Back to Prosperity:  
A Competitive Agenda for Renewing Pennsylvania

Presentation to the Pennsylvania Housing Finance Agency Forum
December 16, 2004
What are the major demographic, market, and development trends affecting Pennsylvania?

What do these trends mean for Pennsylvania?

Why is this happening?

Where do housing challenges and state housing policy fit in?
What are the major demographic, market, and development trends affecting Pennsylvania?
What are the major demographic, market, and development trends affecting Pennsylvania?

Pennsylvania is barely growing and it’s aging fast

Pennsylvania’s transitioning economy is lagging

Pennsylvania is spreading out and hollowing out
Pennsylvania was the third-slowest growing state during the 1990s.
And the Commonwealth’s foreign-born population grew only modestly compared to the nation.

<table>
<thead>
<tr>
<th>Percent change in foreign born, 1990 - 2000</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Foreign Born</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent Change</td>
<td>Rank</td>
</tr>
<tr>
<td>New Jersey</td>
<td>52.7%</td>
<td>32</td>
</tr>
<tr>
<td>Alaska</td>
<td>49.8%</td>
<td>33</td>
</tr>
<tr>
<td>Michigan</td>
<td>47.3%</td>
<td>34</td>
</tr>
<tr>
<td>Wyoming</td>
<td>46.5%</td>
<td>35</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>37.6%</td>
<td>36</td>
</tr>
<tr>
<td>California</td>
<td>37.2%</td>
<td>37</td>
</tr>
<tr>
<td>New York</td>
<td>35.6%</td>
<td>38</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>34.7%</td>
<td>39</td>
</tr>
<tr>
<td>Louisiana</td>
<td>32.6%</td>
<td>40</td>
</tr>
<tr>
<td>United States</td>
<td>57.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
Pennsylvania also suffered the largest absolute loss of young people among states

Change age 25 - 34 cohort, 1990 - 2000

Source: U.S. Census Bureau
Pennsylvania’s share of elderly residents meanwhile ranks second only to Florida

<table>
<thead>
<tr>
<th>Share of population 65+, 2000</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Population over 65</th>
<th>Share</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida</td>
<td>17.6%</td>
<td>1</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>15.6%</td>
<td>2</td>
</tr>
<tr>
<td>West Virginia</td>
<td>15.3%</td>
<td>3</td>
</tr>
<tr>
<td>Iowa</td>
<td>14.9%</td>
<td>4</td>
</tr>
<tr>
<td>North Dakota</td>
<td>14.7%</td>
<td>5</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>14.5%</td>
<td>6</td>
</tr>
<tr>
<td>Maine</td>
<td>14.4%</td>
<td>7</td>
</tr>
<tr>
<td>South Dakota</td>
<td>14.3%</td>
<td>8</td>
</tr>
<tr>
<td>Arkansas</td>
<td>14.0%</td>
<td>9</td>
</tr>
<tr>
<td>Connecticut</td>
<td>13.8%</td>
<td>10</td>
</tr>
<tr>
<td>United States</td>
<td>12.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
Regionally, Pennsylvania’s growth took place in the eastern and south-central regions; western and central counties lost population.

Percent population change, 1990-2000

Source: U.S. Census Bureau
I. What are the major demographic, market, and development trends affecting Pennsylvania?

- Pennsylvania is barely growing and it’s aging fast
- Pennsylvania’s transitioning economy is lagging
- Pennsylvania is spreading out and hollowing out
The transition to a service economy is well underway in Pennsylvania.

Employment share by industry, 1970 - 2000

Source: U.S. Census Bureau
The transition could be positive for Pennsylvania because of its traction in desirable service sectors …

- Pennsylvania ranks 5th among states in its share of service jobs in education
- Pennsylvania ranks 6th among states in its share of service jobs in healthcare
But the transition appears to be overly oriented towards low wage sectors.

Wal-Mart is now the largest private employer in the state.

In 2000, over 61 percent of Pennsylvania’s workers were employed in occupations with average wages of less than $27,000 per year compared to 50 percent nationally.

For example, 1.6 million people are employed in either administrative support or sales.
The leap to a high-road economy will be difficult since the state ranks 31\textsuperscript{st} on educational attainment.

