STATE OF MAINE

LEGISLATIVE RESEARCH COMMITTEE

SUMMARY REPORT

TO THE

ONE HUNDRED AND SIXTH LEGISLATURE

VOLUME TWO

JANUARY, 1973

STATE OF MAINE

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C O N T E N T S

PROPOSED BILLS TO BE SUBMITTED TO THE 106th LEGISLATURE

STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE
STATE HOUSE
AUGUSTA, MAINE 04330

January 3, 1973

To the Members of the 106th Legislature:

The Legislative Research Committee hereby has the pleasure of submitting to you Volume II of its report on activities for the past two years.

This volume, designated as the second summary volume, is a continuation of both, assigned and unassigned matters undertaken by the Committee and contains findings and recommendations pursuant thereto.

Again, we of the Committee, gratefully acknowledge our indebtedness to the many individuals, organizations and agencies for their valuable contributions to the work of the Committee and it is our hope that the information contained in this report will be of assistance to the members of the 106th Legislature and the people of the State of Maine.

Respectfully submitted,

JOSEPH SEWALL, Chairman
Legislative Research Committee

STATE OF MAINE

LEGISLATIVE RESEARCH COMMITTEE

REPORT ON GOVERNMENTAL OPERATIONS to the ONE HUNDRED AND SIXTH LEGISLATURE

JANUARY, 1973

Legislative Research Committee

Publication 106-24

SUBCOMMITTEE ON GOVERNMENTAL OPERATIONS

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GOVERNMENTAL OPERATIONS

Following, for general information and reference of the Legislature, is a brief synopsis of activities assigned to the Governmental Operations Subcommittee of the Legislative Research Committee. Although considerable time and effort has been devoted in most every instance, for the purposes of this summary it will perhaps suffice to set forth the general areas of controversy and the results which have either been or expected to be achieved. In each instance the Committee has developed a rather extensive amount of testimony and information which can be made available through the Committee should the occasion be warranted.

MAINE INDUSTRIAL BUILDING AUTHORITY

The Committee has examined in great detail the current operation of the Maine Industrial Building Authority with particular reference to the sugar beet industry. After hearing the matter in full through the means of public hearings, executive deliberations and plant inspections, the Committee finds it in the best interests of the State to prevent further abuse, to establish a limit on the amount of money available for industrial projects on a loan basis with the idea that the lending institution guarantee a percentage of the loan and at interest rates no more than one percent above the rate the State is normally charged to borrow money. Thus, the Committee recommends a maximum limit of 2 million dollars be established by statute for any given industrial building project.

MAINE RECREATION AUTHORITY

The Committee learned from its study of this administrative function that 6 out of 24 of the Authority's projects are in default of payments or in the arrears. Considering a 25% rate of failure, the Committee is of the opinion this is not the type of activity the State should be involved with by issuing guarantees. Therefore, the Committee recommends this function be abolished as expeditiously as possible and all collections be turned over to a State agency such as the State Treasurer or some other appropriate agency which does collecting for the State.

MAINE HOUSING AUTHORITY

With the kind assistance of Mr. Thomas J. Hall and staff of Eagleton Institute of Politics at Rutgers University, a preliminary evaluation of housing in Maine with special attention to the activities of the Maine Housing Authority was made at the Committee's direction. Because of its impact, the full text of this report which enumerates problems facing the Maine Housing Authority is attached and incorporated as part of this summary.

MAINE MUNICIPAL BOND BANK

The Maine Municipal Bond Bank Act was passed to be enacted under chapter 558 of the Public Laws of 1971 at the special session of the 105th Legislature and became effective June 9, 1972. In the Bank's initial proceedings, controversy arose over the manner of selecting Bond Council which the Board of Commissioners are entitled to do under the law. After several hearings on the matter, the Committee reached the conclusion that selection of Bond Council and issuance of all bonds involving the State should be transacted or negotiated in full public view in order to eliminate possible doubt and suspicion. From the testimony received by the Committee in respect to the Bank's activities in seeking a bonding house, the Committee found disturbing inferences of influence peddling which have yet to be satisfactorily explained. Also, in some areas the testimony appeared to conflict with earlier assertions, leaving nothing but speculation as to what the absolute truth may be.

In analyzing this situation and others involving bonding, the Committee sees a pattern developing wherein the bond council and houses who assist in drafting and securing passage of bond legislation, usually obtain the business. The Committee disfavors this procedure and recommends in its place that immediate steps be taken to isolate this phase of the bonding process so that the issuance of bonds may be accomplished independently and without obligation to the designers or draftsmen.

The Committee also recommends increasing the number of commissioners on the Municipal Bond Bank under R.S. T. 30, §5164 from 5 to 7 and, as early as possible and by letter of November 16, 1972, urged, the Bank membership to make a greater effort to acquire some expertise in the bonding process.

ADVISORY COMMITTEE ON E. T. V.

Mainly for reasons of inactivity and overall inadequacy as a result of new federal requirements, the Committee recommends that the Advisory Committee on Educational Television to the University of Maine trustees, now called the Committee on Maine Public Broadcasting, be abolished. Legislation was prepared for this purpose at the recent special session but not being an emergency measure, was deferred for consideration at the 106th regular legislative session. The Committee again urges this legislation.

COLT STAKE PROGRAM

The Committee has reviewed an earlier proposal considered and defeated at the regular session of the 105th Legislature, "An Act to Establish a Colt Stake Program for Maine Standard Bred Horses" H.P. 476, L. D. 837. The Committee found that the lack of a colt stake program in Maine has caused a steady decline of the breeding industry and birth of colts in our State. At the present time, Maine owners are shipping brood mares out of state for breeding in order that colts be eligible for colt stake races in other states. In order to reverse this trend it is essential that a colt stake stipend of $35,000 be established. In view of this the Committee suggested reintroduction of this measure which would establish, under supervision of the Harness Racing Commission, a program of 2 and 3-year old colt races to stimulate efforts to maintain a breeding program in Maine at the special session. Upon failure to be considered at the special legislative session, the Committee makes no further recommendation concerning this matter.

90-DAY WAGE-PRICE FREEZE

During the Wage-Price Freeze late in 1971, the Committee played an instrumental role with the Governor of Maine in hearing this matter publicly and obtaining retroactive pay for state government employees in accordance to a State Employees Pay Plan enacted under chapter 117 of the Private and Special Laws of 1971.

NURSING HOMES

The Committee looked into the Nursing Home situation in Maine in response to a published report that the Health Education and Welfare Department had found "substantial deficiencies" in Maine Nursing Homes. The Secretary of HE&W announced in a speech that Maine had been put on notice that they must correct "substantial deficiencies in their nursing home certification process" under Medicaid, and that his Department would begin procedures which could withhold Medicaid funds from those who fail to make corrections.

Upon examination of this problem, the Committee found that Nursing Homes are big business in Maine, employing six to eight thousand people; that the complaint here was not a case of standards but a matter of paper work which had already been taken care of so that there would be no loss of federal funds.

STATE-OWNED MOTOR VEHICLES

In response to the Committee's charge to make a biennial study and review of state-owned motor vehicle needs and uses, the Committee has completed its survey. From questionnaires circulated among the departments the Committee was furnished with first-hand information concerning all aspects of the State fleet. As a result of this process and tabulation of findings, the Committee sees no necessity for any changes in the program at the present time.

MAINE LAW ENFORCEMENT AND CRIMINAL JUSTICE ACADEMY

As a result of the 1968 Omnibus Crime Control and Safe Streets Act, financial assistance was made available to the State for the prevention and reduction of crime. With such funds the office of the Attorney General proposed to purchase Thomas College at Waterville as facilities for a Maine Law Enforcement and Criminal Justice Academy. After consultation with the Attorney General's

Office in the feasibility of such an undertaking, the Committee found it could not endorse the proposal based on other existing means of training and the following financial information:

Federal Funds	$ 851,871
State Funds	130,900
In-Kind Services (Trainee Salaries)	326,329
Total Project Cost (2 years)	$1,309,100
Estimated Annual Operating Costs	247,500

Along with its rejection, the Committee referred the entire matter to the Subcommittee on Governmental Operations for further determination. It was the Subcommittee's finding after hearing more on the proposal, that everything was in proper order under the law and financially acceptable for the time being. However, the Subcommittee noted serious objection to the proposal in the area of future funding which will become a reality two years hence.

HOUSING FOR DEPARTMENT OF TRANSPORTATION

The Committee heard requests from Commissioners Williams and Stevens for a new State office building to house the Department of Transportation, but makes no recommendation in this regard at the present time.

DEPARTMENTAL PUBLICATIONS

Upon receiving several complaints, the Committee was directed to look into the problem of departmental news letters which are published by departments at State expense and carry personal information concerning departmental employees

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After hearing Commissioner Stevens who explained the value of such publications as "Transportation News" as a morale booster, the Committee approved continuance of such publications within reason.

The Subcommittee acknowledges the fact that a report is not required in the absence of a legislative order but feels some benefit may be realized through this summary or account of Committee activities.

The members of this Subcommittee further felt privileged to have had the opportunity to serve on the Governmental Operations Committee and hope this work will continue. The greater latitude experienced when working beyond the narrow confines of a legislative order often operates to the Subcommittee's advantage and is of unquestionable value in resolving interim problems. Hopefully, the full Legislative Research Committee will see fit to continue this important function and the work performed will continue to prove beneficial to the Legislature and to the citizens of Maine.

RUTGERS UNIVERSITY *The State University of New Jersey*

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May 17, 1972

TO: Senator Harvey Johnson, Chairman
Subcommittee on Governmental Operations
Legislative Research Committee

FROM: Thomas J. Hall
Center for Legislative Research and Service
Eagleton Institute of Politics

RE: Housing in Maine, with special reference to the Maine Housing Authority

At your request, Eagleton staff has conducted a preliminary evaluation of housing problems in Maine, with special attention to the activities of the Maine Housing Authority (MHA). As part of this evaluation process, extensive interviews were conducted with persons, both within and outside of state government, and additional documentation in the area of housing was obtained and reviewed.

This report is in four parts. The first is a general discussion of the role of governmental agencies in housing, and outlines several options open to state governments in this field. The second part concerns the actual performance of MHA to date. The third consists of an indication of problems which face the MHA, and the fourth suggests alternatives available to the legislature.

Attached to this report is a copy of an article which appeared in the January, 1972 issue of the Journal of Housing. This article summarizes the experience of 15 housing finance agencies and should be considered part of the overall report.

The Eagleton staff would like to express its appreciation to members of the Maine State Legislature, state government personnel, and other persons outside of state government who generously assisted in this evaluation with time, advice, suggestions and materials. Eagleton, of course, is solely responsible for this report.

Finally, this should be considered only a preliminary report. While it is possible for an outside observer, on the strength of several visits, to suggest several areas which may present problems, or where some improvement might be warranted, it is impossible for such an outsider to perform the necessary function of continuous performance auditing. This is, on final balance, the job of the legislature, and we suggest particular attention be paid to the recommendations for future legislative activities. However, even as a preliminary evaluation, this report might serve to stimulate legislative thinking in a critical area, and is offered with that hope.

