

MAINE STATE LEGISLATURE

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Affordable Housing For The Emerging Maine



**The Report of
the Governor's
Task Force on
Affordable Housing**

September 1988



John R. McKernan, Jr.
Governor

Anne B. Pringle
Chair

N. Paul Gauvreau
Vice Chair

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STATE OF MAINE TASK FORCE ON AFFORDABLE HOUSING

The Honorable John R. McKernan, Jr.
Governor, State of Maine
State House Station #1
Augusta, Maine 04333

Dear Governor McKernan:

I am pleased to forward the final recommendations of the Task Force on Affordable Housing.

As you know, this thirty-member group represented diverse perspectives on the causes of and potential approaches to the affordable housing crisis facing the State of Maine. Since February, the Task Force met every two weeks for a five month period. From the start, individual members freely challenged biased attitudes on the problem and presented creative approaches to its resolution. The Task Force firmly believes that such diverse groups must be fostered throughout Maine and actively encouraged to develop local solutions to locally-defined problems.

Throughout its deliberations, reinforced by five public hearings and numerous formal and informal comments, the Task Force clearly established that the problem is multifaceted and of different character in different parts of the state.

The clear role of government (federal, state, and local) is to foster flexible local solutions, which are responsive, cost-efficient and assure long-term benefits to those in need of affordable housing.

The Task Force's recommendations place emphasis on local initiatives and supportive state incentives. In addition, it is clear that the federal government must provide critical leadership and supportive revenue allocations to state and local governments attempting to meet affordable housing needs.

The efforts of the Task Force were substantially enhanced by the strong commitment to the issue reflected by the Maine State Housing Authority and the Department of Economic and Community Development. Libby Mitchell, Director of MSHA, contributed significant staff resources, as well as financial support for publication of the Task Force's "community handbook." She was an active, enthusiastic participant in all discussions and contributed significantly to the quality of our ultimate products. Nate Bowditch, Commissioner of DECD, also actively committed significant staff and financial resources, including all costs of the Task Force's meetings and the publication of the final report. In particular, he generously contributed the full-time services of his special assistant, Linda Smith, who ably coordinated all the activities of the Task Force.

In conclusion, I would like to dedicate my personal effort to the memory of Bob Masterton, my late "boss" and mentor at Maine Savings Bank, who was deeply committed, over a long-term perspective, to assuring affordable housing for Maine's citizens and whose spirit inspired me throughout the entire process.

With best regards,

Anne B. Pringle
Chair

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Affordable Housing For The Emerging Maine

Executive Summary

In the emerging Maine, affordable housing stands as the number one priority. Older citizens, facing increasing maintenance and property taxes, worry about keeping their homes. A young couple, confronting the upward spiral of land and housing costs, see their dream of home ownership disappear. A single parent, paying over 50% of her income for rent, struggles to provide a decent home. A low income worker, caught by shifts in the economy, discovers that increased wages have not meant a better place to live. An entrepreneur, intent on expanding his business, is unable to fill new jobs because workers cannot find an affordable place to live within commuting distance.

All of these Maine people face one aspect of the complex affordable housing crisis. This report, the result of a six month dialogue among the bankers, realtors, housing developers, legislators, low income advocates and municipal officials who comprised the Governor's Task Force on Affordable Housing, lays the foundation of a new structure for Maine housing.

The report highlights four major areas for action -- *State Initiatives* which forge a new alliance to expand Maine's affordable housing options, *Technological In-*

novations to lower the overall costs of new units, *Financing Techniques and Incentives* which encourage housing production and finally, a call for a renewed *Federal Role* to increase and maintain affordable housing stock. Each of these plays a critical part in the solution to the complex affordable housing problem.

State Initiatives

The Task Force calls for building new strategies through an Affordable Housing Alliance; the maximization of state resources through the development of a comprehensive state housing action plan and the creation of new programs; and, the serving of Maine people with special housing needs by expanding their housing alternatives.

Technological Innovations

Maine must develop new performance based infrastructure standards as well as models for building, construction and rehabilitation codes, which encourage cost saving housing technologies.

Financing Techniques and Innovations

To promote more housing production, Maine must use creative financing approaches, including funding the Maine Mortgage Insurance Fund; creating a demonstration mutual housing program; expanding existing resources such as the New Housing Initiatives Program; and, supplementing existing tax incentives.

Federal Role

The expansion of the affordable housing stock demands a partnership between every level of government -- federal, state and local and the private sector. In order to reverse the decade old trend of declining federal commitment to housing, elements in the National Housing Task Force Report, as well as other federal initiatives are strongly endorsed.

This report represents a first step for the emerging Maine in shaping a new affordable housing agenda. Other items must still be addressed: the escalating demand on the property tax base forces communities to fund municipal services, education and affordable housing; and, the crisis resulting from the anticipated loss of federally subsidized housing units which requires new strategies and actions.

Decent, safe and affordable housing is critical to the continued economic vitality of the emerging Maine. The Task Force has recommended approaches, resources and tools which aid in developing local strategies to increase housing availability. Only strong partnerships can forge the creative solutions necessary to solve the affordable housing crisis.

Recognizing The Affordable Housing Dilemma

The Fading Dream

The backbone of every Maine community has historically been its people -- farmers or merchants, fishermen or teachers, craftspeople or nurses, police

officers or factory workers -- moderate income people who usually lived in their own homes. The diversity of the state's economy was reflected in the diversity of the communities' housing stock -- from modest apartments and homes to more expensive housing. While it was often a struggle to realize the dream of home ownership, having and owning a home was generally within the grasp of the working Maine family.

Most young people envisioned the time when they would grow up and move into a place of their own. Usually that was a gradual process which started with renting, included saving for a down payment, and led to home ownership.

Unfortunately, those days have changed dramatically. In the emerging Maine of 1988, even a two-income Maine family is less likely to be able to afford a home of its own. If one of the wage earners is working in a manufacturing job, and the other is working in a service sector job, their combined income may barely meet monthly rental and other basic costs, let alone allow saving for a down payment.

