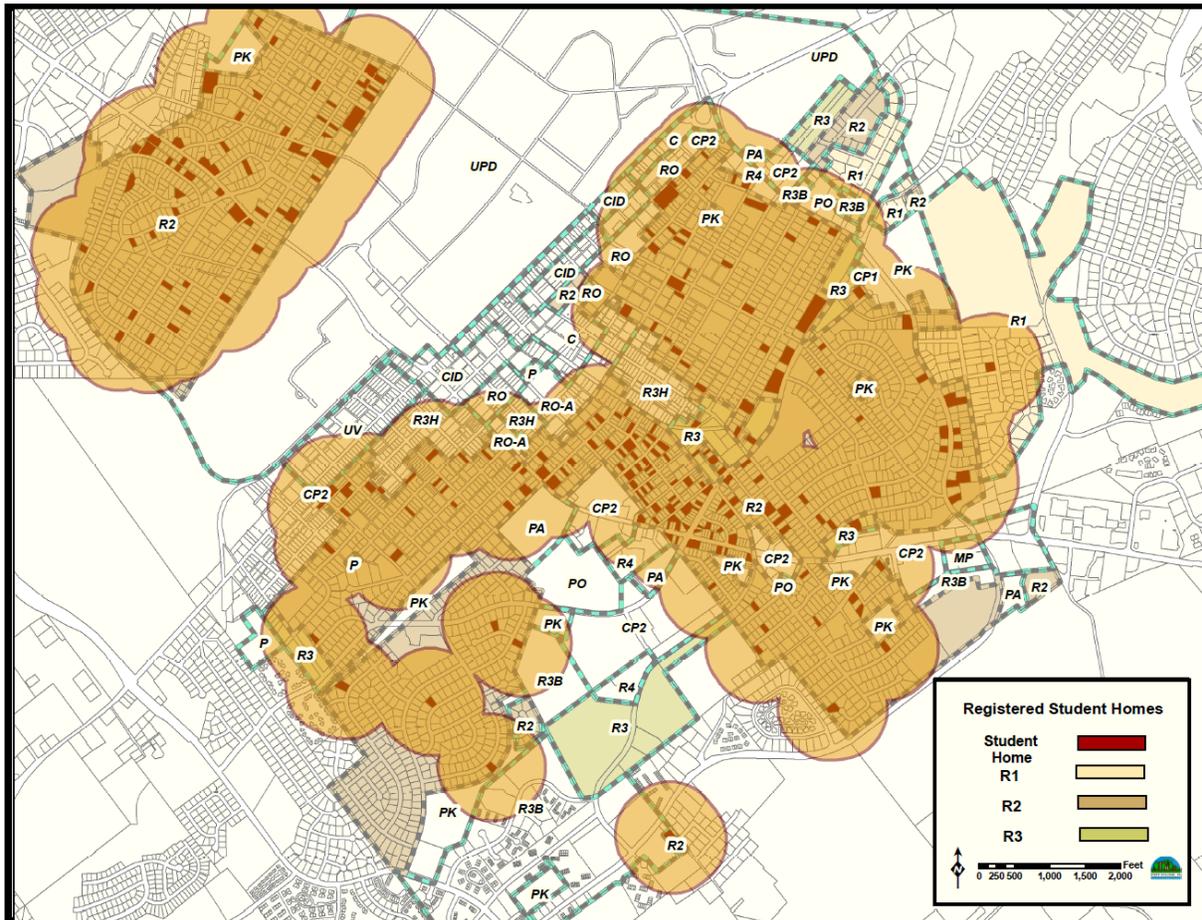
The focus area for the HIP includes all of the College Heights, Holmes-Foster/West End and Highlands neighborhoods. Additionally, it includes the triangular area of State College South, which is bounded by Easterly Parkway, Atherton Street and Pugh Street, as well as the properties fronting both sides of these thoroughfares.

Appendix II- Student Home Maps

One-Family and Two-Family Rentals and Registered Student homes- College Heights



Properties eligible to become a Registered Student Home



Appendix III- Potential Metrics for Program Evaluation

In order to assess the impact of the HIP, it is necessary to develop a set of measurable outcomes that can be used in evaluating the effectiveness of the program. The metrics must be easily quantifiable so to enable time series comparisons and to remove, to the greatest extent possible, subjectivity in collecting and analyzing data. For the following program goal areas, a number of potential metrics have been identified. During the first six month review of the program, these potential metrics should be utilized in order to attempt to quantify the impacts of the HIP investments. These metrics will evolve based on ongoing implementation of the program.

Operational Metrics

1. Expand Owner-Occupied Housing

Potential metrics:

- Acquire and resell 2 to 5 homes as owner-occupied units per year
- Overall increase in the number of Homestead Exclusion eligible homes in focus areas (increase HE approved properties or single-family properties without rental permits)
- Increase the Borough's total EIT relative to the number of income earners purchasing homes in the program. Each new household earning an income will increase the Borough's EIT revenues in some way. Assuming an optimistic number of five properties which become owner-occupied homes earning at least the Median Family Income (based on 2010 data), with a 1.30% EIT rate, the Borough's EIT revenues could increase by up to \$4,000.00 or more per year.

2. Reduce the number of registered Student Homes in R-1, R-2, and R-3 districts

Potential metrics:

- Prepare an up-to-date inventory of existing Student Homes
- Acquire all Student Homes within geographic focus area that are offered for sale and are determined to be a sound investment of public resources, provided the acquisition will not result in another property becoming eligible for use as a Student Home

3. Maintain homes in remaining areas of the Borough which include properties eligible to become Student Homes as owner-occupied or family rentals

Potential metrics:

- Identify all properties within the focus areas which could be eligible to be converted to a Student Home use.
- Acquire properties which are offered for sale that have been identified as Student Home-eligible properties, and are determined to be a sound investment of public resources.

