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STATE OF MAINE

ONE HUNDRED AND SEVENTH LEGISLATURE

COMMITTEE ON PERFORMANCE AUDIT

December, 1976

To: Performance Audit Committee

From: Housing Authority Subcommittee of Performance Audit Committee:

Representative Cooney, Chairman
Senator Curtis
Senator Cianchette
Representative Carey

Enclosed is the Final Report of the Subcommittee on HP 1773, an Order directing the Committee on Performance Audit to study various aspects of the Maine Housing Authority.

Sincerely yours,

Leighton Cooney,
Chairman

REPORT OF THE HP 1773 SUBCOMMITTEE
TO THE COMMITTEE ON PERFORMANCE AUDIT
ON ITS STUDY OF
THE MAINE STATE HOUSING AUTHORITY

December, 1976

HP 1773 SUBCOMMITTEE: Representative Leighton Cooney, Chairman
Senator Theodore Curtis
Senator Alton Cianchette
Representative Richard Carey
Representative Harold Silverman

Note: Representative Silverman resigned from the Legislature on May 24, 1976, and did not participate in preparation of the final report.

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I. Purpose and Procedure

The purpose of this Study is set out in HP 1773:

> ...to conduct the necessary review and consideration of the Maine Housing Authority to determine the need or desirability for altering, adding to or deleting from existing statutory provisions in the Maine Housing Authority's power to meet housing needs in this State...

The Order directed particular attention to questions of effectiveness of program administration, present and future housing needs of the State, and the State credit rating. (See Appendix A for the text of the Order)

Members of the Subcommittee met twice with representatives of the Maine Housing Authority (MHA); and also met with State Treasurer Rodney Scribner, and Mr. Dale Horowitz, a representative of the New York investment banking firm which underwrites MHA's bonds. In addition, the Subcommittee directed staff research. The Subcommittee held no public hearings on this Study.

The Study proceeds in 3 parts:

--Effectiveness of administration--an inquiry into the effectiveness of MHA administration.

--Housing needs--a discussion of evidence available to indicate the level of housing needs in Maine, including an evaluation of the impact of recent legislation on the housing situation.

--Recommendations.

II. Effectiveness of Administration

The Subcommittee has 3 basic concerns about the administration of MHA:

1. It is important to investors that their investment is competently administered.

2. It is important that investors trust the good faith of the State and therefore that the State pays the lowest possible interest rates.

3. It is important to the State that the MHA reflect positively on the State's general credit standing.

In general, the Subcommittee concludes that MHA is effectively administered, and has sufficiently institutionalized structures and functions so that the prospect is good for continued effective administration.

With respect to staff, the State Government Committee's December, 1974 report to the 106th Legislature noted that MHA had recruited and developed a highly professional staff. Most of this staff has continued in office.

The Director and his administrative assistant resigned in December, 1975. A new director was appointed in June, 1976 for a four year term. The administrative assistant position has not been filled. Although the new director has been in office for a short time, the subcommittee has the impression that the Authority is well managed, and has confidence in the director and the staff.

The Authority has established a written personnel policy, which establishes grade scales, salary and job classifications, and the requirement for a written, biannual review of each employee's performance.

During 1975, the Authority was reorganized into 3 major organizational units (see Table 1):

--Housing Development and Management

--Engineering and Technical Services

--Finance and Special Services

The reorganization will provide a more rational division of work and assignment of responsibility.

The Authority continues the operating procedures and financial management and control improvements noted favorably in the State Government Committee's Report to the 106th Legislature.

The quality of administration is an important consideration to investors and has bearing on the rate which MHA pays for money and the ease with which it sells its bonds. It is important to note that the MHA's cost of money is a direct reflection of the State's general credit rating. It has been suggested that the MHA has contributed to the State's lowered credit rating, but the reverse is actually the fact at this time. Both Rodney Scribner, State Treasurer, and Dale Horowitz, the New York investment banker, indicated that the MHA's bonded debt is a factor in the State's credit rating, but its current operation has not contributed to the reduction of our credit rating. Both further agreed that investors consider the Authority to be well managed and to reflect positively on the State's total financial picture.

