

MaineHousing

Housing Opportunities for Maine Fund (HOME Fund)

Report to the Maine Legislature on HOME Fund uses 2005-06
April 2007



MaineHousing

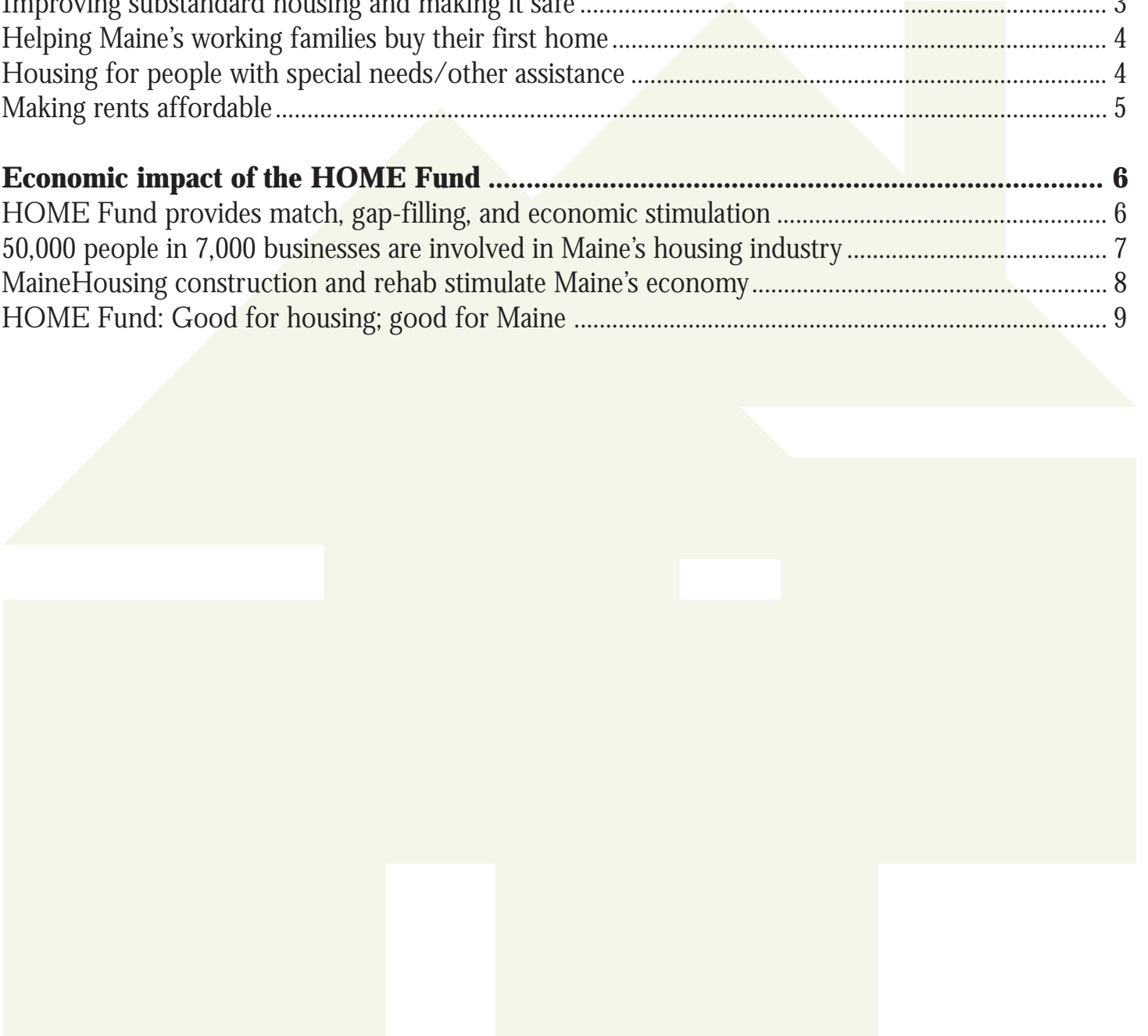
Maine State Housing Authority

Dale McCormick

Director

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Introduction

A message from MaineHousing Director Dale McCormick



The Housing Opportunities for Maine (HOME) Fund is critical to Maine's future in two important ways: it is key to our ability to develop and finance affordable housing for working families and it is a crucial component to growing our state's economy.