Defining Affordable Housing

While there is no single definition of affordable housing, the Task Force defines affordable housing as follows:

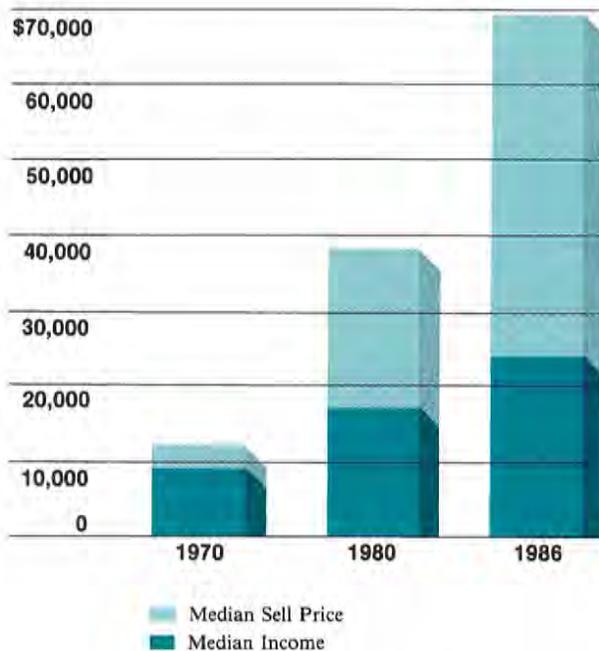
Affordable housing is an adequate, decent, safe and sanitary unit that meets the needs of very low-, low- and moderate-income households and can be rented or purchased for a reasonable percentage (25%-35%) of the household's gross annual income.

As defined by the U.S. Department of Housing and Urban Development, the 1988 state median annual income is \$26,000 for a family of four. Very low income is at or below 50% of state median income (\$13,000 for a family of four); low income is 51-80% of state median income (\$20,960 for a family of four); and, moderate income is 81-120% of state median income (\$31,400 for a family of four).

The effects are even more pronounced on the low income households in the state. Many of these families have been chronically under housed. In the same market where a two wage earner family is struggling, a single parent family, a fixed-income elderly household, or an unskilled worker may find no housing alternatives.

In this period when our state is enjoying its strongest economic resurgence of this century, the availability of housing units at a price which is afford-

Ownership Costs



Data Source 1970, 1980 Median Sell Price: Census 1986 MLS Data compiled by MSHA
Median Income: Census Bureau

able has become a dominant issue. The pressure affects a broad segment of the population -- low income people having increasing difficulty finding a housing unit at a reasonable rent; moderate income families seeking an affordable "starter home" in an escalating market; and fixed income homeowners at risk of losing their home because of mounting maintenance and property tax burdens.

The Roots of Change: Contributing Factors

Many factors contribute to the affordable housing challenge. While there are variances in the different geographic areas, the major forces behind this supply/demand problem are population dynamics, especially internal migration, not just in-migration from out of state, as is often assumed. One obvious element is the emergence of the "baby boom generation." As this generation (ages 25 to 42) has matured, it has created greater demand in the housing market. This occurs at a time when older residents are living longer in their own homes, thereby reducing the number of units which are changing ownership.

Changes in cultural values fuel housing demand. As a national trend, there are more single parent households and smaller households than in previous years. As the number of multi-generation households decline, as the number of two parent family units

diminish, and as young people leave their homes at an earlier age to begin life on their own, the demand for additional housing units will continue to increase.

The strength of the Maine economy also has an impact on the demand for housing units. The population has continued to grow over the last few decades as the economy has expanded and diversified, slowing the rate of out-migration. In 1988, the unemployment rate continues at its lowest rate since World War II. In the southern part of the state, the economy has been particularly robust, fueling demand for new housing units. In the 1980s, nearly 43% of Maine's housing unit growth occurred in York and Cumberland counties.

The growth of the Maine economy improved per capita and household income for Maine citizens. Even with this increase, the cost of housing has risen more sharply than income. Between 1970 and 1986, home prices increased 492% while income only rose by 181%. For an increasing number of Maine residents home ownership is a fading dream.

The Crisis for Low Income Households

Low income people have chronically faced the housing affordability problem. The majority of low income households are renters. Between 1970 and 1986, median rents increased 334% while income only rose by 181%. Of the renting households in

Who Needs Affordable Housing?

Joe and Jane Jones were born and raised in Lincoln County. They were recently married and are interested in buying a home. Their income of \$23,000 equals the median income in Lincoln County. The median house price in Lincoln County is \$77,000. In order to qualify for a loan to buy a house in their own area, they would have to have an income of \$33,000. Their income would have to increase 30% in order for them to even qualify for a mortgage for an average priced home in Lincoln County.

Susan Smith and her family moved into southern Maine because she was offered a promotion in her company if she relocated. Susan was planning on renting an apartment and saving for a down payment to buy a house. Unfortunately, what she found was that her rent and utilities cost \$800 per month or 40% of her total income of \$24,000 (the median income in Cumberland County). Susan is having difficulty just covering her current housing costs, and is unable to save any money for a down payment.

Maine, 71% have annual incomes of \$20,000 or less. With the demand for housing units increasing, rental units are becoming more expensive and less available, as they are converted to condominiums or improved to take advantage of a higher rental income market. Low income renters consequently face a dwindling supply of affordable units.

Maine's housing stock is among the oldest in the nation, with 42% of the housing units constructed prior to 1939. Almost half of the 1980 households subsisting below the poverty level were in housing units constructed prior to 1939. These older units are more likely to be deteriorating and therefore be lost to the market.

Deterioration of the housing stock is also an issue for low income homeowners. Nearly 8% of Maine's low income households are presently homeowners. Because these low income households may pay a disproportionate amount of their income for housing costs, including mounting property taxes, they are often unable to adequately maintain their homes.

At one extreme of the housing spectrum, Maine faces a growing homeless problem. A recent study on the homeless concluded that between 350 and 400 Maine people were homeless on any given night. Many more are at risk of homelessness because of the deteriorating condition of their units, or the pressures from the markets which make rent payments impossible for low income households. In addition, there are estimates of between 9,000 and 15,000 individuals with physical or mental disabilities who are in need of transitional or structured permanent housing. Many of these individuals remain at risk of homelessness.

Growth Management Pressures

Due to population changes, many communities, particularly small cities and towns, face unprecedented growth and the resulting pressures. Many communities, concerned with preserving their existing character and natural resources, have imposed land use and site development requirements, which contribute directly to higher housing costs. The cost of providing adequate municipal facilities, such as water, waste water treatment systems and solid waste disposal has continued to rise, adding costs to housing development.

In supply-short areas of the state, prices of both existing and new housing have been driven up to record levels, forcing the children of long-time residents as well as local workers to seek far outside the community for affordable housing. No discussion of managing growth pressures in Maine is complete without careful attention to the need for expanded affordable housing.

The lack of affordable housing directly impacts the continued growth of the Maine economy. Maine businesses need an available labor force in order to

expand. Without suitable housing opportunities, businesses are unable to attract the workers they need to grow. Addressing the affordable housing need is an essential part of the balanced growth formula.

Affordable Housing Themes

Throughout its deliberations, the Governor's Task Force on Affordable Housing heard several central themes. Before examining the recommendations of the Task Force, it is important to consider these themes and assumptions.