<table>
<thead>
<tr>
<th>BA Attainment</th>
<th>Share</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mexico</td>
<td>23.5%</td>
<td>26</td>
</tr>
<tr>
<td>Texas</td>
<td>23.2%</td>
<td>27</td>
</tr>
<tr>
<td>Maine</td>
<td>22.9%</td>
<td>28</td>
</tr>
<tr>
<td>North Carolina</td>
<td>22.5%</td>
<td>29</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>22.4%</td>
<td>30</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>22.4%</td>
<td>31</td>
</tr>
<tr>
<td>Florida</td>
<td>22.3%</td>
<td>32</td>
</tr>
<tr>
<td>North Dakota</td>
<td>22.0%</td>
<td>33</td>
</tr>
<tr>
<td>Wyoming</td>
<td>21.9%</td>
<td>34</td>
</tr>
<tr>
<td>Michigan</td>
<td>21.8%</td>
<td>35</td>
</tr>
<tr>
<td><strong>UNITED STATES</strong></td>
<td><strong>24.4%</strong></td>
<td></td>
</tr>
</tbody>
</table>

25+ with a BA diploma or higher, 1990-2000

Source: U.S. Census Bureau
I

What are the major demographic, market, and development trends affecting Pennsylvania?

Pennsylvania is barely growing and it’s aging fast

Pennsylvania’s transitioning economy is lagging

Pennsylvania is spreading out and hollowing out
Here’s how we looked at this: We divided Pennsylvania’s 2,566 municipalities into “older,” more established areas, and “outer,” more rural areas.

**OLDER**
- Cities: 56
- Boroughs: 962
- 1st Class Townships: 91

**OUTER**
- 2nd Class Townships: 1,457

Total: 2,566
Compared to older municipalities, second-class townships are larger in land mass and lower in residential density.

<table>
<thead>
<tr>
<th>Type</th>
<th>Average Area (Sq. Mi.)</th>
<th>Average Density (People per Sq. Mi.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Older Pennsylvania</td>
<td>2.6</td>
<td>2,500</td>
</tr>
<tr>
<td>Cities</td>
<td>8.3</td>
<td>6,621</td>
</tr>
<tr>
<td>Boroughs*</td>
<td>1.5</td>
<td>1,733</td>
</tr>
<tr>
<td>1st-Class Townships</td>
<td>10.1</td>
<td>1,621</td>
</tr>
<tr>
<td>2nd-Class Townships</td>
<td>28.3</td>
<td>124</td>
</tr>
<tr>
<td>State Total</td>
<td>17.1</td>
<td>278</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
*Includes one “town”
The outer townships have dominated the state’s population growth for decades.

Population, 1930 - 2000

Source: Center for rural Pennsylvania

- Cities
- Boroughs
- 1st Twp
- 2nd Twp
Second-class townships captured the lion’s-share of new housing units . . .

Share of new housing units by municipality type, 2000

Source: U.S. Census Bureau

- Cities: 6%
- Boroughs: 12%
- 1st Twp: 10%
- 2nd Twp: 72%
And almost all of the household growth in the state.

Share of household growth, 1990-2000

Source: U.S. Census Bureau

- 2nd Twp: 92%
- Older Areas: 8%
What do these trends mean for Pennsylvania?
What do these trends mean for Pennsylvania?

Sprawl and urban decline hinder the state’s ability to compete for educated workers.

Sprawl and urban decline are burdening taxpayers.
Economic success increasingly turns on attracting and retaining highly-educated people

- Ideas, innovation, and creativity now drive the economy
- Success requires large numbers of people with a college education and high skills
- Income grew about 1% for every 2% growth in a metro’s share of college graduates, during the 1990s
Unfortunately, Pennsylvania’s metropolitan areas lag the national metro average in educational attainment, with Philadelphia being the exception.

Source: U.S. Census Bureau

Metropolitan population 25+ with a BA degree or higher, 2000

<table>
<thead>
<tr>
<th>City</th>
<th>100 Largest US Metros</th>
<th>Pennsylvania Metros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philadelphia</td>
<td>27.8%</td>
<td>23.9%</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harrisburg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lehigh Valley</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Erie</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lancaster</td>
<td></td>
<td></td>
</tr>
<tr>
<td>York</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scranton/Wilkes-Barre/Hazleton</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A serious “BA gap” also holds back Pennsylvania cities

City population 25+ with a BA degree or higher by Metro, 2000

Source: U.S. Census Bureau

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Bar chart showing the percentage of population 25+ with a Bachelor’s degree or higher in various cities in Pennsylvania compared to the 300 largest US cities. The chart highlights:

- **Pittsburgh**: 30% (26.4% for 300 largest US cities)
- **Lehigh Valley**: 25% (26.4% for 300 largest US cities)
- **Philadelphia**: 20% (26.4% for 300 largest US cities)
- **Erie**: 10% (26.4% for 300 largest US cities)
- **Lancaster**: 15% (26.4% for 300 largest US cities)
- **Scranton/WB/Hazleton**: 10% (26.4% for 300 largest US cities)
- **Harrisburg**: 10% (26.4% for 300 largest US cities)
- **York**: 5% (26.4% for 300 largest US cities)
Across the nation, the cities and metros with the highest shares of educated workers have common qualities:

- Thick labor markets
- Vibrant and distinctive downtowns
- Plentiful amenities
- A positive, tolerant culture
However, in Pennsylvania, a thin job market, sprawl, and urban decline limit the state’s ability to retain college graduates from its top universities.