Of particular interest is the concurrence of both experts in management advice for the future: investors are looking much more than in the past to the quality of management of an authority. In many instances, this is the prime consideration in determining the marketability and rate of bonds. Further, the "management" demanded by investors is of 2 types:

1. Internal management of the authority itself, going to questions such as personnel quality and continuity, fund control, and the like; and

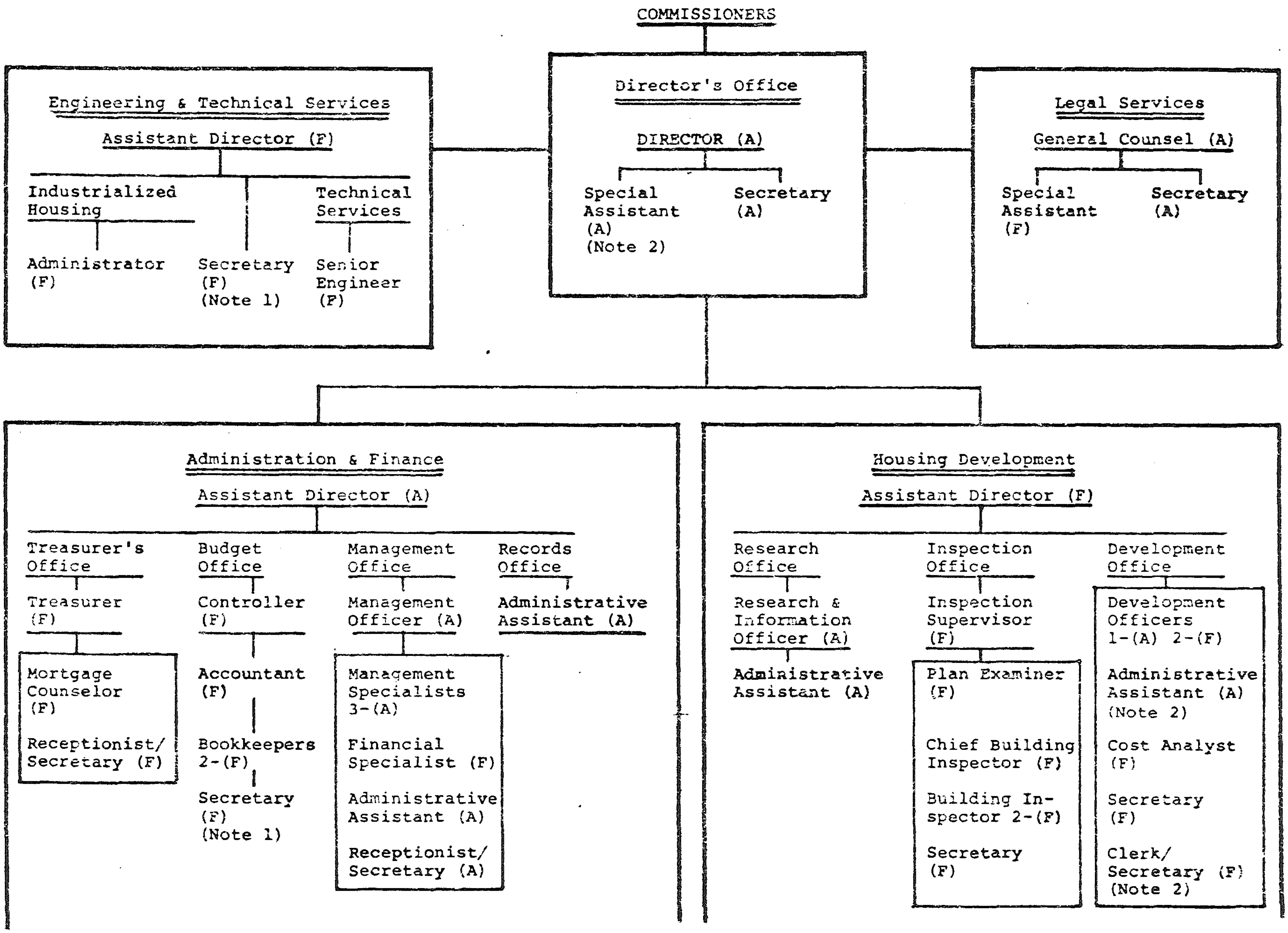
2. Legislative review of the Authority, covering reasonable oversight of authority operations and imposition and review of dollar limits on operations.

In both cases, the MHA and the 107th Legislature are fulfilling the requirements of today's critical investor.

TABLE 1

MAINE STATE HOUSING AUTHORITY
Administrative Organization Chart
September, 1976

Location Key: (A) = Augusta
(F) = Falmouth
Notes: 1 - Position Shared
2 - Position Not Filled



III. Housing Needs

Very little data exists to indicate the future need for housing in Maine. There is no single organization charged with collecting State-wide data on the housing stock. The difficulties in collecting accurate, State-wide information are many and varied. For example, not all towns require building permits for the same purposes. Further, much building and rehabilitation is owner-done, and not reported.

