

Strategic Plan

Island Workforce Housing



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Executive Summary

Island Workforce Housing ("IWH") is a non-profit organization formed in 2018 by citizens of the Towns of Deer Isle and Stonington to address the severe shortage of housing that is affordable to the island workforce. This situation impacts the Deer Isle - Stonington community in highly visible ways evident to everyone on the island. Employers cannot attract new employees because of the cost of housing, causing some businesses to scale back, close, or relocate. The population of younger workers and young families has dropped significantly over the past twenty years, and as a consequence, the school population is dwindling dramatically. If left on the present course, Deer Isle and Stonington will quickly become majority-seasonal communities composed predominantly of wealthy and elderly retirees, and transient vacationers.

The founders of IWH have taken on the work of strengthening the Deer Isle-Stonington community by focusing on making workforce housing more widely available, and has embraced the goal of creating permanent, high-quality rental housing that is attractive, durable, energy-efficient, and affordable to those in our workforce who are effectively priced off the island. IWH wants to create permanently affordable, community-controlled housing resources that everyone will be proud of and that will become part of the fabric of our island.

In February of 2019, IWH commissioned an analysis of housing needs on the island, with a specific focus on rental housing. IWH chose this focus because the board believes that rental housing is a first priority in addressing the needs of lower-earning members of the island workforce. The **Housing Analysis and Needs Assessment** completed by Camoin Associates concluded that there are two key constituencies in need of rental housing in the Deer Isle - Stonington community. The first includes households led by members of the island workforce that cannot afford a home on the island, and instead commute from off-island to their jobs, from as far away as Belfast and Bangor. The second key constituency in need of rental housing on the island are individuals and small households who currently live on the island, but share housing or live with their parents, pay more than they can afford, or relocate multiple times each year in a continuing effort to find affordable rent. In many cases these workers have household incomes below the Area Median. The **Housing Analysis and Needs Assessment** concludes that as many as 85 rental dwelling units are needed to satisfy the likely demand from these two constituencies. See Sections 3-4.

Over the past nine months, members of IWH have researched and discussed how best to positively impact the housing landscape in the Deer Isle - Stonington community. In the final analysis, the leadership and Board of Directors of IWH chose to pursue development of new, high-quality rental opportunities affordable to the island workforce. While not a simple task, many of IWH's Directors have experience with development and construction, and the Board is convinced that such an effort

will be met with broad support in the community of island residents, and in the community of funders. See Section 5.

The Towns of Deer Isle and Stonington each have great potential to assist in the development of workforce housing. Municipal support could be offered in the form of financial grants, contributions of municipally-owned land, establishment of tax increment financing districts (known as TIFs) for affordable housing, reduction of development costs through reduced permit and inspection fees to reduce development costs, operating support in the form of tax abatements, reduced utility charges, and other municipal fees; and zoning incentives. IWH intends to work closely with the Towns of Deer Isle and Stonington to engage municipal support for its work in addressing the shortage of workforce housing. See Section 7.

As a result of its strategic planning process, the Board of Directors of Island Workforce housing has set a goal of creating thirty new dwelling units affordable to members of the island workforce earning between 50% and 80% of the Area Median Income. This development will occur over the next five years, and will entail irrevocable deed restriction on all units ensure permanent affordability. The creation of this new workforce housing will be accomplished in three successive phases of approximately ten (10) units each, with each phase consisting of duplex buildings clustered together with shared parking and open space on parcels of land of 6.5 acres or more if located in Deer Isle, or 1.8 acres of more if located in Stonington. Assuming success in getting donations of land, each phase is expected to be developed at a total cost of approximately \$1.9 million, or just under \$190,000 per dwelling unit.

Of the ten new rental units to be developed in Phase One, 20% will be set aside for households earning up to 50% of the Area Median Income (AMI), which income limit ranges from \$22,500 for one person up to \$32,150 for a four-person household. The remaining rental homes will be set aside for households earning up to 80% of the AMI, which income limit ranges from \$36,050 for one person up to \$51,450 for a four-person household.



Example housing image indicative of IWH's goal.
Image by Trent Bell, courtesy of GO LOGIC

IWH proposes to fund its Phase One project with a permanent mortgage of approximately \$670,000, a \$500,000 grant from the Federal Home Loan of Boston's Affordable Housing Program,

an affordable housing TIF, grants from Maine charitable foundations of approximately \$250,000, and \$400,000 in tax-deductible donations from individuals and families committed to the island's future. In addition, IWH plans to defer a portion of its 5% developer fee to close any final funding gap. *See Section 9.*

The Board of Directors of Island Workforce Housing is well suited to undertaking this substantial challenge, as it includes committed individuals with a breadth and depth of experience in community advocacy and economic development, planning and design, development and construction, property and asset management, and fundraising. Led by Mike Wood, who recently retired from a long career in the island school system, the board also includes Linda Campbell, Renee Sewall, Peter Roth, Maggie Kirsch, Bill Anderson, and Henry Teverow. The development of IWH's workforce housing will be led by IWH Board Treasurer Peter Roth, who has over thirty years of experience developing affordable and market-rate housing at a range of scales, from detached single-family workforce housing in a suburban setting to much larger apartment buildings in high-density urban settings. *See Section 10.*

The Board and leadership of Island Workforce housing would like to recognize and thank the hundreds of Deer Isle-Stonington community members who have participated in the work leading up to this point. They responded to surveys, sat down for lengthy interviews, and/or volunteered to research issues or make fundraising calls. Almost four dozen businesses and individuals gave generously to support the cost of the **Housing Analysis and Needs Assessment** and the printing of this Strategic Plan. We also offer special thanks to the Maine Community Foundation, which supported IWH with a generous grant of \$7,500 from the Belvedere General Charitable Grantmaking Fund and the Emily and William Muir Community Fund II. *See Section 11.*



Mission and Goals

Island Workforce Housing ("IWH") is a Maine non-profit organization formed in 2018 by citizens of the Towns of Deer Isle and Stonington to address the severe shortage of housing that is affordable to the island workforce. The mission of the organization is as follows:

The mission of Island Workforce Housing is to create housing solutions in Deer Isle and Stonington that are permanently affordable to individuals and families working in these communities. Housing these valued community members is a critical first step in securing the longevity of the economic development and civic health and well-being of the island.