I. GOVERNMENT AND THE HOUSING CRISIS*

Until quite recently, housing in the United States was considered a private matter. Except for local codes, designed to meet geographically limited health, sanitation, fire, nuisance and similar problems, there was no substantial governmental role in housing until the late 1940's.[1]

With the passage of the Housing Act of 1949, the goal of a "decent home and a suitable living environment for every American family" became national policy, and the beginnings of the federal role in housing, which is currently funded at over $2.1 billion per year and comprises literally hundreds of different programs, came about.[2]

State governmental activities in the field of housing had their beginnings about 1960; and increased measurably by 1966.[3]

State agencies which have been established to date can be classified into the following types:

1. "Departments of Community Affairs" (hereinafter, DCA) - which have as their main role the coordinating, directing and assisting of efforts to alleviate problems of urban expansion and loss of rural population. Generally speaking, DCA's operate to gain a maximum amount of federal funds available for a state, and act as a channel and conduit for federal funds to local government, act as a central source of information about available federal programs, activities in other states, new technological developments, and other kinds of information which could materially assist the state and its localities to cope with problems of housing and community development. State DCA's also provide technical assistance to local governments in order for them to qualify for federal programs, generally assist local governments to package applications, e.g., to combine a number of different gradual loan processes together, such as a water and sewer grant, a housing subsidy grant, and a grant for improved transportatio facilities, so that the problems of a single community can be tackled all at once. DCA's also act as a source of guidance to local governments and the administration of federal and local funds. State DCA's have played significantly differe roles in different states, but the core of DCA operations is information, educatio coordination, and general assistance to local governments.

*Footnotes appear at the end of this report. They are used to:
(a) summarize and condense material which would be useful to the reader, but which, in the body of the text, would unnecesarily hinder the flow of ideas;
(b) permit the brief expression of ideas which may be debatable;
(c) direct the reader's attention to sources which perhaps would be useful and interesting for further reading;
(d) give appropriate credit for information used.

2. "Housing Finance Agencies" (hereinafter, HFA) - which have as their major role the provision of funds for low- and moderate-income housing developments within the state. Generally speaking, the state-chartered HFA is able to market revenue bonds at a favorable interest rate, for example, 5-1/2% interest as opposed to a going bond rate of 7-1/2% or 8% for other types of bonds, thereby providing money for builders of low- and moderate-income housing at a lesser rate of interest than they might be able to obtain on the private market.

In addition, many state HFA's grant or loan funds for pre-mortgage purposes, such as land aquisition, architectural work, and overhead for non-profit and limited-dividend sponsors. HFA's also frequently provide counseling services, both for sponsors and potential clients, and also participate in special federal programs, such as "Operation Breakthrough," for industrialized housing.

3. "Mortgage Insurance Agencies" - which are designed to provide state backing for mortgages which private lending institutions are unwilling to accept because of a potential high-risk factor. For example, the traditional FHA mortgage insurance is not available to many potential home purchasers in some neighborhoods which may need a large supply of decent housing but which are, inthe minds of real estate people (and therefore to the FHA) marginal or declining. Since insured mortgages are not available the housing stock continues to deteriorate, and the end result is an expansion of the slum area. With state insurance, however, low-income people desiring to purchase homes are able to do so. Similar plans are offered for insurance, rehabilitation funds, and home-improvement loans for declining areas in several states.

4. State Housing Authorities - which can act like local housing authorities, and receive federal funding for the construction, operation and management of housing units throughout a state, in the same manner in which a local housing authority can do in a restricted area. There are considerable advantages to this, particularly in siting housing in rural areas, where the pool of talent necessary for the complex job of putting the paperwork together, building and managing public housing is frequently absent.

5. Comprehensive development corporations - which are designed to build or re-build whole neighborhoods. Based on the proposition that housing alone is insufficient to stem neighborhood blight or to provide a stable economic base, the housing development corporation, or the New York State version of it, will build offices, factories, transportation systems and housing, using a blend of state power and money and funds from the private sector and from the federal government.

In addition to these specialized housing agencies, state governments have become increasingly aware of and active in a series of other housing related activities. Some of this recognition has not been translated into action: for example, there is an awareness of the substantial harm to proper development and land use caused by property taxes, but there has not been much effective action in this area yet. Though the impact of the Serrano case in California is still unclear, it would appear that property tax reform will come, sooner or later, and with it some effect on housing.

Other areas in which state government administrators or legislators have expressed concern which has been translated into action, or will be soon, include:

the impact of local zoning regulations on the availability of housing;

the impact of discriminatory housing patterns, and the need for "fair housing" laws;

new housing technologies, such as factory-built (modular) housing and mobile home regulations;

a concern with overall development - balancing urban and rural growth, and providing mechanisms to encourage rural vitality and decrease urban migration.

In short, there has been an increase of activities, and an increase in expenditures for housing and housing-related activities at the state level. At the same time, there has been a considerable expansion of the federal government spending for housing--as indicated earlier, about $2 billion per year will be spent by the federal government for housing and for this and the next fiscal year, as contrasted with an annual expenditure of less than $650 million a decade earlier.[4]

However, at the same time, the cost of housing has escalated even more rapidly. The New England Regional Commission (NERC) found that in New England housing costs had increased 100% between 1960 and 1970[5], and it has been estimated that housing costs have been increasing at a rate of 8-12% @ year since 1

At the same time, incomes have increased - but not nearly in the same magnitude of the housing cost increases. For example, Maine's 1960 per capita income was $1,842; and had increased 77% to $3,257 by 1970.[7]

The net result has been - despite the enormous expansion of federal and state activities - an increase in the number of people who cannot purchase housing at current market prices.

Rather then speaking in percentages, what are the dollar costs of housing and how have they increased in recent years? As testimony before Congress last year indicated, "from 1950 to 1969, the average price for a (building) site rose from $1,035 to $4,277...the average value of new homes financed with FHA insured mortgages rose...from $8,594 to $21,036."[8]

FHA housing tends to be more moderate in cost than housing financed otherwise. For all new single-family housing built in 1963, the average price pai was $19,300. For all new single-family housing built in 1969, the average price paid was $27,900.[9]

Prices in the Northeast were considerably above those of the national average--the average price paid for a new single family home in the Northeast in 1969 was $33,400.[10]

If we assume that the traditional rule of thumb of mortgage lenders is still valid--that no one should spend more than 2-1/2 time his income for housing, and if we assume that the average price paid for a new single family house in the Northeast in 1972 is $30,000, then new home purchases would have to have family incomes of $12,000 per year in order to acquire housing. Less than 25% of all Americans would qualify.

Of course, not everyone needs new housing, and many people prefer to rent, But "used housing" has been rising in cost along with new housing, and rents are going up as well.

The inescapable conclusion is that standard, conventional housing is becoming increasingly expensive, and that, given the rate of new family formation for the 1970's, will continue to escalate in cost.

Where do people live? In Maine, they tend to live in sub-standard housing. The NERC report quoted above found that Maine had a deficit of over 65,000 (either dilapidated or deteriorating) housing units, the highest absolute need in all of New England.[11]

They also live in mobile homes: Maine had a total of mobile home units of 14,650 at the end of 1969, and had the highest rate of new mobile home shipments in all of New England. It is estimated that by the end of 1972, there will be over 25,000 mobile home units in Maine.[12]

In summary it can be said that the nation as a whole is experiencing a free market housing shortage which is more severe today than it has been in previous years. The current housing shortage is due to the rapid escalation of housing costs, but a huge increase in federal subsidies and an equally huge increase in mobile homes are two partial answers to the problem.[13]

II. THE PERFORMANCE OF THE MAINE HOUSING AUTHORITY

The 104th Legislature, after reviewing extensive studies about housing problems in Maine,[14] passed legislation creating the State Housing Authority effective October 1, 1969. This legislation set up what is potentially one of the most effective housing agencies in the U.S.[15]. The only more powerful agency which comes to mind is the New York State Urban Development Corporation. In essence, the legislature invested one state agency with the powers of a Department of Community Affairs, the powers of a Housing Finance Agency, and the powers of a local housing authority.

For the first year of the agency's existence, three major problems[16] confronted the agency. The first was the need to establish legal identity. This was done through a court suit before the Maine Supreme Court which, on June 23, 1971 held that the statute was constitutional and that the State of Maine Housing

Authority could, indeed, operate as the Maine Legislature intended it to do. The second major problem was obtaining recognition from the U.S. Department of HUD as an agency to receive and administer HUD funds. This, after some complications was consummated on April 24, 1971. The third project which occupied a substantial portion of MHA activities was the home demonstration project in Augusta which was designed to demonstrate the viability of factory-built housing.

Since June, 1971, a considerable amount of necessary legal work has been undertaken which has permitted the agency to market the $20,000,000 worth of revenue bonds authorized by the state legislature. This was done by March 8, 1972. Thus, for all practical purposes, start-up time consumed the major portion of the agency's interest for two years. A two-year time span between agency creation and the letting of the first agency bids for construction is not at all unusual, as the attached article points out:

> "States contemplating the establishment of a housing agency should be aware that an HFA is not a quick or easy solution to their housing problems. Established agencies have found that it takes two to three years to be able to finance 3-5,000 units per year. In addition, state legislatures have had to appropriate or lend from $175,000-$1,000,000 to cover the initial expenses of their agencies. These characteristics reflect the difficulty of assembling a talented and effective staff at a time required by the courts to determine the constitutionality of the basic legislation."[17]

MHA has, to date, accomplished the following major projects:

1. It has established its identity. As indicated above, it has completed all the work necessary to prove the validity of its legislation, it has obtained recognition from the Department of Housing and Urban Development, it has completed all the necessary work to establish itself in the financial community as a viable state agency.

2. It has now marketed $20,000,000 in bonds at a relatively favorable interest rate of 5.5% and thus will be able to enter directly into the housing market beginning April, 1972.

3. It has concluded a demonstration project using industrialized housing techniques to build 16 houses, which were designed to demonstrate the value of industrialized housing.

4. It has informed me that it has firm committments from the Federal Department of Housing and Urban Development for 110 units of Section 23 low-income housing, 138 units of Section 236 rental housing, and 500 units of Section 235 home-ownership housing. In addition, MHA has applied to HUD for an additional 1,450 units under various federal programs, of which 800 would be for low-income families.

5. It has published an industrialized building code which establishes a standard procedure for the inspection and certification of industrialized housing manufactured in the state, which will free industrialized housing from conventional housing regulations and thus, may have the effect of easing production of industrialized housing.

III. PROBLEMS FACING THE MAINE HOUSING AUTHORITY

Eagleton staff was asked to review the operations of the Maine Housing Authority because several people expressed deep reservations about the way MHA was performing, or failing to perform, its job. Specifically, it was charged:

1. MHA has failed to build any low-cost housing at all.

2. MHA has squandered its resources on the elusive dream of modular housing which, even if it can be made practical, can only meet the needs of moderate income people and never touch the needs of low-income people.

3. MHA has no clear sense of overall goals, and has not linked its planning, if any, with the needs of the entire state.

4. MHA management has been timid and unaggressive and has not availed itself of opportunities to participate in innovative housing delivery systems.

