



Building an Affordable Future



Philadelphia City Council

March 2014

Executive Summary

Philadelphia City Council 2,000 New Affordable Housing Units Initiative

An uneven economic recovery following the Great Recession has brought income inequality into sharp relief across the country, including in Philadelphia. Coupled with the housing crash, which spurred the recession, many regions of the country are grappling with a critical shortage of affordable housing. This crisis can be seen in cities, suburbs and rural areas, and is found not just in large municipalities like New York City and San Francisco but in smaller cities such as Carlsbad, New Mexico and Fort Collins, Colorado.

Philadelphia is uniquely positioned to tackle our affordable housing crisis because we have what many other major cities do not: thousands of publicly owned, buildable parcels of land plus access to untapped federal resources to spur development.

The Philadelphia City Council (“City Council”) proposes the 2,000 New Affordable Housing Units Initiative, a legislative and policy response to growing demand for affordable housing in Philadelphia. The initiative envisions the construction of 1,000 affordable rental units and 1,000 ownership units affordable for moderate-income households over a two-year period.

To create 1,000 affordable rental units, City Council proposes the use of Housing Trust Funds in conjunction with unspent federal and state housing assistance funding to accelerate the production of affordable housing units on vacant land in the public inventory through (i) new construction or (ii) substantial rehabilitation of existing housing units in strategically designated neighborhoods throughout the City. The proposed plan combines existing affordable housing programs of the City, the Pennsylvania Housing Finance Agency (PHFA) and Philadelphia Housing Authority (PHA) to leverage each more effectively and to “unlock” greater outside funding in order to generate 1,000 affordable rental housing units in Philadelphia.

To create 1,000 affordable ownership units, City Council proposes the use of vacant land in neighborhoods experiencing rapid increases in housing value as leverage to construct homes affordable to households whose incomes are between 80 to 120 percent of Area Median Income.

The primary goals of the 2,000 New Affordable Housing Units Initiative are:

- More effectively utilize state and federal housing funds that are allocated to the City but are not used to their maximum potential or at all;
- Kick-start revitalization in blighted neighborhoods by developing affordable rental units on publicly owned land;
- Promote and maintain sustainable mixed-income communities by developing affordable rental housing and affordable ownership units on publicly owned land in rapidly gentrifying areas;
- Convert publicly owned land into taxable properties, owned by a taxable entity, providing an additional annual property tax revenue stream to the City; and
- Create jobs, both construction and construction-related, in addition to post-construction jobs in managing and maintaining the affordable rental units.

The economic and fiscal impacts of the initiative include:

- One-time construction-related economic impact of **\$851.8 million**, supporting **5,307 jobs** generating an aggregate of **\$521 million**, and adding \$647.5 million to Philadelphia's GDP (value added);
- A one-time fiscal impact of **\$36.6 million** in revenue to the City from the economic activity generated by the construction of 2,000 housing units;
- Annual ongoing economic impact of **\$14.5 million** in output, supporting **145 jobs**, **\$6.5 million** in labor income, and adding an additional **\$11.9 million** to local GDP; and
- An estimated \$179 million in value added to the property tax base, resulting from both additional units (**\$35 million**) and positive spillover effects of eliminating blight (**\$144 million**).

Affordable Housing Availability in Philadelphia

Housing affordability is a key and growing concern in the United States, especially in revitalizing cities like Philadelphia. Growing demand for housing has generated greater residential investment activity, and in some cases higher property values. Such growth can result in rapid transformation of neighborhoods and displacement of longtime residents.

Improving the quality of life for residents across all of the City's neighborhoods is a priority of Philadelphia City Council. While some residents have realized significant increases in the values of their homes, many have not. City Council deems it in the public interest to mitigate negative social costs associated with rapid neighborhood transformation and the lack of affordable rental and homeownership opportunities, while encouraging private investment and the benefits growing asset values can bring to property owners. City Council understands that significant reinvestment in the city's housing stock is necessary for real and lasting improvement in the quality of life in our neighborhoods. In order to increase housing affordability, our City should encourage a greater overall supply of housing so that traditional market filtering dynamics will maximize the housing opportunities for all Philadelphians.

Due to a variety of dynamics, the housing market in Philadelphia has generated relatively few new affordable units over the past several decades, leading to a tremendously restricted supply of housing that is affordable to middle- and lower-middle-income residents. The city's housing stock has gotten much older, more obsolete and more dilapidated. The middle class and those in challenged communities are the most impacted by negative effects of these unfavorable market conditions.

The City's housing market is enormous: nearly 670,000 units with a total market value of approximately \$70 billion. City government, even when tapping Federal and State housing resources, has had limited funding available for low- and moderate-income housing.¹ Today, more than 440,000 Philadelphians (or 26.9 percent) live in poverty, and the majority of these need affordable housing.² PHA alone has a waiting list that exceeds 110,000 families (for 1,500 units/year that become available). PHA, the City's Office of Housing and Community Development (OHCD) and community development organizations such as Project H.O.M.E. strive to meet the high demand for affordable housing in both

¹ Numerous counties throughout Pennsylvania are struggling to provide affordable housing for the growing number of residents facing unemployment or low-wage employment. The median renter in 30 out of 67 counties spends more than 30% of their income on rental housing.

² The median monthly rent increased by about 47% from \$569 in 2000 to \$836 in 2010. There are approximately 260,861 rental households of which nearly 72%, or 186,225, have extremely low to moderate incomes and are cost burdened.

rental and ownership markets. But the financing tools available to create an adequate supply of homes in Philadelphia and throughout the Commonwealth are severely limited. The identification and implementation of new financing options must be a priority in order to address the basic needs of Philadelphians for safe, family-friendly, quality housing.

Despite significant investment by the City in new construction of affordable housing, there remains a severe overall shortage of affordable housing in Philadelphia. The private market also has not met this need because of insufficient investment in both market rate and affordable housing over several decades.

One impediment to increasing affordable housing supply is that construction and development costs are often far greater than the market value of completed units. As a result, a significant portion of existing public subsidies goes toward paying down costs rather than producing additional units.³ City government's ability to directly influence the personal wealth of residents or lower construction costs is severely limited. However, City government can directly influence the supply of new affordable housing by increasing public subsidies, including the availability of publicly owned land, to encourage development.

³ The causes and conditions that give rise to this shortage are outlined extensively in the Office of Housing and Community Development's "Analysis of Impediments to Fair Housing Choice." Further documentation can be found in the City's Annual Consolidated Plan, which is prepared and submitted to the U.S. Department of Housing and Urban Development (HUD) in order to receive federal funds.

1,000 New Affordable Rental Housing Units

Public Sector Partners

PHFA (Pennsylvania Housing Finance Agency)

PHFA manages two federal Low Income Housing Tax Credit (LIHTC) programs: 9% LIHTC and 4% LIHTC. The 9% LIHTC is clearly a greater subsidy for which there are more applicants than can receive the credits. *The 4% LIHTC is never oversubscribed, but provides a lesser subsidy, and therefore the need to provide greater local subsidy in order to develop units.*

PHA (Philadelphia Housing Authority)

PHA is a participant in the U.S. Department of Housing and Urban Development (HUD) Moving-to-Work Demonstration Program (“MTW Program”). PHA has the authority, under the MTW Program, to establish a local unit-based rental assistance program and to develop new approaches for administering public housing operating subsidy. *PHA has created the Local Unit-Based Operating Subsidy Program using MTW Program authority to further PHA’s goal of increasing the availability of, and private investment in, attractive, affordable, quality housing, in quality neighborhoods throughout the City of Philadelphia.*

Units in the Local Unit-Based Operating Subsidy Program are subject to the requirements of the federal public housing program. This program requires residents to pay a rent of 30 percent or less of monthly adjusted income.