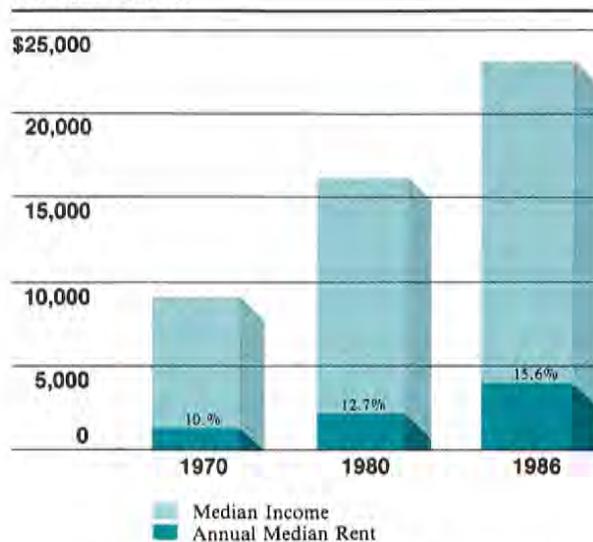
Expanding Housing Access

Every Maine person should have access to housing that is safe, standard, decent and affordable. A range of housing options must be available in order to meet the variety of needs, the diversity of lifestyles, and the differences of incomes among Maine people.

Increasing Public Awareness

A critical step in meeting our affordable housing needs is to insure that Maine citizens are knowledgeable about this issue. Education of state and local officials, community and business leaders, in fact, the entire population, is essential if new solutions are to be created and implemented. Affordable housing means housing for our parents, for our children, for our neighbors, and for all those within our community, including those with special needs.

Rental Costs



Data Source 1970, 1980 Median Rent: Census Bureau
1986 Median Rent: Mainepoll Survey
Median Income: Census Bureau

*Should be pointed out that renters incomes tend to be lower than homeowner incomes.

Building An Alliance

Affordable housing solutions require the active participation of all parties. Clearly, government has a key role, including coordinated action on the local, state and federal levels. Financial institutions, real estate brokers, developers, housing manufacturers and nonprofit entities such as community housing ventures, religious organizations and other community groups must also join the coalition with government leaders to shape a new strategy.

Reducing Regulatory Impact

Land use and site development requirements, as well as protracted review and approval processes, directly impact the cost of housing. Municipal and state officials must streamline their regulatory approval processes and requirements to minimize the effect on affordable housing costs. Approaches must be fostered which encourage regional land use solutions to shared environmental concerns.

Addressing Municipal Needs

Municipal infrastructure costs and existing state and federal funding formulas create disincentives for addressing the affordable housing situation. Communities must have incentive resources to plan and implement affordable housing strategies.

Encouraging Housing Production

The scope of the housing problem demands creative attention from both the private and nonprofit sector. Private developers have the experience, resources and talent to produce affordable housing for many Maine citizens. Cost efficient, community based nonprofit developers complement the efforts of the private sector by producing housing for low income citizens where the profit margin may be too narrow. These nonprofit housing developers not only create housing which is accessible to the low income, but are able to maintain these units as affordable "in perpetuity." Incentives must be expanded to encourage housing production by both private for profit and nonprofit developers.

Maintaining the Housing Investment

Public participation and financing is a key to the creation of more affordable housing stock. When public funds are invested to increase the affordable housing supply, those units should remain affordable in perpetuity. By using deed restrictions and the recapture of public funds, windfall profits should be reduced and affordable housing stock will be preserved.

Retaining the Character of Maine Communities

The quality of Maine life should be preserved by retaining the essential character of our communities. Mixed income housing, which recognizes the diversity of economic conditions, must be encouraged and integrated into the natural and social fabric of the community.

Responding to Housing Needs in the Emerging Maine

Historically, the federal government has played a strong role in providing affordable housing. In the last few years, the federal commitment to housing has dropped from over \$30 billion to less than \$1 billion nationally. The lack of new federal housing initiatives, and the reduction of existing programs has created a vacuum. New partnerships involving local, state and federal governments, together with the private and nonprofit sectors must be forged to meet this emerging need.

Alleviating the affordable housing crisis must be a top priority of state and local government. Much attention has recently been given to managing growth in our state. This issue balances concerns for the protection of our natural resources, the preservation of the character of Maine community life, and the need to expand the supply of affordable housing. It is essential that the availability of safe, standard, decent and affordable housing units continue to be one of the major aspects of our better managing growth.

One Potential Solution -- Using a Density Bonus

A community has an area zoned with a minimum lot size of three acres and minimum road frontage of 200 feet. Under these regulations a proposed 15 house lot development is laid out on 50 acres at a cost of \$30,000 per lot to buy the land, build the road and install utilities.

If the density were increased to 30 units on 1.5 acre lots, the lot costs would be reduced to \$15,000

per lot. The total savings of \$15,000/lot for 30 units equals \$450,000.

The sales prices of 20% (six) of the units could be reduced from the fair market price of \$110,000 to \$60,000 so households earning 80% or less than the median income could qualify to purchase a new home. The sales price of 5% (two) of the units could be reduced from the fair market price of \$110,000 to

\$35,000 for households earning 50% or less than the median income.

Any unit created, through an increased density allowance from the community, would contain a recapture clause which would recoup 100% of any appreciation if the house were sold during the first five years after closing. This 100% could be reduced in 5% increments over the next 20 years.



An Affordable Housing Agenda

Maine is at a critical point in addressing our affordable housing agenda. The needs are real and opportunity awaits. There is a strong and appropriate role which can be assumed by the state and its people as we deal with the affordable housing needs in our communities. A balanced approach of both incentives and disincentives is necessary to encourage the diversity and quantity of affordable housing needed by Maine people.

Attention must be concentrated in four major areas—*State Initiatives, Technological Innovations, Financing Techniques and Incentives, and The Federal Role*. Each of these four major areas is organized to focus on one or more of the problems through an Issue; followed by a Strategy intended to meet each expressed need; and, one or more Initiatives designed to implement these Strategies.

State Initiatives To Promote Affordable Housing

The State of Maine has a critical role to play in addressing the need of Maine people to have safe, standard, decent, and affordable housing. While no single organization or entity can address the large and diverse affordable housing agenda, the state, with its ability to allocate resources, as well as to influence the regulatory environment, can have a major impact in addressing the affordable housing needs of Maine people.

Issue: Growth and change in Maine communities has led to a greater need for affordable housing units. At the same time, the cumulative impact of regulations, ordinances and codes affects the cost and supply of affordable housing. While housing supply and demand is a function of market forces, steps must be taken to promote positive action on the local, regional and state levels.

