

MAINE STATE LEGISLATURE

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A Home of Their Own

**A Report to the Joint
Standing Committee on
Taxation**

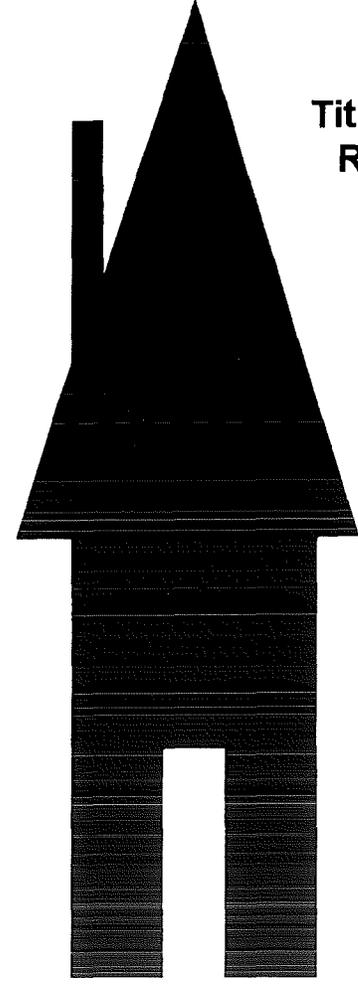
**Revenues and Expenditures of
the Maine HOME Fund 1995-96**

April 1, 1997

MEINE
OFFICE OF THE
COMPTROLLER
TREASURY DEPARTMENT
1000 STATE HOUSE
ANNEX
HAVERHILL, MAINE 04841
TEL: 603/882-2200
FAX: 603/882-2201



"The mission of the Maine State Housing Authority is to assist Maine people to obtain and maintain decent, safe, affordable housing and services suitable to their unique housing needs. In carrying out this mission, MSHA will provide leadership, maximize resources, and promote partnerships to develop and implement sound housing policy."



Title 36, Section 4641-N of the Maine Revised Statutes calls for the Maine State Housing Authority to submit a report on the state Housing Opportunities for Maine (HOME) Fund to the Joint Standing Committee on Taxation. The report is to cover the prior two fiscal years of the Authority and identify the revenue credited to the Fund and the way the monies have been spent.



O.F.P.R.

February 27, 1997

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The Honorable Richard P. Ruhlin, Chair
Joint Standing Committee on Taxation
115 State House Station
Augusta, Maine 04333

Dear Senator Ruhlin:

Maine law requires us to submit a report on the use of our portion of the real estate transfer tax proceeds to the Joint Standing Committee on Taxation by April 1st in the first year of each biennium. The law states:

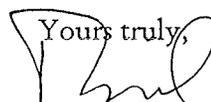
The Maine State Housing Authority shall submit a report to the joint standing committee of the Legislature having jurisdiction over taxation by April 1, 1987, and each 2 years thereafter. The report shall cover the 2 prior fiscal years of the authority and shall identify the amount of revenues under this chapter that have been credited to the Housing opportunities for Maine Fund and the manner in which those funds have been used. The committee shall review that report by May 1st of the year in which it is received.

I am pleased to submit this report to you for your review. Leadership has set an unprecedented pace for your work this session. We are submitting this report ahead of schedule to not only work within that spirit, but to ensure that you have this information in time for it to be useful.

There is one aspect of the report that I want to draw to your attention. In the past two fiscal years, we spent \$3,325,195 more than we received. In my 2½ year tenure we have been spending an accumulated surplus. I have taken a more active approach to our mission. We are now at the point where our expenditures match our revenues; the surplus has been spent.

For the past 6 years our portion of the transfer tax has been reduced to help balance the budget. We have expected that when this period has passed, we would revert to the previous distribution of the transfer tax: 10% to the counties to act as the state's agent, 45% to the general fund, and 45% to the HOME Fund. This tax was doubled in 1984 for the sole purpose of providing steady, dedicated revenue for this Fund. Otherwise, there would have been no support from the real estate industry for the increase. As we regain control of the budget, it is important to keep faith with those who supported the increase and those who need our programs. I urge you to set this right.

I would be happy to hear your questions or comments on our programs and the important role of the transfer tax. Please contact me at 626-4611 or our Director of Planning and Government Affairs, Peter Merrill, at 626-4608.