The following information is the best available estimate as of December, 1976: Table 2 shows indicators of Maine housing need, and Table 3 shows the number of units assisted by MHA loans through September, 1976.

Total housing need--In a study published by the Federal Home Loan Bank of Boston in 1974, it is estimated that to meet Maine's physical need during the period 1973-1980 will require the construction of approximately 38,000 units or about 4750 units per year. Based on Census data for household growth in Maine for the period 1960-1974, MHA believes the Federal Home Loan Bank estimate is incorrect. MHA believes a more accurate estimate of Maine's physical need during the period 1973-1980 is approximately 56,000 units, or roughly 8,000 units per year.

Low-income and elderly housing need--According to Census data, more than 20,000 families in Maine were earning less than $7,000 and paying more than 25% of their income for rent in 1970. Since 1970, approximately 5,000 subsidized units have been built (through the assistance of MHA and other agencies) to alleviate this situation. Assuming that inflation has not increased the number of families in this category, there remains a need for 15,000 subsidized units.

The need of Maine's low-income elderly population for adequate housing has been estimated by MHA at approximately 15,000 units as of November, 1975. A large proportion of this need is, of course, reflected in the previously mentioned need of low-income people. However, as Maine presently appears to be adding approximately 1,800 people a year to the segment of the population which is 65 years or older, it would appear that in the next four years we should add at least 1,200 units to meet the economic housing need of the elderly in addition to those provided for lower-income people.

If we assume that one-third of the low-income need could be met through the subsidization of substantially rehabilitated or existing units, 10,000 new subsidized units would be required during the period 1976 through 1979, or 2,500 units per year. The specialized elderly housing need would require approximately 300-400 units per year. On this basis, Maine, in the next four years should be building approximately 10,000 units per year of subsidized and unsubsidized housing.

TABLE 2

INDICATORS OF MAINE'S HOUSING NEED

ITEM	PERIOD	MEASURE
1. Total housing need for Maine:		
Federal Home Loan Bank estimate....	1973 through 1980	38,000 units
Maine Housing Authority estimate...	1973 through 1980	56,000 units
2. Low income and elderly housing need:		
a. Low income a/		
Family income under $7,000, rent over 25%...............	1970(Census)	20,000 families
Subsidized units built(MHA & Other..	1970 through 1975	5,000 units
Low income families in unsubsidized housing.....................	1976	15,000 families
b. Elderly (A large proportion of elderly is included above under (Low income")		
Poor elderly need..............	1975	15,00 units
Units needed for elderly poor..	1976 through 1979	1,200 units
c. Illustrative financing of need:		
Low income families in unsubsidized housing(from above)..........	1976	15,000 families
If MHA financed new housing in the next 4 years at the same rate at which it financed new units in 1975, it would provide 4000 units...........	1976 through 1979	-4,000 units
Units to be provided through MHA subsidization of existing or rehabilitated units, other government programs, and private financing...............	1976 through 1979	11,000 units

a/ The measure of low income used on this Table is families, irrespective of family size, which according to 1970 census data had family income under $7,000 and paid over 25% of that income for rent. Other low income measures are used in administering housing programs of MHA: for example, the "lower income" eligibility level in the Section 8 housing program is calculated at 80% of the median income estimated for each Maine county, adjusted for family size and local construction costs.

Source: Maine Housing Authority, January, 1976.

Table 3

Number Of Housing Units Being Assisted And Approved For Assistance By MHA Loans As Of September, 1976

	Family	Elderly	Total
Funds committed:			
Multi-family projects:			
Project completed----------	297	346	643
Proposed construction------	119	382	501[a]
Single family mortgages:			
VA-------------------------			1,098
FHA------------------------			770
Private Mortgage Insurance-			349
Subtotal, committed--------			3,361
Funding approved pending			
Future bond sales----------	90	686	776
Total number of units------			4,137

a/ Includes 331 units to be financed by the $10.3 million bond sale of 1976.

Source: Maine Housing Authority.