Strategy: New strategies to expand the number of affordable units are essential. State assistance must encourage new approaches to insure that every community provides affordable housing as a portion of its overall housing stock.

Initiative: Create the Affordable Housing Alliance of Maine

Maine should develop a comprehensive Affordable Housing Alliance Program to expand a partnership to address affordable housing needs. The program should achieve the following results:

- Expand the affordable housing stock in all Maine communities
- Expand the availability and variety of housing to serve a range of incomes within all communities
- Encourage the development of housing for those with special needs including the elderly, the homeless, those at risk of becoming homeless, and those with physical or mental disabilities
- Preserve existing housing stock which is currently affordable.

The Alliance will achieve these results by:

- Conducting an active and focused public education campaign on both the state and local level to increase awareness about local housing needs and to change state and local regulatory policies which have a negative impact on housing costs
- Encouraging new coalitions which include local officials, business, community leaders and nonprofits working together to address affordable housing needs
- Assisting municipalities in developing a balanced approach to housing development which includes improved planning for growth, recognition of regional housing impacts, set-asides for low income populations, more flexible land use regulations to encourage greater densities, and use of local land banks or land trusts.

The Governor should form an advisory group which includes municipal, business and community leaders charged with responsibility for framing the Alliance and advising staff on ongoing program implementation. The Alliance should have a dedicated staff which will advocate for affordable housing, provide technical assistance to municipalities and regions, and coordinate resources on the state level. This staff can be located either within a private foundation, as part of the Department of Economic and Community Development, or as part of the Maine State Housing Authority.

This Affordable Housing Alliance should provide a range of resources, performance based incentives and disincentives to housing producers and to municipalities to expand availability of affordable housing units. Such resources would include:

- Low interest loans to a municipality to purchase land which will be used to attract the development of new affordable housing units. Units created using such resources should have deed restrictions or other mechanisms which insure that they will remain as affordable housing stock in perpetuity
- Financial resources for the development or expansion of water, sewer and solid waste facilities in Maine municipalities. Priority in the allocation of grants should be given on a performance basis to those communities which will use this resource to meet affordable housing goals or who have met affordable housing goals. Special consideration will be given to projects in which 5% of the units are available to households with an income less than 50% of the county median. These resources would encourage increased housing densities while maintaining high environmental standards
- Challenge grants awarded to municipalities for innovative land use, zoning and other regulatory or land management activities which reduce the cost of creating affordable housing
- Changes in state regulatory policy in order to allow the expansion of waste water treatment facilities based on projected needs rather than existing needs
- Financial support provided to community based, nonprofit organizations, which bring expertise and commitment to serving the needs of low income households in the community
- A system of state comprehensive permitting to discourage discrimination against developments containing affordable units. This would include a process of appeal to the state by developers only if three conditions were met. First, it would apply only in communities with less than 20% of their housing stock available to persons with low or moderate incomes. Second, it would apply only to projects providing at least 20% of the units to households with an income less than 80% of the county's median with the remaining 80% of the units available at market rates. Third, the project must either have been rejected by local planning or zoning organizations without compelling and just health, safety or environmental related reasons or the municipality is requiring site

development performance standards which exceed those developed by the state. Under these circumstances, the state would be able to provide the approvals necessary for the development of affordable units.

As part of this Alliance, Maine's communities have the opportunity to encourage expanded affordable housing units in a number of ways. On the local level, officials should:

- Utilize existing municipally owned land to encourage the construction of a greater number of affordable housing units
- Expand incentives for developer projects which include set-asides of affordable units. For example, a developer could be granted a density bonus of up to 100% for marketing a minimum of 25% of all dwelling units to those individuals or households earning 80% or less of the county's median income. Such incentives should include provisions which result in long term affordable housing units for the municipality rather than windfall profits to the owners
- Eliminate local barriers to affordable housing such as those that discourage the development of mobile/modular housing subdivisions and single site subdivisions
- Complete impact statements which detail the effect and cost of changes in local land use regulations and their implementation on the affordable housing supply. Impact statements would evaluate the costs of changes to zoning, code enforcement and site development performance standards.

Issue: As the need for affordable housing increases in Maine communities, the federal government, which has played a strong role in this area, is reducing its program support. The state and its municipalities, together with the business and nonprofit sector, must shoulder an increasing burden. It is essential that Maine maximize the use of existing program resources and explore new alternatives to fill the resources gap in affordable housing.

Strategy: Maine should maximize state resources to expand the affordable housing stock.

Initiative: Develop and Implement a State Housing Policy and Action Plan

The Governor, in consultation with the Legislature, should develop a formal State Housing Policy which includes goals and objectives to coordinate the delivery of housing programs and related services. An interagency task force, including the Department of Economic and Community Development; the Division of Community Services; the Department of Human

Services; the Department of Mental Health and Mental Retardation; the Department of Environmental Protection; the Maine Vocational Technical Institute; the Maine State Housing Authority; and the Farmers Home Administration as well as a representative from the Affordable Housing Alliance, should be formed to develop and implement a housing action plan. This task force will present an annual report to the Governor. Specifically, this task force shall:

- Coordinate delivery of housing resources
- Facilitate the compilation and dissemination of data related to housing for end users such as the Legislature, state agencies, private and nonprofit developers and municipalities; particular attention should be given to developing a specific system for reporting on the housing needs of special populations
- Establish a clearinghouse on housing technologies for private and public housing providers
- Target program resources to priorities established in the State Housing Policy
- Streamline agency approval processes and complete impact statements which detail the effect and cost of changes in agency program administration on the affordable housing supply
- Develop partnerships between the state and the business community to expand affordable housing stock in Maine
- Insure that all investments made with state funds, to the greatest extent possible, require a recapture clause as well as a cap on windfall profits
- Maintain a strong commitment to the enforcement of fair housing laws.

Initiative: State Funding of New Housing Initiatives Program

The state should provide general fund appropriations for the New Housing Initiatives Program of the Maine State Housing Authority, which demonstrates innovative techniques for affordable housing production. Grants can be awarded to nonprofit or for profit entities, community groups, tenant organizations, architects, engineers, builders and other private individuals.

Issue: Many segments of the population have special housing needs which are not met by the existing market. Elderly people, individuals with physical

or mental disabilities and the homeless have housing needs which are wide and varied, ranging from the very structured and supportive to independent settings. Adequate affordable housing is the essential foundation on which other services are developed and a decent life in the community is built or maintained.

Strategy: Maine should develop a tiered system of affordable housing to address the diverse needs of these special populations.

