

MAINE STATE LEGISLATURE

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Analysis of Savings from and Benefits of Tax-Exempt Financing

Pursuant to 10 MRSA Sec. 363

March 2017



MaineHousing
Maine State Housing Authority

March 13, 2017

The Honorable Amy F. Volk, Chair
The Honorable Ryan M. Fecteau, Chair
Members, Joint Standing Committee on Labor,
Commerce, Research and Economic Development
100 State House Station
Augusta, ME 04333-0100

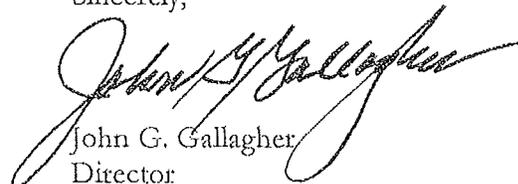
Subject: Analysis of Savings from and Benefits of Tax-Exempt Financing

Dear Committee Members:

Pursuant to 10 MRSA Sec. 363, please find under this cover the above referenced report along with the Independent Accountants Report on Applying Agreed Upon Procedures.

If you have any questions, please contact me or Peter Merrill at 626-4608.

Sincerely,



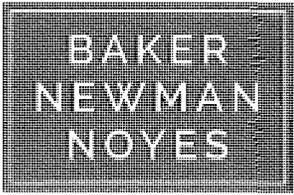
John G. Gallagher
Director

JGG/pme
Enclosure

MAINE STATE HOUSING AUTHORITY

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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

The Board of Commissioners of the
Maine State Housing Authority
Governor of the State of Maine
The Joint Standing Committee on Labor, Commerce,
Research and Economic Development

We have performed the procedures in Appendix A, which were agreed to by the Maine State Housing Authority, and the Joint Standing Committee on Labor, Commerce, Research and Economic Development (the Committee), solely to assist you with respect to the requirements of the State of Maine 10 MRSA Sec. 363, subsection 11. The Maine State Housing Authority is responsible for the preparation of the "Analysis of Savings from and Benefits of Tax-Exempt Financing" (the Analysis). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are summarized in Appendix A.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion, on the Analysis. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Maine State Housing Authority, the Committee and the Governor of the State of Maine, and is not intended to be and should not be used by anyone other than those specified parties.

Baker Newman & Noyes LLC

Portland, Maine
March 13, 2017

MAINE STATE HOUSING AUTHORITY

INDEPENDENT ACCOUNTANTS' PROCEDURES PURSUANT TO 10 MRSA Sec. 363

We obtained the "Analysis of Savings from and Benefits of Tax-Exempt Financing" prepared by the Maine State Housing Authority (MaineHousing) which details the tax-exempt bonds issued in 2016 and performed the following:

1. We agreed the Lendable Proceeds on page 5 for the bond issues in the Analysis, which were 2015 Series G, 2016 Series A, 2016 Series B, 2016 Series C and 2016 Series E, to the sum of the estimated uses of funds schedule contained in the Official Statement for each corresponding bond series.
2. We recalculated the weighted-average mortgage rate of the lendable single family proceeds produced in 2016 by MaineHousing of 3.43% on page 5 based on the lendable proceeds and average rate in the Official Statement for each corresponding bond.
3. We agreed the Fannie Mae 60 Day Commitment Rate shown on page 5 of 3.17% for 2016 to the average of the Fannie Mae 60 Day Forward Commitment Rate obtained from JP Morgan, as provided by MaineHousing. We recalculated the 59 basis points average difference between the Fannie Mae 60 Day Commitment rate and the average rate of 8 lenders as provided by MaineHousing, and recalculated the total average market rate of 3.76% as shown on page 5.
4. We recalculated the rate advantage of 33 basis points and recalculated the monthly payment savings of \$23 based on a \$123,000, 30 year mortgage, provided by this basis difference, as shown on page 5.

