

APPALACHIAN HOUSING INITIATIVE

A report to the Ohio Housing Finance Agency
and the Ohio Development Services Agency



OHIO
UNIVERSITY
Voinovich School of
Leadership and Public Affairs

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THE OHIO DEVELOPMENT SERVICES AGENCY

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EXECUTIVE SUMMARY

Ohio's Appalachian region comprises over a third of the state's counties and is home to almost 20 percent of the state's population. This region is marked by persistent poverty, high unemployment and an aging, often substandard housing stock.¹ There is a need for quality affordable housing, but those involved with affordable housing development have long reported that it is difficult to produce and maintain a sufficient supply of quality affordable housing in the region. The goal of the Appalachian Housing Initiative (AHI) was to uncover the reasons for the lack of quality affordable housing in the region, and to generate grounded strategies for overcoming the identified barriers. Through a multi-pronged research effort involving the Ohio CDC Association (OCDCA), Vogt Santer Insights, Bob Snow & Associates, Ohio University's Voinovich School of Leadership and Public Affairs and the input of non-profit developers, for-profit developers, housing intermediaries and funders, the AHI has produced a list of recommendations for increasing the availability of quality affordable housing in Appalachian Ohio.

In 2010, OCDCA received funding from the Ohio Housing Finance Agency (OHFA) and the Ohio Development Services Agency (ODSA) to conduct the AHI. Three separate research efforts contributed to the AHI:

- (1) Market Study: OCDCA contracted with Vogt Santer Insights (VSI) to produce a detailed housing needs assessment focused on the current and anticipated affordable housing need in each of the 32 Appalachian counties of Ohio. The overall conclusion of the affordable housing market study indicates a greater need for modern, affordable rental housing within Appalachian Ohio compared to other areas of the state. The report along with the county-by-county analysis can be found at:

<http://www.ohiohome.org/research/AppalachianCounties.pdf>

¹ According to Vogt Santer Insights: 27 of the 32 Appalachian counties have a higher percentage of the population living in poverty than the state average; 26 of the 32 counties have unemployment rates that exceed the state average; and 27 of the 32 counties have a higher percentage of substandard housing than the state average. Vogt Santer Insights, "Affordable Housing Market Study of 32 Appalachian Ohio Counties," May 2012. <http://www.ohiohome.org/research/development.aspx> (accessed January 30, 2012), I-1, II-2, III-5

VSI also created an interactive database from the information collected in the analysis in order to assist with housing development. The database includes details about the existing rental housing properties in each of the 32 Appalachian Ohio counties. The database can be found at: http://www.vsinsights.com/OH_App_2012/index.php

(2) Project Funding Analysis: The majority of developers interviewed as part of a prior research effort, the *Appalachian Set Aside Review*, identified development costs as one of the primary barriers to the development of affordable housing in the Appalachian Ohio region. To address this issue, OCDCA contracted with Bob Snow & Associates to complete an analysis to define the current situation, outline funding options and explore differences between Appalachian, rural non-Appalachian and urban funding options (including rent structure, income restrictions, debt coverage, operating expenses, project sources, development costs/uses, gap debt sources and the availability of tax credit allocations). One of the conclusions made in the analysis is that Ohio's Appalachian region faces a rent disadvantage when compared to the rest of the state. The report can be found at: <http://www.ohiocdc.org/AHIFundingAnalysis.pdf>

(3) Identification of Barriers and Strategies: OCDCA contracted with Ohio University's Voinovich School of Leadership and Public Affairs to carry out several types of research (including surveys, interviews, focus groups, and case studies) in order to produce recommendations for increasing the availability of quality affordable housing in Appalachian Ohio.

This report presents findings from the Voinovich School's portion of the research for the AHI.

Map 1. Appalachian Ohio Counties



Research Conducted

The Voinovich School conducted three web surveys, five focus groups, and twelve interviews to gather information about the barriers to affordable housing development and to generate strategies for overcoming those barriers. All 32 Appalachian Ohio counties were represented in at least one component of the research. In order to provide more information about possible strategies, the Voinovich School also conducted a literature review, identified promising practices and developed case studies of five organizations that have found creative ways to develop quality affordable housing.

After this research, the Voinovich School joined with OCDCA, Vogt Santer Insights and Bob Snow & Associates to present the research findings to a group of housing stakeholders at the 2012 Ohio Housing Conference. Participants in the pre-conference session engaged in roundtable discussions facilitated by the Voinovich School and OCDCA to develop the strategies that emerged from the research. Based on the number of participants recommending a strategy, the intensity of participants' preference for the strategy and the feedback provided at the 2012 Ohio Housing Conference, the Voinovich School and OCDCA compiled a list of recommendations for increasing the availability of quality affordable housing development in Appalachian Ohio.

Barriers and Strategies

The developers, funders, intermediaries and other housing experts who participated in the research identified a long list of barriers to the development of affordable housing in the region. The significant resource contraction that the affordable housing industry has experienced of late was frequently noted, as were some more uniquely Appalachian obstacles. Among the barriers identified were:

- Lack of funding
- An inadequate extension of utilities (water and sewer in particular)
- A strong need for rental assistance on most properties
- Low area median incomes
- Low population density
- The lack of relevance of Community Reinvestment Act credits
- The low political profile of the region

- The topography of the region
- Inconsistent capacity among non-profit developers and local governments
- An aging, substandard housing stock

In addition to these barriers, many research participants also offered a more fundamental critique of the current funding system. They argued that, as currently designed, the funding system is unable to meet the housing requirements of the most high-need areas of the region because structural factors (many of them just mentioned) make it especially challenging to assemble a profitable development deal in those areas.