5. MHA, by its inaction and failure to produce what it has promised to do, has forced other agencies of government to provide at least partial responses to the housing need, even though this leads to fragmentation of government.

6. MHA is run by an empire builder, who fails to cooperate with other governmental agencies and who has interfered with local building projects.

7. The executive director of MHA is inept and incompetent, and refuses to delegate any authority whatsoever. Staff morale is very low, turnover is very high, and nothing of substance is accomplished. MHA is run as a closed shop, and there is very little in the way of public information and participation.

The first charge is clearly true. There has been almost no low-cost standard housing built anywhere in the United States. Given the rate of inflation of land, building materials and labor, it seems clearly impossible to build decent conventional standard housing inexpensively.

The term which is generally used today is "housing for people with low incomes" or more concisely, "low-income housing". This is not low-cost housing, but it is subsidized by the federal government so that persons of low income can afford to pay rent (or in some cases, buy) for the unit. State and local governments wishing to build low-income housing are totally dependent on federal government assistance, and for some reason, little federal assistance was forthcoming for the Maine Housing Authority until this year. The current Executive Director of the MHA has offered plausible reasons for the failure to get funding from HUD prior to 1971, and has indicated that the first 100 units of low-income public housing built by the MHA will be constructed this year.

Thus, while the fact clearly support the charge, it is difficult to assess the blame. The MHA suggests that the fault should be laid at HUD's door; while others outside of MHA suggest that the agency itself must share part of the responsibility.

As to the second issue--squandering resources on modular housing--it seems that the charge is overstated. Modular housing, two years ago, was widely seen as a key to breaking the pattern of rising housing costs. It seems, today, that modular housing is not the answer which many people felt it would be,[18] and that MHA's investment of time and money in the modular housing field was--with the benefit of hindsight--an error, but an error shared by many people, including some of HUD's best minds.

MHA counters that the costs of the project was not borne by the state: it received a special NERC grant for a demonstration of the utility of modular housing. MHA also indicates that contrary to the national trends, modular housing will be successful in Maine because of the location of the factories, the prevalence of inclement weather which hampers conventional builders but has little effect on factory-built housing. Modular housing, given the same sort of subsidy that conventional housing gets, can be produced faster and at a lower total cost than conventional housing.

In regard to planning, it does not seem that MHA has made either long range coordinated planning or shorter range program planning a high priority item. Planning takes on critical importance when one is working with very scarce resources, and, given the interface of a series of critical problems--underemployment and unemployment in many sections of Maine's environment, the problem of continuing urbanization--can be a very useful way to tie a number of programs together and to maximize scarce resources.

In defense, MHA says that success in building housing depends on two factors--money from HUD and community acceptance of low-moderate income housing--which may or may not be realities. This degrades the value of long range planning, and does not make substantial investment in the planning process worthwhile.

Charges four through six, which deal with three closely related issues of lack of aggressiveness, empire-building, and fragmentation of services, are also partially true. A problem, which can be of major proporations, is the possible fragmentation of services--so that one agency is stimulating poor people to demand housing, while another agency is unable to deliver anything approaching the quantity of housing necessary to meet the demand.

This set of problems is a result of two causes: one flowing from the mandate given MHA by the Legislature, and the other derived from MHA's interpretation of its role.

As to the first, the Legislature set MHA up with a short-term appropriation of under $75,000 for the biennium and the ability to market $20 million in revenue bonds. This meant that every project sponsored by MHA must be profitable--or at least, cannot run at a loss. MHA is able to market its bonds at less than the going market interest rate for profit-making corporations (but a state general obligation bond, for example) has to pay a higher interest rate and can loan out money at a lower rate than a bank--but not much lower. To take a real example: MHA marketed $20 million worth of bonds at 5.5% interest. It charges 1/2% interest to builders in order to sustain itself, so the lowest possible loan it can make will be for 6% interest. FHA mortgages are going for a total of 7-1/2% today, and it is possible to find a conventional loan source making 7% loans.

So MHA has about 1% on $20,000,000--or about $200,000--in margin, hardly enough to embark on an ambitious low-income housing program. And in order to induce bondbuyers to purchase bonds at a favorable market rate, MHA must convince potential purchasers of its essentially conservative, low-risk operation. This does not lead to innovative, aggressive marketing of mortgages. It does lead to the agency's unwillingness to build housing without federal assistance.

The second cause is clearly conditioned by the first. MHA has accepted its role as a provider of capital at slightly below market rates, and has conditioned its operations vis-a-vis other state agencies accordingly. The view of the Executive Director of the MHA could be expressed, in summary form, as follows:

> The process of producing housing is a complex, time-consuming and expensive one, a fact which spokesmen for low-income groups either have not learned or ignore. Committments from HUD are uncertain; and without federal money, it is impossible to build housing for low-income people. The best policy is to have a single agency such as MHA, run the entire process as far as possible, so that fragmentation and unmeetable demand are avoided. Fragmentation which has resulted

so far is a result of federal funding requirements, and are regrettable but apparently unavoidable. MHA will participate in any housing delivery system which can match performance with promise, but will not get involved in something which holds out housing which it cannot possibly deliver in a reasonable time.

The seventh charge also, has a certain amount of truth to it. MHA had, until very recently, almost nothing in the way of a public education program; and there was no real effort to gain citizen participation and involvement. Staff turnover has been high. The current Executive Director has the reputation of being a very hard man to work with and to work for; who refuses to delegate anything of substance. From what Eagleton staff was able to learn, the charge of poor personnel management is quite possibly true. But insofar as subject matter competence is concerned, it is apparent that the current Executive Director has become well versed on housing problems and available resources for solving them.

The Executive Director of MHA says that insofar as citizen participation was concerned, he felt that stirring up people before he could deliver any housing was unwise. Now that he has HUD committments, he will be involving people at the local and regional level in the delivery of that housing. He has begun a public information effort, which will be continued. Insofar as staff turnover is concerned, he says that that was mainly due to lack of funds, which prevented any kind of job security.

After reviewing all obtainable evidence, Eagleton staff has not been able to discover incompetence, non-feasance or malfeasance on the part of MHA or its personnel.

MHA has seen its mandate as providing funding with the limits of a fiscally proper, self-supporting housing finance agency system. Thus, it has run a tight, fiscally conservative operation, paying much more attention to the advice of bond counsel and financial experts than to the demands for housing voiced by low-income groups.

It is possible to disagree with this system: but if the Legislature does not want to spend state money for housing for low-income groups, then it would appear that MHA has done the right things.

Thus, from what Eagleton staff has been able to learn about MHA operations, it would appear that, while there is truth to the charges listed above most of the problems facing the agency are caused by two factors: first, the unavoidable necessity to obtain federal funds for low-income housing and the delay on HUD's part in granting those funds; and secondly, a policy decision, required by the nature of the legislation, to run the operation in a fiscally conservative fashion.

There has been no discoverable fraud, corruption, misuse of public funds, malfeasance, misfeasance or nonfeasance of duty. It can be said that someone else would have run the agency differently, and, from the standpoint of personnel relations, someone else could run the agency better; but it is not possible to say that one more unit of housing could have been built with a different set of people involved. Most of the problems MHA has experienced are institutional, structural, and systemic in nature.

IV. POTENTIAL LEGISLATIVE ACTIVITIES

The state of Maine clearly has a substantial shortage of standard housing for low- and moderate-income residents, and just as clearly should be moving in the direction of alleviating that shortage. Passing the legislation which created the MHA was a wise step in that direction, but there are several additional things which need to be done. In the opinion of Eagleton staff, these additional areas for legislative consideration would include.

1. <u>Legislative Review and Evaluation</u>

The Executive Director of the Maine Housing Authority has explained that the first two years of the agency's existence were consumed in necessary "start-up" activities. These are now completed; the agency is funded through the marketing of its bonds, and there would appear to be no barrier to the agency fulfilling at least a major portion of these goals which it has set for itself, which now include building at least 100 units of low-income housing, 138 units of low-moderate rental housing and 500 units of low-moderate homeownership housing. The legislature should find out, next session, if all this has come about.

The legislature, perhaps through the mechanism of its state government committees, should review the operations of the agency (and, for that matter, other agencies of state government). The legislature should raise questions periodically, but at least once a year, such as, what are your goals? What were they last year? Did you attain them and why? How do your goals fit in with the needs of the state for this year?--next year?--five years from now?

Legislative review and evaluation on a continuous basis permits the identification of problems before they become unmanageable, permits the re-definition of agency goals and activities to meet overall state needs, and encourages the open communication between program administrators and policy makers which enriches both.

2. The Legislature should recognize the limited nature of the Housing Finance agency operations, and choose among several alternatives for additional action.

If the Legislature wants to accept the current operating strategy of the MHA--that is, that housing should be built at no cost to the state--then it must also accept the essentially conservative set of results which will emerge: no housing will be built unless it is subsidized by the Federal Government and can at least "break even" in terms of costs, and therefore relatively little low-income housing will be built.

The legislature can, it seems, choose among three alternatives.

It can, essentially, do little. Outside of encouraging the MHA to accept a slightly greater load than it is now carrying--to perhaps take somewhat greater risks and incur some losses which the legislature would make good, the option would be to say, essentially, that the state of Maine is doing basically all it can do or should do in the field of housing at this time.

It could, on the other hand, recognize the very great need for additional resources in the field of housing, and set up a state-subsidized low-moderate income housing program in frank recognition that the Federal government, acting by itself, will never add enough housing units to meet Maine's current housing needs, much less those of ten, twenty or more years from now. The federal government is likely to fund the Maine Housing Authority at the level of perhaps 100-200 units of low-income housing per year for the forseeable future--and Maine has a shortage of thousands of low-income units. An independent state housing program of major proportions would cost the taxpayers substantially; but a long-term program funded, say, at the level of $10 million per year would add approximately 750 housing units each year for low-income residents of the state of Maine, which, together with the efforts of the private sector, the MHA, and other sources of non-state money, would substantially alleviate the problem of housing for Maine.

Or the legislature could seek to maximize the amount of federal dollars flowing into the state, ease the problems of urbanizing areas in Maine, and materially assist local governments in Maine by giving new funding and a new focus to the Department of Community Affairs aspect of MHA, or by spinning off the DCA aspect into a separate but closely related State department.

In the opinion of Eagleton staff, having a vigorous DCA to coordinate all housing activity in the state, to implement coordinated planning, to assist local governments to understand federal requirements, to assist them in applying for federal money, to package applications (for example, some housing from HUD, some sewer and water system money from FHA, and some open-space/recreation money from the Outdoor Recreation Commission) and to provide information and assistance to local governments generally, would add substantially to the ability of governmental units to deliver housing at the local level.

One option would be to transform the Department of Commerce and Industry into the Department of Economic and Community Development, and use the Office of Municipal Coordinator and the Municipal Security Approvals Board as core elements of the Community Affairs Department. MHA could be attached to that department, either indirectly, by appointing as commissioners members of relevant state agencies (e.g., having the commissioner of the Department of Economic and Community Development serve as chairman, and the head of the Department of Community Affairs serve as vice-chairman, and the state OEO director, commissioner of Environmental Protection and the commissioner of the Department of Consumer Protection serve as members), or directly, for example, by making the head of the Department of Community Affairs, the executive director of the MHA.