“Capital Funds” (as defined in 42 U.S.C. Section 1437g[d] and 24 CFR Part 905 and which may include replacement housing factor funds) may be provided to help pay for the costs of acquiring, repairing, rehabilitating or constructing affordable rental units. *Capital Funds may be provided in the form of loans to ensure long-term affordability.*

PHA may modify the Local Unit-Based Operating Subsidy Program as follows:

- PHA may combine public housing operating subsidy with other MTW Program funds to establish a local MTW Program subsidy level higher than the standard public housing operating subsidy amounts (this amount may be higher than the \$550 that PHA has offered through its Local Unit-Based Operating Subsidy RFP);

- PHA may allow owners of Local Unit-Based Operating Subsidy Program units to utilize operating subsidy and other MTW Program funds to pay for debt service associated with the units. This modification will require PHA to obtain a waiver from HUD;
- The Declaration of Restrictive Covenants (required by HUD on all Local Unit-Based Operating Subsidy Program properties) may be modified to eliminate or change the standard 10-year affordability “tail.” This is permitted even when the operating subsidy is provided in combination with voucher or other MTW Program funds. This modification will require PHA to obtain a waiver from HUD.

City of Philadelphia

More than 11,000 surplus properties in Philadelphia are owned by four public entities: the City, the Philadelphia Housing Development Corporation (PHDC), the Philadelphia Redevelopment Authority (RDA) and PHA. The Philadelphia City Council 1,500 Affordable Housing Units Initiative will utilize more than 1,000 publicly owned parcels to develop new affordable rental housing. This will reduce the public inventory by approximately 10 percent.

Benefits of using the existing public inventory include: no acquisition costs, reduction of the public inventory of approximately 10 percent, and generation of taxes and other revenue. A strategic benefit is that there is significant unused public inventory in areas of rapidly increasing real estate values such as Francisville (204 parcels), Point Breeze (330 parcels) and Mantua (623 parcels). Building affordable rental units in gentrifying neighborhoods guarantees some level of economic and social diversity -- one of the key goals of this initiative. Development of affordable rental units also will kick-start revitalization in non-gentrifying areas of the City. Maps identifying these areas, known herewith as Opportunity Zones, can be found in Appendix B.

City Council has identified the Philadelphia Housing Trust Fund as an appropriate source for the City’s funding contribution, to be used in conjunction with PHFA and PHA program funding to complete the gap financing for projects under this initiative. Rather than borrowing \$100 million to capitalize a rent subsidy fund and incur substantial interest costs, City Council proposes adopting a model similar to the Chicago’s Low-Income Housing Trust Fund’s Rental Subsidy Program, which provides over \$15 million in rental subsidies per year out of current revenues. Using this methodology would save an estimated \$3 million per year in interest costs that would be incurred if debt financing were to be utilized.

Economic and Fiscal Impacts

The City will annually provide up to \$5 million of Housing Trust Fund revenues to leverage or “unlock” approximately \$200 million in federal and state subsidies and low-income tax credit equity. The total up-front expenditure of \$300 million for the construction of 1,000 affordable rental housing units will generate a significant number of jobs and both direct and indirect economic activity benefiting a variety of local industries.

In addition to the initial construction period economic impact, there will also be an unquantifiable, lasting economic impact resulting from the stabilization and revitalization of communities. Affordable housing frees up a larger share of residents’ income to be spent in the community. Ongoing operation of the rental housing units will have lasting economic impact in the form of building maintenance, new utility hook-ups and the positive effects of replacing vacant lots with housing.

Detailed economic and fiscal impacts of the 1,000 Affordable Rental Housing Units program include:

- Total one-time impact of **\$512 million** in economic activity during the construction period (includes a one-time impact of more than **\$310 million** in labor income from approximately **3,200 construction jobs** and approximately **\$17.2 million** in tax revenue to the City);
- Total annual impacts of **\$8.6 million** in economic activity from ongoing operations (includes **\$3.9 million annually** from **92 jobs** in support of building operations and maintenance); and
- An estimated **\$94.0 million** in taxable property value added to the property tax base, resulting both from additional units (**\$22 million**) and the positive spillover effects from eliminating blight (**\$72 million**).

1. One-Time Economic and Fiscal Impacts From Construction

Up-front expenditure of \$300 million from the City, state and federal sources will generate approximately \$512 million in total economic activity in Philadelphia, including 3,189 total jobs and \$312.6 million in labor income (Table 1). Direct jobs -- those associated with the design and construction of housing units -- account for 1,775 of the total (\$228.5 million in income). Indirect jobs -- those in industries up the supply chain that provide goods and services to the direct industries -- account for 447 of the total (\$28.2 million in income).

Induced jobs -- those in industries supported by household spending of direct and indirect workers -- account for 967 of the total (\$55.8 million in income). This economic activity is estimated to add \$388.6 million in GDP (Value Added) to the City of Philadelphia's economy.

Table 1 – Economic Impact of Construction of 1,000 Affordable Rental Units

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	1,775	\$228,552,571	\$260,526,573	\$300,000,000
Indirect Effect	447	\$28,241,320	\$38,124,920	\$65,608,897
Induced Effect	967	\$55,835,522	\$89,951,239	\$146,170,280
Total Effect	3,189	\$312,629,413	\$388,602,732	\$511,779,177

Distribution of total jobs (inclusive of indirect and induced) generated by up-front construction is shown in Table 2. Industries most impacted are construction (1,407 jobs and \$188 million in labor income) and architecture/engineering (420 jobs and \$46.2 million in labor income).

Table 2 – Sector Breakdown of Total Employment and Wages Generated by Construction of 1,000 Affordable Rental Units

Description	Employment	Percentage of Total Employment	Labor Income	Percentage of Total Income
Construction of new residential permanent site single- and multi-family structures	1,407	44%	\$187,964,333	60%
Architectural, engineering, and related services	420	13%	\$46,204,550	15%
Food services and drinking places	156	5%	\$4,496,112	1%
Private hospitals	80	3%	\$6,616,086	2%
Retail stores - Food and beverage	79	2%	\$2,486,107	1%
Other Industry Sectors	1,047	33%	\$64,862,225	21%
Total Employment	3,189	100%	\$312,629,413	100%

Economic activity generated by up-front construction spending is estimated to contribute \$17.2 million in tax revenue to the City (Table 3).

Table 3 – Fiscal Impact of Construction of 1,000 Affordable Rental Units

Construction	City of Philadelphia
Wage Tax (\$M)	\$11.8
Sales and Excise Taxes (\$M)	\$2.2
Business Taxes (\$M)	\$3.3
Total (\$M)	\$17.2

2. Annual Economic and Fiscal Impacts from Ongoing Operations

Economic activity generated by ongoing maintenance of the 1,000 rental units, including new utility hook-ups, is estimated to contribute \$8.6 million annually in output to Philadelphia’s economy -- supporting a total of 92 jobs and \$3.9 million in labor income, and adding \$7.2 million in GDP (Value Added).

Table 4 – Annual Economic Impact of Ongoing Operations of 1,000 Affordable Housing Units

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	71	\$2,672,802	\$5,226,148	\$5,283,000
Indirect Effect	4	\$277,579	\$363,742	\$650,113
Induced Effect	18	\$1,020,949	\$1,636,663	\$2,658,501
Total Effect	92	\$3,971,329	\$7,226,553	\$8,591,615

The distribution of total jobs from ongoing operations is shown in Table 5.