4. Increase diversity of residential units within the Borough's neighborhoods

Potential metrics:

- Determine the mix of housing tenure in the residential areas close to downtown and campus (the focus area)
- **Invest funds in purchases at a ratio of 75% market rate properties and 25% affordable properties**
- **Invest funds in purchases at ratio of 50% market rate and 50% affordable for rental units**
- Identify areas where a potential goal of reducing the “studentification” of the area, by student rentals accounting for no more than 25% of housing units, is attainable.

Quality of Life Metrics

5. Maintain Borough Neighborhoods

Potential metrics:

- Maintain at least a 90% favorable response rate to quality of life questions on the State College National Citizen’s Survey (These questions should relate overall to residents’ level of satisfaction with their neighborhood and community)
- Achieve a 10% reduction over the next 5 years in the number of quality of life offenses occurring in neighborhoods in which program funds have been invested (Quality of life offenses include noise, disorderly conduct, refuse, liquor law violations, and snow/weeds)
- Study impacts on quality of life on blocks in which funds have been invested.

Appendix IV- Process for Affordable Unit Acquisition

It is essential to operate HIP as a revolving fund program to the greatest extent possible, and to do so it is necessary to minimize subsidizing individual resale. To this end, the elements outlined in Appendix IV will be used for the affordable housing component of HIP. These elements are intended to minimize the subsidy required to place a HIP participant in a home.

- 120% of AMI is the upper limit for participation.
- Properties that are affordable to households earning 80% or less of AMI without a second mortgage subsidy would be offered for sale through one of the existing FTHB programs.
- Up to \$20,000.00 for rehab and \$10,000.00 for lead mitigation would be made available to participants earning 80% or less of AMI. Allowable rehab activities will be limited to improving major systems (e.g., heating systems, roof replacements, electric service entrance upgrade, interconnected smoke detectors) to meet current property maintenance code standards.
- As is the case for the HUD eligible programs, funds for home rehab would be provided as a forgiveness loan; funds for lead mitigation be made available as a grant. It may be possible to utilize funds in the Inclusionary Housing fund for these components.
- A developer's fee of 10% of the purchase price would be provided to either the State College Community Land Trust or Temporary Housing Foundation for any properties that would be resold through their programs. The developer's fee is needed to cover the cost of program operations.
- Properties affordable to households making between 81% and 120% of AMI would be sold through the Borough's Middle Income program and are not eligible for a second mortgage subsidy through HIP.
- Program participants that purchased properties sold through the Middle Income program would be eligible for a \$3,500.00 grant to be used in making improvements to the home.

Appendix V- Sample Restrictive Covenant

**HOMESTEAD INVESTMENT PROGRAM
RESTRICTIVE COVENANTS FOR TAX PARCEL
_____, HAVING AN ADDRESS OF
_____,
LOCATED IN STATE COLLEGE BOROUGH, CENTRE
COUNTY, PENNSYLVANIA**

THIS DECLARATION, made this _____ day of _____, 20____, by the **STATE COLLEGE REDEVELOPMENT AUTHORITY**, a redevelopment authority organized under the laws of the Commonwealth of Pennsylvania, hereinafter referred to as **“Declarant.”**

Declarant is the fee simple owner of real estate situate in the Borough of State College, Centre County, Pennsylvania, as more fully described by deed recorded _____ day of _____, _____, in Centre County Record Bk. _____ at Page _____, designated as Centre County Tax Parcel No. _____ with an address of _____ **(“Property”)**.

The Property has been identified and acquired by the Declarant under the provisions of the State College Borough Homestead Investment Program. Pursuant to the terms and conditions outlined in said program, the Property is made UNDER AND SUBJECT to the following restrictive covenants:

1. The Property shall be occupied by owner(s) and shall be used by owner(s) and occupant(s), as well as his/her/their guests exclusively as a private residential dwelling.

2. The Property may not be occupied for any period of time by any household whose members include a majority who are unrelated, full-time students unless the private residence is also occupied by one of the students' parents or grandparents. For purposes of the within restrictive covenant a full-time student shall be defined as an individual who attends an educational institution during at least five (5) calendar months in any consecutive twelve (12) month period.

3. Owner(s) or occupant(s) may carry out business uses such as home occupations which are incidental to the residential use provided such use is in compliance with applicable State College Borough zoning regulations.

4. Owner(s) may rent the Property for single-family residential purposes only in the event Owner(s) must temporarily vacate the Property due to sabbaticals, military leaves, job relocations or such other circumstances as may be approved by the Declarant. Prior to withdrawing from the Property, Owner(s) will provide Declarant with ninety (90) days notice of the circumstances and request written approval for such leasing.

5. The within restrictive covenants shall inure to the benefit of the Borough of State College, the State College Redevelopment Authority, and owners of residential real property located within a radius of three hundred fifty (350) feet of the Property. The Borough of State College, the State College Redevelopment Authority, and any person described herein shall have the right to proceed at law or in equity to restrain a violation of the within restrictive covenants and to recover such damages as may be assessable by law, including reasonable attorneys' fees and costs.

6. The within Declaration of restrictive covenants shall be binding upon any party, whether owner(s) or occupant(s), having any right, title or interest in the above-described

Property, or any part thereof, as well as his/her/their respective heirs, successor and assigns for a period of ninety-nine (99) years from the date of the within Declaration.

IN WITNESS WHEREOF, the State College Redevelopment Authority has executed the within Declaration of restrictive covenants this _____ day of _____, 20__.

ATTEST: STATE COLLEGE REDEVELOPMENT AUTHORITY

Secretary

By: _____
Chairperson