To address these barriers, participants proposed a variety of strategies, including:

- Engaging in capacity building for non-profit developers and local governments
- Establishing an Appalachian Set-Aside in the Qualified Allocation Process
- Creating a consortium of Appalachian Ohio affordable housing stakeholders to facilitate resource sharing and to engage in political advocacy for the region
- Developing a model for the packaging of developments across multiple sites
- Formalizing a pre-application guidance process for Low-Income Housing Tax Credit (LIHTC) applications
- Acquiring a portion of the severance tax on oil and natural gas development in Ohio in order to support quality affordable housing development in Appalachian Ohio (potentially by supporting utility expansion)
- Prioritizing rehabilitation over new construction
- Developing a waiver process for standards that limit the feasibility of building on available Appalachian sites
- Hiring state-sponsored experts to fill in capacity gaps among non-profit developers and local governments

Recommendations

The following are recommendations for increasing the amount of affordable housing in Appalachian Ohio. The recommendations are explained in greater detail in the “Recommendations” section later in this report.

1. Formalize an optional pre-application guidance process for Low-Income Housing Tax Credit applicants.

This recommendation addresses three main issues identified by housing developers, funders and intermediaries: (1) predevelopment costs can be very burdensome and as such pose risks to developers; (2) many non-profit developers in the region might benefit from capacity building; and (3) the current methods being used to produce quality affordable housing in Appalachian Ohio are not fully meeting the area’s need, so more creative solutions are necessary. Because less traditional development models are risky, especially given predevelopment costs, many participants said they would appreciate receiving informal feedback on project concepts so as not to commit too many resources to a project that has little likelihood of being funded.

2. Identify a model for packaging developments across multiple sites and establish funding procedures for this type of development.

Participants agreed that, as of yet, there is no clearly successful model for packaging developments that span more than one county or community. However, packaging developments was seen as one of the most promising ways to address the problems of low population density and scarce resources. By combining scattered-site housing across multiple sites, developers can possibly save money on application fees and can generate economies of scale that are otherwise hard to come by in sparsely populated Appalachian Ohio.

3. Acquire a portion of revenue from the severance tax on oil and natural gas production in Ohio. Invest the funds in activities that support quality affordable housing development in the region.

Research participants frequently identified the lack of water and sewer lines in many areas of Appalachian Ohio as a significant barrier to development. Participants had difficulty identifying funding sources for utility expansion, in part because the sparse population makes it difficult to win formula-based funds and also because much of the population cannot support municipal bonds or fees to fund utility expansion. In order to remedy a serious structural impediment to the development of affordable housing, many participants suggested obtaining a portion of the severance tax to fund utility expansion in affected communities. Other participants suggested that severance tax revenue could be used in other ways to support quality affordable housing development in communities impacted by shale development.

4. Funders with discretion over their funds could consider capacity building for non-profit developers in Appalachian Ohio, especially in the areas of business practices, negotiating equitable agreements with for-profit developers and grant writing.

Research participants repeatedly identified inconsistent capacity on the part of non-profit developers as a barrier to the development of quality affordable housing. Various options for capacity building were suggested, including: establishing mentoring partnerships between more experienced non-profits and newer or struggling non-profits; establishing the state-supported hiring of regional experts who would be available to non-profit developers throughout the region and who could fill in capacity where needed (e.g. negotiating development deals with for-profit developers or conducting environmental reviews); and providing scholarships for organizations that want to pursue training in identified areas. Participants who argued in favor of capacity building offered important caveats, stressing that capacity building efforts should be long-term, and that organizations should develop strategies for staff-retention that would allow them to maintain the newly acquired or augmented capacity.

5. Funders with discretion over their funds could consider capacity building for local governments, especially in the areas of financing utility expansion and development planning.

Many research participants, especially funders, noted that local government would benefit from capacity building as well. Funders and a few developers noted frequent difficulty working with local governments on development projects, and indicated that a capable local government was very necessary for attracting developers to the area. The need for increased capacity was especially noted in the areas of development planning, infrastructure expansion and collaboration with other local governments.

6. Establish a procedure for creating a consortium of affordable housing stakeholders in Appalachian Ohio.

Research participants were very supportive of the idea of a consortium of Appalachian Ohio affordable housing stakeholders. A wide variety of functions could be carried out by such a consortium, including:

- Engaging in advocacy/resource protection
- Providing or coordinating capacity building for non-profit developers and local governments
- Administering lines of credit
- Facilitating resource sharing among non-profit developers
- Facilitating increased collaboration across disciplines (e.g. housing, mental health, job training, banking, economic development) to reach new funding sources and provide more services.

In order to establish a consortium there needs to be a deliberate and careful planning process wherein potential members are convened to establish the desired goals, decide on membership criteria and select the leadership of the consortium.



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