In the past two years MaineHousing has used the HOME Fund to help finance such fundamental programs as loans for first-time homebuyers, housing for people who are homeless, affordable rental housing, home repair, and housing for people with special needs. The HOME Fund also helped finance smaller programs such as making homes safe for children by eliminating lead paint hazards, and making homes accessible for people with physical disabilities.

None of our federal subsidy dollars are suitable for these programs. Our housing bonds, which provide the bulk of our financing, help finance affordable housing but, since we must repay the bond holders with funds generated by mortgages, we cannot use bond money as grants or to match federal housing funds.

Equally important, the HOME Fund plays a fundamental role in Maine's economy. According to a recent study, about 10% of Maine's workforce is employed in housing related businesses. As the study outlined in this report shows, full funding of the state HOME Fund as proposed by Governor John Baldacci's budget could leverage an additional \$52 million in other housing funds and generate more than 550 jobs in one year.

The housing market in Maine is struggling. Sales are down and housing permits and residential construction contracts in February were down 16% in Maine, a bigger drop than the rest of New England. The housing sector contributes \$1.4 billion in income to Maine people, and it needs help.

The HOME Fund can provide that help.

... the HOME Fund plays a fundamental role in Maine's economy.



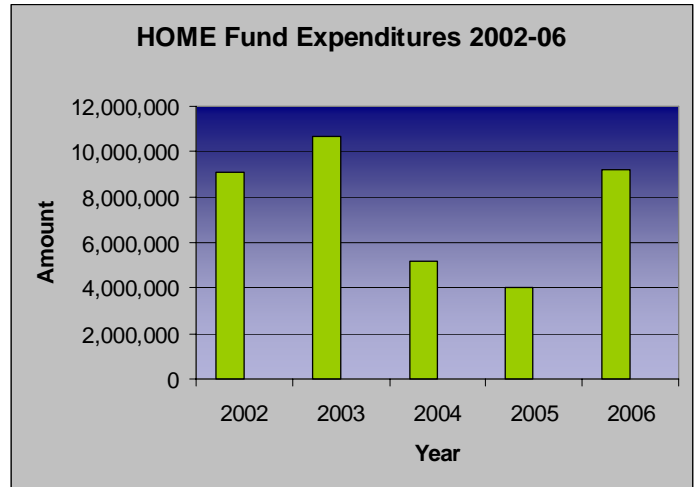
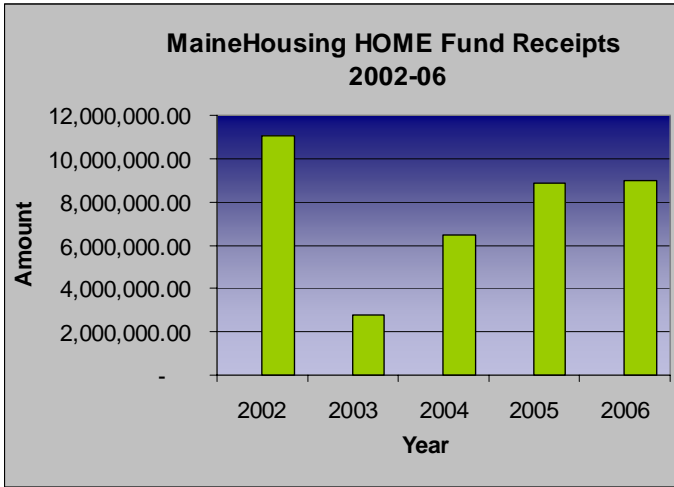
Title 36, Section 4641-N of the Maine Revised Statutes requires that the Maine State Housing Authority submit a report on April 1st every other year concerning the Housing Opportunities for Maine (HOME) Fund to the Joint Standing Committee on Taxation. This report covers the years 2005-06. It identifies the revenues credited to the fund and the way HOME Fund monies have been utilized to promote affordable housing opportunities for the people of Maine.