Current residence of university graduates, classes 1990-2000

Source: Alumni offices of each university
What do these trends mean for Pennsylvania?

Sprawl and urban decline hinder the state’s ability to compete for educated workers

Sprawl and urban decline are burdening taxpayers
The costs of sprawl are well-researched and well-recognized

Low density development increases demand for:

- New schools
- New roads
- New public facilities
- Sewer and water extensions

Low density development increases the costs of key services:

- Police
- Fire
- Emergency medical
In Pennsylvania, though, another cost of sprawl is urban decline; for example, vacancy rates in older municipalities have worsened over the last two decades.

Vacancy rates, 1980-2000

Source: U.S. Census Bureau
As a consequence, home values in older municipalities generally trail those in outer townships.

<table>
<thead>
<tr>
<th>Average home value, 2000</th>
<th>2000 Average Home Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Older</td>
<td>$102,775.72</td>
</tr>
<tr>
<td>Cities</td>
<td>$73,479.03</td>
</tr>
<tr>
<td>Boroughs</td>
<td>$99,410.47</td>
</tr>
<tr>
<td>1st-Class Townships</td>
<td>$153,170.52</td>
</tr>
<tr>
<td>2nd-Class Townships</td>
<td>$145,183.17</td>
</tr>
<tr>
<td>State Total</td>
<td>$120,741.27</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
In fact, deterioration in older areas slowed appreciation and even eroded property values in the 1990s, especially in Pennsylvania’s cities.

Percent change in market value property, 1993-2000

Source: Ameregis Inc. tabulation of data from the Governor’s Center for Local Government Services
Ultimately, these factors lead to reduced revenues and higher tax rates for older municipalities.
Why is this happening?
III Why is this happening?

Haphazard Investments

Weak Planning

Barriers to Reinvestment

Governmental Fragmentation
Major state spending programs have either skewed funding to outer townships or failed to follow a strategic, competitive vision.
Between 1999 and 2002, outer townships received $1.2 billion more in classifiable road and bridge spending than older areas.

Total classifiable transportation investment*, 1999-2002

Source: U.S. Census Bureau, Anne Canby and James Bickford, 10,000 Friends of Pennsylvania

*In billions
As a consequence, outer townships received 58 percent of classifiable spending during this period, although they represent only 42 percent of the state’s population.

Source: U.S. Census Bureau, Anne Canby and James Bickford, 10,000 Friends of Pennsylvania
On a per capita basis, outer townships received almost double the amount of total classifiable spending than did older municipalities.

Pennsylvania Department of Transportation per capita investment, 1999-2002

Source: Anne Canby and James Bickford, 10,000 Friends of Pennsylvania
At the same time, Pennsylvania is spreading its economic development money “all across the map”
At one extreme the PIDA industrial park program distributed 65 percent of its total subsidy spending to projects in outlying townships.

PIDA investments, 1998-2003

Source: Business Economic Research Group (BERG) analysis of DCED data
Why is this happening?

- Haphazard Investments
- Weak Planning
- Barriers to Reinvestment
- Governmental Fragmentation
The Alleghenies divide the state into three massive topographical regions.

State topography image, 2003

Source: Ray Sterner, Johns Hopkins University Applied Physics Laboratory
Economically, Pennsylvania is clustered into 14 metropolitan economies.
However, Pennsylvania’s 2,566 municipalities are completely inconsistent with today’s economic realities.
Pennsylvania has the third-largest number of general governments in the country

<table>
<thead>
<tr>
<th>General Governments*</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>2,824</td>
</tr>
<tr>
<td>Minnesota</td>
<td>2,734</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>2,633</td>
</tr>
<tr>
<td>Ohio</td>
<td>2,338</td>
</tr>
<tr>
<td>Kansas</td>
<td>2,030</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1,922</td>
</tr>
<tr>
<td>Michigan</td>
<td>1,858</td>
</tr>
<tr>
<td>North Dakota</td>
<td>1,745</td>
</tr>
<tr>
<td>Indiana</td>
<td>1,666</td>
</tr>
<tr>
<td>New York</td>
<td>1,602</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, 2002 Census of Governments

*Includes county governments
The Commonwealth’s metropolitan areas remain some of the most fragmented in the nation. Pittsburgh ranks #1 among the nation’s 25 largest metros.

