



Testimony of
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Before
The Joint Standing Committee on Housing and Economic Development (132nd)

**LD 678: An Act to Provide for the 2025 and 2026 Allocations of the State Ceiling
on Private Activity Bonds**

Senator Curry, Representative Gere, and members of the Joint Standing Committee on Housing and Economic Development, I am Erik Jorgensen Senior Director of Government Relations and Communications at the Maine State Housing Authority (MaineHousing) and I am submitting this testimony in support of LD 678: An Act to Provide for the 2025 and 2026 Allocations of the State Ceiling on Private Activity Bonds.

MaineHousing has been helping Maine people own, rent, repair, and heat their homes since 1969. We are an independent state authority (not a state agency) created to address the problems of unsafe, unsuitable, overcrowded, and unaffordable housing. We are authorized to issue bonds to finance single family mortgages for first time homebuyers and for affordable multi-family housing.

We are also authorized to administer a number of state and federal programs, including rental subsidies, weatherization, 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.

We support LD 678, **An Act to Provide for the 2025 and 2026 Allocations of the State Ceiling on Private Activity Bonds** and urge your approval. This is a bill that

comes before you on an annual basis, and is needed in order for MaineHousing, FAME, the Municipal Bond Bank and the state Treasurer to issue private activity bonds. These bonds are financial engines that lie at the center of our ability to function as independent agencies.

The federal government determined many years ago that there are certain private activities that have a public purpose. For MaineHousing, these include first time homeownership and the financing of affordable housing projects. For my colleagues these include financing higher education, paying for sewer and water and fire engines, as some examples. and other financing activities that benefit the public.

To help further those goals, the federal government allows the states to issue a limited number of tax-exempt bonds, referred to as private activity bonds. For most states, the amount of bonds that can be sold is determined by a per capita calculation; for smaller states such as Maine, there is a small state minimum. That number is now indexed annually.

This bill simply allocates the private activity bonds that Maine is allowed to sell. It does two things: First, it makes any needed adjustments to the allocation for 2024 which this committee and the legislature enacted last year (LD 20), and second, it makes an initial allocation for the calendar year 2026.

These bonds support worthwhile economic activity in Maine, all in a way that does not require any state funding. We urge your support.

Thank you for your consideration.



MAINEHOUSING'S PRIVATE ACTIVITY BONDS IN A NUTSHELL

Erik Jorgensen

WHAT IS BOND CAP?

The Federal Government allocates bond cap to states for private activities that have a public good, such as student loans, business loans, home mortgages, and low income housing. While these bonds are not paid back using public money, the activities that they finance may have an impact on the tax code. In the case of housing bonds, for example, the low income housing tax credit represents foregone revenue (what in Maine would be called a “tax expenditure”). Therefore the government has an interest in regulating how many of these bonds can be issued.

ALLOCATION FROM TREASURY:

Bond Cap is allocated by the US Treasury to states based on population: Maine receives a small-state minimum. In 2025 and 26 Maine will receive a total of \$378,230,000. This amount is then allocated to the state’s bonding agencies by the Legislature based on agency recommendations. Each of the agencies that issues private activity bonds requests a portion of that allocation based on what they expect to use in the coming year. MaineHousing is requesting \$100,000,000 but this is subject to adjustment as the year progresses.

BUT MAINEHOUSING ISSUES FAR MORE BONDS IN A TYPICAL YEAR THAN \$50,000,000. WHAT GIVES?

At the end of the year bond cap expires – unused bond cap will simply vanish, *unless* it is used for education or housing. Therefore, at the end of each year, any unused bond cap is redistributed through a consensus process and vote of each of the private activity bonding agencies. At that point, most of that unused bond cap gets reallocated to MaineHousing, where it can be carried over for up to three years to finance construction and mortgages. This provides MaineHousing with enough bond cap to meet its needs.

MaineHousing has authority from its Board and the Governor to bond up to \$400,000,000 per year. Around half of our annual bonding pays for single-family mortgages for first-time homebuyers; the other half provides financing for multi-family housing development.

So the \$100,000,000 we receive as part of this initial state allocation is augmented by both money that is unused by the other agencies and unallocated to begin with. This provides a pipeline and keeps bond cap from expiring.

It’s important to remember that bond cap is not actual money, but authorization to bond up to a certain level. Also that paying off these bonds is not something that requires state money. The state is not on the hook.

WHY DOES THE ALLOCATION PROCESS DIFFER AT THE END OF THE YEAR?

Because the Legislature is not in session in December when bond cap expires, state law provides for the 5 bonding agencies to meet, along with the Governor's office, and together reallocate unused bond cap. This reallocation requires agreement among at least 5 of the 6 members of this group.

WHEN WOULD MAINEHOUSING ISSUE TAXABLE BONDS?

The Private Activity bonds issued under the bond cap are nontaxable, and they finance activities that meet strict federal guideline. For example, first-time homebuyers have to fall within certain income brackets; or low income housing has to serve people who fall within income limits too. Some projects that might have public value do not fit within those guidelines – Higher median income housing for example. In those cases, financing might come from taxable bonds, which MSHA occasionally issues.

THE TEFRA

A TEFRA is a document signed by the Governor that authorizes an authority to sell bonds to a certain level. This, along with Bond Cap is needed in order for MSHA to issue bonds. This is a control that is required by the Federal Government as part of our bond resolution.

WHAT IF BOND CAP LEGISLATION FAILS TO PASS?

Maine Housing would run through whatever bond cap it had then suspend its first time home loan program and cease financing of low income housing construction.