Yours truly,


David Lakari
Director

353 WATER STREET AUGUSTA, MAINE 04330-4633

207-626-4600



1-800-452-4668



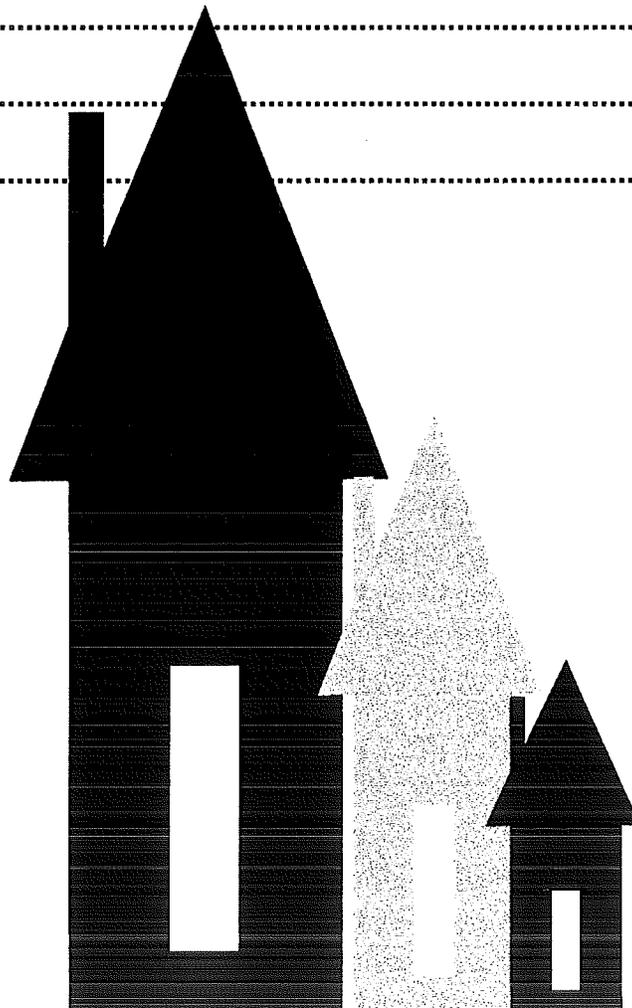
TDD 1-800-452-4603



FAX 207-626-4678

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Maine State Housing Authority

Home Fund report 1995 - 96

Introduction

"The mission of the Maine State Housing Authority is to assist Maine people to obtain and maintain decent, safe, affordable housing and services suitable to their unique housing needs. In carrying out this mission, MSHA will provide leadership, maximize resources, and promote partnerships to develop and implement sound housing policy."

— MSHA Board of Commissioners

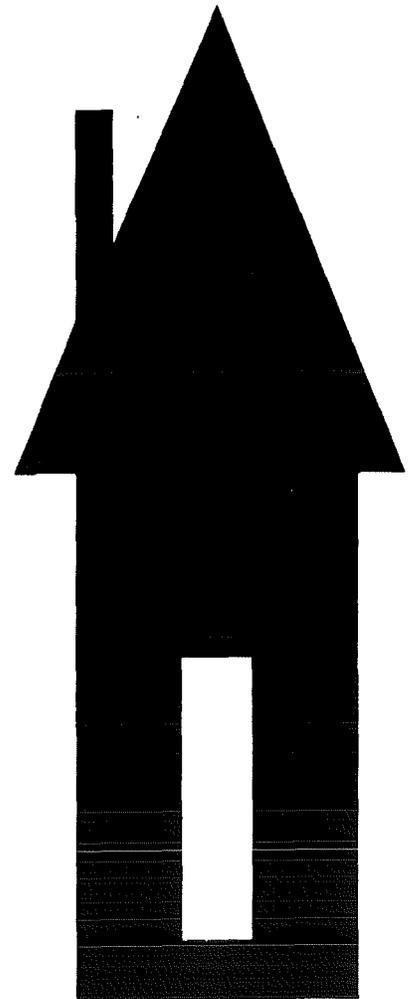
The Housing Authority's mission, part of the agency's Strategic Plan, would be difficult to achieve without Maine's Housing Opportunities for Maine (HOME) Fund.

The Strategic Plan identified key financial resources the Housing Authority uses to fulfill its mission. The Plan determined that the state HOME Fund is "perhaps the most precious resource available to MSHA."

The report goes on to say that the HOME Fund is valuable because it can be used in support of any programs that provide affordable housing to Maine's low and moderate income families. The only

restriction is that it cannot be used to pay for the operation of the agency or for staff.

This freedom enables the Housing Authority to use the HOME Fund to leverage bond resources, to leverage federal housing funds, and to provide affordable housing opportunities for those Maine families that cannot be assisted by other housing resources.



HOME Funds Received 1995-96	\$4,432,805
HOME Funds Expended 1995-96	\$7,758,000

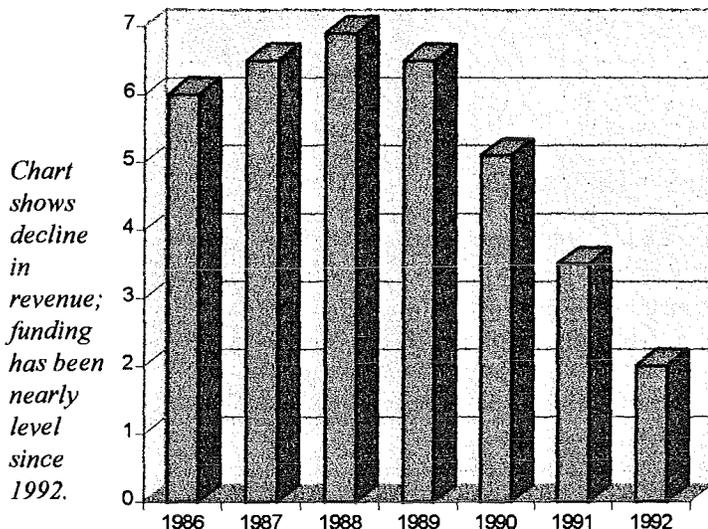
Background

The Housing Opportunities for Maine (HOME) Fund was created in 1982. The genesis was the housing crisis caused by the federal government's decision to halt major affordable housing programs, such as the Section 8 New Construction/Substantial Rehabilitation program. The HOME Fund's goal was to allow the Housing Authority to provide affordable housing opportunities for low and moderate income Maine families in an era of declining federal support.