In any case, the course which the legislature chooses should be in the direction of more state involvement in housing problems rather than less.

Eagleton staff stands ready to assist the legislature in any way, and hopes that this report can serve as the basis for a thorough discussion and review of the role of the state government, and of the Maine Housing Authority especially, in alleviating the problems of housing in Maine.

ENDNOTES

1. This is not to ignore the federal role in, for example, providing housing for defense workers and returning veterans in both world wars; the role of the resettlement administration and the WPA in the depression years; and the other "beginnings" of the federal governmental activities in the field of housing. However, it is clear that the federal housing programs as we know them today began in 1949 with the passage of the National Housing Act. See Friedman, Government and Slum Housing (Rand McNally, 1963).

2. The quote is from the declaration of policy, section 2, Pl 171, 81st Congress, the National Housing Act of 1949. Federal programs in the field of housing of special interest to the State of Maine can be summarized as follows:
   a. "low-income" housing. The major form of housing assistance for truly low income people (those with incomes under about $5,000 per year) is what we know as "public housing". It can take a variety of forms, but is usually built, owned and managed by a local public housing authority. In Maine, the MHA can act as a local public authority, and therefore could build public housing up to the limits of available federal resources. The program is entirely dependent upon federal contributions, and the construction program for the coming fiscal year is estimated at about 100,000 units for the nation as a whole.

   The demand for this form of housing remains, even given all of its problems, quite high, and the backlog of applications is immense. The City of New York alone could use up all of the authorized public housing units for the coming fiscal year and still not "solve" its housing crisis.

   b. "low- and moderate-income housing". This takes a variety of forms, ranging from direct rent supplements to low-income people to the financing of low-moderate-income home-ownership through the "Section 235" below-market-interest rate subsidy, and the similar subsidy of rental housing through the "Section 236" program. There is considerable dispute about the merits of the federal role in this area, particularly with the last two mentioned programs (see, for example, Gurney Breckenfeld, "Housing Subsidies are a Grand Delusion," Fortune, February, 1972), but there is no dispute over the magnitude of the effort. In 1967, less than 9% of all housing starts in the country were federally subsidized. By 1971, more than 25% of all housing starts were federally subsidized. The irony of this is that while federal contributions have risen remarkably, the "housing crisis" throughout the U.S. has intensified and deepened.

   c. rural housing assistance. This generally takes the form of long-term, low-interest loans for low-moderate income rural residents. The program is administered by the Famers' Home Administration of the US Department of Agriculture. In addition to the loans for construction of housing, there are also FHA grants for sewer and water systems, grants for the construction of facilities for agricultural laborers, and other special grants, loans, and loan and grant combinations.

   d. other housing-related activities. A wide range of activities, from com-

Footnotes, continued

munity master planning to the development of whole new communities can be supported by federal loans, grants, or loan-grant combinations. Housing officials should investigate any available source of outside assistance in the housing field, although it is surely a matter of choice whether one would to use any or all given programs.

3. Again, while state governments did offer housing services of sorts prior to this date, it was not until 1960 til the first state housing finance agency, in New York, was established. In 1966, a number of states established, under one title or another, consolidated Departments of Community Affairs; and at the present time, well over half the states have some state agency dealing with housing, urban affairs, or community development.

4. The $2 billion figure is from Special Analysis M, The U.S. Budget for 1973, p.202. The figure from the 1963 fiscal year is the HHFA appropriation taken from the Congressional Quarterly Almanac, 1962, p. 186.

5. New England Regional Commission, Program Potentials in Housing: A Regional Housing Action Program (NERC, Boxton, 1971).

6. Breckenfield, Fortune, Op Cit.

7. Maine: The Income Gap 1960-1970 New England Learning & Research, Augusta, Maine, Feb., 1972.

Some additional observations from the Report:

"1. Maine per capita income is the lowest in New England and is 36th in the nation.
2. There has been no significant progress in ten years in the closing the income gap between Maine and the other states. In terms of actual dollars, the 'income gap' between Maine and the other New England states has substantially increased.
3. Maine's total personal income over the 1960-1970 decade increased at a rate about 20% slower than the region and the nation, and as much as 35% slower than Vermont.
4. In dollar terms, the 1970 per capita income for the New England region as a whole was $1,000 higher at $4,357." pp.6-8

8. Papers submitted to Subcommittee on Housing Panels on Housing Production, Housing Demand, and Developing a Suitable Living Environment; Committee on Banking and Currency, House of Representatives, 92nd Congress, 1st Session:

"Housing Needs and Housing Goals," H.B. Schecter and M.B. Schlefer, part II, "Current Housing Production; Characteristics and Location of Different Types" p.43.

9. Ibid, p. 44

10. Ibid, p. 45 There is some evidence that house prices are going down somewhat, with square footage beind reduced considerably. However, this is based on fragmentary evidence, and it is perhaps wiser to assume that costs will remain high.

11. New England Regional Commission, op cit. p. 7 While it costs somewhat less to build housing in non-urban areas in Maine than it does in other locations, the per capita income in Maine is less than in other locations.

12. Maine's Highest Priority Needs, op.cit., p. 264. Later information added by Eben Elwell, Executive Director, Maine Housing Authority.

13. The May 13, 1972 issue of Business Week indicated that: "one out of two families that bought a single-unit dwelling last year chose a mobile home... the industry has taken over a full 95% of the $15,000 and under market." p.1

14. For example, "Housing in Maine," a report prepared by the State Planning Office in December, 1968.

15. NERC, op.cit., p.46.

16. The first two problems are very common in new state agencies dealing with housing. See the Journal of Housing article, attached.

17. Journal of Housing: 1/72, p.13.

18. Business Week, May 13, 1972, p.148.

FIFTEEN STATE HOUSING FINANCE AGENCIES IN REVIEW

by Robert C. Alexander, Associate, McKinsey & Company, Inc., New York City

When Mr. Alexander began to organize his material for this article in the summer of 1971, there were only 15 state housing finance agencies in active operation. Since then, three more such agencies have been established: the Alaska Housing Finance Corporation, the Minnesota Housing Finance Agency, and the South Carolina State Housing Authority. The JOURNAL *reported on the Minnesota agency in the 1971 No. 7 issue, page 353; the "State News" column of a later* JOURNAL *will report on the other two agencies.*

The introduction of housing finance agencies (HFAs) in state governments marks a new phase of public involvement in housing problems. The federal government has had a major impact on housing financing for many years through the Federal Housing Administration and the Federal National Mortgage Association. Direct state government involvement in housing financing —assisting private owners to build and manage housing that serves public purposes through state finance agencies—is a recent and important phenomenon. These agencies can become the basis of effective, wideranging state housing programs . . . if they can find ways of circumventing their basic limitations.

As of the first of the year 1972, there were 15 states with housing finance agencies; eight more states were actively considering similar organizations as of that date. The New York State Housing Finance Agency is the oldest, having been established in 1960. It is not typical of agencies established since then, however, since its activities include financing a broad range of public construction, such as state university facilities and health centers. The next four states to charter finance agencies were Massachusetts, Michigan, New Jersey, and Illinois in 1966 and 1967. To a great extent, these four agencies have served as models for those that followed (see table, page 12).

Reason for HFAs: One reason these states turned to finance agencies was that the private housing market has failed to meet the needs of low- and moderate-income families. The secretary of the federal Department of Housing and Urban Development, George Romney, has noted that rising land and construction costs have forced the median price of a new house beyond the reach of 80 percent of the nation's households, while a study in Michigan shows that 70 percent of the households there cannot afford current market prices for new or existing housing.

In an effort to reduce housing costs, private builders have reduced overall finished floor space, especially in single-family units. Average floor space declined from its 1968 high of 1605 square feet per unit to about 1400 square feet in 1970. Floor space in single-family units financed by FHA fell 12 percent over the same period, to 1225 square feet. Apartment units, however, remained about the same. But even drastic measures such as these, representing a significant change from the post World War II pattern of annual increases in floor space per unit, achieved little reduction in overall costs, since the average price per single-family unit fell only 5 percent.

Because lower-income families cannot pay market rates for housing, they have had to settle for below-market housing quality. In Michigan, this means the 413,000 poor quality units documented by the State Department of Social Services. Ohio's low- and moderate-income housing gap of 487,000 units prompted the governor to establish a special commission to recommend new housing initiatives. In New York City alone, an estimated 488,000 housing units are recorded as unsound, most of them occupied by the city's poor households.

Rents below the minimum level required for good maintenance have caused an acceleration of building deterioration and eventual building abandonment, especially in urban areas. New York City officially reports an abandonment rate of about 200 units per week, while Philadelphia and Detroit both suffer losses of about 100 housing units per week. The fact that housing production has not kept pace with deterioration and abandonment only compounds the housing problems of lower-income families.

State legislatures that have created HFAs intend that these agencies shall deliver sound housing at below-market rents by acting as mortgage bankers; by making and servicing low-interest rate, long-term direct mortgage loans. They have complemented this fundamental role by empowering the agencies to administer and coordinate several related housing programs, such as FHA Section 236 mortgage interest subsidies. An emerging role based upon the previous two, includes some developer functions, such as site assembly and land development. Many states apparently are coming to feel that an agency playing all three of these roles is their best hope for attacking the housing problems they face.

Mortgage Lender—the Basic Role: The basic powers a housing finance agency can exercise are selling tax-exempt revenue bonds and making direct mortgage loans. The total value of bonds that an agency can issue is usually limited by statute, although some HFAs have no bonding limits and others are free to apply for increases in their authorized limits (see page 12 for the bonding limits for each state agency). Qualified developers whose projects meet agency criteria may borrow 90 percent or more of the development costs at the interest rate on agency bonds (plus a service fee) for periods up to 40 years.

The New York State Housing Finance Agency pioneered this mortgage banking role in 1961 when it first issued bonds to finance developments approved by the New York State Division of Housing and Community Renewal. The HFA later expanded its activities by serving as mortgage banker to a number of other state programs, including community mental health centers, senior citizens centers, and the state university. Two other New York agencies with mortgage banking functions, the state's Urban Development Corporation and New York City's Housing Development Corporation, have recently joined the state Housing Finance Agency in an effort to increase housing production for low- and moderate-income families. (For information on special powers and operations of New York State's UDC, see 1970 JOURNAL, No. 11, page 584.)

In addition to making mortgage loans, most agencies have been empowered to sell short-term bond anticipation notes to finance the construction and carrying costs of residential developments at low interest rates until the long-term mortgage loan is made. Three state legislatures have been reluctant to grant this power to their housing finance agencies, however. For example, the agency in Connecticut cannot make construction loans at all. In Maine and Missouri, the finance agency can make construction loans only when the developer is unable to obtain construction financing from private lenders.

