



**PLANNING
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Research & Planning

**The Economic Impact of Affordable Rental Housing
in Four Maine Communities**

For: Southern Maine Affordable Rental Housing Coalition

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June 2004

Executive Summary

This is a study of the economic costs and benefits to Maine municipalities of providing affordable rental housing.

Four test cases are analyzed: recent projects in Bridgton, South Berwick, Norway, and Freeport. The four communities were selected to represent the range of municipal costs related to education in districts with growing and declining enrollments, and with low and high state aid. All of the projects are funded under the Low Income Housing Tax Credit program, the chief production program currently operating in Maine. The findings are:

Finding 1: The four affordable rental housing developments generate between \$1,800 and \$5,000 per unit in municipal revenue through property tax collections, excise fee payments, state school funding aid, and state revenue sharing payments.

Finding 2: The four affordable rental housing developments generate between \$1,600 and \$7,000 per unit in municipal costs for municipal and school services. Costs include road maintenance, police and fire, general administration, and student-related expenses.

Finding 3: Strictly from a property tax perspective, affordable rental housing is a net plus in all towns except those that have fast-growing school populations and low state aid. This is the study's key finding. Only one of the four communities under study had a net municipal revenue deficit from the project. That town, Freeport, has a fast-growing school population and very low state aid. However, Freeport's school population is projected to decline in future years – at which point, according to this analysis, the affordable rental housing may be a net revenue benefit in Freeport as well.

Finding 4: Direct, indirect, and induced construction benefits account for nearly \$160,000 per apartment in one-time economic activity within the county. Housing construction is a key industry in Maine, and provides good-paying jobs with high skills. Affordable rental housing supports that industry, to the tune of \$160,000 net benefit per unit.

Finding 5: Every year, each affordable apartment accounts for \$40,000 of direct, indirect, and induced economic activity within the county. The maintenance of apartment developments, plus the spending of residents within the development, contributes on average about \$40,000 per apartment per year to the local economy. In Freeport, the contribution was \$1.3 million a year in total, an important factor in strengthening the local retail economy.

Finding 6: Most adults in affordable apartments work in essential jobs in small business, health, and education. Residents of affordable housing contribute to the backbone of the local workforce, and increase the desirability of the community as a location for new economic development.

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I. Background

Purpose of Report

The purpose of this report is to analyze the economic costs and benefits to Maine cities and towns of affordable rental housing.

Background of Research

There is a housing crisis in southern and coastal Maine. The facts are well known, but deserve repeating:

1. New houses are not keeping pace with new jobs.

The growth of jobs in southern Maine has increased at a much faster rate than the number of new housing units, especially new apartments. From 1991 to 2001, 23,300 jobs were created in Greater Portland and 15,000 new housing units, of which only 3,000 were rental units. Unless more housing is built, southern Maine will face a workforce shortage, and that in turn will put the brakes to future economic development in Maine's most economically vital region.

2. The cost of apartments is increasing at a fast pace.

The increase in new jobs and few new apartments has decreased vacancy rates and increased rental costs in southern Maine. From 1999 to 2003, the monthly rent for an average two bedroom apartment in the Greater Portland area rose from \$800 to \$990, a 24% increase, well over the increase in per capita incomes.

3. Many households in southern Maine cannot afford rental housing.

A worker must earn three times Maine's minimum wage of \$6.25 per hour, or about \$39,000 per year, to afford a two bedroom unit in the Greater Portland region. There are about 58% of renter households in Greater Portland that can't afford the average two bedroom apartment.

4. Lack of housing in metropolitan areas is leading to sprawl.

The imbalance of job growth and housing growth leads to increased sprawl as more households move farther away from job centers to find available and affordable housing. In 1990, 2,943, or 3%, of the workers in the Greater Portland area were traveling an hour or more to work. By 2000, 5,571, or 5%, of the workers in the Greater Portland area were traveling an hour or more to work, an increase of 2,628 workers or 89% more workers.

In the long run, unless housing production is increased, future economic development will be threatened by a shortage of workers.

