

# MAINE STATE LEGISLATURE

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# **Analysis of Savings from and Benefits of Tax-Exempt Financing**

**Pursuant to 10 MRSA Sec. 363**

**March 2016**



**Maine Housing**  
Maine State Housing Authority

March 11, 2016

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

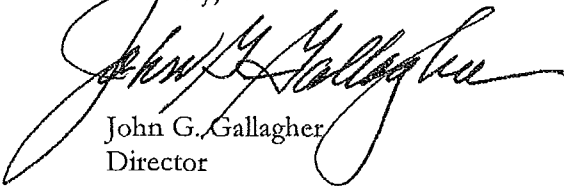
**Subject: Analysis of Savings from and Benefits of Tax-Exempt Financing**

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,



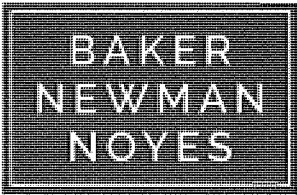
John G. Gallagher  
Director

JGG/pme  
Enclosure

# MAINE STATE HOUSING AUTHORITY

## TABLE OF CONTENTS

Independent Accountants' Report on Applying Agreed Upon Procedures	i
Appendix A; Independent Accountants' Procedures Pursuant to 10 MRSA Sec. 363	ii
Analysis of Savings From and Benefits of Tax-Exempt Financing	1
Schedule 1: Benefit of 2015 Single Family Issues	5



**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.

Portland, Maine  
March 10, 2016

*Baker Newman & Noyes*  
Limited Liability Company

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 2015 and performed the following:

1. We agreed the Lendable Proceeds on page 5 for the bond issues in the Analysis, which were 2015 Series B and 2015 Series D, 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 2015 by MaineHousing of 3.58% 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 3.72% for 2015 to the average of the Fannie Mae 60 Day Forward Commitment Rate obtained from JP Morgan, as provided by MaineHousing, plus 25 basis points for servicing.
4. We recalculated the rate advantage of 14 basis points and recalculated the monthly payment savings of \$9 based on a \$117,000, 30 year mortgage, provided by this basis difference, as shown on page 5.

## ANALYSIS OF SAVINGS FROM AND BENEFITS OF TAX-EXEMPT FINANCING

In 2015, the Maine State Housing Authority (MaineHousing) issued or converted tax exempt private activity bonds in the aggregate principal amount of \$323,170,000 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 and multi-family mortgage loans. The issues generated approximately \$171.5 million of lendable proceeds for MaineHousing's single family and multi-family programs.

In 2015, MaineHousing purchased \$159.5 million in mortgage loans; substantially all of which qualified for tax-exempt financing. About \$34 million of the bond proceeds used in these purchases were generated in bond sales from prior years or surplus monies. At year-end \$70 million of lendable proceeds remained unexpended from 2015 bond sales.

### BOND ISSUANCE AND BOND CAP USAGE

In 2015, MaineHousing issued or converted \$323,170,000 par amount of tax-exempt housing bonds, which generated tax-exempt proceeds of \$325.9 million, but only expended \$180,332,741 in Private Activity Bond cap. That means that approximately \$146 million of MaineHousing's proceeds in 2015 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 \$145.5 million of such bond refundings in 2015.
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 2015.
3. **Replacement Refundings:** The tax code allows that if, within 90 days 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 2015.

### 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 2015, the average loan size was about \$117,000. 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.



**2015 Mortgage Purchase Program (MPP) Tax-Exempt Bond Issues**

**Sources and Uses of Funds**

Type of Issue	2015A Multi- Family	2015B Single Family	2015D Single Family	2015E Single Family	2015F Multi- Family	<b>TOTAL MPP BOND ISSUES *</b>
<b><u>SOURCES:</u></b>						
Principal of Bonds	\$69,040,000	\$32,000,000	\$30,000,000	\$138,130,000	\$54,000,000	323,170,000
Original Issue Premium	-	844,705	543,036	1,299,665	-	2,687,406
MaineHousing Contribution	-	233,268	-	991,471	501,514	1,726,253
<b>TOTAL SOURCES</b>	<b>\$69,040,000</b>	<b>\$33,077,973</b>	<b>\$30,543,036</b>	<b>\$140,421,136</b>	<b>\$54,501,514</b>	<b>\$327,583,659</b>
<b><u>USES:</u></b>						
Refunding of Prior Bonds	\$19,845,000	\$ -	\$ -	\$114,430,000	\$11,250,000	\$145,525,000
Purchase of Mortgages	46,254,343	31,344,705	28,155,248	25,000,000	40,745,100	171,499,396
Housing Reserve Fund	2,260,000	1,500,000	2,000,000	-	2,004,900	7,764,900
Cost of Issuance	194,287	-	150,000	200,000	150,000	694,287
Underwriters Fee/Discount	486,370	233,268	237,788	791,136	351,514	2,100,076
<b>TOTAL USES</b>	<b>\$69,040,000</b>	<b>\$33,077,973</b>	<b>\$30,543,036</b>	<b>\$140,421,136</b>	<b>\$54,501,514</b>	<b>\$327,583,659</b>
<b>BOND CAP USED</b>	<b>\$49,195,000</b>	<b>\$32,844,705</b>	<b>\$30,543,036</b>	<b>\$25,000,000</b>	<b>\$42,750,000</b>	<b>\$180,332,741</b>

\* The \$40,000,000 2015 Series C Bonds were not included because they were taxable bonds. The \$30,000,000 2015 Series G single family bonds were not included because the bonds, although priced in December 2015, were not issued until January 7, 2016.

**I. BOND CAP AVAILABLE IN 2015**

Carryforward from prior years	\$ 795,955,000
Initial Allocation in 2015	50,000,000
Re-allocation during 2015	<u>221,515,000</u>
Total Available	<u>\$1,067,470,000</u>
BOND CAP USED IN 2015	\$ 180,332,741
BOND CAP EXPIRING ON 12/31/15	\$ 111,172,259
CARRYFORWARD TO 2016	<u>\$ 775,965,000</u>

## BENEFIT OF 2015 SINGLE FAMILY ISSUES

Issues **	Lendable Proceeds	Weighted Average Mortgage Rate **
2015 Series B/D	\$59,499,953	3.58%

The weighted average rate of the lendable single family proceeds produced in 2015 by Series B and Series D as shown above was 3.58%. 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 2015 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 servicing fee, which is included in the mortgage rate and averages 25 basis points. In 2015, the average of this market indicator, taken on each business day, was 3.72% for the entire year.

#### Summary of 2015 Benefits

The differential between the MaineHousing rate and available market mortgage rates varied throughout 2015. The reason for this is that MaineHousing often leaves a rate unchanged for several months while market rates may change daily. For the year, the rate differential averaged 14 bps, the difference between 3.58% and 3.72%. On the average MaineHousing mortgage of \$117,000, the MaineHousing rate would only generate a monthly payment about \$9 lower than the market rate.

With all of the proceeds generated by our bond sales in 2015, MaineHousing offered a \$3,500 grant to be applied towards closing costs. Substantially all of our competitive advantage was attributable to the closing cost grant.

\*\* The \$25,000,000 of lendable proceeds from the 2015 Series E Bonds will be participated, at a rate of 0%, with the proceeds of future series of bonds. Since these proceeds were not offered in 2015, they were not included in the calculation of the average mortgage rate.