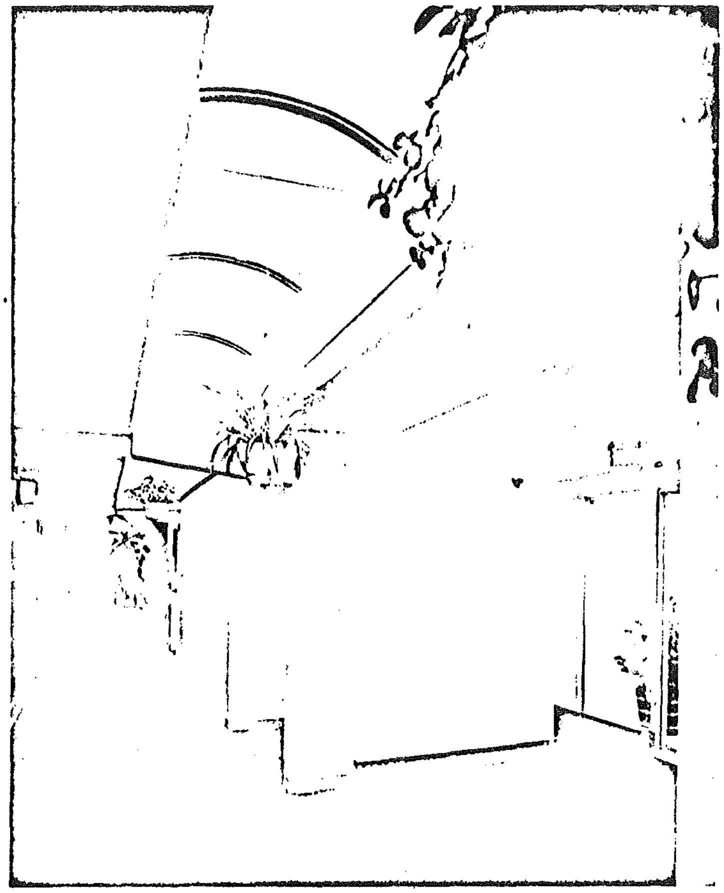
Massachusetts Housing Finance Agency puts emphasis on design quality for projects it finances

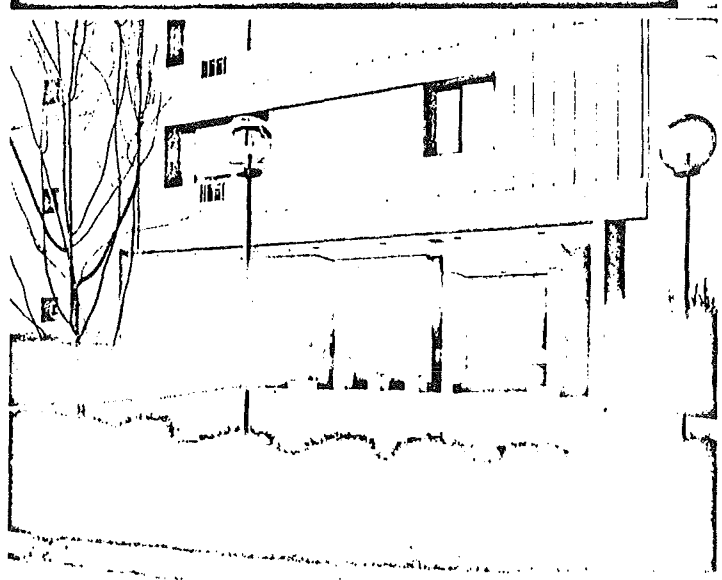
An agency can help define a project's characteristics when it combines its ability to provide low-cost construction money and low-interest, long-term mortgages. The housing finance agencies in Massachusetts, Michigan, New Jersey, and Illinois all emphasize an intensive applications review process, to the point where the agency and the developer are virtually partners in site selection, market research, economic analysis, architectural design, and project management. (The New York agency, by way of contrast, acts strictly as a source of funds; the State Division of Housing and Community Renewal processes applications.) Participation in defining project characteristics is an important new dimension of state government involvement in housing.

The bonds that an agency sells are revenue bonds; that is, the principal and interest payments on the bonds are derived from the revenues generated by the projects the bonds finance. The interest a state agency must pay on its bonds and their marketability are determined by technical provisions in the legislation authorizing the agency to issue bonds, especially the commitment the state makes to the bonds and the reserve account provisions. In general, the more willing a state is to guarantee bonds issued by its housing finance agency, the lower the interest the agency must pay and the easier it is to find buyers for these securities.

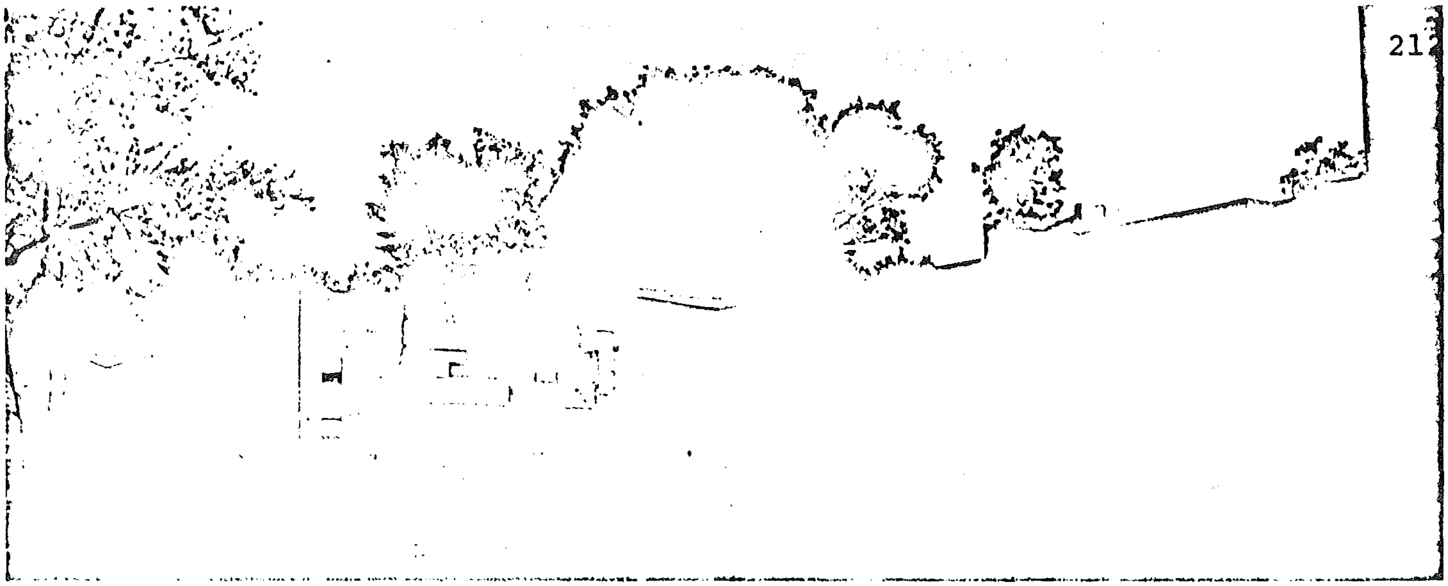
The faith and credit of the state whose HFA issues bonds are specifically *not* pledged; this means that the taxing power of the state is not available to make up losses that may occur through mortgage defaults. In place of this backstopping, however, most states recognize a moral obligation to stand behind these securities. As a further security, in place of the state's credit, the enabling legislation usually provides for a capital reserve account. This account is usually required to be equal to the next year's principal and interest payments and typically includes a make-up provision from the state's general revenues if the agency's normal operating revenues are not adequate to fund it.

The fact that the faith and credit of the state are not pledged raises the interest rates on these bonds about 1.5 percentage points over those bonds that do have the state's backing. Until now, bonds that are not backed by a statement of moral obligation and reasonable capital reserve account provisions have not been marketable at all, even at higher rates of interest. The agency in Missouri is attempting to establish a market for such bonds, however, by preparing an issue not backed by moral obligation. Presumably, many more states will be interested in hous-





ABOVE: *Putnam Square Apartments, 94-unit highrise apartment house for elderly in Cambridge. Prefabricated components were used to realize design of the architects, Stull Associates. The Massachusetts Housing Finance Agency backed the project with a $2,130,000 mortgage loan.* BELOW: *100 Centre Plaza, another highrise elderly apartment building — this one in Brookline. Again, prefabricated components were used and, again, Stull Associates were the architects. The state mortgage loan came to $3,652,900.*



Another Massachusetts Housing Finance Agency development: Westminster Village Arms in Lowell. The 432-unit development was designed by John G. Danielson and Y. Kishimoto and was sponsored by Systems Housing, Inc. The mortgage was $6,655,000.

ing finance agencies if a statement morally obligating the state's credit is not required.

Higher interest costs, however, limit an agency's ability to serve lower-income families because they are directly reflected in rents. For example, a 1 point increase in the interest rate on a state's bonds raises the debt service cost by about 14 percent. Thus a $25,000 mortgage financed over 40 years at 5 percent implies a monthly debt service charge of $120.55, while the same mortgage, financed at 6 percent would require $137.56 a month. Whatever steps are required to provide effective guarantees to bondholders that would result in lower interest costs, therefore, would yield important benefits to an agency's low-income housing efforts. The bonds of the Hawaii Housing Authority, for example, are state general obligation bonds; a recent bond offering was marketed at 4.6 percent and the interest charged to developers under this program, 5.6 percent, is substantially lower than interest costs based on other states' revenue bonds.

Agencies that successfully implement their mortgage banker activities can finance their own operating costs from fees charged to review a loan application and service the loan after it is made. This is typically a feature that attracts budget conscious legislators. The table on page 13 shows the mortgage discount and processing fees levied by four housing finance agencies and demonstrates the different fee structures these agencies use. For example, Michigan's housing development authority charges a 3.5 point discount; this is the only fee but it is due in two installments. New Jersey, on the other hand, charges separately for site inspection, architectural review, and land appraisal and, in addition, charges a 1 point mortgage discount. In addition to processing fees, the agencies levy annual servicing fees to cover the costs of servicing the mortgage loan. They are generally 0.5 percent of the mortgage amount.

These four agencies have succeeded in generating income in excess of expenses, as the page 13 table shows. At this time, both Massachusetts and New Jersey are self-sufficient, delivering their services at no cost to their states. Michigan and Illinois are expected to achieve this status in the near future. Massachusetts has already begun to repay an initial loan from the state, a year ahead of the scheduled date.

Related HFA Role—Program Administration: State housing finance agencies piggy-back federal housing subsidy and assistance programs on their direct mortgage and construction loan programs—and also add on management training, open housing, equal employment opportunity, housing demonstration, seed money, technical assistance, secondary mortgage, and other programs. Federal housing assistance subsidies are the basis of a state housing finance agency's ability to serve lower-income families but state agencies are shaping a new role for states in the delivery of federal subsidies. Related programs, funded both by the agencies themselves and other sources (e.g., foundations), are further expanding the agencies' range of influence.

Until recently, HUD set aside special allocations of Section 236 subsidies for state housing agencies. Now, under a formula called "adjusted fair share," the needs of the state agencies are taken into account in the allocation of subsidies to HUD area and insuring offices. State housing agencies then must negotiate their share of these subsidies with the local HUD office. Several states have commented that a direct relationship with the HUD Washington office would be preferable to this new arrangement. For example, the agencies in two states (Michigan and Maine) have complete responsibility for the administration of Section 235 subsidies, which they received from Washington. (The chart on page 12 shows the states that have sections 236 and 235 responsibilities.) A HUD guide, currently in final draft form, is expected to clarify HUD/state agency relationships with respect to all federal assistance programs. Under the title *Interest Reduction Assistance and Rent Supplement Payments for the Projects Developed under State and Local Programs*, the HUD guidebook was expected to be ready for discussion at a meeting of state housing finance agencies late in January 1972.