ANALYSIS OF SAVINGS FROM AND BENEFITS OF TAX-EXEMPT FINANCING

In 2016, the Maine State Housing Authority (MaineHousing) issued or converted tax exempt private activity bonds in the aggregate principal amount of \$203,000,000 in its Mortgage Purchase Program (MPP) Bond Resolution. The proceeds of these issues were used to fund required debt service reserves, pay the cost of issuance, pay the underwriters fees, refund outstanding bonds, and to make or purchase new single family mortgage loans. The issues generated approximately \$168.2 million of lendable proceeds for MaineHousing's single family program.

In 2016, MaineHousing purchased \$168.7 million in mortgage loans; substantially all of which qualified for tax-exempt financing. About \$62 million of the bond proceeds used in these purchases were generated in bond sales from prior years or surplus monies. At year-end \$62 million of lendable proceeds remained unexpended from 2016 bond sales.

BOND ISSUANCE AND BOND CAP USAGE

In 2016, MaineHousing issued or converted \$203,000,000 par amount of tax-exempt housing bonds, which generated tax-exempt proceeds of \$206.6 million, but only expended \$178,635,347 in Private Activity Bond cap. That means that approximately \$28 million of MaineHousing's proceeds in 2016 did not require an allocation of bond cap. The three mechanisms used by MaineHousing to issue private activity bonds without utilizing bond cap are explained below:

1. **Refunding:** When the proceeds of a tax-exempt bond sale are used to redeem the outstanding bonds of a prior issue and the refunding bonds have an average life that does not exceed that of the bonds being refunded, private purpose bond cap is not required. MaineHousing sold \$28 million of such bond refundings in 2016.
2. **501(c)(3) Multifamily Bonds:** Bonds sold to fund a qualified low-income project, which is owned by a 501(c)(3) entity, do not require private activity bond cap. MaineHousing did not sell any 501(c)(3) bonds in 2016.
3. **Replacement Refundings:** The tax code allows that if, within 90 days of the issuance of new bonds, bonds of similar tax status are retired, that the new bonds in an amount equal to the redeemed bonds may be deemed to be replacing the prior bonds and do not require a bond cap allocation. MaineHousing did not sell any replacement refunding bonds in 2016.

MULTIFAMILY BOND AND THE LOW INCOME HOUSING TAX CREDIT (LIHTC)

Multifamily bonds issued from an allocation of the private activity bond cap produce an additional allocation of the LIHTC equal to 10 years of an annual tax credit equal to 4% of the cost of the low income units in a project. This tax credit is then sold to investors to produce equity capital for the project, thereby reducing the amount of debt required.

Example: A 20-unit project is being built for low-income tenants. The cost is \$100,000 per unit or \$2,000,000. The project, if financed with private activity bonds, would be eligible for \$80,000 of annual tax credits for 10 years or a total of \$800,000. Investors are currently paying approximately 80 cents on the dollar, which in this example would generate \$640,000 of equity for the project. The required financing would be thereby reduced from \$2 million to \$1,360,000. If the interest rate on the \$1,360,000 mortgage is 6.5%, the rate on a \$2 million mortgage would have to be 3.125% to produce the same monthly payments. The LIHTC, therefore, supplements the impact of the lower rate by replacing debt with equity.

INCOME TARGETING: SINGLE FAMILY

The single-family program is restricted to first time homebuyers who are Maine residents buying a principal residence. The income of the borrowers may not exceed 115% of the area median and the purchase price of the residence may not exceed 110% of the area median. In 2016, the average loan size was about \$123,000. The average family income was \$50,000.

INCOME TARGETING: MULTIFAMILY

In multifamily projects financed with the proceeds of tax-exempt bonds, the benefits of the tax-exempt mortgage rates are passed along to tenants in the form of below market rents. The tax code requires either 20% of the units must be affordable for families at 50% of the area median income or 40% of the units for families at 60% of the area median income. The computation assumes that 30% of gross monthly income is available for rent.

In almost every program, MaineHousing requires or rewards even greater affordability than the tax code.