Initiative: Housing for Populations with Special Needs

The state should develop a wide range of housing alternatives which would be available to youth and adults with special services needs such as individuals with physical and mental disabilities, the homeless, victims of family violence and others. These housing alternatives, developed through state/municipal and public/private partnerships, should include:

- Transitional supportive housing
- Long term permanent housing -- both supportive and independent.

The state should develop an emergency, sliding scale rental assistance program for special needs populations who require rental subsidies. Since present federal rental assistance is inadequate to meet the demand, this emergency rental assistance program should leverage existing resources, both federal and state.

Maine State Housing Authority should continue and expand its program to retrofit housing for Maine citizens with permanent mobility impairment who need affordable housing that is barrier-free.

Initiative: Housing for Older Maine Citizens

The state should continue funding congregate services for the elderly, in order to leverage federal housing incentive funds, such as but not limited to, FmHA Section 515 Interest Credit and Rental Assistance program or the HUD Section 202 Program.

The Maine State Housing Authority, in cooperation with private lending institutions and the Bureau of Maine's Elderly, should develop a program of reverse mortgages (see Appendix A). This program would allow older homeowners to remain in their homes and use accumulated equity as an income source.

The Bureau of Maine's Elderly should work with the Maine State Housing Authority, Area Agencies on Aging and municipalities to create accessory apartments in the homes of older Maine citizens. Such apartments will provide an income source for older home owners, as well as expanding the supply of rental units.

Technological Innovations

Housing technology plays another of the major roles in providing affordable housing for Maine people. The state and its municipalities have an important role in creating the environment which encourages the use of technological innovations to reduce housing costs.

Issue: Municipal infrastructure requirements often contribute significantly to site development and housing costs. Presently, there are no uniform standards, nor any requirement that municipalities perform a cost analysis in order to insure infrastructure needs are met while keeping costs as low as possible.

Strategy: Develop infrastructure standards which encourage affordable housing.

Initiative: State Infrastructure Standards Model

Maine should develop standards for roads and site infrastructure that are consistent and aid in the creation of affordable housing. Communities would be encouraged to adopt these standards which recognize regional and local differences and make them part of the local land use policies and ordinances. These standards should provide a formula to calculate road and infrastructure requirements based on the actual needs within the development. This infrastructure standards model should provide the basis for determinations under the state comprehensive permitting process and be made available to all municipalities by the Affordable Housing Alliance.

Issue: Currently there is no state building code to insure "safe, decent and affordable" housing. Many communities have adopted nationally recognized standard building codes or developed their own codes. However, there is no guarantee of consistency from community to community. In addition, existing codes may inhibit the use of innovative cost effective materials and/or techniques.

Strategy: To provide a state model of a performance based building code which would encourage the use of innovative cost effective materials and techniques.

Initiative: Model Housing Construction and Rehabilitation Codes

Maine should develop a performance based model construction code, which provides specific cost cutting alternatives to proscriptive code requirements. This

code should be based on existing national codes and should consider the following items:

- The code should be designed specifically to encourage a variety of techniques that aid in the creation of affordable housing
- The code should be flexible so that builders would be able to use innovative and cost effective materials.

The State and municipalities should work together to create a Life and Safety Code for existing housing structures, that is sensitive to the financial limitations of locally administered housing rehabilitation programs.

Initiative: Sweat Equity Housing Program

The Maine State Housing Authority should develop and promote “sweat equity” programs that provide potential homeowners with access to the affordable housing market. This may be accomplished by:

- Utilizing the Vocational Technical Institute System to develop adult education programs that would teach and certify skills which can be used in a “sweat equity” purchase
- Working with lending institutions to create a demonstration program which would recognize “sweat equity” as a viable resource for home buyers
- Working with nonprofit organizations to develop and administer a variety of “sweat equity” programs which use volunteers and/or trainees to produce affordable housing
- Using municipal code officials as inspectors of “sweat equity” projects
- Providing outreach and subsidies to low-income families to encourage their participation in this program.

Financing Techniques and Incentives

Reducing the cost of financing makes housing more affordable. The use of creative financing techniques and incentives for housing production will expand the supply and increase the accessibility of affordable units.

Issue: Reducing the cost of financing is critical to develop and maintain affordable housing stock.

Strategy: To expand and improve Maine’s housing stock, both rental and owner occupied, through the diversification and increased utilization of financing resources.

Initiative: The Maine Mortgage Insurance Fund

The state should provide a general fund appropriation to implement the Maine State Housing Authority Mortgage Insurance Fund with an appropriate loss reserve. The state’s credit should be pledged to back stop losses in order to maximize investor confidence in the quality of the insurance program.

One of the major barriers to innovative financing is the need to provide suitable mortgage insurance for every loan. Private mortgage insurers have restrictive requirements which inhibit the creative financing approaches needed for affordable housing production. By funding the already authorized Maine Mortgage Insurance Fund, it is feasible to develop new financing tools which increase low and moderate income home buyers access to financing resources, such as (see Appendix A):

- First, it would allow the reduction of down payment requirements, opening home ownership to more households
- Second, it would enable the full implementation of sweat equity programs as described above
- Third, the Maine State Housing Authority could explore a Shared Rate Risk Lending Program to assist low and moderate income home buyers who utilize lower variable rate loans. Accessing a lower interest variable rate loan may allow more people to purchase a home, but since the payments may increase, they could grow beyond the owners repayment capacity.

Initiative: Mutual Housing Demonstration Program

The state should target funds for the creation of demonstration mutual housing units. Mutual housing

units are designed to serve the needs of low income renters, and would be owned and operated over the long term by a nonprofit entity such as a housing authority, a private housing foundation, or a municipality. Mutual housing construction costs are subsidized on the front end by a one time government grant, relieving the need to finance unit costs, thus reducing rents. Rents collected would pay for direct operating costs such as utilities, repairs and local property taxes. In effect, these mutual housing units offer rent controlled apartments through nonprofit development. (An example of a mutual housing project is included in Appendix A.)

Initiative: Expand and Augment Existing Financing Resources

Encourage the Maine State Housing Authority to actively explore all taxable bond options, perhaps under direct state obligation, in order to provide maximum underwriting flexibility. Such bond financing may make lower cost mortgages available to other than first time home buyers who are otherwise ineligible for existing programs.

Encourage private sector models like the Realtor Affordable Housing Fund which proposes dedication of the interest from realtor trust accounts as a resource to leverage creative affordable housing financing.

Initiative: Expand and Augment Tax Incentives

Establish a Maine State Tax Credit for the rehabilitation or new construction of affordable housing units occupied by low and moderate income households. This Maine State Tax Credit would complement the federal Low Income Housing Tax Credit.

The Maine State Housing Authority should develop a nonprofit equity pool program to encourage expanded utilization of federal tax credits for low income housing by actively marketing the syndication of tax benefits to corporations and qualified individuals.