Housing affordability impacts the Deer Isle-Stonington community in highly visible ways. Employers cannot attract new employees, resulting in shops and restaurants that cannot open for the critical summer season, employers contracting for help from agencies as far away as Bangor at greater cost than their budgets allow, and some businesses contracting significantly, closing, or relocating. The school population is dwindling because young families working on the island simply cannot afford to live on the island, so they live elsewhere, buy groceries, fuel, and other necessities in another community, enroll their children in that community, and volunteer and contribute to civic life in that community, not Deer Isle-Stonington. If the school population continues to drop, it will be impossible to maintain quality local schools, and the year-round community that the schools anchor will fall apart. Deer Isle-Stonington is quickly becoming a place where only the elderly and the wealthy live, and transient vacationers visit in the summer season. But as services and amenities vanish, it is possible that the tourists, summer residents, retired populations, and the economic stimulation provided by these people may vanish too. Who will staff the needed restaurants, stores, and other services? Who will volunteer for the fire departments, or the ambulance corps? Who will teach in the schools, and care for the residents at the nursing home?

The founders of IWH have taken on the work of strengthening the Deer Isle-Stonington community by focusing on making workforce housing more widely available, and has embraced the goal of creating permanent, high-quality rental housing that is attractive, durable, energy-efficient, and affordable to those in our workforce who are effectively priced off the island. IWH wants to create permanently affordable, community-controlled housing resources that the island will be proud of and that will become part of the treasure that is our island.

This document lays out a Strategic Plan for beginning that work. It is based on a well-researched understanding of housing needs on the island, and could not have been possible without the vision and support of hundreds of island residents who understand just what is at stake: the very existence of this unique community that is beloved by everyone who spends time here.

The Need for Workforce Housing

The workforce housing crisis in the Deer Isle-Stonington community is due to the following factors:

- The general increase in real estate values driven primarily by retirees and summer residents (money from outside the community goes further here);
- The significant advantage offered by on-line short-term leasing platforms such as AirBnb, VRBO and Homeaway for a property owner to rent at very high weekly rates only at the peak of summer demand rather than much lower monthly rates for year-round rentals; and,
- The lack of smaller, one- and two-bedroom dwelling units on the island sized appropriately for members of the workforce earning less than median income.

According to MaineHousing, the state's housing agency, in 2017 over 65% of renter households in Stonington could not afford the average rent for a two-bedroom dwelling. In 2018, 69% of the households on the island could not afford the median home price. With this background, and with home prices continuing to increase rapidly, IWH feels it is fair to say that there is an affordability crisis on the island, that naturally hits those of modest means harder than those with higher incomes or family wealth.

In February of 2019, IWH commissioned an analysis of housing needs on the island, with a specific focus on rental housing. IWH chose this focus because the board believes that rental housing is a first priority in addressing the needs of lower-earning members of the island workforce, who are often not ready to purchase, have not saved for a down payment, and who might have credit issues that would prevent them from getting a mortgage to purchase a home. Camoin Associates, a national consulting firm focused on economic development, workforce issues, and housing, completed the **Housing Analysis and Needs Assessment** in July, which can be found on the IWH website at www.islandworkforcehousing.org. The Executive Summary of the report is included in the Appendix of this document.

The **Housing Analysis and Needs Assessment** concluded that there are two key constituencies in need of rental housing in the Deer Isle-Stonington community. The first includes households led by members of the island workforce that cannot afford a home on the island, and thereby commute from off-island to their jobs, from as far away as Belfast and Bangor. Data collected for the analysis indicates that there are currently 323 workers who commute to the island, on average, each workday. Data related to the incomes of these in-commuters indicates that 67% of these in-commuters could not afford the median purchase price of a home on the island, and as many as 50% could not afford the average two-bedroom rent on the island. While those working on the island might choose to live in another community for a wide variety of reasons (spouse or partner's

place of work, school choice, etc.) the study concludes that between 10% and 25% would prefer to live on the island but can't afford to, or can't find rental housing.

The second key constituency in need of rental housing on the island are individuals and small households who currently live on the island, but share housing or live with their parents, pay more than they can afford (the housing industry's metric for affordable rents is no more than 30% of a household's gross income), or relocate multiple times each year in a continuing effort to find affordable rent (what some call the "island shuffle"). Based on statistics from the American Community Survey identifying household makeup, the report concludes that there are approximately 183 such individuals/households currently on the island.

The *Housing Analysis and Needs Assessment* concludes that up to 85 rental dwelling units are needed to satisfy the demand from these two constituencies, many of whom have household incomes below the Area Median. It states that roughly 60% of those households would desire a two-bedroom dwelling unit, with the balance of the demand split between one- and three-bedroom units. Gross rents (including utilities) are recommended to be as follows:

Unit Size	Unit Price	Proportion
One Bedroom	\$650 to \$750	20%
Two Bedroom	\$750 to \$900	60%
Three Bedroom	\$875 to \$1,050	20%

Note that this recommendation specifically addresses the demand for *rental* housing affordable to the Deer Isle-Stonington community, and does not consider the pricing or demand for affordable homeownership opportunities.



Housing Affordability Metrics in Deer Isle - Stonington

While the *Housing Analysis and Needs Assessment* identifies the need for up to 85 units of reasonably priced rental housing to support the island workforce, it is helpful to focus on local income levels relative to housing affordability standards to put this need into perspective. This section of the report will review the metrics and standards that the affordable housing community generally employs to characterize levels of housing affordability, and will overlay those standards onto the household income data of the island to understand what affordability means in the Deer Isle-Stonington community.

All federal and state programs rely on the concept of Area Median Income ("AMI") when making reference to housing affordability and other income-based programs. This concept assesses the incomes of households within a recognizable geographic or administrative area, often centered around a significant city, county, or cluster of contiguous census tracts. According to MaineHousing, the smallest relevant "area" that includes the Deer Isle-Stonington community is that of Hancock County, for which MaineHousing maintains median income data adjusted by household size.

According to MaineHousing, in 2018 the median household income in Hancock County for a four-person household was \$64,300.

For rental housing, affordability is generally determined based on an assumption that no more than 30% of a household's total gross (before-tax) income should be committed to gross rent, which includes rent and utilities (the so-called "rent burden.") For homeowners, the prevailing concept of total housing cost assumes the household has a mortgage, and includes mortgage principal and interest payments, real estate taxes, and insurance ("PITI"), which for condominiums and cooperatives also includes common area charges, commonly referred to as the "condo/co-op fee," which commonly includes building insurance ("PITC").