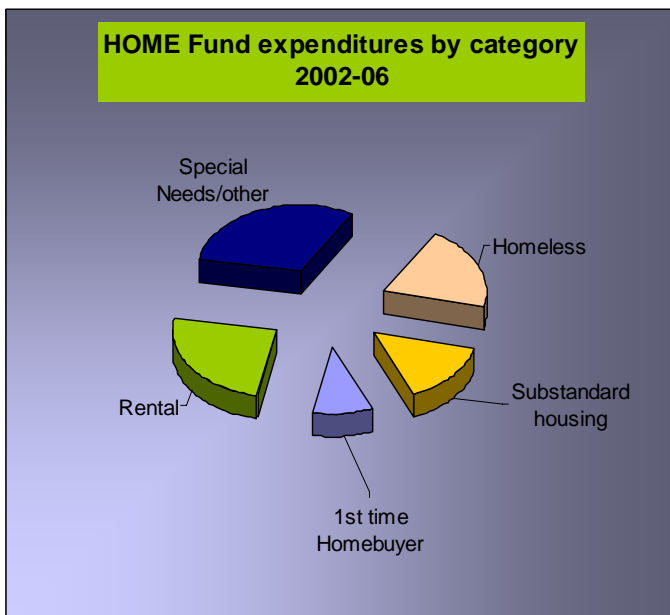


HOME Fund: Summary of receipts, expenses, and uses 2002-2006

For MaineHousing Fiscal Years



The HOME Fund is financed by a small (less than 1/4 of 1%) tax on the buyers and sellers of real estate when property is bought and sold. The sharp drop off in receipts in the chart above represents the temporary change instituted to meet the state's budget crisis, using the first \$7.5 million collected for the state general fund, rather than for the state's housing fund. That change still is in effect, reducing the state's spending for affordable housing by \$30 million over four years. The total receipts from 2002-06 were \$38,179,187. HOME Fund expenditures for affordable housing during the same period were \$38,152,886. Receipts and expenditures do not match on an annual basis because HOME funds are not necessarily spent in the same year the revenue is collected through the Real Estate Transfer Tax.



Over the past five years MaineHousing has invested over \$38 million in HOME funds for a variety of affordable housing initiatives. The figures for the chart at left are:

Homeless	\$7,857,535
Substandard housing	\$5,641,830
1st time Homebuyer	\$3,558,021
Rental	\$9,430,089
Special needs/other	\$11,665,413

HOME Fund uses 2005-06

Helping people who are homeless

Over the past two years MaineHousing has invested over \$2,700,000 in initiatives that help people who are homeless.

In addition, most of the HOME money (more than \$3 million) invested in special needs housing created apartments for people who were homeless. Of the 16 developments financed, 11 serve people or families who are homeless, providing 50 units (also see special needs section).

- Over \$2.6 million was used to provide operating revenue to the emergency shelters through the Shelter Operating Subsidy (SOS) program, or

repair grants through the Shelter Assistance Grant (SAG) program. Emergency shelters provide approximately 240,000 bednights of housing a year to people who are homeless.

- HOME funds also were used to prevent people from becoming homeless. This includes over \$27,000 in security deposits to enable people to rent an apartment, and \$75,000 to assist people from being evicted and becoming homeless.

- More than \$50,000 in HOME funds were used to provide emergency housing in motels and hotels for people unable to use emergency shelters.

More than \$2.6 million of HOME money was invested to provide emergency shelters with operating revenue, and grants to make repairs.