Initially the HOME Fund capital was a \$4.25 million appropriation from the Legislature. Major changes in the funding since then include:

- 1984** - Legislature continues the HOME Fund to respond to pressing housing needs by doubling the Real Estate Transfer Tax and directing some of the new revenue to housing. Following enactment, the transfer tax revenue is divided 45% HOME Fund; 45% state General Fund; 10% counties.
- 1991** - Due to state budget crisis, transfer tax revenue diverted from HOME Fund from November 1991 to June 1992, then capped at \$1.5 million from July 1992 to June 1993.
- 1993** - Continuing state budget crisis causes Legislature to cap revenue from Real Estate Transfer Tax to HOME Fund at \$2 million from July 1993 to June 1995.
- 1995** - Ongoing tight state budget causes Legislature to allocate more of the Real Estate Transfer Tax to the General Fund, so that the General Fund gets 75% of the non-county share and the HOME Fund 25% (22.5% of the total tax).
- 1997** - Governor proposes making the 75%/25% split permanent.

HOME Fund Receipts 1986-92



Since its enactment, the HOME Fund has achieved remarkable success in providing affordable housing, leveraging federal and private sector money for housing, and contributing to Maine's economy.

It has helped thousands of Maine families become homeowners for the first time; financed emergency housing for the homeless; helped develop rental housing affordable to very low income families; financed housing for persons with special needs; and helped repair sub-standard housing. At the same time, it has leveraged hundreds of millions of outside capital, bringing the money into Maine for affordable housing.

The Housing Authority's prudent use of the HOME Fund allowed it to continue to support a variety of housing initiatives despite the decline in Real Estate Transfer Tax revenue over the past several

years (see chart above). Reserves built up over the early years of the HOME Fund, however, have now been spent. The Housing Authority cannot continue to offer the same level of benefits for affordable housing needs in Maine or to contribute as much to the Maine economy without a return to the full funding the Maine Legislature originally intended for the HOME Fund.

Home Fund Activities 1995-96

Helping first-time homebuyers

The Housing Authority has been able to help a record number of Maine families purchase their first homes over the past two years, with a big hand from the state HOME Fund.

In 1995 the Housing Authority provided loans to enable 1,611 Maine working families to buy their first homes, a record number of loans at that point. In 1996 the agency smashed that record by providing loans that helped 2,056 Maine families become homeowners.

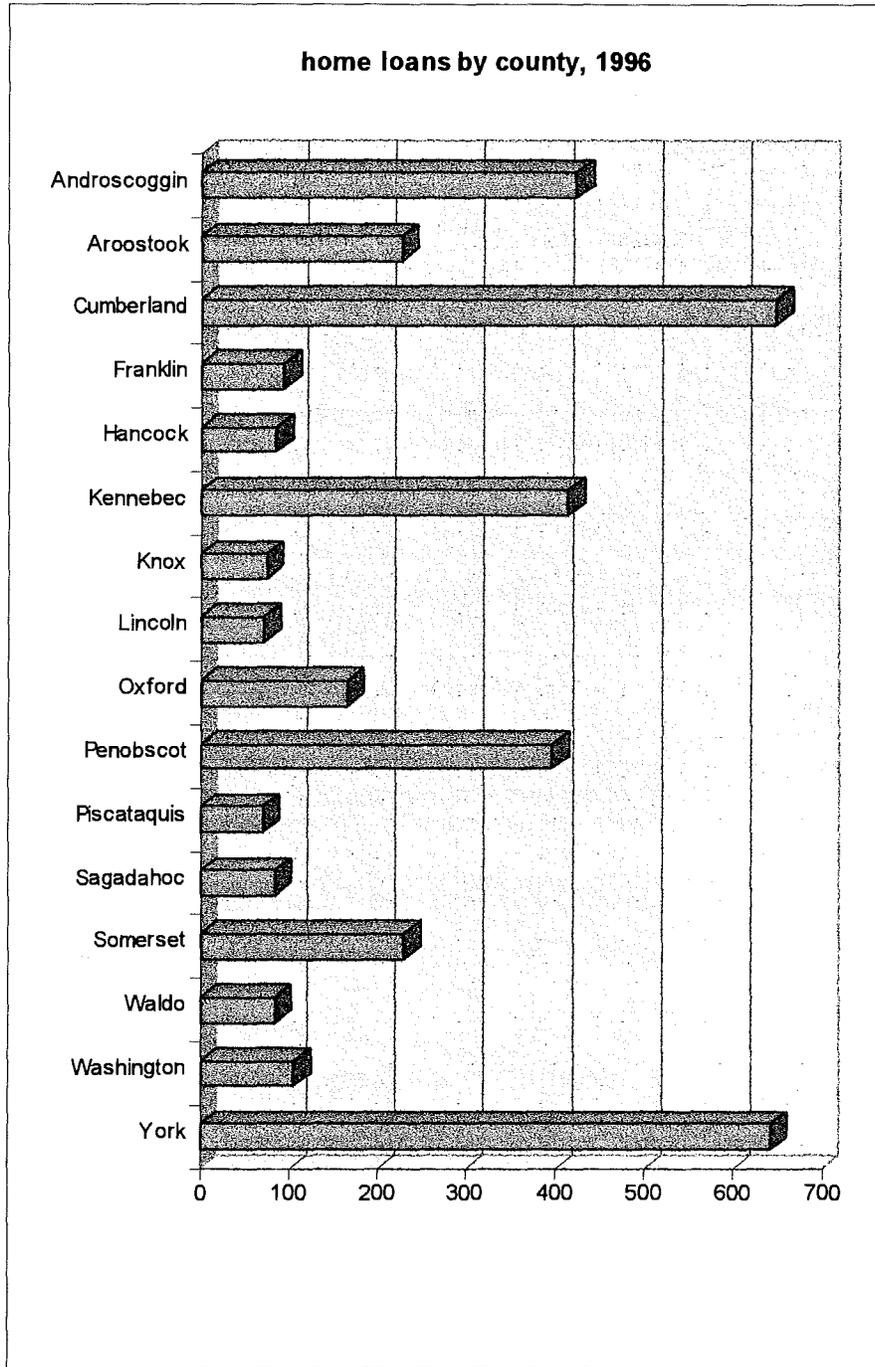
Over those two years the agency provided \$232 million in mortgages to finance these homes. While most of that money is from the sale of the agency's tax-exempt housing bonds, the \$1.8 million in state HOME Funds used with the bonds enabled the Housing Authority to dramatically lower the interest rates on the loans — and make homeownership possible for hundreds of Maine families who otherwise would not have been able to afford a home.