In multifamily projects the benefits of tax exempt financing should be measured by the rent differential, in units of similar quality and desirability, between market rents and rents in the low-income units in the same locale. In addition, it is important to ascertain the benefits of the economic activity generated by the construction or rehabilitation of the units.

2016 Mortgage Purchase Program (MPP) Tax-Exempt Bond Issues

Sources and Uses of Funds

Type of Issue	2015G* Single Family	2016A Single Family	2016B Single Family	2016C Single Family	2016E Single Family	TOTAL MPP BOND ISSUES **
<u>SOURCES:</u>						
Principal of Bonds	30,000,000	35,000,000	70,000,000	40,000,000	28,000,000	203,000,000
Original Issue Premium	353,882	692,837	1,294,396	696,965	597,266	3,635,346
MaineHousing Contribution	-	-	102,425	-	-	102,425
TOTAL SOURCES	30,353,882	35,692,837	71,396,821	40,696,965	28,597,266	206,737,771
<u>USES:</u>						
Refunding of Prior Bonds	-	-	28,000,000	-	-	28,000,000
Purchase of Mortgages	28,003,882	32,850,342	42,904,226	37,750,693	26,724,070	168,233,213
Housing Reserve Fund	1,958,522	2,397,548	-	2,450,000	1,500,000	8,306,070
Cost of Issuance	150,000	175,000	150,000	190,000	150,000	815,000
Underwriters Fee/Discount	241,478	269,947	342,595	306,272	223,196	1,383,488
TOTAL USES	30,353,882	35,692,837	71,396,821	40,696,965	28,597,266	206,737,771
BOND CAP USED	30,353,882	35,692,838	43,294,396	40,696,965	28,597,266	178,635,347

* The 2015 Series G Single Family bonds were included because although priced in December 2015, were not issued until January 7, 2016.

** The \$40,000,000 2016 Series D Bonds were not included because they were taxable bonds.

I. BOND CAP AVAILABLE IN 2016

Carryforward from prior years	\$ 775,965,000
Initial Allocation in 2016	50,000,000
Re-allocation during 2016	<u>252,875,000</u>
Total Available	<u>\$ 1,078,840,000</u>
BOND CAP USED IN 2016	\$ 178,635,000
BOND CAP EXPIRING ON 12/31/16	\$ 53,990,000
CARRYFORWARD TO 2017	<u><u>\$ 846,215,000</u></u>

BENEFIT OF 2016 SINGLE FAMILY ISSUES

Issues **	Lendable Proceeds	Weighted Average Mortgage Rate **
2015 Series G, 2016 Series A/B/C/E	\$168,233,213	3.43%

The weighted average rate of the lendable single family proceeds produced in 2016 by the five series of single family bonds issued during the year as shown above was 3.43%. MaineHousing's mortgages were substantially all level payment, 30 year term mortgages. We estimate that the \$3,500 closing cost grants made in connection with a portion of the mortgages funded with the proceeds of the 2016 bonds will average about 3% of the mortgage amount.

A good proxy for market rates is the Fannie Mae 60 Day Commitment Rate plus a spread. On a weekly basis MaineHousing does a rate survey of 8 active market lenders in the State. In 2016, the average differential between the average rate of these 8 lenders and the Fannie Mae 60 day commitment rate at that same point in time was 59 basis points. The average Fannie Mae 60 day rate during 2016 was 3.17%. By adding the 59 basis point spread we get an average market rate of 3.76% in 2016.

Summary of 2016 Benefits

The differential between the MaineHousing single family rate of 3.43% and the average market rate in Maine, which was about 3.76%, was 33 basis points. On the average MaineHousing mortgage of \$123,000, MaineHousing would generate a monthly payment of about \$23 less than that of the market rate.

With all of the proceeds generated by the 2016 bond sales, MaineHousing offered a \$3,500 grant to be applied to closing costs. By consistently having a rate under the market and having a \$3,500 closing cost grant, MaineHousing was able to generate more demand for its product than it had in years.