To some extent, these cases presage the kind of program reform envisioned in the *Housing and Urban Development Act of 1971 (HR9688)*. This legislation would direct federal housing assistance programs through state and local housing agencies. Although there are serious problems involved in creating new agencies at many levels of government, the concept of interposing an agency (particularly a state HFA) between local needs and federal resources is, to this writer, an attractive one. In the past, federal housing assistance programs have been used by private developers on a first-come, first-serve basis. Distributing this assistance through a state housing agency would offer the opportunity to use programs such as Sections 235 and 236, rent supplements, and public housing leasing (Section 23) in a more coordinated and flexible way.

For example, housing finance agencies have an advantage over most FHA offices in the administration of Section 236 subsidies because of their ability to utilize subsidies without requiring FHA mortgage insurance and their ability to subsidize fewer than

STATE HOUSING FINANCE AGENCIES: POWERS, FUNDING

December 1971

	FUNDING				POWERS *						
					Mortgage Lender				Program Adminis-trator		Developer
					Loans				Subsidies		
State	Date HFA Started	Authorized Bonding Capacity (Millions of $)	First Notes Issued	First Bonds Issued [a]	Mortgage	Construction	Seed Money	Mortgage Insurance	236	235	Land Acquisition
New York	1960	$2,000 [b]	1961	1961	√	√			√		
Massachusetts	1966	1,000	1970	NI	√	√	√		√		
Michigan	1966	300	1970	1971	√	√	√		√	√	√
New Jersey	1967	Unlimited	1968	1970 [c]	√	√	√		√		
Illinois	1967	500	1970	NI [f]	√	√	√		√		√
West Virginia	1968	130	NI	1971	√	√					
Delaware	1968	— [d]	NI	NI	√	√	√				√
Vermont	1968	Varies by program	NI	NI	√						
Connecticut	1969	Unlimited	1971	NI	√			√	√		
North Carolina	1969	200	1970	NI	√	√	√				
Maine	1969	20	1971	NI	√	√			√	√	
Missouri	1969	100	NI	NI	√	√	√	√			√
Maryland	1970	Unlimited	NI	NI	√	√	√	√			√
Hawaii	1970 [e]	Unlimited [f]	NI	NI	√	√	√	√			√
Pennsylvania	1971	Unlimited	NI	NI	√		√				

* Checks indicate agencies have basic authority to exercise the designated power; blanks indicate no such powers.
NI—Not issued.
[a] As of June 30, 1971.
[b] For housing purposes; other limits set for other mortgage lending activities.
[c] Private placement.
[d] Bonds not issued due to defect in legislation.
[e] Other programs in operation from 1937.
[f] Bonds to be issued as state general obligation bonds.

all the units in a development. By using the first provisions, the agencies have streamlined the review process by utilizing the uninsured provisions of Section 236, essentially insuring the mortgage themselves. By subsidizing only a part of a development under the second provision, agencies can provide housing for families with incomes ranging from over $16,000 per year (for the unsubsidized, uninsured portion) to under $5000 (for the portion assisted by Section 236 and rent supplements) in a single development. Agencies have extensively used both of these provisions to increase housing production, spread subsidies more broadly, and achieve economic integration.

Proper management of a housing development is of crucial concern to the holder of its long-term mortgage. The Massachusetts State Housing Finance Agency enters into legally binding agreements with the mortgagors covering the details of marketing and maintenance. It has strictly enforced these agreements and has already replaced several management teams. The Michigan Housing Development Authority, in cooperation with the University of Michigan, has arranged a required training seminar for the management team of every authority-financed development. As agencies become increasingly involved in housing management, they are beginning to initiate programs, such as conducting management audits and developing career paths for capable housing managers.

State and federal open housing and equal employment opportunity programs are likely to be better focused and have i creased impact when a housing finance agency administers the in conjunction with its other activities. For example, site selc tion and the marketing of new housing are central points in effective open housing program. An agency can easily ensure sponsor's compliance with open housing goals relating to s selection and marketing during the review of his mortgage lo application. Opportunities like these for achieving open housi goals are being pursued aggressively by most agencies; in o executive director's words, open housing and affirmative m keting "are enforced rules with us." As a result, the record state agencies in both open housing and equal employment h generally been better than that of federal programs.

Another major program responsibility is providing techni assistance to nonprofit and local government housing grou Such assistance may include administering seed money loan p grams and advising sponsors on housing programs and alter tives. In Michigan and Massachusetts, the agencies' staffs p vide technical assistance as part of their regular duties. Illinois, these functions are performed by the Technical As tance Corporation for Housing, a corporation formed w special support from the Ford Foundation to offer nonprofit a community groups access to housing expertise. The Ford Fo dation has also supported technical assistance programs in W Virginia through the West Virginia Housing Development Fu

SELECTED STATE HOUSING FINANCE AGENCIES: HOUSING PRODUCTION PERFORMANCE

Fall of 1971

STATE	START-UP COSTS	HOUSING PRODUCTION ACTIVITY				AGENCY FEES				NET INCOME
	Initial Appropriation for Start-Up (Grants)	Mortgage Commitments	Average Number Housing Units for Development	Total Units 6/30/71	Mortgage Discount at Mortgage Closing (Points)	Other Charges: Site Inspection	Other Charges: Architectural Review	Other Charges: Other	Service Fee	Excess of Revenues Over Expenses 6/30/71
Massachusetts	$ 300,000	37	155	5,738	1.0	√		√	0.25%	$1,914,000
Michigan	$ 500,000[a]	22	132	2,909[f]	3.5[c]				0.50%	$1,065,000
New Jersey	$ 175,000[b]	20	244	4,877[e]	1.0	√	√	√	0.50%	$1,200,000
Illinois	$1,000,000 (grant)	8	289	2,500[g]	1.5				0.50%	$ 57,817

[a] Subsequently appropriated an additional $457,000.
[b] Grant and loan.
[c] In two installments; feasibility and mortgage closing.
[d] Estimated to October 31, 1971—actual was $928,000 on September 30, 1971, after 11 months.
[e] Year ending October 31, 1971.
[f] Year ending September 30, 1971—does not include 986 single family units.
[g] Year ending December 31, 1971.

HFAs as Developers—an Emerging Role: The enabling legislation for most of the existing state agencies suggests another role beyond those of mortgage banker and program administrator—that of developer. Probably the best example of a state agency functioning in this way is the New York State Urban Development Corporation (see 1970 JOURNAL, No. 11, page 584). Under legislation recently enacted in Maryland, the State Department of Economic and Community Development is authorized to participate in land development, construction of community facilities, and in rendering assistance to municipalities for infrastructure projects (such as sewers, water lines, roads, etc.), with such activities related to the state's industrial development program.

The basic development power, although few agencies have it, is that of acquiring and disposing of real property. The table on page 12 shows that six state agencies have land acquisition powers written into their enabling legislation although, among the HFAs, only Michigan has provided funds for this purpose. Related development powers of eminent domain and zoning overrides have been even more difficult to obtain from state legislatures. For example, the Maryland agency can exercise eminent domain over a particular piece of property only on request of the local government. New York's Urban Development Corporation is the only state agency to date that can overrule local zoning decisions. Nevertheless, state agencies are pressing their legislatures for expanded development powers.

Although powers of eminent domain and zoning override would remove important constraints on agency performance, some limited development programs are still possible without them. An agency could assist in assembling parcels for development, purchasing sites over time, managing them until the assembly was complete, providing relocation services, and then selling or leasing the package to a qualified developer. This would be especially important in urban areas where assembly costs are nearly prohibitive due to the high profit potentials of holding parcels until the assembly is complete. An HFA's advantage in this activity is the lower price it pays for its money, both short- and long-term.

Development powers for state housing finance agencies do not imply their use only for new housing construction; they may also be used to improve the management and maintenance of the existing housing stock. For example, the use of acquisition powers could be especially important in efforts to strengthen ownership and management of residential housing in urban areas. In New York City, more than half of the rent controlled buildings are held by people who tend to own three or fewer buildings and secure little of their income from their properties. Their buildings tend to be in poor condition, requiring better maintenance and often minimum-to-moderate amounts of rehabilitation. Typically, these are the buildings that are eventually abandoned.

To place such buildings in financially stronger, managerially more expert hands, an agency could initiate an "ownership change" program. Current owners could sell or deed their buildings to the agency instead of abandoning them. The agency would then repair and manage the buildings or dispose of them. If it chose to manage the properties, it would rely on its own in-house management capability, developed for agency-financed projects. If it chose to dispose of them, it could sell or lease the buildings to qualified investors or management companies.

HFA Start-up Characteristics: States contemplating the establishment of a housing agency should be aware that an HFA is not a quick or easy solution to their housing problems. Established agencies have found that it takes two to three years to be able to finance 3000 to 5000 units per year. In addition, state legislatures have had to appropriate or lend from 175 thousand to 1 million dollars to cover the initial expenses of their agencies. These characteristics reflect the difficulty of assembling a talented and effective staff and the time required by the courts to determine the constitutionality of the basic legislation.

The state agencies surveyed here have required two years or more to put together a significant production program. For example, although Michigan's Housing Development Authority was established in 1966, the first offering of notes for interim financing was not until the spring of 1970. In Maryland, although the legislation was written and passed in 1970, operating rules and regulations were reviewed this fall, with actual operations not scheduled to begin until early 1972. The table on page 12 summarizes the start-up times (founding to initial financing) for the 15 state agencies. Note, however, that delays between the first note offering and the first bond offering may also be affected by money market conditions.

The legislation establishing a state housing finance agency will usually be tested in the courts to determine its constitutionality. This is the major contribution to the start-up times recorded on page 12. The provisions of the enabling legislation must be constitutional for the bonds to be marketed. In those cases where the legislation it not the object of a suit (as in Maryland), the agency itself will usually ask the courts for an advisory opinion (as in Massachusetts).

In many cases, the initial legislation establishing housing agencies has defects that hinder bond offerings. Illinois and Missouri faced these problems, for example. The legislation in Delaware, passed in 1968, failed to make provision for a "capital reserve fund." Without this fund, the agency has been unable to market its bonds. This defect, however, has not prevented the agency from undertaking significant efforts to increase housing production there. Working from a seed money fund of 8 million dollars that can finance both front-end and construction costs for nonprofit sponsors, the Delaware agency has assisted 28 projects, totalling over 1600 units. More than 7.8 million dollars in loans and advances are currently outstanding. Legislation being submitted this year is expected to correct the earlier defect.