The interest rate during 1996, for example, was 6.75%, about a full point below most conventional interest rates. This saved the typical homebuyer about \$60 to \$85 a month.

Inclusion of the HOME Fund in the program also enabled the agency to provide additional benefits to make it possible for lower income families to purchase their first homes.

The Down Home option, offered to borrowers with incomes at or below the median income, made it possible for first-time homebuyers to buy a home with as little as \$750 in out-of-pocket expenses for the downpayment and closing costs. An estimated 250 families will use the Down Home option in the first full year it was offered.

The Housing Authority plans to help another 2,000 Maine families become homeowners in 1997, with particular emphasis of assisting low income families buy their first homes, if adequate state HOME Funds are available.



Comparison of MSHA first-time homebuyer loans by county for 1996.

Helping cost-burdened homeowners

The same interest rate reduction used in the agency's first-time homebuyer programs also made it possible for a record number of low and very low income homeowners to make repairs to their substandard homes.

The agency's new FIX ME program, which started in 1995, offers loans of up to \$15,000 at interest rates of 1% or 4% by combining bond funds with either the state HOME Fund or federal block grant funds from the Department of Housing and Urban Development (HUD).

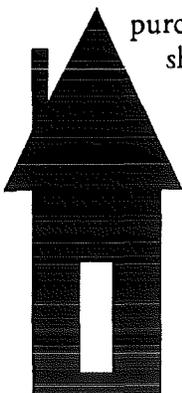
Overall, the Housing Authority made \$12 million in loans to enable 1,500 lower income owners make needed home repairs. This amount included \$1,450,000 of state HOME Funds.

The 1,500 loans are by far the most successful home repair effort the Housing Authority has ever offered. Previous home repair programs never exceeded 250-300 loans a year. No previous programs, however, offered loans with rates as low as 1%, or used the regional Community Action Program agencies as lenders.

Most of the 1,500 FIX ME loans (about 1,200) were made in 1996. For 1997 the Housing Authority plans to help another 1,200 low income families finance needed home repairs, if enough HOME Fund money is available. With Maine having the 7th oldest housing stock in the country, the 5th highest rate of homeownership, and 37th highest income level, the need to help low income homeowners is obvious.

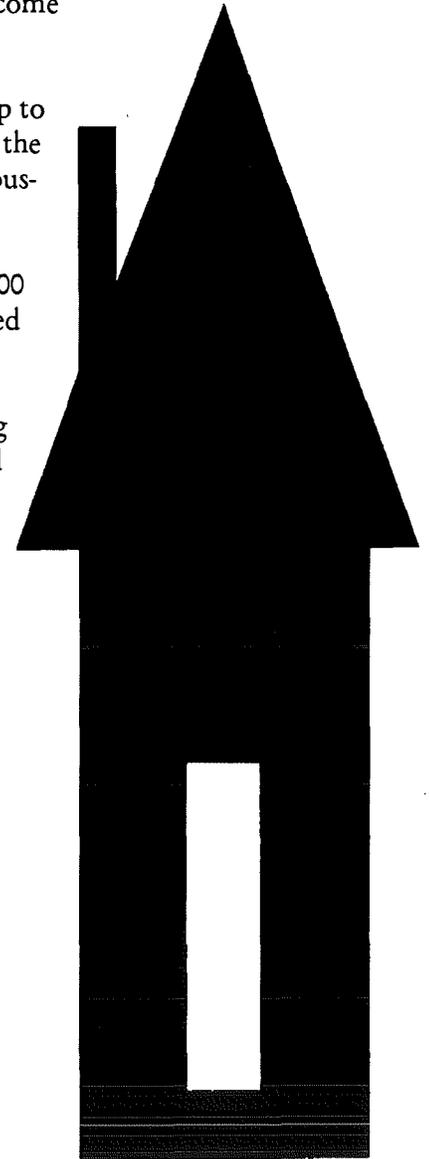
Helping persons who are homeless

During the latter part of the 1980's the Housing Authority allocated state HOME money to enable non-profit operations to purchase and rehab housing for 20 emergency homeless shelters throughout Maine.



This occurred at a time when homelessness suddenly became a problem here and in other states, due in large measure to the ending of the major federal housing program (the Section 8 program) that had provided affordable rental housing to very low income people, and the de-institutionalization of mental health institutes.

Since that time, the state's network of homeless shelters has continued to operate by using state and federal funds MSHA allocates to help support their operations and maintain properties.