Table 5 – Sector Breakdown of Total Employment and Wages Generated by Ongoing Operations of 1,000 Affordable Rental Units

Description	Employment	Percentage of Total Employment	Labor Income	Percentage of Total Income
Maintenance and repair of residential structures	67	73%	\$1,991,038	50%
Food and beverage services	3	3%	\$72,138	2%
Water, sewage and other treatment and delivery systems	2	2%	\$362,936	9%
Private hospitals	2	2%	\$127,536	3%
Electric power generation, transmission and distribution	1	1%	\$226,512	6%
Other industry sectors	25	27%	\$1,191,169	30%
Total Employment	92	100%	\$3,971,329	100%

Ongoing operations of the 1,000 rental housing units is estimated to have a total fiscal impact of \$1.9 million, comprising both new tax revenues and cost savings associated with the City having fewer vacant lots to maintain. There are three sources of tax revenue: 1) wage taxes on \$3.9 million in total labor income (Table 4), 2) property taxes from the new housing units, and 3) more tax revenue from property value increases associated with revitalization. The fiscal impacts are summarized in Table 6.

Table 6 –Annual Fiscal Impact of Ongoing Operations of 1,000 Affordable Rental Units

Description	Calculation	Total
Wage Taxes from ongoing operations	Estimated from total labor income	\$150,000
Property Tax from new units	\$22,000,000 units x 1.34%	\$294,800
Property Tax from unblighting effect	\$72,000,000 [†] x 1.34%	\$964,800
Maintenance cost savings from putting lots into use	\$533 [‡] * 1000	\$533,000
	Total Fiscal Impact	\$1,942,600

* Taxable value of fixed at \$22,000 per unit, \$22,000,000 total; property tax rate is 1.34%.

† Total blighting effect of ~40,000 vacant parcels estimated to be \$3.6 billion. We assume putting 1,000 into use would ameliorate 1% of total - hence \$3.6 billion x 2% = \$72 million. (See Econsult 2010 report [Vacant Land Management in Philadelphia](#) for detail on calculation)

‡ Total ascertainable direct cost of ~40,000 vacant parcels estimated at \$21.3 million, or approximately \$533 per parcel. This is an annual reduction of city expenditures, not direct city revenue. (see Econsult 2010 report [Vacant Land Management in Philadelphia](#) calculation)

Affordable Rental Unit - Gap Financing Model

Per Unit Development Assumptions:

Sources:

Equity From 4% Tax Credit		\$100,000
*Gap Financing (Mortgage)		<u>\$200,000</u>
Total		<u><u>\$300,000</u></u>

Uses:

Hard Costs		\$220,000
Soft Costs		<u>\$80,000</u>
Total		<u><u>\$300,000</u></u>

Per Unit Annual Operating Assumptions:

Income:

Tenant Rent		\$3,000
PHA Operating Subsidy		<u>\$9,600</u>
Total		<u><u>\$12,600</u></u>

Expenses:

Operating Costs		\$4,800
Debt Service		<u>\$12,160</u>
Total		<u><u>\$16,960</u></u>

Operating Loss		(\$4,360)
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Required Annual City Subsidy (30 Year Term)		\$4,360
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***Project Debt Financing Assumptions:**

Term of Loan (yrs.)		30
<i>Interest Rate</i>		4.50%
Loan Amount		\$ 200,000

1,000 New Affordable Ownership Housing Units

City Council recognizes there is a significant price gap between subsidized affordable housing offered in homeownership programs and market rate housing in neighborhoods that are seeing rapid increase in values. This gap has discouraged the development of new homeownership opportunities in these neighborhoods for households that fall between 80 percent and 120 percent of Area Median Income.

City Council proposes the use of publicly owned land in neighborhoods experiencing rapid increases in value to leverage and stimulate new construction homeownership units affordable to households whose incomes range from 80 percent to 120 percent of Area Median Income. Publicly owned parcels will be provided to developers for nominal consideration with a restrictive covenant that requires them to build and sell at prices affordable to the target income group. The restrictive covenant will be passed on to buyers that will require them to sell the property at a price affordable to households within the target income group if they decide to sell within 10 years of purchase.

A \$200,000 mortgage is affordable to households in the target income range. It is assumed that the new construction units will receive a 10-year tax abatement on improvements and that only the value of land will be taxed during this period. *HUD suggests that no more than 30% of gross household income should be spent on Principle, Interest, Taxes and Insurance (PITI). For a \$200,000 mortgage at 4.5% interest for 30 years PITI would require a 23% of a four person household earning 80% of AMI and 15% for a four person household earning 120% of AMI, well within the HUD guidelines.*

Affordability Index					
Percent of Area Median Income	80%	90%	100%	110%	120%
Median Household Income Family of Four	\$ 63,050	\$ 70,950	\$ 78,800	\$ 86,700	\$ 94,600
Maximum % of Income For PITI	30%	30%	30%	30%	30%
Funds Available for Monthly Payment	\$ 1,576	\$ 1,774	\$ 1,970	\$ 2,168	\$ 2,365
Monthly Cost of 200K Mortgage @ 4.5% IR					
Principal and Interest	\$ 1,013	\$ 1,013	\$ 1,013	\$ 1,013	\$ 1,013
Taxes	\$ 45	\$ 45	\$ 45	\$ 45	\$ 45
Homeowners Insurance	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75
Mortgage Insurance	\$ 83	\$ 83	\$ 83	\$ 83	\$ 83
Total Monthly Out of Pocket Expenses	\$ 1,216	\$ 1,216	\$ 1,216	\$ 1,216	\$ 1,216
Percent of AMI Required	23%	21%	19%	17%	15%

There is a sufficient number of parcels located in neighborhoods where values are increasing rapidly to implement this proposal (Appendix B). The opportunity to create even more affordable homeownership units could increase exponentially through the Philadelphia Land Bank, which will have authority to acquire some privately owned, vacant, tax-delinquent properties. Such properties are highlighted in pink in the Opportunity Zones maps.

Economic and Fiscal Impacts

The 1,000 New Affordable Ownership Housing Units plan will confer benefits to the City of Philadelphia similar to those offered in the 1,000 New Affordable Rental Housing Units plan. First, construction will generate a significant amount of one-time activity, not just in directly affected industries (primarily construction and professional services) but also among suppliers of goods and services to those industries, as well as the shops and restaurants where construction workers spend their income. This activity will generate wage, sales and business tax revenue, as well as transfer tax revenue from the sales of the new homes. These homes will generate continued economic benefits through household maintenance costs and utility spending, as well as fiscal benefits stemming from increased property revenue and blight removal.

The economic and fiscal impacts of the 1,000 New Affordable Ownership Housing Units plan include:

- Total one-time impact of **\$340 million** in economic activity during the construction period (includes more than **\$208 million** in labor income from approximately **2,118 jobs** and approximately **\$19.4 million** in tax revenue to the City);
- Total annual impacts of \$5.9 million in economic activity from ongoing operations (includes **\$2.5 million** in labor income from approximately **53 jobs**); and
- An estimated **\$85 million** in taxable property value added to the property tax base, resulting both from the additional units (**\$13 million** in taxable land value) and the positive spillover effects from eliminating blight (**\$72 million**).