MHA performance. In 1975, MHA purchased mortgages totaling $18,652,000 representing 909 units from Maine banks. In addition, MHA tentatively committed $2,509,000 towards the financing of 98 Section 8 low-income rental units. If MHA were able to finance additional housing in each of the next four years, 1976 through 1979, at roughly the same rate, it would provide about 1,000 units per year, leaving 9,000 units per year of subsidized and unsubsidized to be financed by the private sector and other government programs. Legislation passed by the 107th Legislature (L.D.'s 660, 723, and 1002) was designed to help meet these goals by providing MHA with new and more flexible program authority and an increase in the bond authority from $100 million to $150 million. But ultimately, the factors determining whether public and private financing will be able to provide this housing will be the conditions of the economy and the bond market. A successful sale of $10.3 million of mortgage purchase bonds was completed in August, 1976, an amount sufficient to assist 331 new units. Another 776 units have been approved for funding, pending future bond sales.

IV. Recommendations

Recommendation 1. The Subcommittee finds that the Maine Housing Authority continues to be effectively administered. At the same time, the Subcommittee recommends periodic legislative review of the Authority, for 2 reasons: (a) to assure continued effective administration of a key State program which can be susceptible to ineffective administration; and (b) to provide to the investment community, which is the major source of Authority funding, the assurance that the State will do all in its power to make Authority investments attractive and sound. The latter reason has the further, favorable consequence of assuring to the Authority lower interest rates and to the Citizens of Maine the maximum amount of housing per Authority dollar.

The Subcommittee looks with favor at recent consolidation by MHA in its organizational structure and establishment of a written personnel policy, and looks forward to the Authority's evaluation of these changes after they have been in place an appropriate amount of time.

In the course of its study, the Subcommittee became aware of several potential problems, but has been assured that the situation has substantially improved and that measures are being taken to monitor it closely. The problems included the potential loss of CETA funds, a shortfall in industrialized housing revenue, and insufficient funding for the Section 8 program, all of which could have lead to a reduction in Authority staff. This problem was compounded by a cash-flow problem of the Mortgage Purchase Program, which might not have been able to fund staff formerly paid out of the above 3 accounts (it should be stressed that the cash flow problem was in the operating budget only, and not in the debt service budget; further, at all times sufficient funds were available for essential services for the program). See Appendix B for a detailed explanation of this situation.

The subsequent improvement included the award of a CETA grant; a new HUD allocation of Section 8 funds; and a successful bond sale which will correct the cash flow problem in the Mortgage Purchase Program--the bond sale had not been projected at the time the potential operating budget problems were noted. Expenses from the Industrialized Housing Program continue to exceed revenues, but the Authority has been able to cover this deficit from its General Fund and is cutting the program back. The Authority appears to be in a sound position, with reasonably good prospects. In an October, 1976 memo, the Authority's Controller summarized the operating budget situation for the Director as follows:

> "The Authority is in a stronger position at the present time than it has been in the past, primarily because of the amount of commitment fees expected to be received; however, there are some areas which should be watched closely. Foremost at this time is the rapidly declining short-term rates on investments. Rates are presently dropping to the 5% area, 2-1/2% below the rate being paid on this new bond issue. Delays in the scheduled completion dates for the projects to be financed could cause a negative

arbitrage problem. Delays could also result in losses of the pledged receipts from those mortgages.

Another problem that has always existed and should be watched is the Housing Reserve Fund Market value. Should the market value of investments held in the Housing Reserve Fund decline below the Housing Reserve Fund Maximum Requirment as specified by the Bond Resolution, income earned in that Fund would not be available for the payment of debt service.

If the Authority can keep the projects from the 1976 bond issues on schedule, and at the same time process the 750 units of low income housing recently allocated by H.U.D. and scheduled for inclusion in a bond sale in mid 1977, the financial condition should be extremely sound. (See Appendix C.)"

The Authority has borrowed $140,000 from the State ($40,000 in 1974 and $100,000 in 1975), and has repaid $25,000.

The Subcommittee was informed by MHA that, unlike the housing authorities of a number of other States, MHA has avoided the problem of "note overhang." This is a situation where projects were financed with short-term notes which must be continually rolled over. The problem is that the authorities have been unable to roll over these notes into mortgages with matching interest rates, and because of this have been paying arbitrage (the spread between note and mortgage interest rates). According to MHA, the investment community considers MHA's lack of note overhang to be an especially important factor in favorably considering its bonds.

Testimony given to the Subcommittee and the recent experiences of the municipal bond market (particularly, the experience of New York City) point to the need for continued Legislative review of the Authority. This review should, at a minimum, consist of an evaluation by each Legislature of MHA's management and funding, and the housing situation in the State.