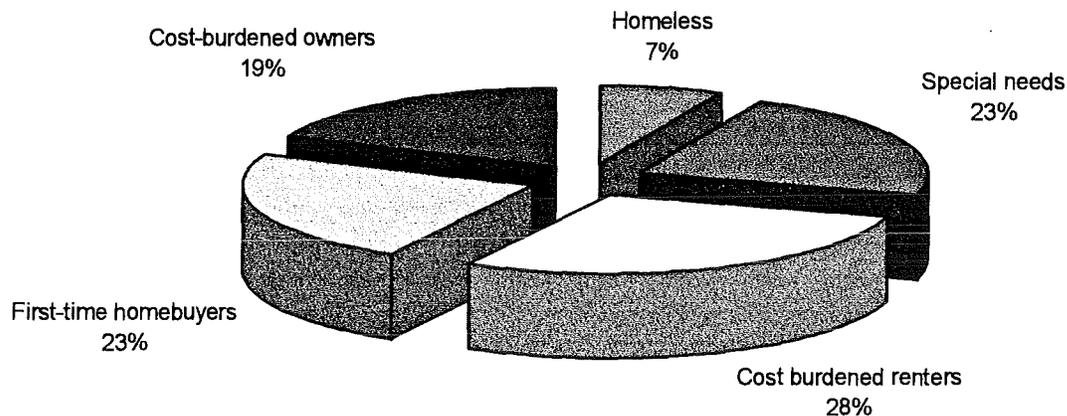
Taxation Committee HOME Fund Report 1995-96

The state's emergency shelter network has continued to serve more homeless people annually, including many consumers with serious mental illness or other special needs who have no other housing options. In 1996 the state's shelters served more than 14,000 clients, providing nearly 170,000 bed-nights for the clients.

In order to provide these populations with more permanent housing, and link them with services they need to transition from homelessness, the Housing Authority in 1996 led an effort involving a coalition of 22 emergency shelters to secure federal funds for longer term housing.

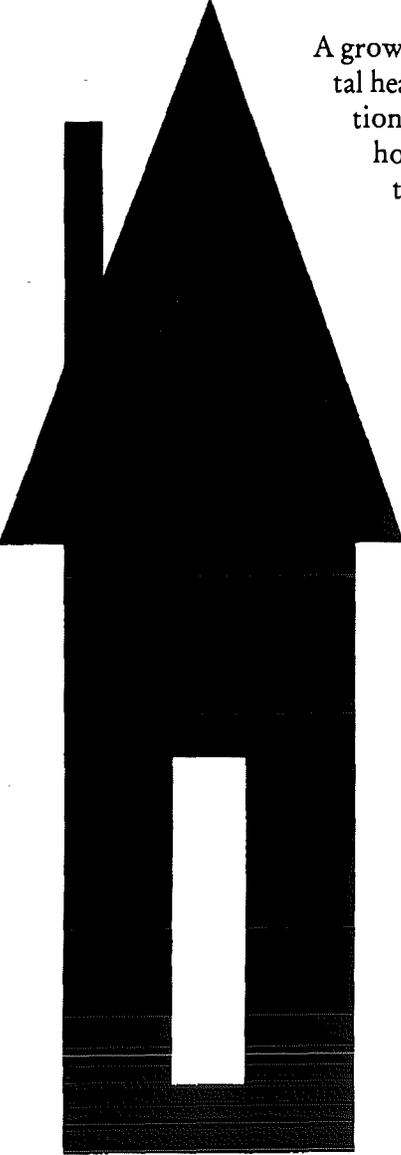
The effort was successful, leading to a HUD grant of \$1.75 million in new federal funds to develop 75 new emergency housing units that will serve about 200 of the most troubled homeless in the state. The Housing Authority has agreed to provide an additional \$1.75 million towards the purchase and rehabilitation of this emergency housing, including \$530,000 in state HOME Funds.

The projects include transitional housing for families who are victims of domestic violence; units for persons with mental illness, substance abuse, or both; transitional housing for homeless families; and transitional housing for homeless youth. This effort holds out the promise of providing help and long term housing — and a long term solution to their problems — to people who are homeless, if adequate state HOME Fund money is available.



1996 allocation of HOME Funds by housing needs

Helping persons with special housing needs



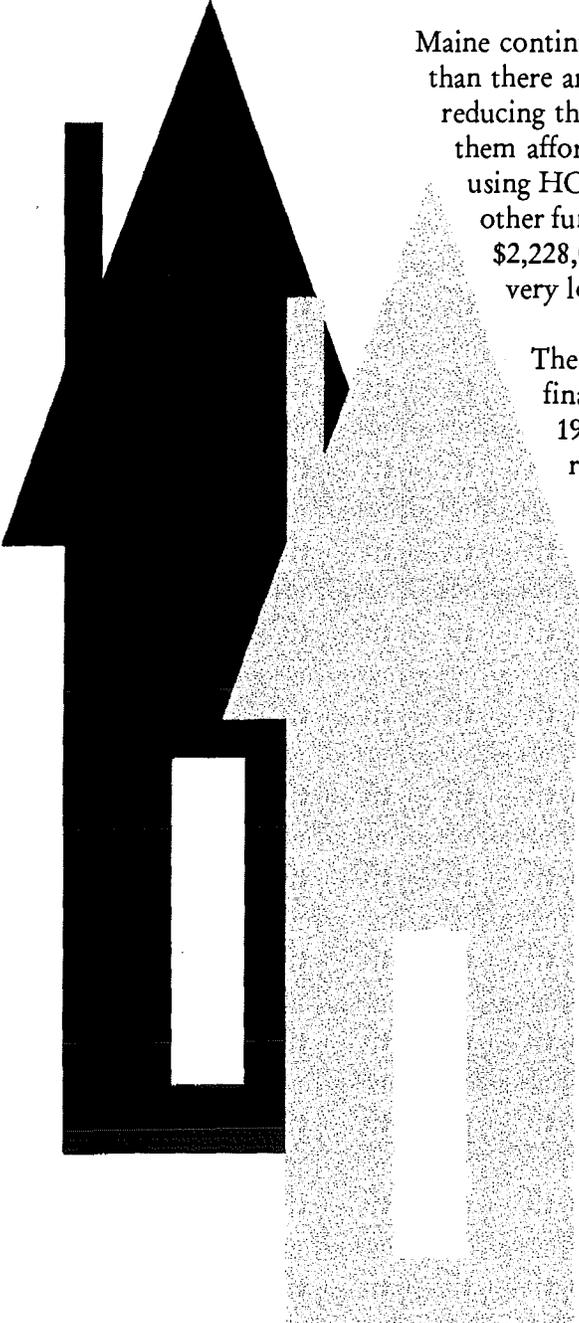
A growing housing need in Maine is housing for mental health consumers, persons with mental retardation, and others with special needs. Usually this housing is combined with services funded through the state social service agencies. The Housing Authority's role is to provide decent, safe, affordable housing for the clients while they are receiving services.