1. One-Time Economic and Fiscal Impacts from Construction

Total Development costs: \$200,000 per unit

Sale Price: \$215,000 per unit

Table 1 – Economic Impact of Construction of 1000 Affordable Ownership Units in Philadelphia

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	1,178	\$152,428,556	\$173,739,332	\$199,103,444
Indirect Effect	296	\$18,714,622	\$25,266,194	\$43,508,984
Induced Effect	644	\$37,200,688	\$59,930,616	\$97,386,904
Total Effect	2,118	\$208,343,864	\$258,936,140	\$339,999,332

Table 2 – Sector Breakdown of Total Employment and Wages Generated by Construction of 1000 Affordable Ownership Units in Philadelphia

Description	Employment	Percentage of Total Employment	Labor Income	Percentage of Total Income
Construction of new residential permanent site single- and multi-family structures	938	44%	\$125,976,222	60%
Architectural, engineering, and related services	274	13%	\$30,178,908	14%
Food services and drinking places	104	5%	\$2,988,822	1%
Private hospitals	54	3%	\$4,408,130	2%
Retail Stores - Food and beverage	53	2%	\$1,656,842	1%
Other Industry Sectors	697	33%	\$43,134,940	21%
Total	2,118	100%	\$208,343,864	100%

Table 3 – One-time Fiscal Impact of Construction and Sale of 1000 Affordable Ownership Units in Philadelphia

Construction	City of Philadelphia
Wage Tax (\$M)	\$7.9
Sales and Excise Taxes (\$M)	\$1.4
Business Taxes (\$M)	\$2.2
Transfer Tax - Primary (\$M)	\$6.5
Transfer Tax - Secondary (\$M)	\$1.5
Total (\$M)	\$19.4

Secondary Transfer Tax assumes half of new homeowners will move from homes owned elsewhere in the city, leading to a sale of their current house assumed to sell for \$100,000.

2. Annual Economic and Fiscal Impacts from Ongoing Operations

Table 4 – Annual Economic Impact of Ongoing Operations of 1000 Affordable Ownership Units in Philadelphia

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	42	\$1,816,548	\$3,626,532	\$4,150,000
Indirect Effect	3	\$242,102	\$315,684	\$565,046
Induced Effect	8	\$454,278	\$731,750	\$1,189,104
Total Effect	53	\$2,512,928	\$4,673,966	\$5,904,148

Table 5 – Sector Breakdown of Total Employment and Wages Generated by Ongoing Operation of 1000 Affordable Ownership Units in Philadelphia

Description	Employment	Percentage of Total Employment	Labor Income	Percentage of Total Income
Maintenance and repair construction of residential structures	38	72%	\$1,134,170	45%
Other Industry Sectors	15	28%	\$1,378,758	55%
Total	53	100%	\$2,512,928	100%

Table 6 – Annual Fiscal Impact of Ongoing Operations of 1000 Affordable Ownership Units in Philadelphia

Description	Calculation	Total
Wage Taxes from economic activity of ongoing operations	Estimated from Total Labor Income	\$95,000
Property Tax from new units	\$13,000,000 x 1.34%	\$174,200
Property Tax effects from unblighting effect	\$72,000,000 [†] x 1.34%	\$964,800
Maintenance cost savings from putting lots into use	\$533 [‡] * 1000	\$533,000
	Total Fiscal Impact	\$1,767,000

* Median taxable land value for residential properties is approximately \$13,000 - total \$6,500,000; property tax rate is 1.34%. Assumes all improvements (i.e. the home itself) will be abated

† Total blighting effect of ~40,000 vacant parcels estimated to be \$3.6 billion, here we assume putting 1000 into use would ameliorate 2% of total - hence \$3.6 billion x 2% = \$72 million. (See Econsult 2010 report [Vacant Land Management in Philadelphia](#) for detail on calculation)

‡ Total ascertainable direct cost of ~40,000 vacant parcels estimated at \$21.3 million, or approximately \$533 per parcel. This is an annual reduction of city expenditures, not direct city revenue. (see Econsult 2010 report [Vacant Land Management in Philadelphia](#) calculation)

Economic and Fiscal Impacts - 2,000 New Units of Affordable Housing Initiative

The total economic and fiscal impacts of creating 1,000 new affordable rental units and 1000 new affordable ownership units include:

- One-time construction-related economic impact of **\$851.8 million**, supporting **5,307 jobs** generating an aggregate of **\$521 million** in labor income, and adding \$647.5 million to Philadelphia's GDP (value added);
- A one-time fiscal impact of **\$36.6 million** in revenue to the City from the economic activity generated by the construction of 2,000 housing units;
- Annual ongoing economic impact of **\$14.5 million** in output, supporting **145 jobs**, **\$6.5 million** in labor income, and adding an additional **\$11.9 million** to local GDP; and
- An estimated **\$179 million** in value added to the property tax base, resulting from both additional units (**\$35 million**) and positive spillover effects of eliminating blight (**\$144 million**).

Table 7 – Combined Economic Impacts of Construction and Operation of 2,000 Housing Units in Philadelphia

Economic Impact	One-Time Construction	Ongoing Annual
Employment (Jobs)	5,307	145
Labor Income (\$M)	\$521.0	\$6.5
Value Added (\$M)	\$647.5	\$11.9
Output (\$M)	\$851.8	\$14.5

Table 8 – Combined Fiscal Impacts of Construction and Operation of 2,000 Housing Units in Philadelphia

Fiscal Impact	One-Time Construction	Ongoing Annual
Revenue (\$M)	\$36.6	\$2.6
Cost Savings (\$M)	n/a	\$1.1
Net Impact (\$M)	\$36.6	\$3.7

Table 9 – Combined Property Value Impacts of Construction and Operation of 2,000 Housing Units in Philadelphia

Property Value Impact	Combined
Taxable Value of New Units (\$M)	\$35.0
Positive Spillover Effects (\$M)	\$144.0
Total Value Impacts (\$M)	\$179.0

Acknowledgement

This report is the result of a collaborative effort between City Council Technical Staff and Econsult Solutions with input and data from various public entities and private stakeholders. All analysis of economic impact in this proposal was prepared by Econsult Solutions, Inc. A brief description of the methodology used for the economic impact analysis can be found in Appendix C .

Appendix A: Brief Demographic Data Summary

The U.S. Department of Health and Human Services sets the poverty line for a family of four at incomes equal to or below \$23,550 per year. *In 2012, the median household income nationwide was \$53,046; in Pennsylvania, it was \$52,267. The median household income in Philadelphia is \$37,016, which places the City near the bottom of the top 25 comparable cities, which includes Cleveland, Baltimore, and Pittsburgh. Neighborhoods in Northeast, West, and North Philadelphia have median household incomes of \$28,988, \$26,487, and \$14,586 respectively -- all near or below the federal poverty line.*⁴

The unemployment rate in the City of Philadelphia from 2002 to 2012 has consistently exceeded national, state, and regional rates. In 2012, the City's unemployment rate hit 10.7%, while the national, state, and regional rates were 8.1%, 7.8%, and 8.5% respectively.⁵ When compared to the top 25 cities in the country, Philadelphia's unemployment rate was exceeded only by the City of Detroit. Since 2002, the City has lost more than 3% of jobs (or 22,100), while the population of the City, in the same period, grew by 3.2% (or 49,114 people). In general terms, the City's population and workforce expanded for middle- to higher-income economic brackets during this period while the number of Philadelphians who are unemployed and living in poverty continued to grow.

Overall, PHA residents experience higher levels of unemployment and lower levels of educational achievement when compared with the overall population of the City. The unemployment rate of residents living in PHA's 57 developments is 67.8%⁶ compared with the citywide unemployment rate of 9.5%.⁷ High unemployment among PHA residents is reflective of low rates of educational achievement among this population. The most highly requested social service among PHA residents aged 18 to 30 years of age is assistance with achieving a General Education Diploma (GED). *Testing of nearly 500 residents in the past five months has shown an average literacy at the fourth to fifth grade levels and an average numeracy rate of third to fourth grade. Citywide, 82% of eighth graders tested at a basic or below basic proficiency in math and reading, according to the 2013 Pew Charitable Trust State of the City Report.*⁸

Many residents of challenged neighborhoods in Philadelphia commute to area suburbs for low- or minimum wage-jobs in the hospitality and retail sectors.⁹ Job growth in the City is

⁴ See, Pew Charitable Trust – 2013 State of the City

⁵ *Id.*

⁶ For residents 18 to 54 years of age.

