



Testimony of
Erik C. Jorgensen
Senior Director of Government Relations and Communications
Maine State Housing Authority

before
The Joint Standing Committees on Appropriations and Financial Affairs
and the Joint Select Committee on Housing
In Support of

LD 258 - An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2024 and June 30, 2025 – 1st Regular Session, 131th Maine Legislature.

February 9, 2023 (1PM)

Senators Rotundo and Pierce, Representatives Sachs and Gere, and Members of the Appropriations and Housing committees, my name is Erik Jorgensen, Director of Government Relations and Communications at MaineHousing.

The Maine State Housing Authority is Maine's housing finance agency, created by the legislature in 1969 to address the problems of unsafe, unsuitable, overcrowded, and unaffordable housing. We are authorized to issue bonds to finance single-family and multi-family housing for Maine's low and moderate income citizens. These bonds carry the moral obligation of the state; they are repaid from mortgage payments, not the General Fund. We are not part of state government, but are structured as an independent agency to utilize effective private methods of finance for public purposes, to be independent, and responsive.

We are also authorized to act for the state in administering several federal programs, including rental subsidies, weatherization and fuel assistance, two housing block grants, the low-income housing tax credit program, and homeless grant programs. We receive state general fund revenue for homeless programs and receive a dedicated portion of the real estate transfer tax for the Housing Opportunities for Maine (HOME) Fund to support our programs.

The context for today's budget hearing is worth noting, as we are emerging from a period of unprecedented program and subsidy funding. In 2021 alone, MaineHousing provided more than \$557 million dollars to Maine people in the form of Home Purchase assistance, Housing Development subsidy, Energy Assistance, Rental Assistance and Homeless Assistance. While we have not yet reported our figures for 2022, this period will, in all likelihood, be a high-water mark for our agency's programmatic funding, which has entered a period of contraction as pandemic era special programs are winding down.

We have worked closely with state government in coordinating these investments, including additional special initiative funding made available from the state, such as that which you funded earlier last month in LD 3. For making all of this unprecedented investment possible, we would like to express our appreciation for the partnerships we have had with the Appropriations Committee, with DAFS and with our colleagues in the Governor's office.

Our state funding, while not comprising the majority of our agency's budget, provides absolutely critical resources to help in meeting Maine's housing needs. This is the only money that the housing authority receives that is not strictly designated for specific, federally-defined purposes, and so it has particular importance as a part of our budget, as it enables us to be responsive in meeting emergent needs.

MaineHousing has five items in the biennial budget starting on page A-431.

The Housing Opportunities for Maine Fund – The HOME Fund (account 0442)

The first item in our budget is the HOME Fund, and that appears on Page A-432 as an other special revenue account. The HOME fund was created in 1983 to provide a dedicated and flexible source of funding for affordable housing. It's our largest and I daresay most mission-critical source of state revenue. It was created with the support of the Realtors, bankers, and others in the industry who got behind a doubling of the real estate transfer tax to provide that revenue. 10% of the tax stays with the county that collects it as an agent fee, and the balance is split between the General Fund and the HOME Fund.

One of the unique features of this Fund is that when the real estate markets are hot and the people we serve need more assistance, the amount of money in the fund increases. Conversely, when the market is soft and rents and prices might be more affordable, we get less. The fact remains, however, that need always exceeds resources.

Over the years, the legislature has repeatedly diverted funds, totaling over \$80 million, from the HOME fund to provide funding for other needs in the budget. That was NOT the case in the last budget cycle, nor for this proposed budget, and for that we are very grateful.

The legislature receives a detailed biennial report from us on the HOME fund, and that will be coming to you in April. But I can tell you a bit about the fund here, to give you a sense of what it does.

Last year the HOME Fund funded \$24,340,119 in expenditures. This was spread among a variety of housing programs – around 19% of that was used to support first-time homebuyers, providing down-payment assistance for people buying their first single-family home. In this category, the fund also supported foreclosure avoidance programming, mobile home replacement, and housing counseling.

Another 21% paid for services for owners of substandard homes, and this covered well water contaminant abatement, lead remediation, and several home repair programs, including general repairs, repairs to make a house ready for weatherization, repairs to properties being rented to section 8 tenants, and repairs for homes owned by older Mainers, including the Community Aging in Place program that provides home modifications to improve accessibility.

The next 25% of the funds supported services for the homeless – our shelter operating subsidy, incentives for landlords to rent to people coming out of homelessness, eviction prevention, rapid-re-housing services and our navigator program, as well as support for Maine's redesigned system of homeless service coordination, now centered around nine service hubs.

13% of the funding supported shelter repair and supportive housing services,

and the remaining 25% of the funds were used to provide subsidy for new unit construction, and other activities relating to the creation and preservation of affordable housing.

This is just a snapshot showing one year of the HOME Fund, but my hope here was to illustrate the range of activities it supports as the only flexible money MaineHousing has. You will find we will always oppose efforts to specifically direct how we spend these funds, because we have to maintain that flexibility. I should also point out that 100% of these funds go to program. None is used for MaineHousing's administration or overhead.