In 1995-96 the Housing Authority used \$1,750,000 in state HOME Funds to help finance 195 units of housing for those with special needs, including new programs to provide suitable housing to frail elderly in Maine. Currently many Maine elderly citizens have no options between their current housing situation and expensive nursing home care. This is one reason Maine has the highest percentage of seniors in nursing homes of any state in the nation.

A Housing Authority's goal is to make more housing options available to seniors. The new Adult Family Care Program the Housing Authority began in 1996 will provide seniors with more alternatives. This program is offered state wide.

The pilot Keeping Seniors Home program offers free home repairs to qualified seniors, if the repairs will enable the senior resident to continue to live in the home. The pilot program is offered only in Somerset and Kennebec Counties. The Housing Authority plans to expand the program to other areas and nearly double its size in 1997, if state HOME Funds are available for expansion.

Helping cost-burdened renters



Maine continues to have far more renters in need of assisted rental housing than there are units available. One major use for the state HOME Fund is reducing the cost of purchasing and rehabilitating apartments and making them affordable for low income renters. The cost is reduced usually by using HOME Funds in conjunction with tax-exempt bond financing and other funding. Over the past two years the Housing Authority allocated \$2,228,000 of HOME money to make housing affordable to low and very low income renters.

The HOME Fund money is used in the Rental Loan Program, which finances large scale (20 or more units) rental developments. During 1995-96 this program financed the development of 451 units of rental housing that is targeted to very low and low income tenants. The program also is responsible for the rehabilitation of several major properties around the state, such as the Lafayette Hotel in Portland and the Freese's building in Bangor.

In the Rental Loan Program, often the HOME/bond funding is further leveraged by using federal Low Income Housing Tax credits, which MSHA also distributes. A small scale rental development program, targeted to properties of less than 20 units, uses the FedHOME subsidy.

The Housing Authority intends to continue the Rental Loan Program in 1997, if HOME Funds are available to make the program feasible.

Summary of Housing Needs

From the Depression up to the early 1980's, providing affordable housing to lower income citizens was primarily the responsibility of the federal government. That responsibility has been turned over to the states and local housing groups, to a large degree. In constant dollars, today's HUD budget for low income housing is 28% of its level of 1980.

The Housing Authority has been able to respond to the housing need challenge because of the state HOME Fund. The HOME Fund has enabled thousands of Maine families to secure decent, safe, and affordable housing over the past 14 years, but thousands more Maine families continue to live in housing that is substandard, unsafe, or that they cannot afford.

The Housing Authority annually assesses the state's most pressing housing needs in the Consolidated Housing and Community Development Plan it prepares for HUD. Highlights of the most critical housing need include:



An estimated 90,000 renter households who could become homeowners with the assistance MSHA provides. The help is of particular importance to younger households, those headed by someone age 25 or less. Nearly half of these families (45%) have annual incomes of \$25,000 or less.



An estimated 53,000 homeowners who are "cost-burdened." They pay a high percentage (30% or more) of their income for their homes and may not be able to afford routine maintenance and repairs. More than 20,000 owners pay half or more of their income for housing, including many elderly. There are 150,000 homeowners in the state who earn less than the median income, and a large portion of them need repairs to their homes.

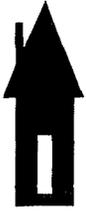


An estimated 15,000 cost-burdened renters who do not live in subsidized housing and who pay 30% or more of their income for housing. Most (72%) are very low income families. Between 1990-96 the number of cost-burdened renters increased by 37%.