Recommendation 2. With respect to the State's credit rating, the Subcommittee finds that the Maine Housing Authority alone can do little to improve it. But the Authority could, by bad performance, cause it to be lowered, and this reinforces the need for legislative review.

Recommendation 3. With respect to the Maine housing situation the Subcommittee finds that there is a lack of hard evidence to support statements regarding the need for new and rehabilitated housing. The Subcommittee recommends that the Authority and cooperating agencies complete and report back to the Legislature as soon as possible the results of the State housing survey now being conducted. The Subcommittee further recommends that the Authority and appropriate cooperating agencies institute procedures to develop and keep current the housing data necessary for program planning and for keeping the Legislature informed of the state of Maine's housing.

The survey currently being conducted will result in estimates of the quantity and quality of the current housing stock. While this is significant information, more work on the housing data base is needed. The Subcommittee recommends that MHA does further work, cooperatively with others as is appropriate (including the State Planning Office, the University of Maine, and others) to:

--Develop procedures to keep the housing stock data current--illustrative of such a procedure would be system to record housing starts

--More explicitly take account of consumer attitudes in program planning--illustrative of such an approach is a pilot survey planned by the University of Maine at Orono which will, in part, determine whether respondents would be interested in programs which would help them do their own rehabilitation. This is based on the theory that a high proportion of low income Maine residents own their homes; that a high proportion of these homes are substandard; and that a large number of persons so situated are willing and able to do their own rehabilitation but lack the financing to purchase materials.

--Develop a system, based on the above and other appropriate data, to project and keep current measures of housing need and alternate ways to attain it over a future period.

Recommendation 4. The Subcommittee does not recommend the adoption of any new, substantive Legislative authority for MHA.

In a better State fiscal situation, the Subcommittee would likely recommend legislation authorizing funding for a housing rehabilitation loan program. The problem is money: such a program would require State appropriations for (a) administrative costs, which are relatively high for a rehabilitation program, and (b) for program costs, whether in the form of funds for direct loans or subsidies, or for a contingency fund to back a loan quarantee program. The Subcommittee does not believe that it can responsibly recommend funds for a program of sufficient size to make a real impact on the problem.

The problems of a poor economy and bond market are beyond the immediate influence of the Legislature, as is the problem of unpredictable Federal programs. At one time, it was possible to predict with some certainty that, once the economy was on the downward side of a cycle, Federal money would be pumped into the economy--including more housing money. Today, even such a general prediction is impossible to make, in view of the recent phenomena of simultaneous recession and inflation, coupled with an extremely unfavorable bond market. A more specific and useful prediction, such as whether and how much of a particular Federal program will come into Maine, is virtually impossible to make. An example of this is the uncertainty regarding Farmers Home Administration housing funds for Maine during the Fall of 1975.

The Authority has indicated that it may propose 2 changes which will require legislation:

- --An amendment to the Industrialized Housing Law which would establish MHA as an agency capable of qualifying as a State Administrative Agency under new regulations of the U.S. Department of Housing and Urban Development
- --Changes in the Modular Housing Inspection Program.

Since both changes are being reviewed by the Authority and their exact nature is not known, the Subcommittee is not able to recommend for or against their adoption. Because of their potential impact on a large number of citizens living in, or planning to live in, such housing, the Subcommittee believes that very careful review is warranted for any change in the industrialized housing program. Such a review should consider, in addition to impact on citizens, the adequacy of funds to conduct the new programs and whether such programs place Maine producers of industrialized housing at a competitive disadvantage with out-of-State producers.

This report, then, ends with positive and negative notes. The positive note is that the Maine Housing Authority has improved so that it is well administered and is an effective agency, given the constraints under which its operates. The negative note is that public housing programs in Maine, including those administered by MHA, need money. In view of the amount needed and the current financial situation, this money will be extremely difficult to obtain. Continued legislative review will be of assistance in obtaining it and will assure that it is well and property used once it is obtained.

APPENDICES

APPENDIX A

HP 1773

D OE P.