Moving down the page, there are two **INITIATIVES** in this part of the budget. The first one simply reconciles the HOME fund budget to the revenue projections for fiscal years 23-24 and 24-25. The revenue forecast predicts a reduction in the overall amount of real estate transfer tax revenue. This means a reduction to the HOME fund of \$4,649,526 in the first year and \$4,816,650 in the second year.

The second initiative is one we are very enthusiastic about, and relates to Language Item PART TT. Part TT Provides \$30,000,000 from the General Fund Unallocated Surplus to provide subsidy to expand rental housing options that are affordable to workers and their families, split equally between the Rural Affordable Rental Housing Program and the Low-income Housing Tax credit program. All the available subsidy for these programs was used almost immediately when it was made available through the Maine Jobs and Recovery Act, so we know that demand for these resources in this budget will be high. And taken as a whole we project that this \$30 Million will subsidize upwards of 250 new affordable units.

The \$15 million in rural program funding will leverage other financing in those projects, and the \$15 million designated for the tax credit program will leverage federal Low Income Housing Tax Credits. Our experience in the first round of the Rural Rental Program suggests that units created through that program need roughly \$150K/unit in subsidy, so \$15Million should produce another hundred units or so. With regard to the 4% tax credit (LIHTEC), those projects require around \$110,000 per unit in subsidy (this is mostly due to the fact that these tend to be larger projects and so there are economies of scale), so we can expect the other \$15 Million to generate about 150 units.

There are two points I want to make about this initiative. First, is that there is a budget error.

Language Part TT specifies that this is a \$30MM initiative, while the corresponding figure on page A-432 shows it as a one-time appropriation of \$25,000,000. We have discussed this discrepancy with both the administration and the bureau of the budget and they agree that the intended amount is \$30,000,000 as shown in Part TT, and that this we understand, will be corrected in the change package.

The second point is more of a contextual one, and that is to note that this is the first time that there has ever been a direct appropriation for housing subsidy included in a biennial budget. We are extremely grateful to the Governor for adding this line – subsidy is the special ingredient that puts the “affordable” into affordable housing. We can bond and provide attractive mortgages all day, but those are not enough to make the numbers work if you if you are buying land, building a project and charging long-term reduced rents.

Thanks to the historic level of attention of the 130th Legislature and this Administration, we have never had a larger production pipeline in our agency’s history. There are 87 projects currently in our overall pipeline, representing 3,623 apartment units at some stage in production. From our perspective that’s an amazing number, but what might be of greatest interest to you is the sheer number of those projects that were made possible thanks to state support. There is a chart appended to my testimony that shows those state-supported projects in detail.

Low Income Energy Assistance Program

(account 0708)

The next item is a placeholder account for the Low Income Assistance Program, and it is found on page A-433. This program is commonly referred to as LIAP and it provides a discount for low income electricity consumers. This should not be confused with LIHEAP or HEAP, which is our federally funded heating assistance program. (We would suggest the title of this be changed to remove “Energy” from its name). The Public Utilities Commission created LIAP for the electric utilities, and funding for it comes from electrical ratepayers. PUC asked MaineHousing to coordinate the flow of funds among the utility companies and the Community Action Agencies, which we do. At the time it was created there was some discussion about the state contributing funds as well. That

hasn't happened yet; but this account stands ready, as the vehicle for that. To put this in perspective, around 30,000 people took part in this program last year. There are no initiatives in this program.

The Maine Energy, Housing, and Economic Recovery Program (account Z124)

The next item is The Maine Energy, Housing, and Economic Recovery Program, or what are also known as "Part E Bonds". This program appears on page A-433. This program was created in 2009 with the aim of constructing or substantially rehabilitating energy efficient affordable rental housing, to replace pre-1976 substandard manufactured housing units; and to create jobs. We are authorized to sell \$30,000,000 or more in bonds per year with a cap of \$200,000,000, but we only issue enough bonds to meet the level of debt service that's available. Those bonds are repaid from the state's share of the real estate transfer tax, and this line reflects the debt service for those bonds due over the biennium.

I am pleased to report we recently restructured the debt in this program and issued new bonds at a substantially lower interest rate. This allowed us to provide an additional \$36,000,000 in new subsidy, while holding the state's annual debt service payment level. The \$4,318, 538 shown as an Other Special Revenue line in the budget represents payments on those bonds over the next two years. They are paid for through the portion of the real estate transfer tax that does not flow to the HOME fund. There is a small INITIATIVE in this section and it simply reconciles the budget to the bond payment schedule.

Shelter Operating Subsidy

(account 0661)

Finally, the last MaineHousing item appears on page A-434 and is The Shelter Operating Subsidy. This is our only ongoing general fund line and these funds support operating costs for emergency homeless shelters across the state. The line was first funded in 1988 at \$500,000. In the 126th Legislature, the Labor and Housing Committee worked very hard to increase this appropriation to \$2,500,000 - and the Appropriations Committee worked hard to include it in the budget. The Governor continues this funding in this year's budget proposal.