For 2018, MaineHousing set forth the Hancock County income figures by household size, and associated maximum gross rents by number of bedrooms, in the following chart:

	% Median Income - Adjusted by Family Size								Maximum Gross Rents				
	One	Two	Three	Four	Five	Six	Seven	Eight	0BR	1BR	2BR	3BR	4BR
50% AMI	22,550	25,750	28,950	32,150	34,750	37,300	39,900	42,450	563	603	723	836	932
60% AMI	27,060	30,900	34,740	38,580	41,700	44,760	47,880	50,940	676	724	868	1,003	1,119
80% AMI	36,050	41,200	46,350	51,450	55,600	59,700	63,800	67,950	901	965	1,158	1,338	1,492

*see explanations following

To summarize using a few typical household situations:

- A one-person household earning 50% of AMI or \$22,550 can afford a gross rent (including utilities) no more than \$603 for a one-bedroom rental;
- A two-person household earning 60% of AMI, or \$30,900., can afford a gross rent (including utilities) no more than \$724 for a one bedroom rental;
- A two-person household earning 80% of AMI, or \$41,200., can afford a gross rent (including utilities) no more than \$965 for a one bedroom rental;
- A four-person household earning 80% of AMI, or \$51,450, can afford a gross rent (including utilities) of no more than \$1,158 for a two-bedroom rental.

The US Department of Housing and Urban Development (“HUD”) maintains data pertaining to what are called “utility allowances”, which are used to determine net rent compared to total rent burden including utility costs. The Deer Isle - Stonington community falls into HUD's Maine Region 7. The most recent HUD data analysis results in the 2019 utility allowances set forth in the following chart:

Allowances for Tenant-Furnished Utilities and Other Services		U.S. Department of Housing and Urban Development Office of Public and Indian Housing		Date January 1, 2019			
Locality 4,5,6,7		Unit Type <u>Low Rise,Walk up, Row,Garden,Townhouse</u>					
Utility or Service	Monthly Dollar Allowances						
	0BR	1BR	2BR	3BR	4BR	5BR	6BR
HEATING							
a. Oil	77	107	140	174	221	247	284
b. Electric	77	102	154	195	222	258	297
c. Natural Gas	46	65	77	87	103	114	127
d. Bottle Gas(Propane)	90	123	159	192	246	282	324
e. Wood	38	51	67	81	94	110	138
f. Kerosene	89	124	162	201	255	286	328
g. Electric(heat pump)Other/Other	36	43	51	57	63	70	75
AIR CONDITIONING							
COOKING							
a. Electric	9	11	14	18	24	28	30
b. Natural Gas	5	6	8	9	12	14	15
c. Bottle Gas(Propane)	16	19	25	30	38	44	49
OTHER ELECTRIC LIGHTING REFRIGERATION, ETC.							
	24	32	42	52	64	75	80
WATER HEATING							
a. Oil	27	33	43	55	70	79	91
b. Electric	30	41	54	67	86	99	105
c. Natural Gas	17	23	29	36	45	53	60
d. Bottle Gas(Propane)	41	46	60	74	96	109	126
WATER	11	13	17	21	25	29	34
SEWER	13	15	20	25	30	35	40
TRASH COLLECTION	27	27	27	27	27	27	27
RANGE	9	9	9	9	9	9	9
REFRIGERATOR	11	11	11	11	11	11	11

*see full chart in the appendix

This information is required for property owners to determine what net rents they can charge if they are targeting a certain income group (required for capital or rent subsidies at all state, federal and local levels), depending on which utilities are paid by the tenants under the lease.

If tenants pay for all heating and electrical costs, assuming the residence contains an electric heat pump, electric water heater, and electric range, a property owner must deduct the following allowances for utilities from the monthly allowable gross rents:

Utilities Allowances	1 BR	2 BR	3 BR
Heating (elec heat pump)	\$43	\$51	\$57
Cooking (electric)	\$11	\$14	\$18
Other Electric	\$32	\$42	\$52
Water Heating (electric)	\$41	\$54	\$67
Total	\$127	\$161	\$194

This results in the following maximum net rents a property owner could charge a tenant, net of utilities paid by tenant, by number of bedrooms, for various targeted income categories:

Maximum Net Rents	1 BR	2 BR	3 BR
50% AMI	\$476	\$562	\$642
60% AMI	\$597	\$707	\$809
80% AMI	\$838	\$997	\$1,144

These are the rents affordable to the local workforce, as well as the rents that IWH is legally allowed to charge for rental housing based on the anticipated income restrictions (that are also a requirement of FHLB funding). Interviews with local landlords revealed that the majority of existing year-round rental housing is actually priced within this range. Unfortunately, the available inventory simply doesn't support the current demand.



Possible Ways to Address the Workforce Housing Challenge

Over the past nine months, members of IWH have researched and discussed how best to positively impact the housing landscape in the Deer Isle-Stonington community. IWH leaders and volunteers have solicited ideas from over 100 members of the community, and held a series of open meetings to both understand the specific housing problems on the island, and brainstorm to solve these problems. We've surveyed residents regarding their housing needs, and surveyed businesses regarding the housing needs of their employees. We've researched the programs of peer organizations (in- and out-of-state) focused on workforce housing, and reached out to a number of these organizations to learn of their work. We've interviewed local landlords to learn about their perspective on the issue. We have researched and assessed funding programs for affordable housing available to communities such as ours, to see what resources are available.

Through the course of this research and discussion, a number of ideas have surfaced. These are briefly summarized below, split between the categories of homeownership and rental housing:

Potential Homeownership Opportunities

- acquire existing properties for rehab/sale to qualifying households at affordable prices;
- raise money for a down-payment assistance program to help people purchase a home;
- start a first-time homebuyer education program to prepare renters to purchase a home;
- develop new homes for sale to members of the island workforce at affordable prices;

Potential Rental Opportunities

- provide support to property owners in the form of tenant referrals and screening;
- start a property management company to manage existing rental properties on the island;
- acquire existing properties to rehab/rent to qualifying households at affordable rents;
- develop new homes for rent to members of the island workforce at affordable rents.