⁷ See, U.S. Bureau of Labor and Statistics, November 2013: <http://www.bls.gov/ro3/palaus.htm>

⁸ http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia_Research_Initiative/Philadelphia-City-Statistics.pdf

⁹ *Id.*

seen in the health and education sectors, where education requirements for employment are an obstacle for the majority of the City's moderate- and low-income families.¹⁰ This has resulted in an increased supply of middle- to high-income rentals in the expanding boundaries of Center City and Northern Liberties to meet the housing demands of workers employed in the City's economic growth sectors and stagnating housing supply for moderate- and low-income families. This imbalance has further concentrated poverty in challenged neighborhoods in the North, West, and lower Northeast.

The wait for PHA housing is 10 years long on average. Approximately 430 units become available annually for waiting list clients. Residents occupy PHA units for 12.5 years on average. Recipients of Housing Choice Vouchers retain the vouchers for 9.5 years on average before self-sufficiency is achieved.

Given the financial tools that are currently available and the lack of assured federal funding, PHA will never be able to fully meet the enormous demand for affordable housing in Philadelphia.

¹⁰ *Id.*

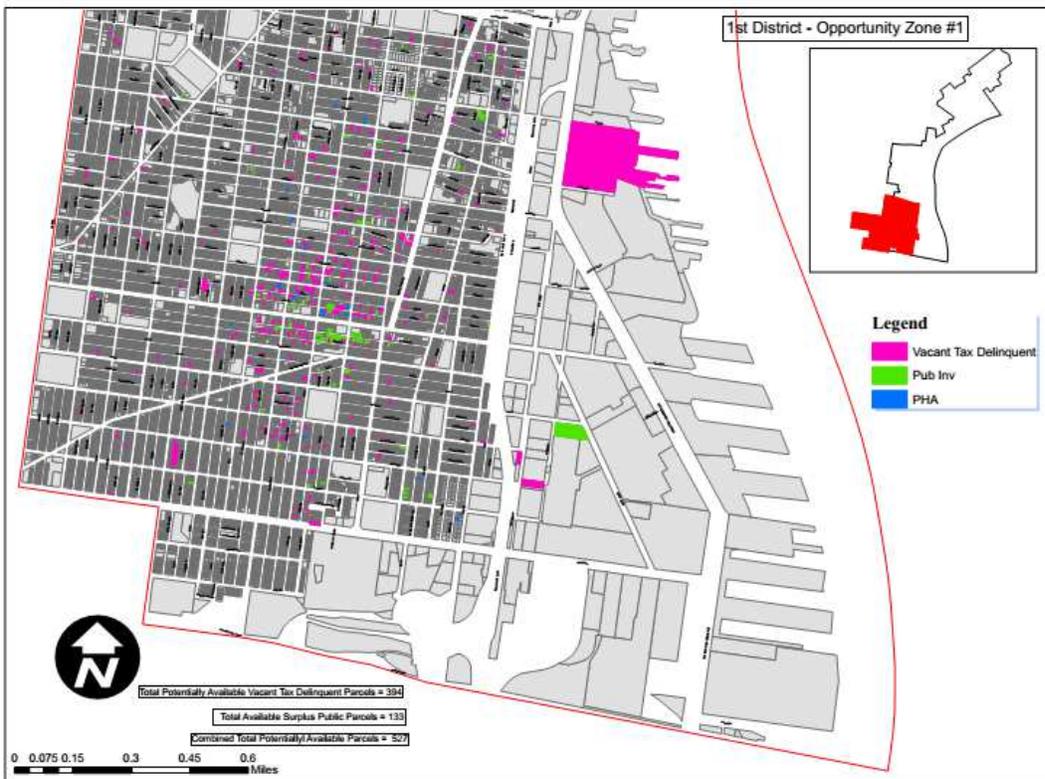
Appendix B: Opportunity Zones

Opportunity Zones are defined as areas within the City that contain a sufficient number of publicly owned properties to effectively implement this Initiative. For economic feasibility, each Opportunity Zone must contain 50 or more publicly owned parcels.

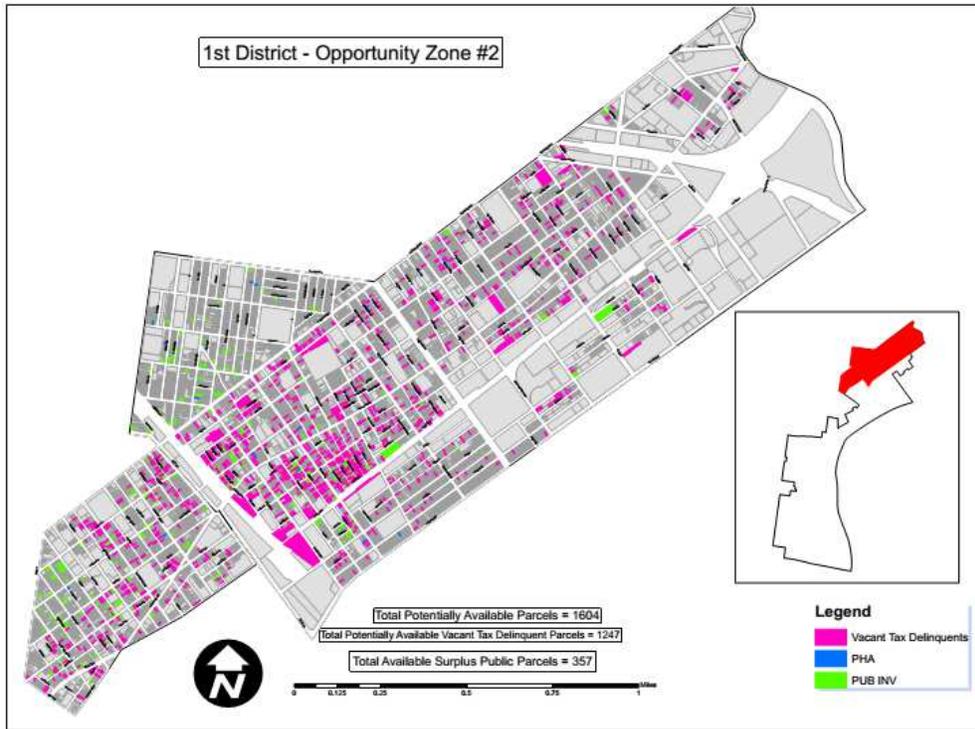
The following maps were created using data from the City, Philadelphia Redevelopment Authority (PRA), and PHA. Privately owned tax-delinquent properties, which are potentially acquirable by the Philadelphia Land Bank Authority, were identified using Water and Revenue Department data.

The following maps do not represent the entire universe of potential Opportunity Zones, nor is the identification of Opportunity Zones a recommendation for implementation of the Initiative. The maps are meant to illustrate the many opportunities across Philadelphia to use publicly owned land for the creation of new affordable housing.