The housing shortage is caused by many factors: the cost of materials, the cost of roads and infrastructure, available land, and inadequate income. But one factor is not only critical, but within the power of Maine's public policy to affect – that is the reluctance of southern and coastal Maine communities to approve new affordable multifamily rental developments. To prevent affordable housing from being built in their communities, some towns pass large lot zoning laws; others require road frontages; others require many parking spaces; others charge large impact fees; and many simply delay giving approval until the developer gives up.

The major reason for this behavior is the common belief that affordable rental housing is “bad economically” for the community. There is a widespread belief that affordable housing is a burden on other property tax payers.

But is this true? There has been surprisingly little study of this assumption in Maine, and that which has been done tends to contradict the prevailing belief (see Section IV of this report). This is the first study to examine the issue in detail.

Southern Maine Affordable Rental Housing Coalition

This study has been conducted by Planning Decisions, Inc., an independent Maine research company with twenty-five years experience working with municipalities and developers. The study is sponsored by the Southern Maine Affordable Rental Housing Coalition (SMARHC), a diverse group of organizations dedicated to increasing the supply of affordable rental housing in southern Maine. The Coalition's membership includes: Avesta, Bath Housing Authority, Brunswick Housing Authority, City of Portland, City of Westbrook, Curtis Thaxter Stevens Broder & Micoleau LLC, Freeport Housing Trust, Maine Affordable Housing Network, Maine Developmental Disabilities Council, Maine Housing Investment Fund, Portland Housing Authority, Portland West, Preble Street Resource Center, People's Regional Opportunities Programs, Sanford Housing Authority, South Portland Housing Authority, Southern Maine Agency on Aging, Support and Recovery Services, Tedford Shelter, The Housing Partnership, The Szanton Company, Town of Cumberland, United Way of Greater Portland, United Way of York County, Maine, Westbrook Housing Authority, York County Community Action, York County Initiative to End Homelessness, York County Shelters, and York Housing Authority.

II. Research findings

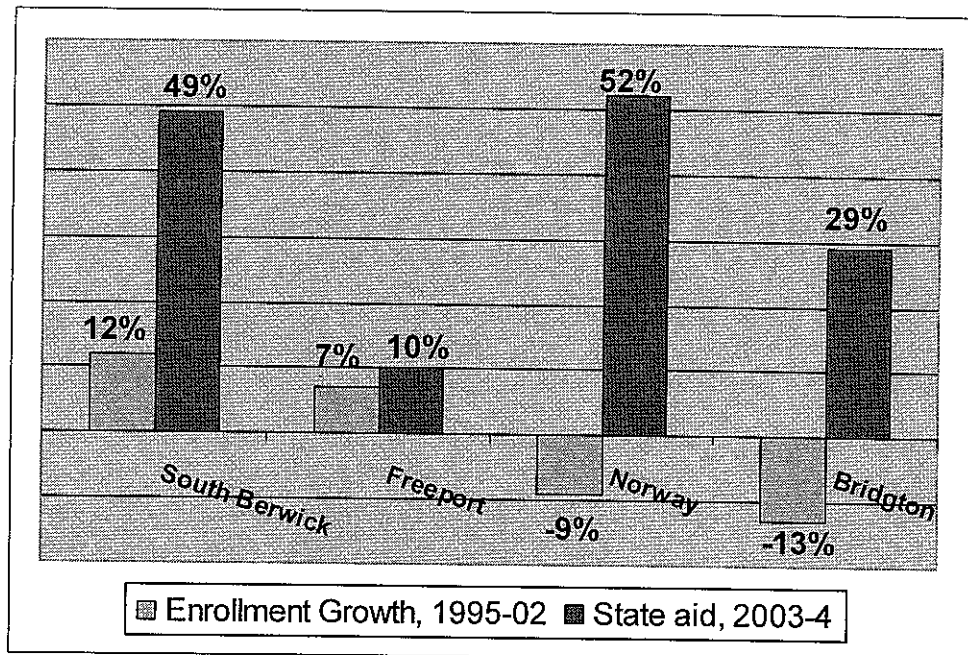
The research examines the economic effects of a recent affordable rental housing development in four different Maine communities. Each community was chosen for its distinctive profile of state aid and student growth.