Decision to Focus on Rental Housing

As mentioned earlier, the first decision IWH leadership made was to prioritize the need for rental opportunities over homeownership, for many reasons. The first is that those members of the workforce with the greatest need have modest incomes. They may be struggling to get by month to month, or may not be in a position to save for a down-payment to buy a home. Thus, these workers are very unlikely to be prepared to purchase and maintain their own home. They may have little or no credit, or be unable to qualify for a mortgage even if they did have savings for a down-payment. In addition, many younger members of the Deer Isle-Stonington workforce, and those working hourly or seasonal jobs, may not be ready to settle down and commit to the community. This is especially true of those in primarily seasonal industries, that struggle to piece things together in the off-season if they want to remain on the island during the off-season. It is also in line with the well-

documented trend that younger workers today are much more likely to change jobs frequently than their parents, or grandparents did at their age, and even if they have a job they are happy in are reluctant to commit to purchasing a home. In addition, the country is experiencing significantly lower homeownership rates nationwide among young people now than compared to a generation ago. While opportunities for homeownership are plentiful on the island, year-round rental opportunities are greatly lacking, and IWH intends to address that need.

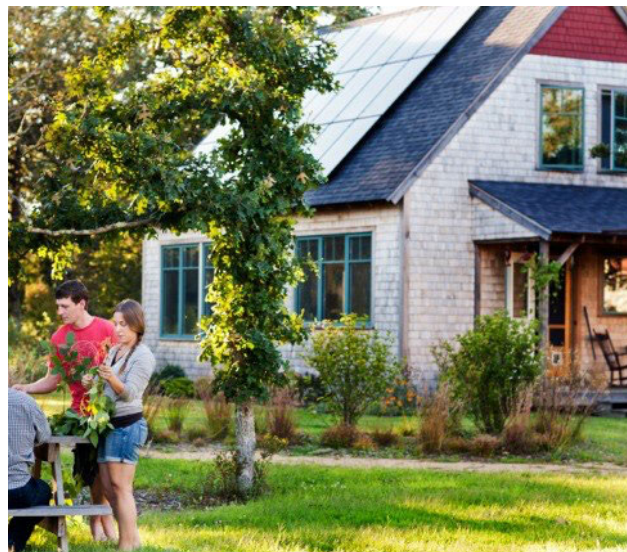
Capacity of the Group

IWH leadership recognizes that as a young, all-volunteer organization with no paid staff, focus is extremely important. Taking on too many tasks with an all-volunteer staff is likely to result in slow and possibly poor performance, putting the credibility of the organization at risk from day one.

Importance of Control

Finally, IWH leadership considered the issue of control, which can be a make-or-break issue for a start-up organization, and recognized that the direction that offered the greatest degree of control of the outcome would likely serve the organization best. For example, spending month after month attempting to persuade reluctant property owners to rent year-round, take on the greater burden of keeping a property accessible and heated through the winter, only to realize less net income that the seasonal alternative offered, could result in failure. In such a situation, IWH would only have the power to persuade, not the power to decide. And should it not succeed, despite considerable effort, IWH's reputation could be tarnished, making it harder to gain the support of the broader community in its efforts to address the workforce housing issue.

In the final analysis, the Board of Directors of IWH chose to pursue development of new, high-quality rental opportunities affordable to the island workforce. While not a simple task, several of IWH's Directors have experience with construction and development, and are convinced that such an effort will meet with broad support in the community of island residents, as well as the community of funders. IWH can control the process of development, the location, and quality of the delivered products in an effort to meet the workforce housing crisis in an attractive, intelligent, and cost-effective manner.



Example housing image indicative of IWH's goals.
Image by Randi Baird, courtesy of IHT-MV/SMC

Land, Infrastructure, and Entitlement Issues

Developing land in the Deer Isle-Stonington community is challenging for a number of reasons, including the existing topography, the geology and soils characteristics of the island, the general lack of infrastructure, and the absence of planning and zoning that anticipates building at density. This section will briefly discuss each of these issues to better frame the challenge of creating workforce housing.

Topography & Geology

Land in the Deer Isle-Stonington community is mostly hilly, unless it has been previously cleared and re-graded for farming or uses requiring flat grades. Glacial deposits, moraines, erratics, and outcroppings of ledge further complicate the landscape. Finding buildable sites that do not require extensive (and expensive) filling, re-grading, and sometimes even blasting is very challenging. The island rests almost entirely on solid granite bedrock, covered by glacial deposits, clay, gravel, and sand up to 25 feet. The granite underlayment prevents drainage, and pockets of marsh and wetland abound in between areas of ledge and clay. This reality poses challenges for many site development activities, and adds to the cost of site preparation for road and building construction.

Placing wells that reliably supply quality water for domestic use is expensive, as reaching good water-bearing strata almost always involves drilling through the granite bedrock. Wells on the islands are generally very deep, and therefore expensive to drill. It is often the case that a well may have sufficient flow, but the water is very hard, and sometimes contains arsenic and metals that require treatment.

Soils

Many of the soil types found on the islands do not support percolation of water, be it surface water from precipitation and storm run-off, or grey water from septic systems. To make matters worse, very sandy and loose soils can percolate too quickly, risking contamination of groundwater. Finding sites that can be readily built upon at reasonable cost, with soils that support placement of leaching fields for septic systems, and storm water drainage is very difficult.

Infrastructure

Often in areas where challenging soils and hydrological conditions make local solutions difficult and expensive, public infrastructure is developed to serve the community with sewer and water systems to tie into when building. Unfortunately, that is not the case in the Deer Isle - Stonington community. There is only one very limited wastewater district on the island, in downtown Stonington, and it requires each property owner to maintain a septic tank to hold solids and accepts blackwater discharge from the private tanks. While IWH understands that Stonington's wastewater system has some available capacity, it only serves a very limited area of the Town, which is highly

developed and contains few large buildable sites. The only public water system on the island is also in Stonington, however it is challenged with on-going leaks in many places, and is already operating at capacity. Thus, development of new housing will require installation of private wells for water, and private septic systems for handling wastewater. Such installations will add significantly to the cost of constructing new housing, and with the topography, ledge, wetlands, poor soils, and other realities of land on the islands, finding a good site that is feasible to create new housing on will be a significant challenge.

Zoning and Entitlements

There are minimal land use controls in the Deer Isle-Stonington community. Other than the state-mandated Shoreland Zoning District affecting all shorefront property, neither town has much of a land use regulatory system to promote, or control, development. This is good in many respects, for example if one wants to build a single family house on significant acreage. But if trying to build at modest cost, when land on which it is feasible to building is dear, it poses yet another challenge.