STATE OF MAINE

In House June 25, 1975

~~Ordered~~

WHEREAS, the State Legislature believes that there is a need to evaluate the several programs of the Maine Housing Authority in order to assure that maximum effectiveness in program administration is obtained in meeting housing needs for Maine people including the elderly and thoseof low income; and

WHEREAS, legislation dealing directly with the duties and powers of the Maine Housing Authority, such as L.D. 660, L.D. 723 and L.D. 1002, has been enacted or is presently being considered; and

WHEREAS, there has been question of the effect of such legislation on the present and future housing needs of the people of the State of Maine as well as on the credit rating of the State of Maine; now, therefore, be it

ORDERED, the Senate concurring, that the Legislative Council through the Joint Standing Committee on Performance Audit conduct the necessary review and consideration of the Maine Housing Authority to determine the need or desirability for altering, adding to or deleting from existing statutory provisions the Maine Housing Authority's powers to meet housing needs in this State; and be it further

ORDERED, that the Legislative Council report the result of its findings together with any suggested recommendations and any necessary implementing legislation to the next special or regular session of the Legislature; and be it further

ORDERED, upon passage in concurrence, that suitable copies of this Order be transmitted forthwith to said agency as notice of this directive.

Name: (Mrs. Berube)

Town: Lewiston

HP 1773

APPENDIX B

DECEMBER, 1975 MEMO ON CALENDAR 1976 OPERATING BUDGET

STATE OF MAINE

Inter-Departmental Memorandum Date December 18, 1975

To Commissioners Dept. Maine State Housing Authority

From John K. McIlwain, Acting Director Dept. Maine State Housing Authority

Subject 1976 Operating Budget

The Authority's operating budget presented to you tonight is based upon a conservative projection of income. Because we have projected income conservatively, we are forced to project a decided reduction in expenses over the course of 1976 in order to achieve a balanced budget.

There are four main reasons for the squeeze on our 1976 budget. The first is that we currently anticipate CETA funds to end after the first quarter, based upon a memorandum from the Office of Manpower Planning and Coordination. CETA is currently funding 17 positions and when that funding ends, we will be required to pay those salaries out of our own income. It is, of course, possible that this program will be renewed or extended, but at this time, we have no indication that it will be. Consequently, no income has been projected for this program after May 1. Secondly, the Section 8 existing program does not currently appear to have sufficient funds for it to operate during the entire year. The policy of the Commissioners is that, upon the exhaustion of administrative funds for this program, the ACC will be returned to the Department of Housing and Urban Development for their administration. Consequently, in projecting our income and expenses for this program, we have projected that they shall exactly equal each other and that the income will be exhausted within the first six months of 1976. Thirdly, the new HUD mobile home program, according to the best income projections we now have, would appear to be operational at only a minimal level. We have projected that we shall apply for certification as a State inspection agency and that, given the income they now project, we may be able to operate such a program if certain questions concerning allowable charges are resolved favorably. The program, nevertheless, would be at a minimal level. The consequence of problems one, two and three is that additional personnel must be carried under the Mortgage Purchase Program which has a problem of its own this year. While the Mortgage Purchase Program budget (Section 2, page 2) does indicate an excess of revenue over expenses of $220,472.00, this projection does not take into account a shortfall on payments of principal. Simply stated, due to delays in placing our bond proceeds into multi-family mortgages, we are not receiving adequate payments of principal on our mortgages to cover the amount of principal required to

To: Commissioners - Maine State Housing Authority

From: John K. McIlwain, Acting Director - Maine State Housing Authority

Re: 1976 Operating Budget - Page two

be repaid to our bondholders in November of 1976. Consequently, we are required to draw upon interest paid on those mortgages and interest earned on invested funds in order to make up this deficit in principal collected. This cuts into the program surplus. The program budget does not show this payment of principal required because that is an asset transaction and not an income transaction. The effect of this principal shortfall is shown on page 15 of the budget, on the balanced budget page, and leaves the Mortgage Purchase Program with an excess of receipts over expenditures of $14,860. The consequence of these four problems is that we have had to project a reduction in expenditures for 1976, including, possibly, a reduction in staff.

One potential bright spot in the picture is that we have projected our income with great conservatism. No income was included for bond sales for next year, due to the uncertainty of the bond markets. I feel we might have reasonably projected some income for a Loans to Lenders Program, but decided not to due to the uncertainty surrounding a new Director, the fact that the regulations have not been adopted, and the fact that no banks have yet formally committed themselves to participation in the program. If, however, the Governor should appoint a Director interested in pursuing this program, the greater bulk of the preparatory work has been performed and I feel that a modest bond sale can be anticipated fairly early in the year. This would generate new income for us. We have not projected a sale of mortgage purchase bonds for Section 8 new construction projects due to the uncertainty of the municipal bond markets at this time and to the questions surrounding our ability to sell bonds backed by Section 8 projects. These questions will have to be resolved early in 1976 in order for us to continue processing our 1975 Section 8 allocation and for us to consider processing our 1976 allocation. If a way is found to market these bonds, additional operating income will be generated. If no way is found to sell these bonds, it will be necessary to discontinue processing Section 8 new construction allocations and we will at that time have to consider cutting back our staff capacity in development. The impact of such a move on our part would be far-reaching, as HUD has already indicated its main hope for new construction under Section 8 lies primarily with State Housing Finance Agencies such as ourselves. If we and other State Housing Finance Agencies determine we are unable to operate this program, it may be the demise of Section 8 new construction.