The Federal Role

The magnitude of housing needs demands a strong federal government commitment to forging a national solution. A federal commitment is a key component in expanding housing production for low and moderate income households. By providing flexible resources and building on state and local capacity, the federal government can significantly impact the affordable housing crisis.

Issue: The federal government has traditionally played a strong role in housing. Since the late 1970's, the federal government has steadily decreased its role with dramatic effect on the supply and condition of affordable housing throughout the nation. Nationally, federal budgeting for housing has decreased from \$30 billion in 1981 to less than \$1 billion in 1986.

Strategy: To expand the federal government's role in the production and maintenance of affordable housing, both rental and owner occupied, through the utilization of tax incentives and an enhanced partnership with state and local governments.

The Maine Task Force on Affordable Housing endorses the role of the federal government as expressed in the National Housing Task Force Report, *"A Decent Place to Live,"* March, 1988: "The federal government must reaffirm its role as a leader in finding solutions to the country's housing problems. The federal government must shape the national housing agenda -- draw attention to needs, set goals, establish standards for performance, provide funding and stimulate additional investment from state and local governments and the private sector."

The Maine Task Force on Affordable Housing supports the following specific recommendations from the National Housing Task Force Report, *"A Decent Place to Live,"* March, 1988:

- The creation of a new system for delivering affordable housing, including the "Housing Opportunity Program," which provides federal funds to the state and local level. State and local governments which provide matching financial commitments to affordable housing, would receive additional resources to build housing partnerships
- The preservation and improvement of existing low-income housing, through the maintenance of federally-assisted housing as well as through the preservation of privately-owned unsubsidized low-income housing, both rental and owned
- The utilization of tax policy, while preserving the essential reforms of the Tax Reform Act of 1986, to support low-income housing

- The adoption of a series of low cost measures to expand opportunities for home ownership, especially the continuation of mortgage revenue bond programs for first time home buyers
- The renewed commitment to the enforcement of Fair Housing laws
- The expansion of resources to increase rural home ownership and to upgrade substandard housing
- The creation of a federal back stop for lenders participating in the Benevolent Lending Program.

In addition to the initiatives contained within the National Housing Task Force Report, the Maine Task Force on Affordable Housing recommends two other federal initiatives.

First, existing federal housing programs, including the provision of rental assistance, must continue until new housing initiatives such as those endorsed above are operational.

Second, the largest federal housing subsidy is provided through the home mortgage interest deduction. That deduction, which now costs the federal government \$34 billion annually in lost revenues, is targeted primarily to middle and upper income households. The congressional Joint Tax Committee calculates that 67% of this subsidy goes to households earning more than \$50,000. Through this subsidy, the five million American households earning more than \$75,000 annually receive more housing subsidy than the poorest five million households in the country.

This federal housing subsidy must be redirected to low and moderate income households in greater need of housing assistance. This reallocation of subsidy can be accomplished by limiting the mortgage interest deduction and redirecting the revenues to affordable housing initiatives, such as the proposed Housing Opportunity Program recommended by the National Housing Task Force.

As an example, a household earning up to 200% of the 1987 national annual median income (\$62,000) would be eligible for the full mortgage interest deduction. Above this level, the potential deduction could be phased out until those households making 500% of the national annual median income (\$155,000) would receive no home mortgage interest deduction.

The Continuing Agenda

The Expiration of Federally Subsidized Rental Units in Maine

The State of Maine, like every other state throughout the nation, faces a crisis as the federally subsidized rental units within the state are at risk of loss through conversion or default due to the expiration of federal subsidies and the possibility of prepayment. A study of one component of subsidized housing revealed that nationally 48% of the units would convert, 39% would default and only 13% would remain available as housing units to serve low income individuals.

In Maine, there are approximately 20,000 federally subsidized rental units which are available for conversion or face default due to the loss of current federal subsidies. Before the end of this century, many of these units may be lost, displacing thousands of low-income Maine people.

While there are several national affiliations working to resolve this problem, including the National Governor's Association, the Housing Assistance Council, the National Low-Income Housing Coalition, the Public Housing Authority Directors Association and others, the state needs to prepare its own strategy to address this issue. The Task Force on Affordable Housing did not have the information necessary to develop a comprehensive, practical strategy for this issue.

However, in recognition of its importance to the state, the Task Force on Affordable Housing has charged the Maine State Housing Authority to:

- 1) inventory all federally subsidized rental units;
- 2) develop a profile of those units (from most at-risk to least at-risk); and,
- 3) make recommendations to the Governor's Office regarding those actions which need to be taken to address the issue.

The target date for completing this project is late fall of 1988.

This crisis in federally subsidized rental units came about in part because the housing developed under these federal subsidies could be prepaid after half the life of the mortgage, reverting to the current market. While the Task Force recognizes the need for private sector incentives to produce these units, there is also a desire to avoid a similar situation in the future. Therefore, the Task Force has emphasized program incentives and restrictions which balance the benefit to the private investor with the long-term benefit to the community.

The intention of the Task Force is to ensure that the investment made with any public monies maximizes the benefits to the citizens of the State of Maine. To achieve these results the Task Force has recommended that all new investments made by the state or federal government require a recapture clause as well as a cap on windfall profits. The Task Force has also looked at alternatives to traditional subsidized housing initiatives, including a focus on scattered site/multi-use development as well as a mutual housing demonstration project, which explore the role of nonprofits and public housing authorities as owners and operators.

The Tax Mix and Its Impact on Affordable Housing

Although housing is a responsibility for federal, state and local governments as well as for private and not-for-profit organizations, it only occurs within communities. The thrust of this report's recommendations has been to foster a housing alliance which assists a community in developing a balanced agenda to meet the housing needs of all its citizens.

Communities have a wide range of demands placed on them. They must preserve their natural resources; provide municipal services such as water, sewer, roads and public safety; and, plan to insure that the citizens of the community have access to “affordable housing”. In addition, they must guarantee a state mandated standard level of quality education. The provision of all these services places a strain on the resources of any community in the state.

In recent years, the federal government has withdrawn its fiscal support to a great degree from state and local governments. As these governments have worked to maintain the same services once provided at federally subsidized levels and as the mandates requiring the provision of new and increasingly sophisticated services have expanded, municipalities have been faced with growing responsibilities and limited resources to meet those responsibilities.

The Task Force heard repeatedly that the demands placed on municipalities are often contradictory and require more resources than the town can produce. For example, the municipality is required to preserve the natural resources of the community (such as the water table), but the simplest, most inexpensive method of preserving the town’s quality water may be to restrict zoning to 4 acre lots, which has a direct affect on the cost of housing in that community. Or, a community may want to reduce the cost of housing for its citizens. One method is for the community to provide municipal water and sewer to the affordable housing sites; however, this increases the overhead for the entire community.