In Stonington, there are two Water Supply Protection districts; commercial and multi-family development is prohibited in District 1, and all construction requires Planning Board approval in District 2. Site Plan Review by the Planning Board applies to all commercial construction and residential buildings containing 3 or more dwelling units. Outside of the Shoreland Zone, there is no minimum lot size in Stonington, but maximum lot coverage is restricted to 50%, the maximum building height is 35 feet, the required Front Yard Setback is 25 feet, and the required Side Yard Setback is 20 feet.

In Deer Isle, construction of 3 or more dwelling units within a five-year period require subdivision approval by the Planning Board. Lot standards outside the Shoreland Zoning District require two (2) acres for the first dwelling unit, and one-half (0.5) acre for each additional dwelling unit.

In both towns, where there is no public wastewater disposal system available, the Maine Department of Health and Human Services regulates density based on the number of bedrooms. With this regulation, minimum lot size (in square feet) is determined by the following formula:

$$\text{Number of Bedrooms} \times 120 \times 66.7 = \text{Minimum Lot Size (SF)}.$$

To summarize, the combination of rugged topography, the presence of ledge and wetlands, the poor quality of soils for wastewater disposal, the depth of adequate groundwater resources, the lack of public infrastructure, and land use controls limiting density each contribute to the difficulty of construction in the Deer Isle-Stonington community, which partly explains the lack of housing affordable to the area's workforce.

Funding Opportunities and Constraints

Any project to support workforce housing affordability will require a significant amount of funding to bridge the gap between the capital supported by below-market rents and the total cost of acquisition and development. Most affordable housing programs are supported by public funding, often derived from federal sources, and often by state and local affordable housing resources. Funding is sometimes available for affordable housing through quasi-governmental or non-profit organizations, such as the Federal Home Loan Bank, the Local Initiative Support Corporation (LISC), and larger community foundations. Finally, housing programs sponsored by non-profit organizations are very often supported by charitable contributions from businesses, families, and individuals. IWH has extensively researched funding opportunities that could be available for workforce housing development in the Deer Isle-Stonington community, and the results are set forth below.

Sources of Federal Funding

The sources of funding available from the federal government include the Low Income Housing Tax Credit, HOME Funds, the Community Development Block Grant program, and the Section 8 Rental Assistance program. All of these are allocated to states on a per-capita or performance basis, and are typically administered by the state housing finance agency or state housing authorities. Other federal sources are competitive programs for which cities and towns compete in regular (usually once a year) funding cycles mostly administered by the US Department of Housing and Urban Development ("HUD"). Such competitive funding programs include the Section 811 and 202 supportive housing programs for the disabled and/or elderly, the McKinney program for the homeless, and the Choice Neighborhoods grant program targeting urban revitalization. Eligibility for all of the federal programs is limited to projects serving extremely low-, very low-, low-, or moderate-income households, depending on the program. HUD and the Federal Treasury define such income categories in terms of the following percentages of Area Median Income:

Extremely Low Income	up to 30% of AMI
Very Low Income	up to 50% of AMI
Low Income	up to 60% of AMI (the maximum income for LIHTC)
Moderate Income	up to 80% of AMI

Each specific program is targeted to a certain income group, with the single largest federal program targeted to the Low Income Housing Tax Credit ("LIHTC") program, available for rental projects serving households up to 60% of the Area Median Income. For a project to be eligible under the LIHTC program, it must either have at least 20% of the units set aside to households earning up to 50% of AMI, or at least 40% of the units set aside to households earning up to 60% of AMI. Credits are allocated to all states on a per capita basis, and are distributed to eligible projects on a competitive basis by each state's housing agency, based on its so-called Qualified Allocation Plan

("QAP") which sets forth the state-wide targets for LIHTC funding, the specific qualifying criteria, and the scoring system for awarding the credits. Unfortunately, the Maine QAP is structured to vastly favor projects in more urban areas (defined in the QAP as "Areas of Opportunity") which benefit from significant employment opportunities, public transportation resources, and existing zoning that supports higher density housing creation. Neither of the towns qualify, and are virtually shut out of eligibility for this important affordable housing resource.

The Rural Housing Service of the US Department of Agriculture (USDA) has a limited pool of resources to support housing in rural areas such as Deer Isle-Stonington. Its Multi-Family Housing Program offers below-market loans to provide affordable rental housing for very-low-, low- and moderate-income residents, the elderly, and persons with disabilities. Funds also may be used to buy and improve land and to provide necessary facilities such as water and waste disposal systems. The program accepts applications once a year, and has fairly demanding submission and documentation requirements in relation to private commercial financing, though it does offer lower loan rates for qualifying multi-family housing projects. Unfortunately, the federal government does not have a single funding program targeted toward the production of workforce housing, though several existing programs can be used for rental housing for low-income working households earning up to 60% AMI.

Sources of State Funding

Many states have developed independent sources of funding for affordable housing using state-issued tax-exempt bond proceeds. Unfortunately, Maine is not one of them. This means State resources are not available for the creation of workforce housing in more rural areas of Maine, like Deer Isle-Stonington.

Sources of Quasi-Public and Non-Profit Institutional Funding

There are several quasi-public and non-profit organizations that provide funding to affordable housing programs in Maine and they hold greater promise than existing federal programs. The most important is the Federal Home Loan Bank of Boston's Affordable Housing Program (FHLBAHP). This competitive program offers direct grants of up to \$500,000 to projects, and additional indirect funding that enables its member banks to provide long-term loans to qualifying projects at below-market rates. The FHLBAHP accepts applications through its member banks once a year, in late spring, and awards funding to projects throughout New England in the fall. Rural LISC ("RLISC" a sister organization to the much larger and urban-focused Local Initiative Support Corporation) awards capacity-building and project related grants to non-profit sponsors of affordable housing projects in rural areas of the country, including Maine, and is focused on affordable and workforce housing needs. Its programs are aimed at building capacity in the non-

profit sector of rural communities, and provide grants for staff training and development, which could benefit IWH as it grows beyond its present all-volunteer status.