Council District 1: "Zone 1"



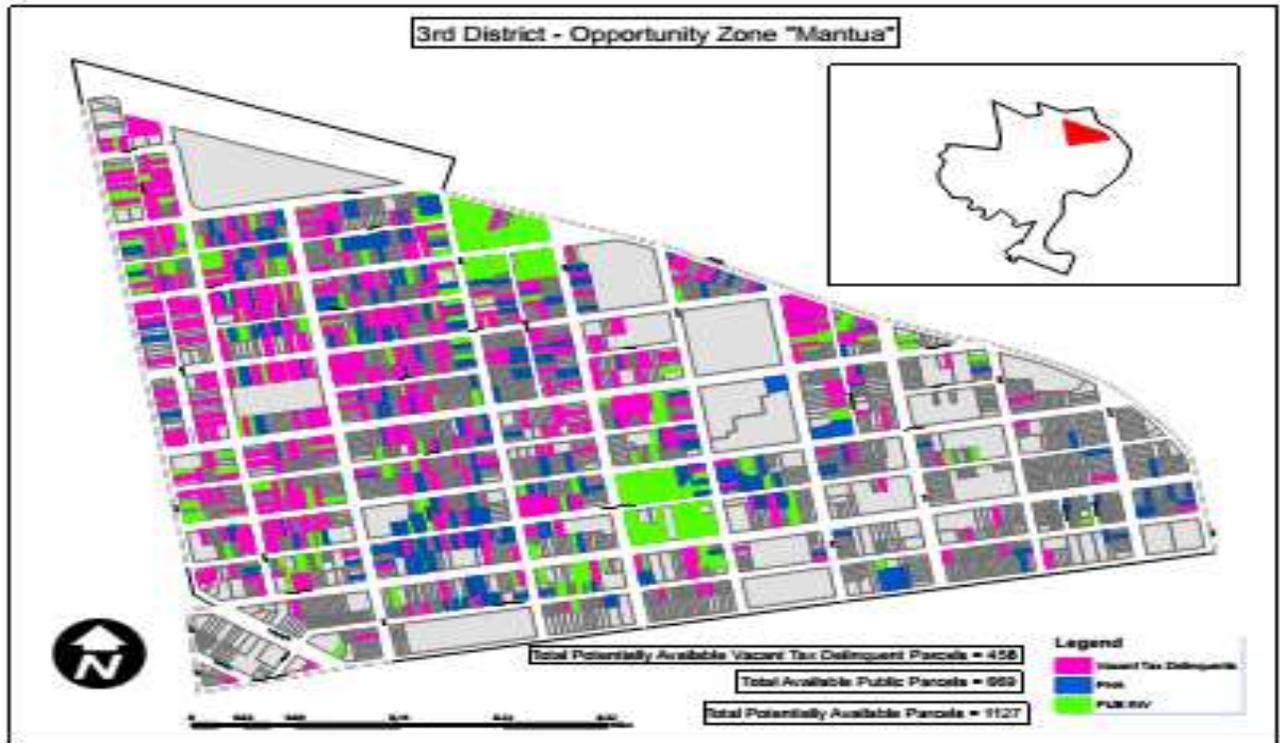
Council District 1: "Zone 2"