One of the major concerns voiced by municipal leaders is that increasing affordable housing expands the demand for educational services beyond the ability of the municipality to pay. In addition to the broad examination of school funding and the tax mix, specific proposals such as a circuit breaker or education subsidy as incentives for affordable housing should be examined.

At this point in time, the primary resource that municipalities have for the provision of services, beyond specific state/federal subsidies for education or roads, is the property tax. While it is appropriate to ask the citizens of the community to assume the cost of activities which benefit the entire community, there are too many demands on this sole resource.

It is beyond the purview of this Task Force on Affordable Housing to make a specific recommendation concerning the expansion of the municipal tax base. However, the Task Force strongly recommends that the Governor develop proposals to expand the revenue base of municipalities as they are charged with greater responsibilities.

Conclusion

Providing affordable housing for all Maine households is a major challenge. There are many factors which have contributed to our present situation. It has taken years for affordable housing needs to reach crisis proportions. The solutions to this complex problem demand time and commitment.

This report lays the foundation for solutions to the housing needs of the emerging Maine. The Task Force built consensus in a variety of areas, recognizing that Maine’s diverse affordable housing problems would only be addressed by creative programs and expanded resources. Just as significant, the Task Force experience provides a model of what can be accomplished when a group of concerned citizens, representing a variety of perspectives, come together to learn about and devise solutions for affordable housing needs.

Municipalities as well as regions of Maine must build similar alliances to forge innovative solutions. By working together, Maine people can maintain the unique character of the state and its communities while insuring decent, safe, standard and affordable housing. This report presents a snapshot of the situation and a range of responses. As the needs change, the solutions must adapt. Strong partnerships, which include government at all levels, business and community leaders, will provide the context to create effective responses to the affordable housing challenges.

Appendix A

Examples of Task Force Program Initiatives*

Reverse Mortgages

Reverse mortgages are designed to allow home owners, who are "property rich and cash poor", an opportunity to draw on the equity they have acquired in their home in order to remain in that home. In essence, an elderly home owner takes a "reverse mortgage" on the property, where the lender pays the owner a monthly or annual amount, secured by a mortgage based on the value of the home.

A much simplified example follows. The Green couple are in their late sixties and early seventies. They own a mortgage-free home valued at \$150,000. However, they are having difficulty maintaining it, due to costly repairs and increased property taxes. They are interested in a reverse mortgage to help them meet their monthly expenses.

Reverse mortgages mirror the cash flow of a regular mortgage: instead of one payment at closing, the loan is advanced in monthly payments. The Greens do not have to pay anything back, until the term is up, when the total of the monthly advances plus interest must be repaid. Since the repayment of the interest and principal is deferred, the interest on the amount borrowed is compounded, which means the Greens are paying interest on interest. The longer the reverse mortgage lasts, the larger the amount of interest due. When the term is up, the mortgage debt has to be paid in full, requiring the Green's to sell their house and move.

There are a number of home conversion options that protect the older home owner, providing a way to convert equity into income without undue risk. Any reverse mortgage program needs to take into account the possibility of the owner(s) outliving the equity value of the home. An insurance fund to guarantee that the home owner would be able to remain in the home for life would be essential to a responsible program.

*Please note that these are only examples of possible program initiatives and do not outline all the variables necessary for a complete understanding of these three concepts.

Mortgage Insurance Fund

Mortgage insurance allows lenders to reduce the risk associated with making a mortgage loan with a low down payment. With mortgage insurance, a borrower pays a one-time or annual insurance premium, which insures payment to the lender, by a third-party insurer, should the borrower default on the loan.

Private mortgage insurance companies have been experiencing massive losses in states such as Louisiana, Texas and Oklahoma. These losses have caused the private mortgage insurance companies to establish new restrictions on the loans they will insure. These new restrictions have eliminated people from the home ownership market, who only two or three years ago would have qualified for a loan through the Maine State Housing Authority or private lending institutions. These changes include among others: the treatment of gifts as down payments, the levels of down payments required and the determination of acceptable debt-to-income ratios.

The Maine Mortgage Insurance program would allow both the private

market and the Maine State Housing Authority to reach more people in the low- and moderate-income home buying group. Under current market conditions, households with incomes below \$30,000 to \$35,000 might be eligible.

The Glass household is a good example of who might be eligible for the fund. John and Mary have been married for three years. Today they have a combined income of \$45,000 and a savings balance of \$3,400. John's parents, wishing to retire to their second home, have offered to sell their current residence (valued at \$97,000) to John and Mary for \$82,500.

The mortgage lenders are unable to obtain private mortgage insurance coverage on the \$82,500 loan, because John and Mary are unable to provide, in cash, the required 5% down payment plus two months PITI (principle, interest, taxes and insurance). The Maine Mortgage Insurance Fund can supplement the private mortgage insurance coverage, allowing the Glass household to purchase this home.

Mutual Housing

One of the most expensive components of housing production is the long-term cost of financing. Financing can equal an average of 45% to 50% of the total cost of a housing unit. If the long-term financing costs can be reduced or eliminated, the unit's overall cost is reduced.

If 20 housing units were constructed at an average cost of \$50,000, the chart below illustrates the costs and savings. A and B are examples of traditional financing with the monthly debt service equalling the repayment of interest and prin-

cipal. C and D are examples of mutual housing with a recapture plan equal to the original investment. Example E assumes no recapture clause of the original investment.

In addition to the savings passed on to the renter if financing costs can be eliminated are the advantages of nonprofit or municipal ownership. The units available at low rents in examples C, D and E can be maintained at these low rents (or comparable rates) "in perpetuity."

Production Costs	Mortgage	Monthly Debt Service	Monthly Rental** (per unit)	Total Costs
A. \$1,000,000	10%/20 yrs.	\$9,650.00	\$583.00	\$3,159,257.00
B. \$1,000,000	10%/30 yrs.	\$8,776.00	\$539.00	\$2,316,052.00
C. \$1,000,000	0%/20 yrs.	\$4,167.00	\$308.00	\$1,000,000.00
D. \$1,000,000	0%/30 yrs.	\$2,778.00	\$239.00	\$1,000,000.00
E. \$1,000,000	N/A	-0-	\$100.00	\$1,000,000.00

** This monthly rental figure is calculated as the amount necessary to cover the debt service and an assumed \$100.00 monthly operating cost, not including utilities.