Sources of Foundation and other Private Funding

While Maine is a rural state of modest per capita income, it is fortunate to have a strong philanthropic community, which has proven time and again its ability to achieve remarkable outcomes that have strengthened communities throughout Maine. Led by the Maine Community Foundation and its numerous donor-advised funds, the number of medium and small foundations seeded by financially successful families, here and from away, is impressive. The Deer Isle - Stonington community has been a recipient of this philanthropic capacity for a number of recent projects, including the renovation and expansion of the Stonington Opera House, the construction of the Reach Center for Performing Arts in Deer Isle, the development and buildout of the Bridge End Park on Little Deer Isle, the set-up and continuing operational support for the Maine Center for Coastal Fisheries (formerly PERC) in Stonington, on-going support for local land conservation through Island Heritage Trust, and on-going support for Haystack Mountain School of Crafts in Deer Isle. Preliminary research has identified the following Maine Charitable Foundations that may be receptive to our mission and goals:

- Maine Community Foundation
(and its many donor-advised funds)
- Harold Alford Foundation
- Lunder Foundation
- Stephen and Tabitha King Foundation
- Elmina B. Sewall Foundation
- John T. Gorman Foundation
- Libra Foundation
- Davis Family Foundation
- Grace Butnam Foundation
- Doree Taylor Charitable Foundation
- The Betterment Fund
- Next Generation Foundation
- Sam L. Cohen Foundation
- The Bill and Joan Alford Foundation
- Emanuel & Pauline A. Lerner Foundation
- Quimby Foundation
- Morton-Kelly Charitable Trust
- TD Charitable Foundation

While the number and size of island businesses are modest, the island benefits from access to many families of substantial wealth who call the Deer Isle - Stonington community home, either full- or part-time. According to the Maine Philanthropy Center's 2019 report, charitable giving from individuals in Maine as of 2019 has been stronger than ever, with an annual growth rate of over 6%, outpacing the national rate by almost 20%. Hancock County giving was remarkable for a non-urban region, at over \$9.4 million. Sources familiar with charitable giving on the island estimate that Deer Isle and Stonington non-profits receive in excess of \$3.5 million per year, cumulatively.

IWH believes that the substantial giving capacity on the island bodes well for its ability to raise the funding needed to address the workforce housing challenge, and is currently working on building a fundraising infrastructure guided by several accomplished fundraisers with deep experience in the Deer Isle - Stonington Community.

The Potential Role of Our Towns

The towns of Deer Isle and Stonington each have great potential to assist in the development of workforce housing. This section of the Plan identifies many opportunities for the towns to participate in and contribute to the work of IWH in addressing the significant lack of rental housing on the island. In particular, we are looking to create rental housing that can be afforded by younger members of the workforce, and those who work in public, non-profit and service sectors where the pay scale is modest. This includes teachers, health care workers, apprentices in the lobstering and fishing industries, apprentice tradespeople, retail and food service workers, hospitality workers, early-stage entrepreneurs, and many other areas of employment on the island.

Typical areas of municipal participation in housing initiatives include the following:

- Financial support in the form of grants and/or so-called "soft loans;"
- Contributions of municipally-owned land;
- Establishment of tax increment financing ("TIF") districts for affordable housing;
- Reduced permit and inspection fees to reduce development costs;
- Access to critical infrastructure such as public sewer and water;
- Operating support for completed affordable developments, in the form of tax abatements, reduced utility charges, and other municipal fees;
- Zoning incentives to promote affordable, deed-restricted housing by reducing land and infrastructure costs;

Each of these opportunities will be discussed in depth further in this section of the Plan.

Town Structures and Comprehensive Planning

The two towns on the island have similar organizational structures, each being governed by Town Meeting, an elected Board of Selectmen, and a Town Manager. Stonington has a five-member Board of Selectmen, and a somewhat larger administrative staff including an economic development staff position, while Deer Isle has a three-person Board of Selectmen.

One material difference in the current state of administrative affairs in the towns is the status of documentation of long-range planning. Stonington benefits from a current Comprehensive Plan, while Deer Isle's most recent plan dates to 2006. This is meaningful for the topic at hand, since identifying and planning for housing needs is a substantial component of a comprehensive planning document. This is especially important given the trend in municipalities across Maine, coastal communities, and the United States in general, of rampant housing costs leaving a significant percentage of the population unable to afford both rental and homeownership housing opportunities.

The recently completed Comprehensive Plan for the Town of Stonington (the "Stonington Plan") clearly identifies the growing need for affordable workforce housing, and cites several opportunities for addressing this need in the community. Section 3.8.B of the Plan states, "If the Town is unable to produce housing for young families and workforce housing, then year-round population will continue to decline and the continued sell-out to seasonal residents will continue or even accelerate."

The Plan further states "the major housing issue is to get more housing available and affordable to working families in Stonington," and paragraph 3.8.E.6 of the Plan goes on to recommend that, "the Town, with the permission of the voters, consider offering land and other assistance to any non-profit housing entity that may appear and be capable of financing and securing the construction of low- to moderate-income housing and/or workforce housing."

Finally, it should be noted that the Prioritized Capital Budget for the Next 10 Years presented in Table 12 of the Plan provides for "seed money to start low- to moderate-income housing project off Airport Road" in the total amount of \$100,000. The measures contained in the Stonington Plan indeed indicate a strong measure of support for the creation of workforce housing in Stonington. But due to the lack of a recent comprehensive plan in the Town of Deer Isle, the extent of planned support for workforce housing is less clear.

The 2006 draft version of the Deer Isle Comprehensive Plan (not officially adopted) states:

- *"the cost of housing may make it difficult for younger families to remain in town even if jobs are available"*
- *"The major housing issue facing Deer Isle is the high cost of housing for first time homebuyers. Based the MSHA data and local observers, there is also a shortage of affordable rental opportunities"*
- *"The limited supply of first-time home purchase opportunities for year-round residents is one of the major issues facing the town. Rental opportunities are also very limited"*

Ways Our Towns Can Support the Creation of Workforce Housing:

Grants and no- or low-interest loans

It is common for municipalities to provide gap financing to affordable housing initiatives. This is because of the high cost of creating durable, energy-efficient workforce housing that will enhance our community and encourage younger workers to live on the island. Unfortunately, the cost to create this housing exceeds the amount of capital that can be supported by the rents those workers can afford to pay. IWH estimates the capital gap for the average, two bedroom unit affordable to

households earning 80% of AMI to be approximately \$115,000 per dwelling unit. It is typical for municipalities to provide capital support in the form of grants to non-profits, or loans to for-profit affordable housing providers, in exchange for deed restrictions ensuring that the housing will remain affordable for a minimum period of time, typically 30 years or more. In fact, such municipal support is often required in order for an affordable housing project to be eligible for other government support, such as HOME, CDBG, Low Income Housing Tax Credits, or other state- or federally-derived capital subsidy programs. While neither town currently has an active program to provide capital support to affordable housing initiatives, the long-term capital plan incorporated within the Comprehensive Plan for the Town of Stonington indicates support for workforce housing available to low- and moderate-income households. Both Stonington and Deer Isle could put forth an initiative to the voters to support capital subsidies for workforce housing. This would be an important step toward reversing the population decline of the island, which will contribute to rebuilding the school population, strengthening the year-round economy, and ensuring the long-term health of this unique island community.