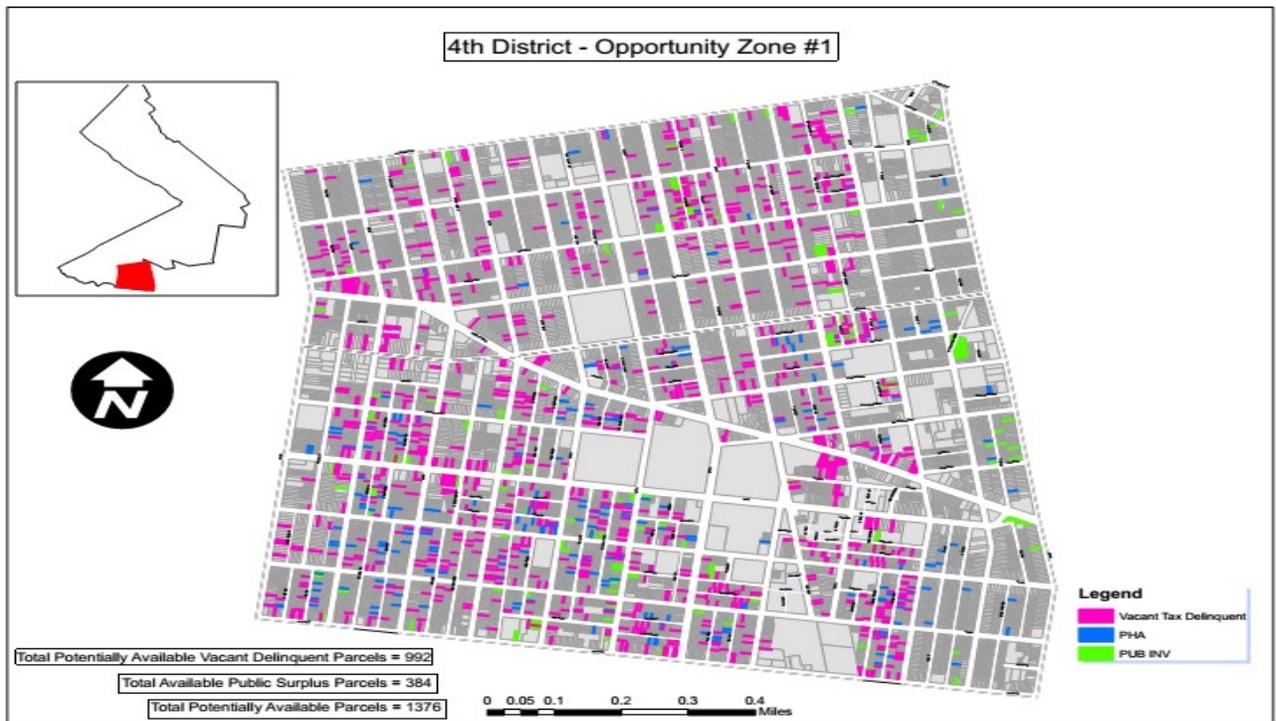
Council District 2



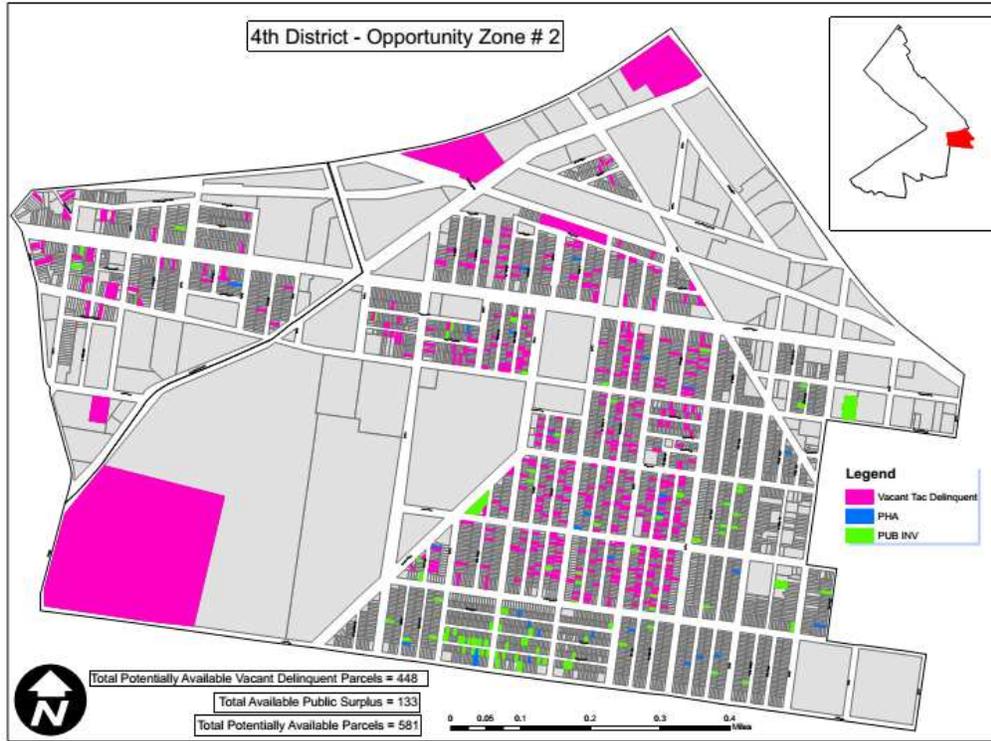
Council District 3



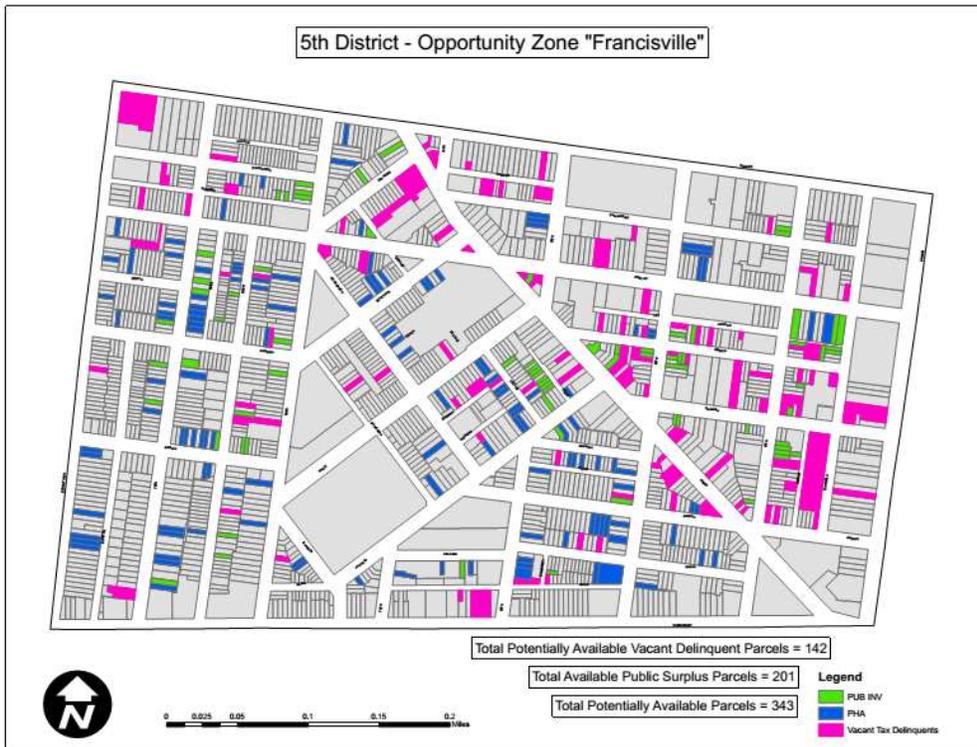
Council District 4: "Zone 1"



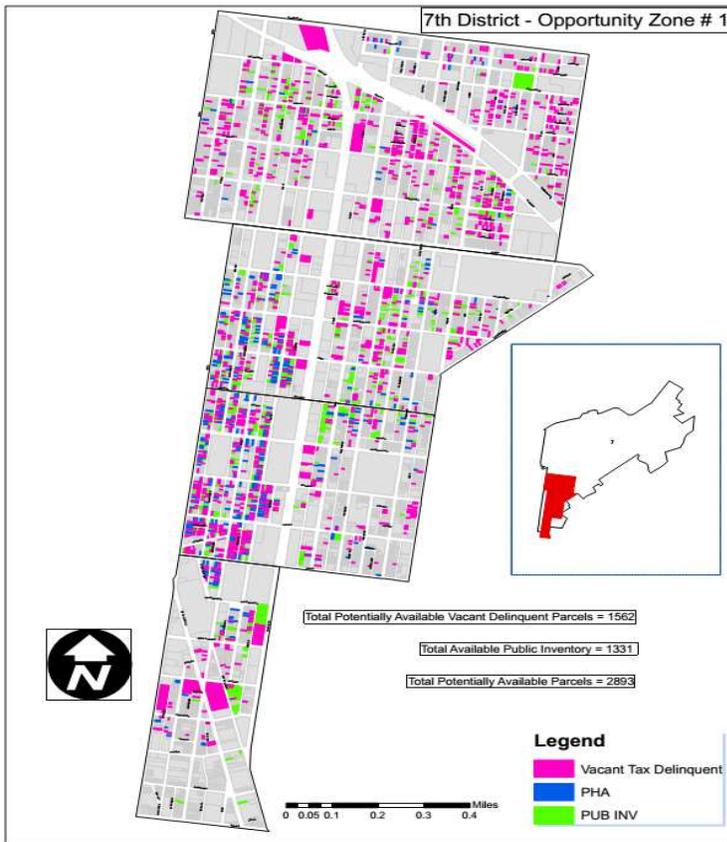
Council District 4: "Zone 2"



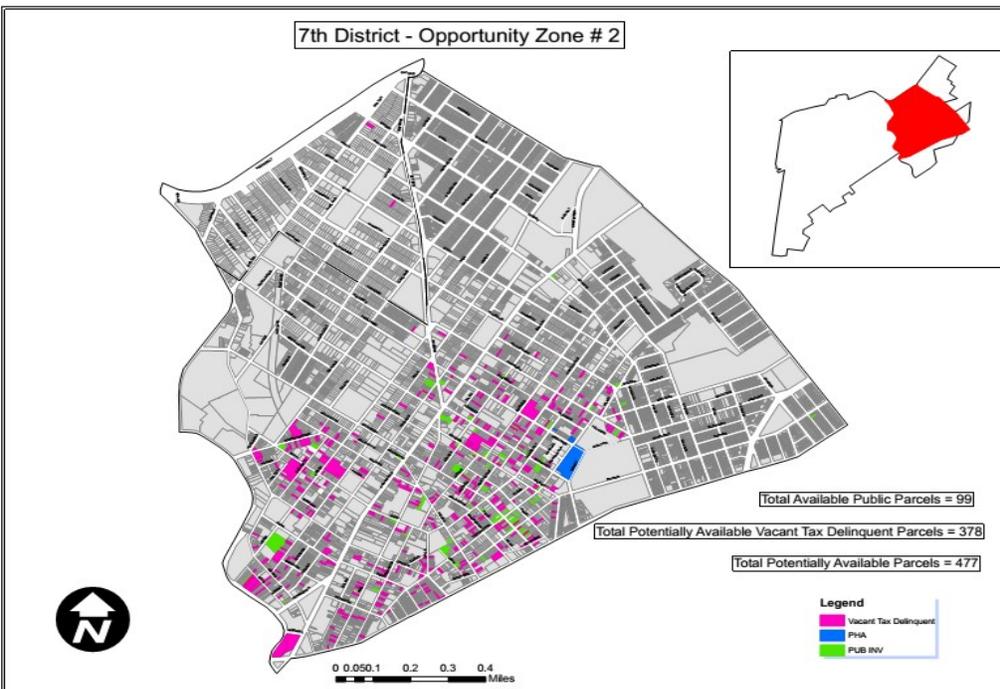
Council District 5



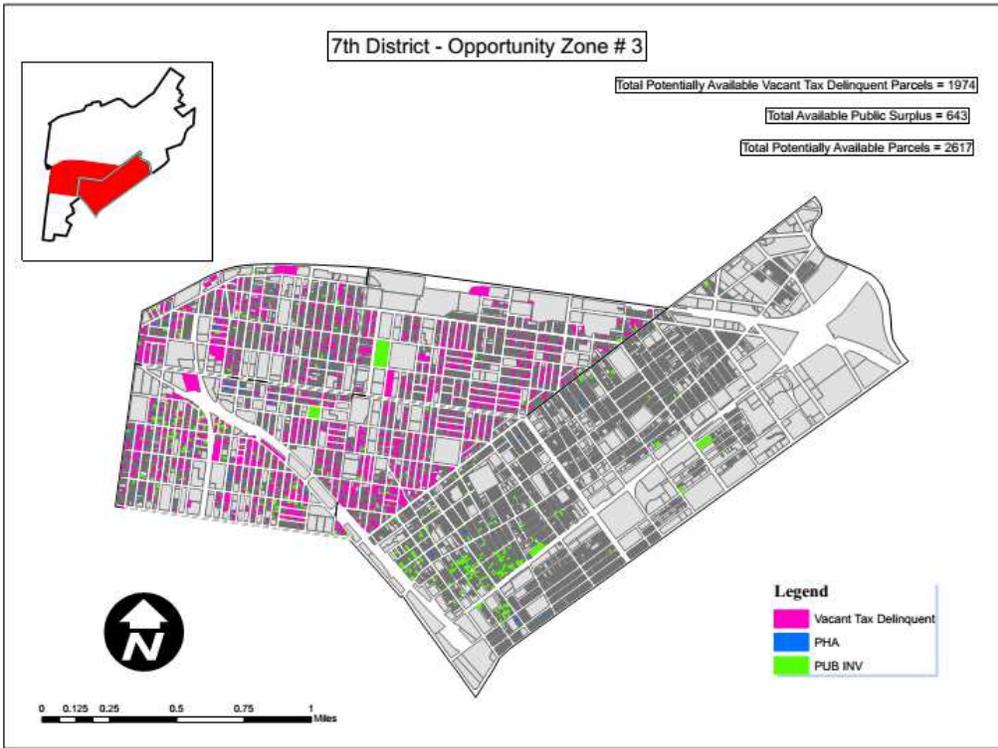
Council District 7: "Zone 1"