I think it's important to note that MaineHousing's support of shelters goes beyond this line. In addition to this \$2,500,000, MaineHousing adds funding from HUD's Emergency Solutions Grant program (currently \$1,283,470 in federal funds, not shown in the State Budget), and \$3,500,000 from the HOME Fund. We combine these funds together to create the Emergency Shelter and Housing Assistance Program (we call it ESHAP), which supports shelter operations and housing stabilization services. It also includes a performance incentive to assist shelters in reporting the most accurate data on the clients they serve.

One other relevant item around shelters relates to LD 3, which you passed last month. We have been working very quickly to deploy our portion of that funding in terms of heating assistance and emergency shelter. Within a few days of that bill being signed we had posted two notices of funding availability – the first for short term overnight warming shelters this winter, and the other for longer term capacity enhancements that will enable homeless shelter providers to accommodate more people. The first of those NOFA's closed last Friday; we had 17 proposals which we reviewed over the weekend; we scored them on Monday and are preparing to finalize awards by tomorrow. We will be funding about a dozen of these and are working with some of the other applicants to find a way to get to yes. The other category closes at the end of the month, and we will work to turn those around as quickly as possible. LD 3 is not part of this budget, of course, but we wanted to report on that progress.

This concludes my testimony. We appreciate your time and your interest in our programs. Thank you.

PART TT

Sec. TT-1. Transfer from General Fund unappropriated surplus; State Housing Authority program. Notwithstanding any provision of law to the contrary, on or before June 30, 2024, the State Controller shall transfer \$30,000,000 from the unappropriated surplus of the General Fund to the Maine State Housing Authority, State Housing Authority program, Other Special Revenue Funds account to expand rental housing options that are affordable to workers 38 and their families through equal funding to the Rural Affordable Rental Housing Program and the Low-income Housing Tax credit program.

PART TT SUMMARY This Part requires the transfer of \$30,000,000 from the unappropriated surplus of the General Fund to the Maine State Housing Authority, State Housing Authority program, Other Special Revenue account to expand rental housing options that are affordable to workers and their families through equal funding to the Rural Affordable Rental Housing Program and the Low-income Housing Tax credit program.

<u>Project</u>	<u>City/Town</u>	<u># of Units</u>	<u>\$ Amt Allocated</u>
SENIOR HOUSING BOND PROJECTS AS OF 1.6.2023			
Bessey II	Scarborough	40	\$ 2,500,000.00
Penobscot Landing	Belfast	25	\$ 235,833.00
The Uplands	Scarborough	39	\$ 665,053.00
Belfast Acres Estates	Belfast	25	\$ 542,297.00 [2]
Hartland Senior	Hartland	24	\$ 437,000.00
Oriole Senior	Ellsworth	29	\$ 531,048.00 [2]
Emery Apts	Westbrook	30	\$ 468,656.00
Hillside Apts	Gorham	27	\$ 381,774.00
Jocelyn Place	Scarborough	<u>60</u>	\$ 3,007,010.00
TOTAL IN DEVELOPMENT APPROVAL PROCESS		299	\$ 8,768,671.00
Balance to commit			\$ 6,231,329.00 [3]

STATE LOW INCOME HOUSING TAX CREDIT PROJECTS AS OF 1.6.2023			
Mary Street Apts	Skowhegan	37	\$ 4,475,663.00
Porter Station	Portland	48	\$ 5,048,701.00
Phoenix Flats	Portland	45	\$ 2,826,740.00
3&9 Pine St	Thomaston	16	\$ 500,000.00 [4]
63 Water St	Thomaston	12	\$ 454,000.00 [4]
Equinox	Portland	43	\$ - [5]
Winter Landing	Portland	<u>52</u>	\$ - [5]
TOTAL IN DEVELOPMENT APPROVAL PROCESS		253	\$ 13,305,104.00
Balance to commit			\$ 1,694,896.00

MEHER BOND REFI PROJECTS AS OF 1.6.2023			
4% LIHTC LEVERAGE			
Blake & Walnut	Lewiston	18	\$ 991,000.00
Blueberry Ridge	Bangor	32	\$ 4,224,000.00
Snow School	Fryeburg	28	\$ 1,379,175.00
Amount to be allocated to projects in Development pipeline		<u>250</u>	\$ 26,335,825.00 [6]
TOTAL IN DEVELOPMENT APPROVAL PROCESS		328	\$ 32,930,000.00

Islands Program			
Expect 9 Island Projects		<u>27</u>	\$ 5,670,000.00
TOTAL IN DEVELOPMENT APPROVAL PROCESS		27	\$ 5,670,000.00

[1] MaineHousing will fund the difference from other funding sources.

[2] Due to the creation of Bond Arbitrage, as of December, we will use less Sr. Housing Bond money

[3] Amount to be returned from Belfast & Oriole at Permanent Loan Closing (in early 2023). When returned, will be allocated to senior housing projects currently in the Development pipeline

[4] Rural Development preservation projects

[5] Potential Projects that will use remaining 2022 and portion of 2023 allocation

[6] Estimate based on projected subsidy needed per unit