Improving substandard housing and making it safe

One of the key uses of HOME Fund money is improving homes of low-income Maine people, including providing matching funds to secure federal lead hazard control grants. Over the past two years MaineHousing has invested more than \$3.4 million in HOME money in home repairs.

- MaineHousing invested nearly \$735,000 to match federal lead paint hazard control grants. The grants are used to prevent poisoning of children due to lead paint. The current federal grant will make 280 homes lead-safe. Overall, the program has made more than 500 homes lead-safe, and trained 900 contractors in lead-safe techniques.

- MaineHousing provided over \$1.5 million in HOME funds to the state's Home Repair Network. The Network, which includes funding from other agencies, has repaired more than 500 homes in the past two years.

- MaineHousing provided Alpha One with more than \$1 million in HOME Fund grants to make housing accessible to people with physical disabilities. In the past two years the program made 63 homes accessible.

HOME Fund money has provided Maine with matching funds to secure federal grants to make homes safe from lead poisoning.





Helping Maine’s working families buy their first home

Over the past two years MaineHousing invested \$248 million in mortgages to help more than 2,100 Maine families become homeowners.

Nearly half of those homebuyers used an option called Maine Assist to make homeownership feasible. Maine Assist provides borrowers with up to three percent of their mortgage amount (to a maximum of \$4,000) in money that they can use to pay the downpayment and closing costs on their home.

MaineHousing invested \$1.62 million of HOME funds in 2005-06 to help pay for Maine Assist and help Maine homebuyers with limited savings become homeowners.

In the past it also has used the HOME Fund to reduce mortgage rates to make homes more affordable.

The use of HOME funds in Maine Assist is a good example of how the HOME Fund leverages other housing money – in this case the revenue bonds that MaineHousing sells to provide most of the \$248 million in loan money over the past two years.

MaineHousing mortgages helped more than 2,100 families become homeowners in the past two years.



Housing for people with special needs/other assistance

One of the most important uses of the state HOME Fund is to subsidize rental housing used by people with special needs, such as those with mental illness, mental retardation, or people who are homeless. Often federal funds cannot be used in this kind of housing.

Over the past five years MaineHousing has invested over \$11.5 million in special needs housing, including more than \$5 million in 2006.

• Most of the HOME Fund invested in 2005-06 (\$5.3 million) went to the development of 16 special needs projects that are providing 75 units of affordable rental housing. Most of the housing serves people who are homeless.

• MaineHousing provided \$90,000 in Capacity Enhancement Grants to three organizations to improve the ability of non-profit developers to provide affordable housing for people with special needs.

• Much of the other use of HOME Fund money (\$101,000) supported the Keep ME Warm effort that made thousands of homes of Maine seniors more energy efficient and reduced the owners’ energy bills.

Subsidizing housing for people with special needs is one of the most critical uses of the HOME Fund.



Making rents affordable

The HOME Fund is used in many different ways in conjunction with rental housing, including making rents affordable for people who are homeless or have special needs (see previous section).

Over the past five years MaineHousing's use of HOME money in developing new rental housing helped create several hundred new apartments. MaineHousing invested over \$5.5 million in 2002-03 alone.

Over the past two years MaineHousing has invested \$1.8 million of HOME money to create rental housing that is affordable for working families.

While the federal Low Income Housing Tax Credit provides most of the equity for new rental housing developments, the HOME Fund often plays a key role in filling gaps in the financing that cannot be covered by other funding sources.

In the past two years:

- MaineHousing invested \$1.35 million in mortgages to enable the development of apartment properties that are providing 67 new rental units for Maine's low-income households.

MaineHousing also invested nearly \$450,000 over the past two years in other rental initiatives.

- MaineHousing provided \$133,000 of HOME funds to install solar roof systems in two new rental developments that created more than 50 new affordable apartments.

- MaineHousing invested \$288,500 of HOME money to help the city of Lewiston develop affordable housing in the downtown area, part of a larger Request for Proposals that provided \$1 million in grants to cities for similar projects.