To: Commissioners - Maine State Housing Authority

From: John K. McIlwain, Acting Director - Maine State Housing Authority

Re: 1976 Operating Budget - Page three

In addition to possible income from these two bond programs, additional money to fund the CETA program, additional money for the Section 8 existing program or additional funding for the HUD mobile home program all could help our income projections.

In addition to the uncertainty surrounding the bond markets and various HUD and Manpower programs, the Authority must continue to live with the uncertainty of short-term rates. This uncertainty affects us in two ways. To the extent that short-time rates rise, we will gain additional operating income over that which was projected by Anne. Currently, she is projecting an average return of approximately 6 1/8. There are indications that short-term rates may in fact rise during the course of the next year, and consequently we could receive additional operating income as a result of that. We do not want to have too great a rise in short-term rates, of course, because as short-term rates rise, the value of the housing reserve fund decreases and should its valuation decrease below the maximum income earned in that fund, all income earned would be trapped in it and not be available for operating expenses. This danger is one that we have lived with for the last few years and must continue to. The fund currently has an excess over the maximum of $93,571 as of November 30, 1975. We believe that this provides a sound cushion to prevent the fund valuation from dropping below maximum, but should short-term rates swing wildly, the cushion may not be enough.

In light of the possibility that we may have to reduce current expenditures, we are currently reevaluating certain Authority policies. I asked Phil to reduce the projection for travel expenses. Since his projection was based upon current travel, we will have to watch carefully to see if we start to exceed our budgeted travel expenses. If we do, I would consider requiring each division to budget its travel on a monthly or perhaps even weekly basis, and require each division to take whatever steps were necessary not to exceed the budgeted amount. I believe this is an awkward and inefficient way to operate, but I would prefer taking this step if it would result in saving sufficient money to retain one or more staff members. In addition, our policies concerning the administration of the Section 8 existing program, various types of inspections, and other areas are being examined

To: Commissioners - Maine State Housing Authority

From: John K. McIlwain, Acting Director - Maine State Housing Authority

Re: 1976 Operating Budget - Page four

to find ways in which we can cut costs, both to avoid the necessity for cutting staff and to be able to continue operating effectively if we have to cut staff. I believe it is possible that we may have to accept a reduced staff size during the course of 1976, but I think in all likelihood we will be able to achieve that result through attrition. It may be necessary to actively lay off some staff personnel but this should only be done as an absolute last resort, after we have determined that we are unable to raise more income and have cut all costs possible. All staff members should be, and I believe are, aware of this. If we do have to undertake active lay-offs, substantial notice will be given to anyone affected by them.

Obviously, we are going to have to review the budget actively during the early part of the year. It may be necessary to redo the budget at the end of the first quarter, based upon our projections at that time. The budget, as presented to you I believe is a useful planning tool for our operations next year and does show that we can continue to operate our plans albeit at a somewhat reduced level. It is my hope that we can find additional sources of income and I believe that that should be the first thrust of the Authority's efforts in resolving its budget problems.

JKMcI/d

APPENDIX C

OCTOBER, 1976 MEMO ON CALENDAR 1976 OPERATING BUDGET

STATE OF MAINE

Inter-Departmental Memorandum Date October 1, 1976

To Genevieve K. Gelder, Director Dept. Maine State Housing Authorit

From Phillip W. Spaulding, Controller Dept. Maine State Housing Authorit

Subject Revised 1976 Operating Budget

As of June 30, 1976, the Authority's operations were reasonably close to expectations. Total operating expenses had been reduced approximately $33,000 below budgeted levels due to the close control the Authority has exercised over its' expenses and the reduction of the staff to thirty-six people.
The original budget for 1976, adopted in December of 1975, did not include projections for the sale of bonds in 1976. As a result of the 1976 bond sale, the Authority's budget has changed significantly. The most significant changes occur in: the receipts from commitment fees and investment income; the expenses for Debt Service Interest Accruals for the new bonds, and for increased operating expenses due to the processing of 1000 new units.