Figure 1: Communities and Developments Examined

	Decline in Students	Growth in Students
High State Aid	Norway -- <i>Cottage Street Apartments</i>	South Berwick -- <i>Norton Street</i>
Low State Aid	Bridgton -- <i>Sandy Creek Apartments</i>	Freeport -- <i>Village View</i>

The four communities are Norway, South Berwick, Bridgton, and Freeport. Two have growing school enrollment, two do not. Two have relatively high state aid, two do not. Among the four, each of the possible combinations of growing or declining students, and high or low state aid, is represented.

Figure 2: Enrollment Growth and State Aid for Communities



The reason for varying the communities according to school factors is simple. Schools are the primary cost drivers for local property taxes in Maine. Sixty-one cents of every dollar of property taxes collected go to local education.

The effect of new housing development on school costs varies in different circumstances. A community with a growing school population finds increased development expensive; each new student presses the system to look at new teachers, new construction, etc. On the other hand, a community with a declining school population does not run into these capacity problems; and may, on the other hand, find that the increased state education aid that is attached to each new student may more than offset the additional costs. This in turn raises a second important consideration, namely, how much state aid a town or city receives. If only 5% of school costs are covered by state aid, then an increase in students will not generate much state money; conversely, in a high receiver community, even a few new students will generate considerable state aid. To assess these factors, the analysis looks at the four distinct community circumstances to see how the school cost and funding situation plays out.

There are also other municipal costs and revenues involved in housing development impact. Although they are not as significant as school costs, they can add up, and this analysis considers them all. On the benefit side, new residents and projects generate revenues in several ways:

- Obviously – new property tax payments
- New payments of excise taxes for automobiles
- Additional state aid from revenue sharing (due to higher population)

On the other hand, there are also additional costs besides school costs:

- Municipal expenses for general government, public safety, public works, recreation, and capital infrastructure
- Additional county taxes (due to higher valuation)

Each of these revenues and costs are also accounted for in the analysis (see Appendix A for exact methodology).

Each of the “affordable” rental housing projects selected for this study were recently funded under the Low Income Housing Tax Credit Program. This is currently the major affordable rental housing production program in Maine (and the U.S.). In such developments tenant incomes vary widely, although all are below the community median. Most households are in the \$15,000 to \$30,000 range, and, as the analysis which follows demonstrates, most have working members. All of the projects selected rent to families with children. All pay property taxes.

Besides looking at the property tax issue, this study also steps back and considers economic benefit from a broader perspective. The construction of new housing is a major economic sector in Maine, employing thousands of people in good-paying jobs. The direct and indirect benefits of the construction of each project are estimated. In addition, there are two annual economic benefits to each project. First, each year a building manager spends money in the community to mow the grass, plow the snow, do the accounting and legal work, provide equipment and supplies. Second, each family in the apartment project spends money at local stores on gas, food, and other essentials. These are also calculated as part of the larger picture of the economic benefit.

Finally, by providing people who can work in the local economy, rental projects contribute to maintaining healthy businesses and a good business climate, and in the study we list the jobs that tenants hold

On the following pages is an analysis of how each of these factors plays out over the four communities selected.

High State Aid/Growing Students
Norton Street in South Berwick, Maine



Norton Street is one block from Main Street in South Berwick. Norton Street has undergone a major change in the past few years. In 1998, the Housing Partnership began a neighborhood revitalization on five Norton Street buildings containing 20 apartments. Eleven 2-bedroom, seven 3-bedroom, and two 4-bedroom units.

The 59 residents include 35 children age 18 and younger, 32 of which currently attend the public schools. The majority of the households are single-parents, and the majority of the adults are employed.

	Number	Percent
Residents	59	100%
Adults age 19-64	22	37%
Elderly age 65 & older	2	3%
Children age 18 & younger	35	59%
Households	20	100%
Average household size	2.95	n/a
Two-parent households	2	10%
Single-parent households	14	70%
Single living alone	4	20%
Children in public school system	32	91%
Employed Adults	16	73%
Employed Adults working in South Berwick & Berwick	5	31%

Comments from Local Officials

- *The redevelopment of Norton Street was not an isolated project but a small part of a much larger plan. Renovating the properties enabled the Town to keep the "affordable" nature of the area and maintain a variety of housing in the Town.*
- *There has been no noticeable increase in police calls.*
- *Norton Street was fully occupied prior to the renovation, so it may not have increased population or the number of school children.*