Over the past five years MaineHousing invested more than \$8 million of HOME money to help fund hundreds of new apartment units.





Economic impact of the HOME Fund

HOME Fund provides match, gap-filling, and economic stimulation

MaineHousing stimulated more than \$500 million in investments in Maine during 2005-06, with most of the money coming from private and federal sources such as housing bonds and federal grants and subsidies.

Only a small amount of the total investment comes from the HOME Fund (about \$13 million over the two years), but the Fund plays a critical role; without it our other methods are incomplete. It is significant in three principal ways:

- By leveraging private investments;
- By providing a match for federal funds; and
- By enabling MaineHousing to run programs for which no other funding is available.

Over the past four years \$30 million – more than half of the HOME Fund that would have come to MaineHousing for housing – has instead gone to the state General Fund. This year Governor John Baldacci’s budget calls for returning the \$7.5 million to the HOME Fund. What could this \$7.5 million mean to Maine?

Information on the economic impact of the HOME Fund is based on a recent study by Frank O’Hara, Vice-President of Planning Decisions.

A sample distribution could include:

- **\$2.5 million to reduce interest rates and provide downpayment assistance in the first time homebuyer’s program.** This lowers the effective interest rate by 1/4% to 3/8%. By lowering the barriers, MaineHousing increases the program volume by \$30 to \$40 million per year and opens the door to homeownership for an additional 300 to 400 families.
- **\$1.0 million to create rental housing** under the so-called “4%” tax credit. **Every HOME Fund dollar stimulates \$9 of private investment** and creates new affordable apartments; the only limit to how much of this housing can be built is the amount of HOME money available.

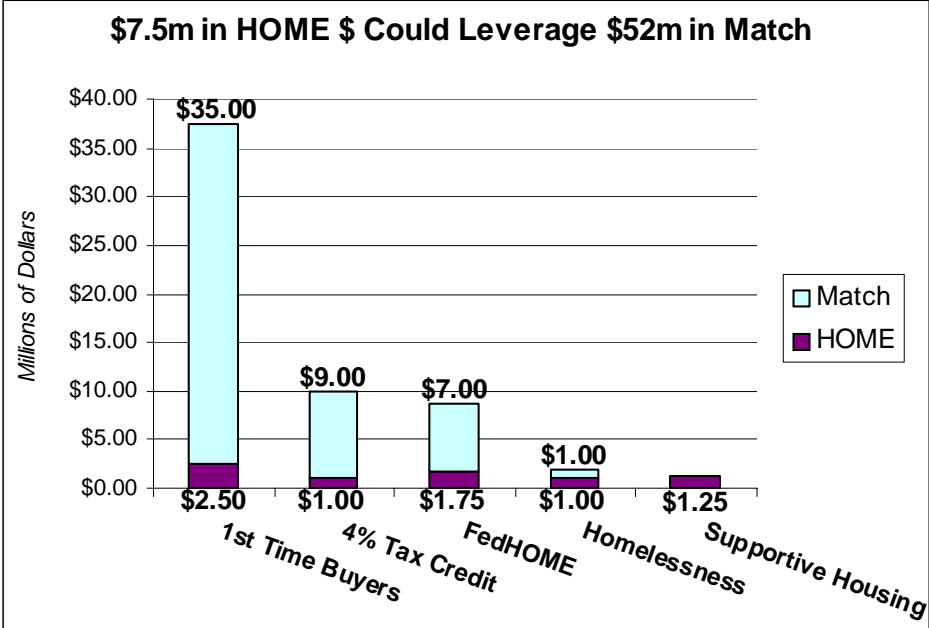
\$7.5 million of state investment in the HOME Fund could:

- **Leverage \$52 million in matching housing funds;**
- **Create 570 jobs;**
- **Pay back \$2.3 million to the general fund; and**
- **Add \$500,000 annually to local tax revenue.**

- **\$1.75 million** to match a \$7.0 million federal Home Partnership grant (MaineHousing can use this money to **create affordable housing** in many ways).