Example housing image indicative of IWH's goals.
Image by Randi Baird, courtesy of IHT-MV/SMC.

Contributions of town-owned land:

In addition to direct capital support, municipalities often contribute land for the creation of workforce and other forms of affordable housing. This reduces the need for direct capital subsidy to cover the cost of land. Grants of land are typically given in exchange for deed restrictions ensuring that the housing will remain affordable for a minimum period of time, typically 30 years or more. Both Deer Isle and Stonington have municipally-owned land that is suitable for the creation of workforce housing. IWH plans to work with the staff and elected officials of both towns to explore the potential of such land for construction of new workforce housing.

Establishment of tax increment financing districts for affordable housing ("AHTIF"):

An important operating cost reduction measure now widely in use throughout Maine is the Affordable Housing Tax Increment Financing District program administered through MaineHousing. The Housing TIF provides that any incremental real estate tax created within an established affordable housing TIF district (which can be as small as a specific affordable housing project) can be used to benefit the project and the host municipality. Such benefit is very often provided in the form of an abatement of the incremental tax to the project, which reduces operating costs (and thereby allows for an increase in permanent debt, reducing the need for more capital subsidy). With

very large projects, the incremental tax is sometimes use by the municipality to service bond issued for the benefit of the project.

An important aspect of Maine's Affordable Housing TIF program is that the municipality is not penalized with respect to state cost-sharing provisions within the AHTIF district, which serves as an important incentive for municipalities to adopt a TIF to support the creation of affordable housing.

Fortunately for municipalities across the state, MaineHousing has made the application and establishment of an AHTIF relatively easy, so the implementation of this important tool is not a burden for the project or the municipality. Establishment of an AHTIF does require the support of the voters of a municipality, but with the cost-sharing waiver, there is almost no downside to a community that wishes to support its economic development through establishment of an AHTIF.

Reduced permit and inspection fees to reduce development costs:

Municipalities often develop programs to reduce cost for workforce and affordable housing projects. This usually incorporates reduced or waived permitting, inspection, and other municipal fees. While neither Town has a current program of reduced fees for qualified projects, each could enact such a program, and IWH plans to work with the staff and elected officials of both towns to explore such potential.

Access to critical infrastructure such as public sewer and water:

As discussed above in the section on barriers to the creation of workforce housing, the lack of public sewer and water infrastructure on the island is a significant cost impediment for all new housing production. Access to the limited waste-water system in Stonington could significantly reduce the capital cost of a new workforce housing development project, and it would also reduce the amount of land required for a project, as sites served by a municipal sewer system are not subject to the minimum land requirements set forth in the state land use regulations. Preliminary research by IWH volunteers indicates that the Stonington sewer district does have capacity for additional dwelling units. Stonington also has the only municipal water district on the island, however that system appears to be operating at capacity, and frequently experiences shortages due to leaks in the system and variable groundwater tables.

Other operating support for workforce housing:

Once completed, municipalities often provide continuing support to reduce operating expenses for non-profit-owned affordable housing developments. This support can come in the form of reduced utility charges (water, sewer, septage disposal), reduced municipal fees (if any), and direct support with road maintenance & plowing, often by accepting the road as a Town road. Such support reduces operating expenses, enabling the project to support more permanent debt, provide

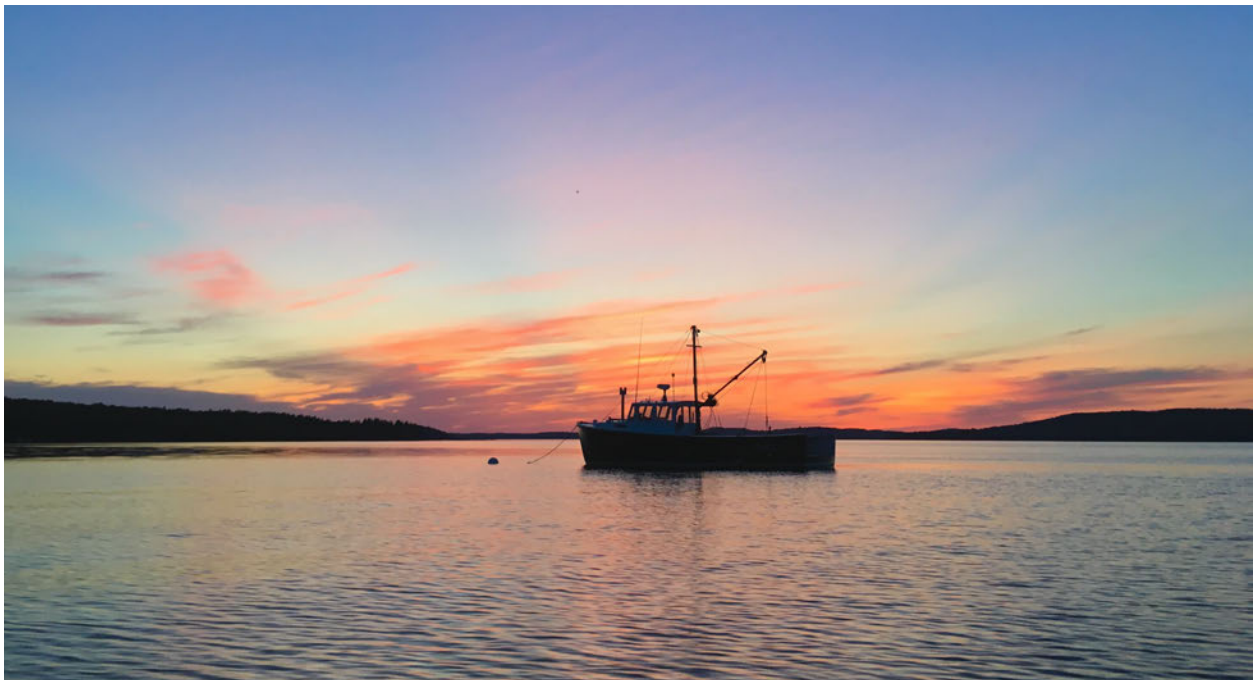
deeper subsidies in the form of lower rents, or simply to operate with more comfortable margins than many such projects achieve.