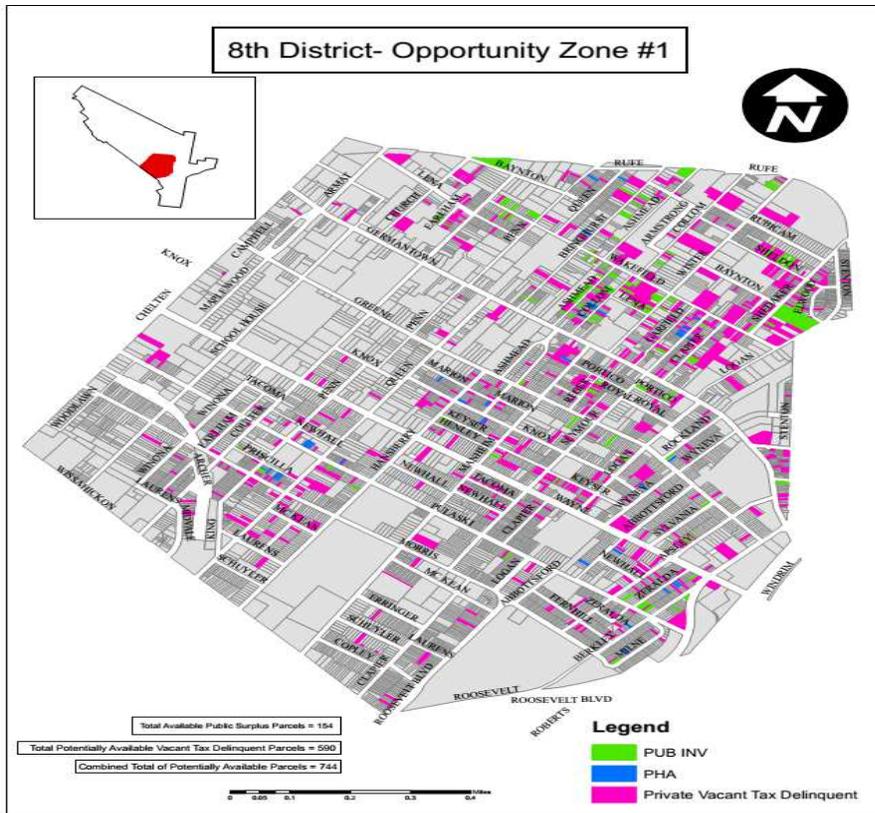
Council District 7: "Zone 2"



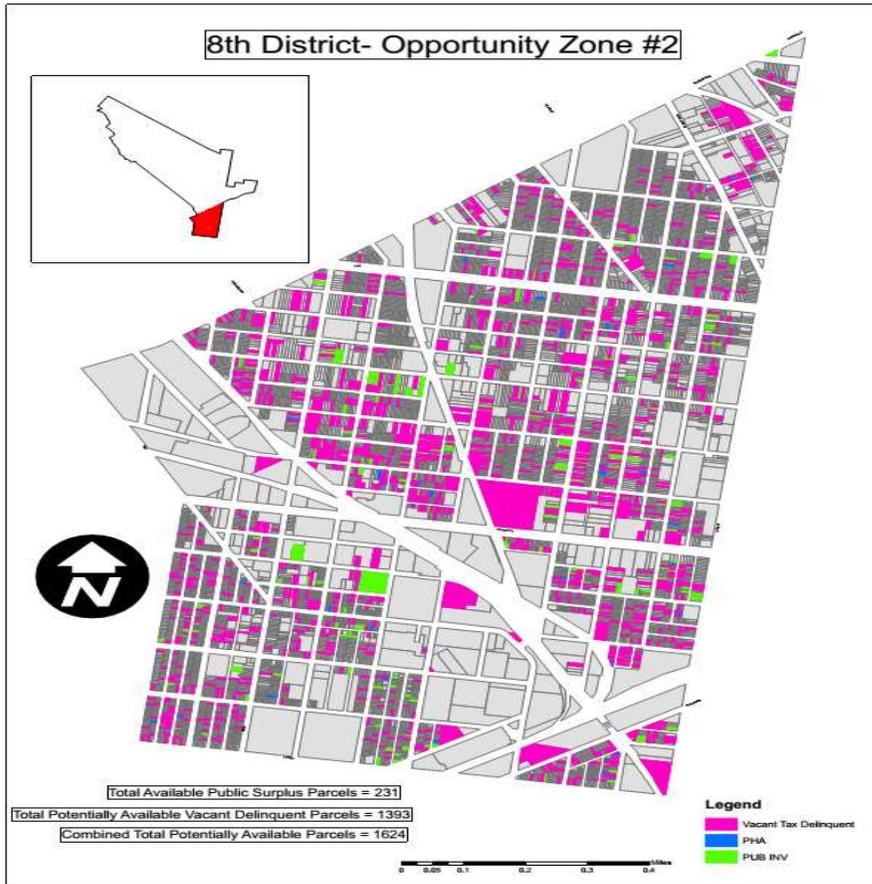
Council District 7: "Zone 3"



Council District 8: "Zone 1"



Council District 8: "Zone 2"



Appendix C: Economic Impact Modeling (Methodology)

To estimate economic impacts associated with the construction and operation of 1,500 new affordable housing units, Econsult Solutions, Inc., constructed an economic impact model that utilized multiplier data from the Minnesota Implan Group's Impacts for Planning software (IMPLAN) to estimate the composition and scale of expenditures, employment, and earnings resulting from the direct expenditures associated with the design, build, and occupation of affordable housing units. This model estimated two forms of spillover impacts resulting from these direct expenditures:

1. Indirect expenditures are generated as local vendors increase production in response to initial expenditures. New expenditures on inputs and services (e.g., equipment, materials, professional services) cause suppliers of those inputs and services to ramp up production and to acquire additional inputs and services from their suppliers, who themselves will do the same. The sum of these economic activities is known as indirect expenditures, and they support additional employment and earnings beyond the employment and earnings supported by direct expenditures.
2. Induced expenditures are generated as employees spend their earnings within the local economy. New expenditures on people (i.e., salaries) create additional spending power. Some of that spending power is exercised within the region, supporting local providers of goods and services (e.g., food, entertainment, lodging, transportation). The sum of these economic activities is known as induced expenditures, which support additional employment and earnings beyond the employment and earnings supported by direct expenditures.

Direct, indirect, and induced expenditures support a scale and composition of employment and earnings that can be estimated using IMPLAN multipliers. For the purposes of this report, the unit of geography for which estimates were made was the City of Philadelphia.