- **\$1.0 million** to match a \$1.0 million federal grant used to provide **housing for people who are homeless.**

- **\$1.25 million** to build supportive housing to help people **with disabilities** live independently.



50,000 people in 7,000 businesses are involved in Maine's housing industry

Residential housing is a major sector of Maine's economy. Every time a house is built, there is work at wood mills and plumbing installers, law offices and real estate agencies, furniture stores and moving companies. Around 10% of the workforce is employed in residential housing and related sectors (see below).

The decline of home values hurts the ability of homeowners to spend on big ticket items like education, automobiles, and furniture. The health of Maine's housing industry is not just a concern for a few builders.

It matters to everyone.

Around 10% of Maine's workforce is employed in residential housing or related sectors.

Maine businesses and employees heavily involved in residential housing

NAICS codes	Sector	Establishments	Sales (\$1,000)	Payroll (\$1,000)	Employees
TOTAL		7,223	\$6,931,072	\$1,460,356	50,173
236115	<u>New single-family general contractors</u>	588	435,092	65,911	2,603
236116	<u>New multifamily general contractors</u>	9	11,691	2,165	73
236117	<u>New housing operative builders</u>	157	153,262	19,614	656
236118	<u>Residential remodelers</u>	590	236,495	44,354	1,862
2381	<u>Building foundation and exterior contractors</u>	592	331,246	89,977	3,424
23821	<u>Electrical contractors</u>	440	310,396	112,403	2,914
23822	<u>Plumbing and HVAC contractors</u>	458	399,172	114,586	3,715
23831	<u>Drywall and insulation contractors</u>	169	122,000	27,008	1,091
23832	<u>Painting and wall covering contractors</u>	260	not disclosed	19,327	940
23833	<u>Flooring contractors</u>	59	49,542	9,474	334
23835	<u>Finish carpentry contractors</u>	311	63,666	11,229	639
23891	<u>Site preparation contractors</u>	408	504,382	111,272	3,817
5311101	<u>Lessors of apartment buildings</u>	177	70,804	9,743	480
5311109	<u>Lessors of dwellings other than apartment buildings</u>	57	17,435	2,252	117
5312101	<u>Offices of residential real estate agents & brokers</u>	374	179,131	23,799	795
531311	<u>Residential property managers</u>	127	56,578	24,182	986
53132	<u>Offices of real estate appraisers</u>	80	15,894	6,670	198
541191	<u>Title abstract & settlement offices</u>	30	14,164	6,197	185
54131	<u>Architectural services</u>	101	79,043	31,934	733
54132	<u>Landscape architectural services</u>	39	11,319	4,018	121
541613	<u>Marketing consulting services</u>	67	48,601	11,463	289
4421	<u>Furniture stores</u>	118	137,914	22,428	922
4441	<u>Building material & supplies dealers</u>	493	1,259,935	146,343	5,497
4442	<u>Lawn & garden equipment & supplies stores</u>	142	141,786	18,796	886
45393	<u>Manufactured (mobile) home dealers</u>	44	126,435	10,337	301
5222929	<u>Mortgage bankers & loan correspondents</u>	51	75,802	22,453	328
524126	<u>Direct property & casualty insurance carriers</u>	59	n/a	72,030	1,647
3211	<u>Sawmills & wood preservation</u>	87	501,607	73,927	2,290
321911	<u>Wood window & door mfg</u>	9	29,190	8,472	305
32199	<u>All other wood product mfg - includes mfg housing</u>	72	212,862	54,805	1,991
3273	<u>Cement & concrete product mfg</u>	51	183,518	39,448	1,080
33711	<u>Wood kitchen cabinet & counter top mfg</u>	45	13,944	4,577	178
	All other	959	1,138,166	239,162	8,776