I. Operations to June 30th

1. Mortgage Purchase Program: The Mortgage Purchase Program's revenues from Interest on Mortgages and Commitment Fees were $138,000 short of the amounts projected for the first six months as a result of delays in the processing of projects. This reduction was partially offset by the additional Income on Investments and C.E.T.A. Income earned. The Commitment Fees originally projected are expected to be received in 1976 and are included in the Revised Budget. In the Balanced Budget, the early receipt of Investment Income sufficiently offsets the loss of Pledged Receipts and delays in Commitment Fees, thereby maintaining the receipts in excess of the requirements.

2. Leased Housing Program: In the Leased Housing Program, the Section 23 program operated as anticipated but the Section 8 existing program was behind its schedule, resulting in reductions in both the contributions earned from H.U.D. and the subsidy paid to owners. Because of the reduced effort in the Section 8 existing program, however, operating expenses were also well below expected levels.

3. Indian Housing Mortgage Insurance Program: The Indian Housing Mortgage Insurance Program is approximatley as budgeted. The increase reflected in other Operating Expenses resulted from the payment of interest, in accordance with an agreement reached with the State Treasurer, on monies provided by the State for the funding of the Indian Housing Mortgage Insurance Reserve Fund.

II. Revised Budget - July 1 - December 31, 1976

The Revised Budget reflects the changes in each of the programs and the corresponding adjustments in staff levels and operating expenses as a result of those changes.

1. Mortgage Purchase Program: The $10.3 million bond sale will generate commitment fees of $352,667 on the mortgages to be acquired from this bond issue. Of this amount $176,000 will be set aside in a special fund available for the payment of debt service payments. The money shall be held until the proceeds of the bond issue which were allocated to purchase mortgages have been expended. The remaining approximately $176,000 will be available for any expenses of the Authority.

   The projects on which mortgages are to be purchased from this bond issue are not scheduled for completion until 1977, thus there will be no additional Pledged Receipts in 1976 and no increase in Interest from Mortgages generated by the bond sale. The Pledged Receipts and Interest on Mortgages in the Revised Budget have been reduced approximately $56,000 and $62,000 respectively for the last six months to reflect the revised schedule of mortgage acquisition dates for Mortgages to be acquired from previous bond issues. The expense for interest accrued on the bonds increased approximately $271,000 as a result of the new bonds outstanding. The operating costs for the last six months of the year are budgeted at $27,000 more than was originally budgeted for that period. However, because of reductions in operating costs during the first six months of the year and the additional C.E.T.A. funds received, the total operating costs for 1976 are expected to be about $26,000 less than originally budgeted.

2. Leased Housing Program: The Leased Housing Program has been revised to reflect the new schedule for participation in the Section 8 existing program and the changes brought about by the agreement with H.U.D. to allow the use of operating reserves generated in previous years, as well as an operating subsidy of $25,000 provided by H.U.D., to grant special rent increases for the year to projects suffering operating deficits. This agreement uses only money provided by H.U.D. to pay these

increases and does not require other Authority funds. It does, however, reduce the operating reserve funds which would have been available for future years. To continue to subsidize the Section 23 projects at their 1976 levels will either require additional operating subsidies from H.U.D. of approximately $90,000 a year, or conversion of these projects to the Section 8 program which has more flexible rents.

3. Industrialized Housing Program: The Industrialized Housing Program has been reduced to the minimum level necessary to carry on the consumer complaint activities of the program as required by law, and to prepare an application to H.U.D. for approval as a State Administrative Agency under the H.U.D. Mobile Home Regulatory Program, which now pre-empts the State program.

III. Summary

The Authority is in a stronger position at the present time than it has been in the past, primarily because of the amount of commitment fees expected to be received; however, there are some areas which should be watched closely. Foremost at this time is the rapdily declining short-term rates on investments. Rates are presently dropping to the 5% area, 2-1/2% below the rate being paid on this new bond issue. Delays in the scheduled completion dates for the projects to be financed could cause a negative arbitrage problem. Delays could also result in losses of the pledged receipts from those mortgages.

Another problem that has always existed and should be watched is the Housing Reserve Fund Market value. Should the market value of investments held in the Housing Reserve Fund decline below the Housing Reserve Fund Maximum Requirment as specified by the Bond Resolution, income earned in that Fund would not be available for the payment of debt service.

If the Authority can keep the projects from the 1976 bond issues on schedule, and at the same time process the 750 units of low income housing recently allocated by H.U.D. and scheduled for inclusion in a bond sale in mid 1977, the financial condition should be extremely sound.