General governments per 100,000 residents, 2002

Source: U.S. Census Bureau, 2002 Census of Governments
Pennsylvania’s profusion of local governments hobbles the state’s competitiveness in several ways

- CMU’s Jerry Paytas concludes that fragmented regions saw their share of the total income generated in 285 metro areas slip between 1972 and 1997.

- Paul Lewis concludes fragmentation results in decreased shares of office space in central business districts, less “centrality,” longer commute times, more “edge cities,” and more sprawl.
Where do housing challenges and state housing policy fit in?
Where do housing challenges and state policy fit in?

Housing challenges reflect broader state trends

But housing trends also affect state challenges

So housing policy needs to change
### Affordability challenges reflect income patterns

<table>
<thead>
<tr>
<th>Income</th>
<th>Number of burdened homeowners</th>
<th>Percent of homeowners burdened</th>
<th>Number of burdened renters</th>
<th>Percent of renters burdened</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10K</td>
<td>112,469</td>
<td>74.2%</td>
<td>185,226</td>
<td>67.8%</td>
</tr>
<tr>
<td>10-19K</td>
<td>138,550</td>
<td>46.8%</td>
<td>155,392</td>
<td>53.9%</td>
</tr>
<tr>
<td>20-34K</td>
<td>156,489</td>
<td>30.8%</td>
<td>90,503</td>
<td>27.1%</td>
</tr>
<tr>
<td>35-49K</td>
<td>99,916</td>
<td>20.0%</td>
<td>13,269</td>
<td>6.4%</td>
</tr>
<tr>
<td>50-74K</td>
<td>67,495</td>
<td>10.1%</td>
<td>3,667</td>
<td>2.3%</td>
</tr>
<tr>
<td>75+K</td>
<td>25,798</td>
<td>6.5%</td>
<td>787</td>
<td>.9%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>600,717</td>
<td>20.8%</td>
<td>448,844</td>
<td>33.3%</td>
</tr>
</tbody>
</table>

Source: TRF calculations of U.S. Census data

PA burdened homeowners and renters, 2000
Pennsylvania’s high share of elderly residents has significant implications for housing markets

- More demand for retirement homes and assisted living facilities
- Projected turnover of homes, particularly in central cities and older suburbs
- More demand for housing with easy access to necessities of daily life
And fragmented governance distorts housing markets

- More separate governments mean more opportunities for social and racial exclusion
- More separate governments also mean added regulatory barriers to housing production
- More localized tax bases exacerbate excessive building on fringe and abandonment in core
IV Where do housing challenges and state policy fit in?

Housing challenges reflect broader state trends

But housing trends also affect state challenges

So housing policy needs to change
Overall, Pennsylvania built 2 new housing units for every 1 new household, the 3rd-highest ratio in the country.

<table>
<thead>
<tr>
<th>State</th>
<th>Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Virginia</td>
<td>2.73</td>
<td>1</td>
</tr>
<tr>
<td>North Dakota</td>
<td>2.32</td>
<td>2</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1.94</td>
<td>3</td>
</tr>
<tr>
<td>Alabama</td>
<td>1.92</td>
<td>4</td>
</tr>
<tr>
<td>Mississippi</td>
<td>1.90</td>
<td>5</td>
</tr>
<tr>
<td>Maine</td>
<td>1.79</td>
<td>6</td>
</tr>
<tr>
<td>Iowa</td>
<td>1.78</td>
<td>7</td>
</tr>
<tr>
<td>Missouri</td>
<td>1.78</td>
<td>8</td>
</tr>
<tr>
<td>Hawaii</td>
<td>1.78</td>
<td>9</td>
</tr>
<tr>
<td>Ohio</td>
<td>1.77</td>
<td>10</td>
</tr>
</tbody>
</table>

Ratio of new housing units to net household change, 2000

Source: U.S. Census Bureau
But the new units are not within reach of lower-income families

In Pennsylvania, 82.4% of building permits authorized were for single-family units, compared to 68.8% nation-wide.

Development has taken place in higher value areas and the new homes are significantly more expensive than existing ones.