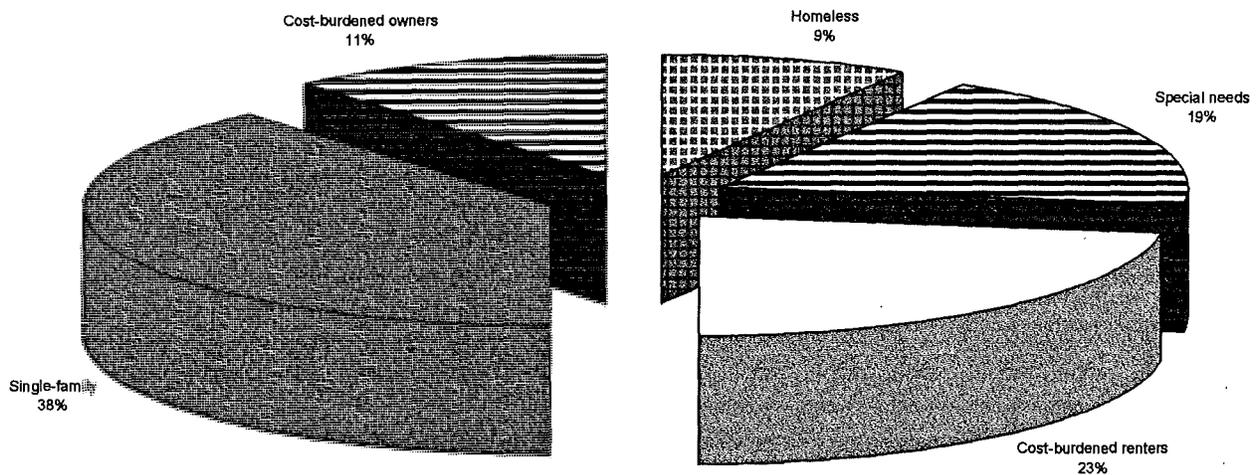
An estimated 7,000 Maine people who are homeless or likely to become homeless. On any night, 400 people will seek housing in a Maine emergency homeless shelter. Without the shelters, many of them would be sleeping on the streets. Surveys have shown that many homeless shelter clients need additional assistance, such as job training or education, and an opportunity to secure long term housing in order to move permanently from homelessness.

Taxation Committee HOME Fund Report 1995-96



A large and growing population of people with special housing needs. This includes many of Maine's seniors. Maine has the highest percentage of seniors in nursing homes of all states, because today there are few alternatives available to them. Others with special housing needs not being served include 20,000 adults with mental health needs (and only about 1,200 units to serve them), and as many as 1,500 youngsters between the ages of 6-20 with mental health and housing needs.

HOME Fund allocation 1990-96



Economic Impact of HOME Fund

While the state HOME Fund is primarily a tool to provide decent, affordable housing to Maine people, the Fund makes a significant contribution to the Maine economy in several ways.

Housing activity itself has a significant ripple effect on the economy. That's why it is used as a leading economic indicator. In Maine, the HOME Fund's leveraging of millions in housing investments leads to the creation of jobs in housing related businesses, and sales of housing related materials and merchandise.

The first-time homebuyer program alone is estimated to have generated more than 1,200 jobs, \$28 million in income, and \$70 million in sales over the past two years while financing homes for 3,600 Maine families. The Housing Authority finances about one in every five home sales in the state.

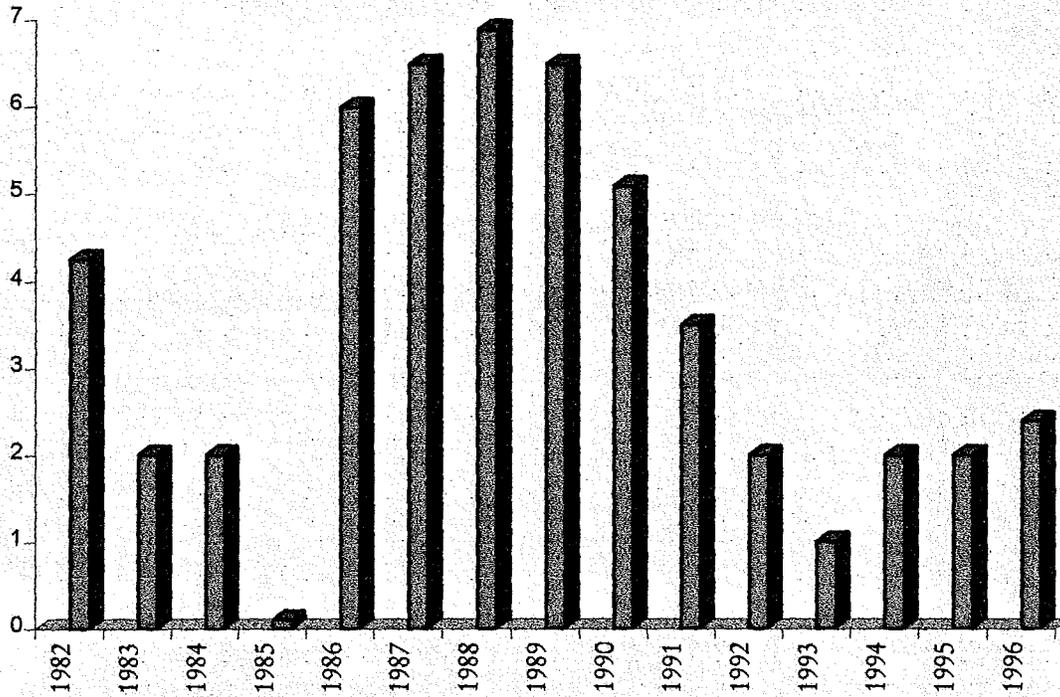
The more than 1,500 homes repaired with the agency's FIX ME program (using \$1.5 million in HOME Funds) generated more than 350 jobs, over \$8 million in new income, and millions in building material sales.

The rehabilitation of existing rental properties (and some new construction of units) in affordable rental housing programs and special needs programs added about 600 to 700 jobs, and more than \$30 million in sales to Maine's economy.