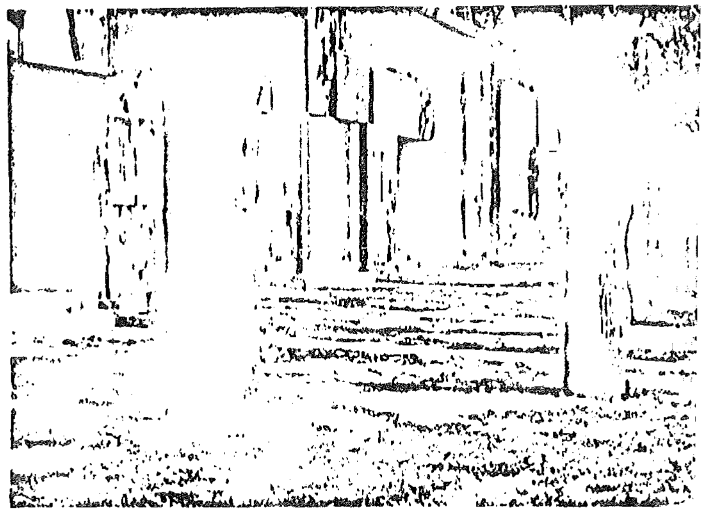
The activities of housing finance agencies must be adequately funded from the state budget until the agency is self-supporting. Although the initial appropriations from state legislatures for the four older agencies varied considerably, as the page 13 table shows, the experiences of those states suggests that the start-up cost today of a housing agency might range from $125,000 to $500,000, depending on the population characteristics of the state and the scope of the state's contemplated housing programs. Annual appropriations in addition to that amount would be required if the agency did not earn enough fees after the first two years to pay for its operation.

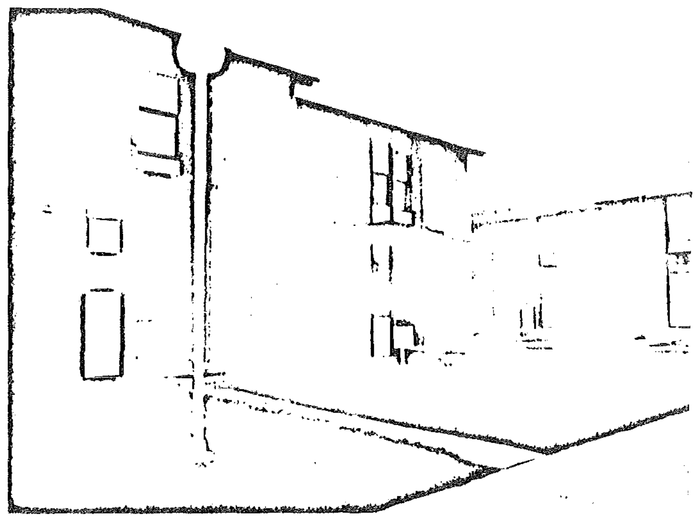
Limitations on Performance: The financial and organizational characteristics of HFAs impose two fundamental constraints on their performance. The financial characteristics of tax exempt bonds establish the lowest rents that the agency can deliver, thus tying the agency to the federal government's subsidy programs for resources to serve low-income families. In addition, the complexity of the development process and the need to ensure that public funds are carefully used require much management attention, effectively constraining an agency's annual production rate. Housing finance agencies will have to circumvent both of these performance limitations if they are to have a significant impact on their state's housing problems.

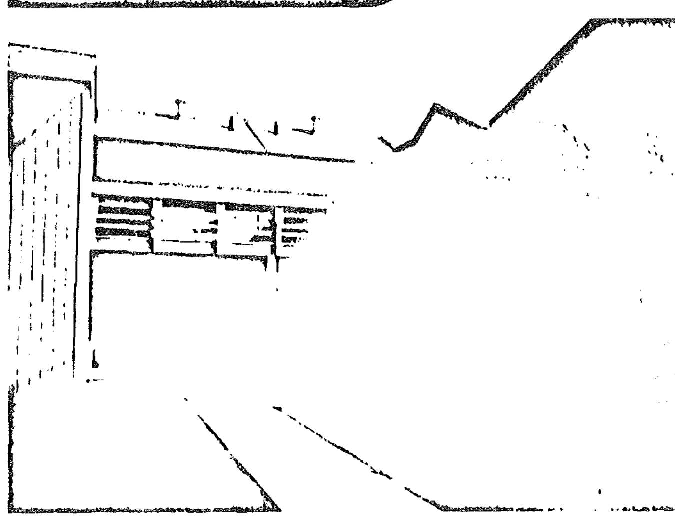
Limitations on Serving Low-income Families: Even with low-interest, long-term mortgages, housing finance agencies cannot deliver low-rent housing to low-income families. Additional subsidies, generally from the federal government, are required. In the past, an average of 40 percent of agency production has been available to moderate-income families and about 10 percent to low-income households, but only because the federal government made available interest subsidies and rent supplements through the Section 236 program. These subsidies are both expensive on a per unit basis and in limited supply.

A review of the impact of an agency's lending rates suggests the limits of its ability to serve low-income households. The monthly carrying costs on a $25,000 mortgage at market rates (7.5 percent interest and a 25-year term) for principal and interest payments are $185; for the same size mortgage at agency rates (6 percent interest and a 40-year term), the carrying costs are $138. The ability to extend the mortgage from 25 to 40 years accounts for about $20 of the $47 reduction; reducing interest rates from 7.5 percent to 6 percent accounts for the remaining $27. Although these reductions are substantial, the monthly rent (including debt service, operating and maintenance costs, taxes, and limited profits) for this unit would still be about $230. With the restriction that a family of four should not allocate more than 25 percent of its gross income for housing, the lowest income group that could be served by this unit would be four-person households earning $11,000 a year or more. Without additional subsidies, a state agency cannot begin to penetrate

Michigan State Housing Development Authority insists on "quality living environment"







TOP: *Eastside Court, a 50-unit townhouse development in M kegon Heights took full advantage of pleasant site. The s mortgage loan came to $961,300.*

MIDDLE: *the 3 million dollar contract for Ridgecrest Townho in Flint was the largest ever awarded a black contractor in M igan. The project is a 163-unit development, sponsored by Genesee Community Development Conference.*

BOTTOM: *first modular housing development to be financed the Michigan State Housing Development Authority—Ba Downs Apartments, a 180-unit Townhouse development in City, built with a 2.9 million dollar mortgage loan.*

he low-income housing problem.

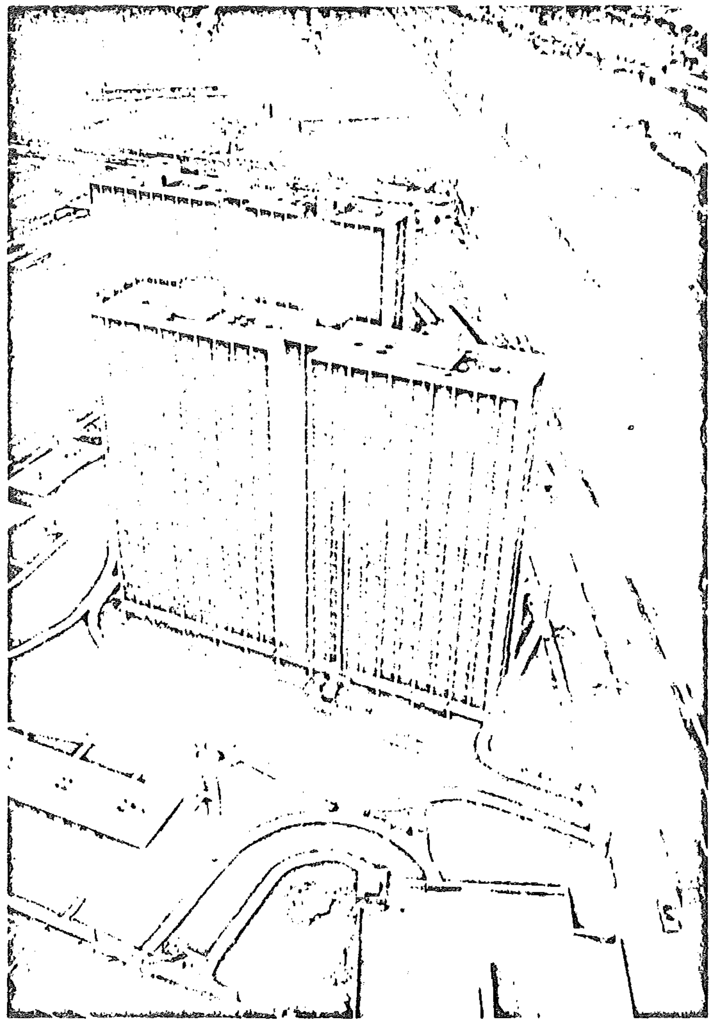
Federal housing programs used in conjunction with an agency's mortgage loans lower rents further and make it possible o serve lower-income households in limited numbers. As noted earlier, seven states now negotiate with the FHA to obtain federal Section 236 mortgage interest subsidies. The application of Section 236 subsidies would reduce the monthly rent in the above example by about $80, making it possible for a family of four, earning about $7200 a year, to live there. Two other programs n combination with the state agency mortgage loans and federal Section 236 subsidies are available to bring the cost of this housing down to the level that low-income families (as defined y public housing income limits) can afford: through public housing leasing, units in a development assisted by a state housing inance agency may be leased by a local public housing authority with assistance from the federal government; with rent supplements, tenants at public housing income levels receive federal ent supplement payments, enabling them to live in decent husng when public housing is not available. Housing assistance rom the federal government through public housing leasing and ent supplement programs, however, are in very short supply, hus limiting the number of families that can be served.

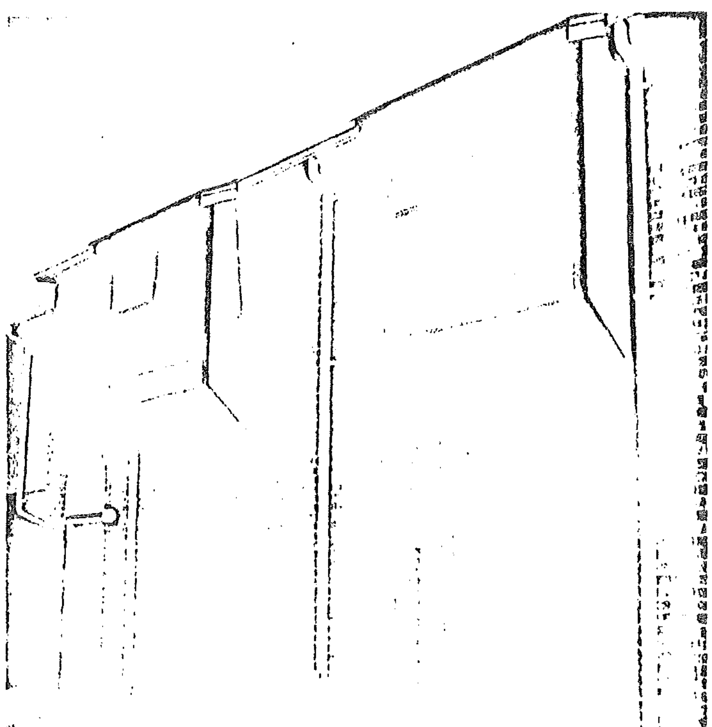
The combination of direct and indirect subsidy support reuired for low-income tenants assisted through Section 236 and he rent supplement program is in excess of $2000 a year per nit. For example, a family whose adjusted income is $5300 er year would be expected to pay 25 percent of that amount, r $1325, in rent. The $230 per month apartment, which aleady received about $560 per year of indirect subsidies due to ax-exempt bond financing, would require $2760 per year in ent. The difference between the family's ability to pay and the ent required, or about $1440, would have to be made up hrough the subsidy programs. Section 236 would provide about 960 per year, leaving $480 per year to be provided through e rent supplement program. Thus the total direct and indirect ubsidies for this family would be $2000 per year. Since the ent supplement program assists families with incomes as low as 1000 per year, the total direct and indirect subsidies might well xceed $2300 per unit.