Membership and Background Information on the Task Force on Affordable Housing

Membership

Sen. Thomas Andrews
Maine State Senate (Legislature)

Michael Aube, *President*
Eastern Maine Development Corp.
(Regional economic & community
development agency)

Madge Baker, *Director*
Southern Maine Regional Planning
Commission (Regional planning
commission)

Rep. Donnell Carroll
Maine House of Representatives
(Legislature)

Jon Dawson, *President*
Dawson Co., Realtors (Real estate
broker)

Sen. Robert Dillenback
Maine State Senate (Legislature)

John Downing, *President*
The John Downing Agency (Real estate
broker)

Carol Ford, *Executive Director*
Maine Real Estate Development
Association (Developer advocate)

Sen. N. Paul Gauvreau, *Vice Chair*
Maine State Senate (Legislature)

Pamela Gleichman, *President*
Gleichman and Co. (Developer)

Stephen Griswold, *President*
The Shelter Group (Developer)

James Hatch, *Executive Director*
Island Institute (Nonprofit housing
advocate/developer)

Bridget Healy
(Local elected official)

Nicholas Holt, *Owner*
Krumbhaar and Holt Associate
Architects (Architect)

**Goran Honga, *Vice President of
Manufacturing***
Passamaquoddy Homes, Inc.
(Manufactured housing producer)

Robert Howe, *Executive Director*
Manufactured Housing Association
(Manufactured housing advocate)

Stephen Kasprzak, *President*
Kasprzak, Inc. (Developer)

Dale McCormick
(Housing contractor/author)

Michael McGovern, *Town Manager*
Cape Elizabeth (Municipal government)

Rep. Thomas Murphy, Jr., *Vice Chair*
Maine House of Representatives
(Legislature)

**Anne B. Pringle, *Senior Vice President,
Chair***
Maine Savings Bank (Lending
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Janet Raffel, *Executive Director*
Maine Housing Enterprise (Nonprofit
housing developer)

William Slattery, *President*
Merrymeeting Developers (Developer)

Nathan Smith, *Esquire*
Bernstein, Shur, Sawyer and Nelson
(Real estate attorney)

Rep. David Stanley
Maine House of Representatives
(Legislature)

Gene Stratton, *Owner*
Gene Stratton Building (Builder)

Brian Thibeau, *Executive Director*
Aroostook County Action Program
(Nonprofit housing advocate)

Bartlett Van Note, *Executive Director*
Bath Housing Authority (Public housing
authority)

Jacquelyn Wagner, *Executive Director*
Maine Housing Foundation (Nonprofit
housing developer)

**Gail Walker, *Auburn Housing
Rehabilitation Coordinator***
City of Auburn (Municipal government)

Background Information

Task Force Composition: On December 30, 1987, Governor John R. McKernan, Jr. and the legislative leadership appointed a thirty (30) member Task Force to do an analysis of and to recommend practical solutions for the issue of affordable housing in Maine. The Task Force was chaired by Anne B. Pringle, Senior Vice President for Retail Lending, Maine Savings Bank; Vice Chairs were Senator N. Paul Gauvreau, Androscoggin County and Representative Thomas W. Murphy, Jr., Town of Kennebunk.

Task Force members were recruited from around the state and conducted five public hearings in different parts of the state in order to encourage regional and public participation. The Task Force on Affordable Housing developed state-wide recommendations to the affordable housing issue, emphasizing local and regional approaches to the problem.

All Task Force meetings were open to the public.

Governor's Charge to the Task Force:

The Task Force was charged with the following tasks - to investigate the supply, quality and cost of housing, both rental and owned, for lower- and middle-income families, including the elderly; to determine what actions can be taken, utilizing the combined resources of the public and private sectors, to: improve the quality of existing housing; expand the supply of housing; and, make the costs of housing affordable for lower and middle income families, including the elderly.

The Task Force formed three work groups which focused on the relationship between the needs of the very low- to low-income, the low- to moderate-income and the moderate-income groups and the solutions which could be developed by recommending changes in three identified subject areas: technological innovations, community approaches and financing innovations. The Task Force developed recommendations through the work groups, which then reported back to the total group.

The Task Force accomplished three major goals: the development of an Affordable Housing handbook, which includes an overview of the affordable housing issue in Maine, a resources directory, and case studies on model programs and approaches; the production of a final report which makes recommendations to the Governor and the Legislature; and, a Blaine House Conference on Affordable Housing to raise the issues to greater visibility.

Information and Analysis: The Task Force received housing and demographic information from a variety of sources.

- 1) The Maine State Housing Authority, the University of Southern Maine, and the State Planning Office all contributed data to this project.
- 2) The Task Force scheduled subject experts to present information on constituencies' needs; existing local, state and national programs; materials and construction techniques, etc.
- 3) The Task Force heard presentations from local and regional agencies and organizations at all public hearings.
- 4) The Task Force scheduled presentations from other state and national programs and initiatives.

Support Team: The Department of Economic and Community Development in conjunction with the Maine State Housing Authority provided staffing support and technical assistance to the Task Force.

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Governor's Task Force on Affordable Housing Budget Recommendations

Program Initiative	Target Population	\$5 Million Funding	\$10 Million Funding	\$20 Million Funding
Affordable Housing Alliance	Municipalities			
• Program and Administration	Moderate/Low/Very Low	\$ 500,000	\$ 500,000	\$ 500,000
• Nonprofit Incentives Income	Income Households	\$ 350,000	\$ 350,000	\$ 350,000
Mortgage Insurance Fund	Moderate/Low Income Home Buyers	\$ 1,000,000 ¹	\$ 2,000,000 ²	\$ 3,000,000 ³
New Housing Initiatives Program	Housing Producers	\$ 1,000,000	\$ 2,000,000	\$ 5,000,000
Mutual Housing Demonstration	Low/Very Low Income Renters	\$ 2,000,000 ³	\$ 2,000,000 ³	\$ 3,000,000 ³
Infrastructure/Building Model Codes	Municipalities Builders	\$ 150,000	\$ 150,000	\$ 150,000
Municipal Challenge Grants	Municipalities		\$ 1,000,000	\$ 1,500,000
Permanent Housing	Special Populations		\$ 1,500,000	\$ 1,500,000
Congregate Services	Elderly		\$ 500,000	\$ 500,000
Transitional Housing	Special Populations			\$ 3,500,000
Technology/Housing Data	Developers Municipalities			\$ 250,000
Sweat Equity	Low/Moderate Home Buyers and Home Owners			\$ 750,000
Municipal Infrastructure Bond	Municipalities	\$25,000,000 ⁴	\$25,000,000 ⁴	\$25,000,000 ⁴

¹First year of three year funding commitment

²Requires second year commitment of \$1,000,000

³One time commitment

⁴One time state bond issue