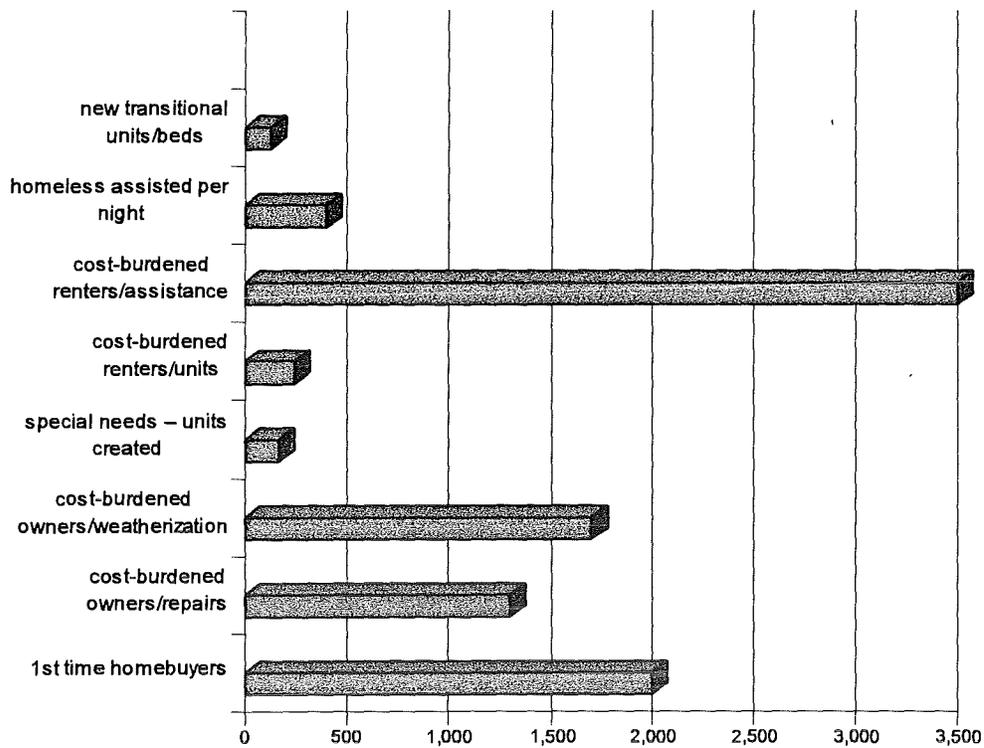
The tax revenue generated by the housing activity resulting from HOME Fund expenditures helps offset the state's contribution to the HOME Fund. This includes such revenue as sales tax on materials and construction equipment, furniture, and so on, as well as state income taxes on workers who make their livelihood in housing related activities, including banking, real estate, and home building or remodeling. Homes financed by the Housing Authority over the past two years generated more than \$1 million in Real Estate Transfer Taxes alone.

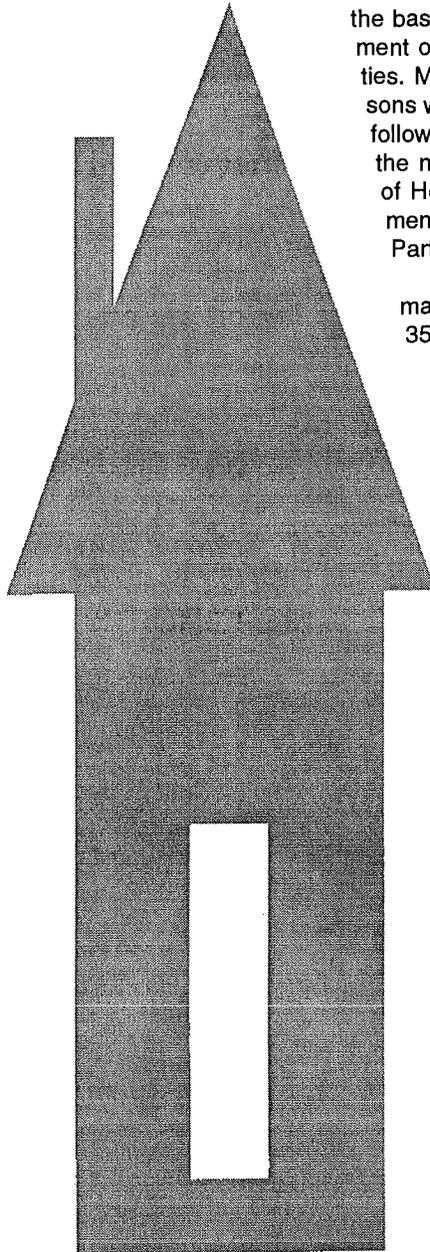
Taxation Committee HOME Fund Report 1995-96

HOME Fund Receipts 1982-1996 (in \$ millions)



MSHA Housing Production Goals for 1997





The Maine State Housing Authority does not discriminate on the basis of disability status in the admission or access to, or treatment or employment in, its federally assisted programs and activities. MSHA will provide special communication assistance to persons with vision or hearing impairments. MSHA has designated the following persons as responsible for coordinating compliance with the nondiscrimination requirements contained in the Department of Housing and Urban Development's (HUD) regulations implementing Section 504 of the Rehabilitation Act of 1973 (24 C.F.R. Part 8. June 2, 1988):

Jodie S. Sullivan, Counsel, and Susan D. Crawford, Information and Referral Specialist, Maine State Housing Authority, 353 Water Street, Augusta, Maine 04330-4633.

Tel: (207) 626-4600 or
1-800-452-4668 (voice);
1-800-452-4603 (TDD)