Statewide, at prevailing minimum wage, a family must work 102 hours/week to afford rent for a modest 2 bedroom home.

Source: TRF: Choices in Pennsylvania
Location of affordable housing in distressed areas isolates low income and moderate families from opportunity

Affordable housing is disproportionately located in communities with the highest property tax burdens, but worst performing schools

Source: TRF, 2004

20.5% of total LIHTC units in Philadelphia are located in high-poverty neighborhoods – neighborhoods with poverty rates that exceed 40 percent

Source: Freeman, 2004

40% of all LIHTC units in PA (1995-2001) were located in central cities (50% in suburbs)

Source: Abt Assoc., 2003
The financing of affordable housing may impede the ability of low and moderate income households to build assets.

PA has the 6th highest percentage of loans in foreclosure (Q1, 2004).

Foreclosure filings increased 112% from 1997-2002 in South Central Pennsylvania.

Almost half of this increase came from subprime-lenders.

Subprime-lenders target low and moderate income households: low-income borrowers were 2.5 times as likely to get a subprime loan than upper income borrowers.

Where do housing challenges and state policy fit in?

Housing challenges reflect broader state trends

But housing trends also affect state challenges

So housing policy needs to change
Rethinking Affordable Housing Strategies:
An Action Agenda for Local and Regional Leaders

Bruce Katz and Margery Austin Treadwell

Housing policies and programs have undergone a dramatic transformation in the past several decades. The greatest change has been the federal devolution of affordable housing programs to state and local leaders, often in partnership with the private sector. This devolution, coupled with major market and demographic changes occurring in local communities, has created wide demand among state and local stakeholders for facts to help them understand "what works" in affordable housing. To that end, the Brookings Institution Center on Urban and Metropolitan Policy and the Urban Institute joined forces to examine the major lessons from 30 years of housing policies and how those lessons can inform local approaches. This action agenda, derived from the findings of that policy review, details seven principles for success to help state and local policymakers, advocates, practitioners, and foundations design more effective housing programs and strategies that truly meet the diverse needs of today's families and communities.

Since the mid-1980s, the nation's affordable housing policies and programs have undergone a profound transformation. After decades of initiatives that were designed by Washington and administered by the U.S. Department of Housing and Urban Development (HUD) and its predecessors, a palpable shift toward state and local control has dominated federal thinking. With the enactment of the Low-Income Housing Tax Credit in 1986 and the HOME Program in 1990, federal policymakers essentially devolved responsibility for the design and implementation of affordable housing policies to a myriad of state and local housing agencies.

As with other domestic policies, devolution remains a work in progress. Across the nation, state and local government leaders are struggling to implement federal policies—and to effectively use available resources—in communities with significantly different market conditions, residential patterns, regulatory regimes, and local goals. These leaders—and their partners in the corporate, civic, and real estate communities—routinely ask several questions: What lessons can guide state and local efforts to design and implement effective affordable housing strategies? What affordable housing strategies have proven to be successful? In short, what have we learned from almost seven decades of trial and error in affordable housing policy?
Seven principles for success

1. Make Policy Goals Explicit
2. Tailor Housing Strategies to Local Market Conditions
3. Housing Markets are Regional
4. Income Policy is Housing Policy
5. Regulatory Policy Makes a Difference
6. Race Matters
7. Implementation Matters
Principle Three: Housing markets are regional—Housing policies should be, too

Private Sector Jobs, 2000

Source: U.S. Census Bureau Zip Code Business Patterns

- = 50 jobs
Housing markets are regional—Housing policies should be, too

- Do not cluster affordable homes in low-income neighborhoods, especially in the core

- Enable low-income households to live closer to employment centers and better schools

Aim for this… ...instead of this
Percent of filers claiming the EITC varies widely across Pennsylvania.

Percent of filers claiming the EITC, Tax Year 2001:

- **No Data**: 15 - 20%
- **0 - 5%**: 20 - 30%
- **5 - 10%**: 30 - 40%
- **10 - 15%**: > 40%

**Principle Four: Income Policy is Housing Policy**
Income policy is housing policy

- Local leaders can impact household incomes and, by extension, housing affordability

- Raise the incomes of working families through earned income tax credit, nutrition assistance, health care, and child care

*Think of affordable housing as workforce housing*
Principle Seven: Implementation Matters

Housing policy needs to be implemented in an integrated, accountable and sustainable fashion.
Implementation matters

• Housing programs should connect directly with other neighborhood interventions (e.g., schools)

• Hold implementing agencies accountable through performance measures

• Economic integration is the principle vehicle for sustainability