2002 Economic Census of Maine, at http://www.census.gov/econ/census02/guide/02EC_ME.HTM

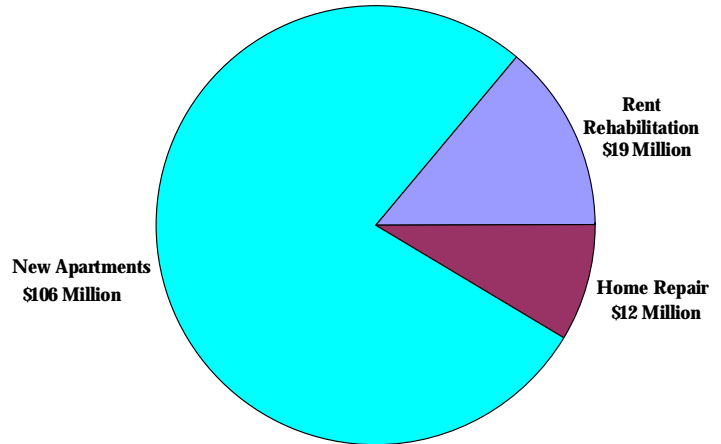




MaineHousing construction and rehab stimulate Maine's economy

Creates 1,000 jobs, nearly \$24 million in wages and salaries, \$4.3 million in state revenues, and over \$800,000 in local property tax revenues annually – if MaineHousing continues to invest in housing as it has in the past.

2005 MaineHousing New Construction and Rehabilitation Investments



Aroostook

- 98 jobs
- \$1.6 m wages
- \$55,000 local taxes

Penobscot-Piscataquis

- 119 jobs
- \$2.8 m wages
- \$96,000 local taxes

Kennebec-Somerset

- 98 jobs
- \$2.6 m wages
- \$92,000 local taxes

Hancock-Washington

- 72 jobs
- \$1.3 m wages
- \$61,000 local taxes

Androscoggin-Franklin-Oxford

- 221 jobs
- \$4.8 wages
- \$171,000 local taxes

Knox-Waldo

- 79 jobs
- \$1.5 m wages
- \$62,000 local taxes

Cumberland

- 144 jobs
- \$4.8 m wages
- \$148,500 local taxes

Lincoln-Sagadahoc

- 52 jobs
- \$1.0 m wages
- \$39,000 local taxes

York

- 170 jobs
- \$3.2 m wages
- \$104,000 local taxes

In 2005-06 MaineHousing invested \$500 million in affordable housing and housing related activities.

This money not only helps Maine people get safe, decent housing, but also stimulates Maine's economy through job creation and enhances revenues for local governments.

In 2005 MaineHousing invested \$102 million in new construction and rehabilitation. This in turn stimulated \$36 million in private investment.

Professor Charles Colgan of the Muskie School at the University of Southern Maine modeled the effect of this spending on the different regions of Maine, using an economic model provided by Regional Economic Models, Inc. (REMI). The regional results are shown on map opposite.



HOME Fund: Good for housing; good for Maine

**The HOME Fund =
45% of the Real Estate Transfer Tax (RETT)
(Housing Opportunities for Maine Fund)**

The HOME Fund Creates Affordable Housing

- Reduces the mortgage rate for first-time homebuyers.
- Provides match for the federal housing funds.
- Provides match for the federal lead paint remediation program.
- Provides match for the federal homeless housing programs.
- Provides subsidy for affordable apartments for working families.
- Creates debt free supportive housing.

Supplements US Rural Development, Veterans Affairs, HUD elderly, Youth and Runaway Act, and Federal Home Loan Bank grants and loans.

The HOME Fund/RETT Helps the Economy

- Creates jobs.
- Leverages investment at a rate of 10 times HOME Fund spending.
- Increases spending.
- Increases local and state tax revenues.

MaineHousing's 2005 investments, including the HOME Fund, supported over 3,000 jobs and \$450 million in spending.

HOME Fund
=
Housing for Working Families