If all of an agency's housing production were directed toward w-income families and if the state paid the full subsidy cost, e annual subsidy appropriation required would start at 10 milon dollars for the first 5000 units and climb by 10 million ollars for every added 5000 units. At the end of a decade durg which 50,000 units of housing were produced for low-income milies, a total of 500 million dollars would have been paid ut in subsidies and the annual subsidy cost at the end of the ade would be 100 million dollars. Such annual expenditures e clearly beyond the present ability of state governments, aning that, without massive federal support, they can do little erve low-income families. Federal appropriations have been all, however, so that this scale of low-income housing protion would rapidly exhaust the resources currently available. Thus state agencies must begin to target their subsidy resources provide housing in areas where as many secondary benefits g., the filtering down of lower-rent units in the existing hous stock) as possible can be captured. The need for additional its for lower-income families is so great that it may seem at, as one executive director put it, "building just about anyre serves a useful purpose." But distributing subsidized units und a state without targeting them misses the opportunity to ltiply an agency's impact on housing needs by leaving impor t location decisions to the accident of developer participation an agency's programs.

Limitations on Production Acceleration: Production limitations

Illinois Housing Development Authority strives for high level of amenities and design





are a function of developer interest, bonding regulations, and management capabilities. At current production volumes, no agency has experienced problems in attracting developers to its door and, as noted earlier, authorized bonding limits can be and have been raised. Thus, an HFA's ability to control a broadening range and increasing number of activities, while maintaining investor confidence and responsiveness to developers, effectively determines potential housing production.

Current HFA production rates have not produced the number of units required to meet total housing need—or even to match the rate of abandonment. The page 13 table shows that no agency has completed more than 40 multifamily mortgage commitments or financed more than 5700 units in a single year. In Detroit, 5000 units a year would barely match the rate of housing abandonment of about 100 units a week. At a production rate of about 5000 units a year, it would take almost 98 years to replace the unsound housing in New York City today, let alone that which would deteriorate over the period.

Against this backdrop of housing need, agencies have set relatively modest goals for themselves. Three of the four older agencies have set production targets of 10,000 units per year, requiring 50 to 100 mortgage commitments. Their annual production volume has fallen short of even this goal, however, suggesting the difficulties that agencies have experienced in managing the mortgage lending process.

Improving an agency's production capacity is not simply a matter of adding more staff. The first few additions to the staff may, in fact, enable the agency to review more project applications. As the agency's workload increases, however, the span of activities that must be directed and controlled increases until it involves projects at all stages from proposal formulation through construction to occupancy and management. The limit on expansion, therefore, is the agency's ability to control the review process as more applications are processed and its activities become increasingly diverse.

The pressure on agency management stems more from the number of developments than from the total number of units financed. If a state financed 5000 units a year, for example, a figure representative of current agency activity, it might have to review 50 developments of 100 units each, or an average of one development a week. This level of activity represents about 100 preconstruction site inspections; at least 50 market studies; the review of marketing plans, management programs, and architectural designs; and innumerable meetings, letters, and phone calls. In addition, since 5000 units a year represents an annual mortgage-lending rate of about 125 million dollars, this level of activity would probably require two or three long-term bond offerings and the sale of eight to ten short-term notes each year.

State housing finance agencies are taking two approaches to improving their ability to deliver more housing units. One approach is to streamline the applications review process and improve the agency's ability to control it. The process can be streamlined by routinizing many of the analyses and computerizing them where possible (e.g., economic feasibility analysis). The agency's control over the process can be strengthened by developing a number of management systems, including procedures manuals and computer-based information and scheduling systems. All of the four senior agencies are engaged in these efforts.

A second approach, increasing the number of units per development, is likely to cause some problems. Since only slightly more staff time is required to review the application for a large development as a smaller one, an increase in the number of units per development leads to gains in total production without significantly greater effort. For example, New Jersey's approach to higher volume production has been to finance developm significantly larger on average than those undertaken in o states, as the page 13 table shows. The rate at which the h ing market will absorb units is limited, however, thus limiting extent to which development size can be increased. In additi the need to match the new development to the existing neighl hood also constrains the size of a feasible project.

In spite of these efforts, it is clear that marginal increase production will not significantly dent the great shortage of so housing for low- and moderate-income families. In the fac the tremendous demand, state housing finance agencies will l to target their production so that as many secondary benefit possible, such as attracting complementary private investn are captured.

Further Actions Required: Several housing agencies l achieved encouraging initial results that demonstrate their ab to assist in the production of new housing units. Yet, as t capability grows and they become more successful, they become more politically visible. With this increased visib comes expectations of improved future performance an broadening of their role in housing. At one time, the basic ol tive of housing finance agencies was simply housing produc Today, rehabilitation, maintenance, and management are inc ingly thought to be equally important and valid activities. M over, units financed today must be of higher quality, pro residences for a broad mix of income groups in a racially grated setting, and be built by local labor offering opportun for significant minority group participation.

Housing finance agencies cannot satisfy increasingly se performance standards by simply doing more of what they doing now. Sufficient subsidies are not available to lower even on all of the units currently being built and margina creases in production obviously cannot meet the whole dem Attempts to achieve massive increases in new construction run aground on such problems as the availability of federal sidies, a community's willingness to grant zoning and other provals, and the agency's capacity to ensure sound manage of the development after it has been built.

Some wholly new initiatives are required that will enhanc ability of the agencies to circumvent rent and production tations. One way to achieve increased impact is through the ful targeting of agency-financed housing units. The ag would focus production on key areas and population gr where additional benefits, such as stimulating private invest or reinforcing a desirable migration trend, can be capture second means of increasing impact is to expand the influen a variety of related but nonproduction-oriented programs. T programs, such as management training or enforcement of housing, when applied to non-agency financed developm would improve housing opportunities for many more l income families than could be served through production a

Housing production is an agency's fundamental activity. ing demonstrated the ability to produce short-term results building housing—finance agencies must now show that the put those results into a pattern of achievement that will in a long-term impact on their state's housing needs. The for this longer-term program would be an agency's produ plan.

This production plan would be a schedule of develop priorities by locality, based in part on an examination of po tion characteristics, such as income and family size, ho quantity and quality, and housing costs. Development pric would identify target population groups, target locations housing delivery means, including the type of building, ty construction, and relevant design criteria. This plan wou ranslated into action terms by giving high priority developments, ccelerated processing and preferential access to an agency's subidy funds, encouraging development applications to serve higher riority areas, and acquiring potential building sites in important ocales. Two agencies, those in Michigan and Illinois, have just egun to develop the basic housing and demographical analyses t the level of detail necessary to lead to this kind of a production plan.

Housing and demographic data alone are not a sufficient base or determining production priorities, however. The plan must also be founded on a sensitive analysis of economic factors, such s trends in industrial location, job creation, and private investnent, to identify trends in housing markets by localities. In the ontext of present zoning and land use patterns, the plan would nable an agency to use its housing resources better, given anicipated public and private sector investments. It would also ighlight communities where zoning changes in a few parcels of and might have great impact by identifying areas where housing vill be needed but where zoning is racially or economically estrictive or otherwise not compatible with orderly growth.

Alternatively, the economic analysis could be performed within he framework of a state land use and economic development lan. In this case, present land use patterns would not necesarily be constraints on future development. The housing production effort would be one component of a broader program f industrial development, transportation planning, and investnents in services and facilities. A finance agency's participation t this level of planning would be limited to the housing comonent, unless it were also designated as the state's comprehensive planning and development agency. No state housing gency has such responsibilities now, although the new Maryland Department of Economic and Community Development, which ncludes the state's housing financing operation, and New York's 'DC, has the legal basis for assisting and coordinating many these activities.

To the busy executive director, a production planning exercise nay seem to be a lot of trouble that does not build a single addiional unit. Yet to continue to assist housing production without n overall plan might lead to the neglect of the central city, ecause builders and developers are not interested—or it might ead to over-building in some suburban areas, because zoning hanges are easy to obtain—or to the neglect of some rural reas, because demand for housing is presumed to be weak. In hort, allowing the most available, though perhaps not the most mportant, sites to be developed undermines the agency's ability o provide decent housing, achieve economic and racial integraion, and create job opportunities.

There are two additional activities that would increase an gency's impact on the housing needs in its state. Programs designed to support and enforce open housing laws would improve ower households' access to better housing. In addition, efforts o prevent deterioration and upgrade marginal units would improve housing quality for the families not served by new units.

State agencies are now attempting to encourage a mix of families to locate in their developments. These efforts focus on site selection, to find locations for developments that appeal to a wide range of income and racial groups, and on affirmative marketing, to ensure that many groups know of the development and have the opportunity to settle there. As agencies become more expert in site selection and affirmative marketing in their own developments, they will be able to render similar services to other housing developments not financed by them. One target would be FHA-assisted housing, which, under new HUD regulations, must stress its open housing elements. For example, in Michigan in 1970, FHA assisted almost 14,000 units through its four main programs (Sections 236, 235, 221(d)3, and 202). Allowing for units that received both HFA financing and the FHA assistance, the number of FHA-assisted units is about twice the number of units the Michigan State Housing Development Authority funded. Thus a state agency could multiply its impact several times simply by finding ways to use the skills it has developed for its own projects to improve site selection and affirmative marketing on FHA-assisted developments.

Improving the preservation of the existing stock of housing requires better management and maintenance services. As agencies build competence in the delivery of improved housing management and maintenance, they can provide selection and training services to other developments in their states. In addition, they could expand their career path information service to include resident managers of existing, federally-assisted housing.

Conclusion: Although state housing finance agencies can perform several valuable roles in helping alleviate the shortage of adequate housing for low- and moderate-income families, they are by no means a simple answer to a state's problems. The basic limitations on their performance to date have been twofold: the need to rely on the federal government for subsidies in order to serve families at public housing income levels and the lack of a systematic approach to managing the progress of a development from its formulation through to its management. A production plan that will capture as many secondary benefits of agency-financed housing as possible is one approach to increasing an agency's impact in spite of its limitations. Agencies could also increase their impact by providing site selection and affirmative marketing services to other developments.

From the states' point-of-view, trends toward broader finance agency involvement in housing and development problems make good sense. The expertise that finance agencies have accumulated is too valuable not to be employed to the fullest extent possible by states in need of effective housing programs. At the same time, as state agencies demonstrate their capability to deliver housing to low- and moderate-income families, to plan their production effectively, and to increase their impact by managing related programs, they will strengthen their claim as a key instrument of state policy.