These mechanisms for municipal support can make or break a workforce housing project, and are generally seen as a means to strengthen the community's ability to attract younger and lower-wage workers, which has payback on multiple levels. Thus, for so many reasons, IWH intends to work closely with the Towns of Deer Isle and Stonington in its efforts to produce high quality, energy-efficient, and attractive rental homes affordable to the island's workforce currently priced off the island.

Zoning incentives to reduce land and infrastructure costs:

Many municipalities offer density bonuses for deed-restricted affordable housing, which reduces land and infrastructure costs. These sometimes take the form of comprehensive affordable housing overlay districts, where more dwelling units are allowed in a given land area, parking requirements are reduced, and permitting is expedited. Given the generally relaxed entitlement landscape in both Deer Isle and Stonington, the most significant incentive the Towns could offer would be a reduction in the required minimum land area per dwelling unit, which would ultimately reduce land costs.

In particular, Deer Isle could consider reducing its minimum lot size for multi-family developments (requiring 6.5 acres for 10 units) to the State-mandated minimum requirements.



The Five Year Plan for Developing Workforce Housing

Island Workforce housing will create thirty (30) new dwelling units affordable to members of the island workforce earning between 50% and 80% of the Area Median Income in the next five years. An irrevocable deed restriction on the property will ensure permanent affordability. This deed restriction will limit occupancy of 80% of the dwelling units to members of the island workforce earning no more than 80% of Area Median Income, adjusted for family size, and will limit occupancy of 20% of the dwelling units to members of the island workforce earning no more than 50% of Area Median Income, adjusted for family size.

The creation of this new workforce housing will be accomplished in three successive phases of approximately ten units each, with each phase consisting of five duplex buildings clustered together with shared parking and open space on at least 6.5 acres of land if located in Deer Isle, or at least 1.8 acres of land if located in Stonington. Depending on IWH's success in getting donations of land, each phase is expected to be developed at a total cost of approximately \$1.9 million, or \$190,000 per dwelling unit.



Housing image indicative of IWH's goals.
Image by Mark Alan Lovewell, courtesy of IHT-MV

IWH anticipates beginning construction of its first phase of development in the fall of 2020, following a year of fund-raising and predevelopment work. IWH then plans to undertake successive phases immediately upon the completion of each prior phase. Under the anticipated schedule, all 30 units set forth to be developed in this Strategic Plan will be completed and occupied within 5 years of the issuance of this document.

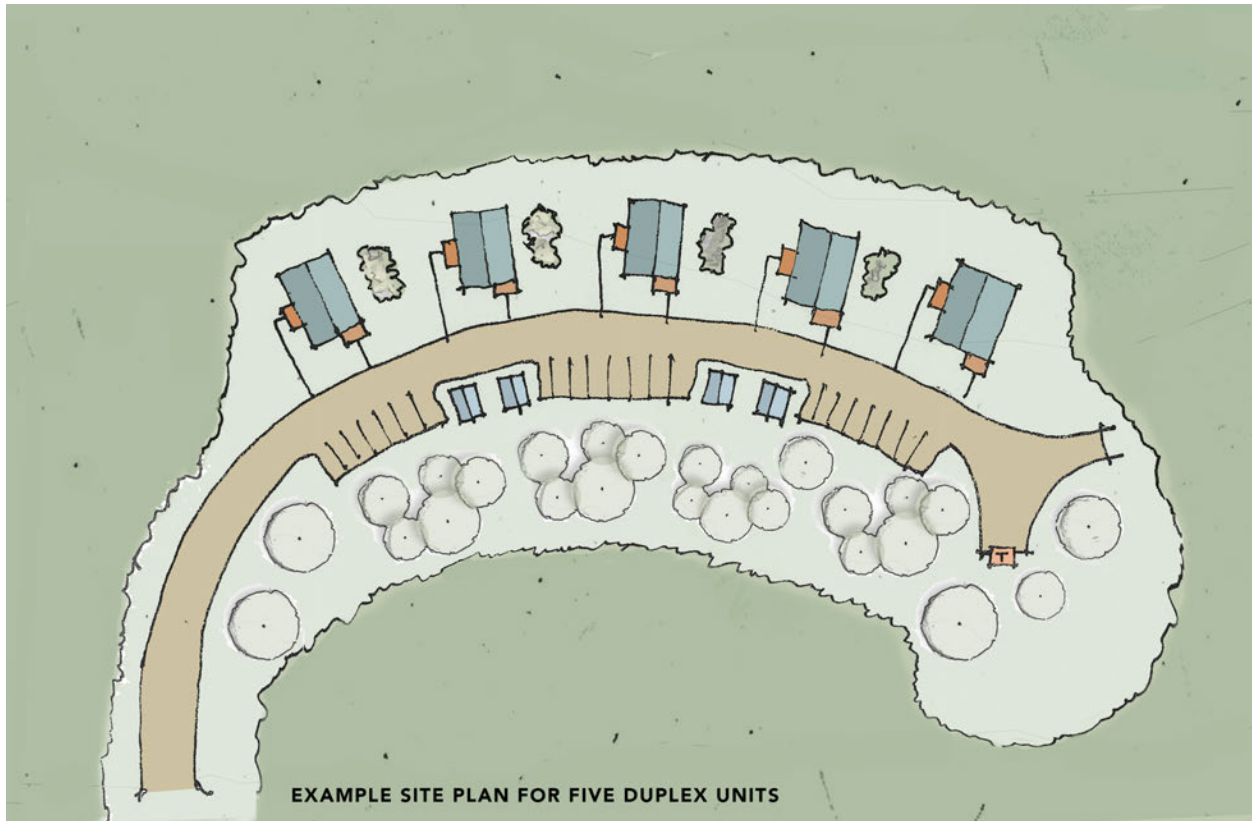
The sketches shown on the following pages illustrate IWH's concepts for clustering five buildings, containing two units each, in a comfortable village-like setting together with shared parking and open space. Each cluster will have parking for twenty vehicles, allowing for a parking to dwelling unit ratio of 2:1. The actual plan for each site will of course be dependent on the location, orientation, grade, and other natural features of the site acquired.

IWH has developed a duplex building plan containing two 900-square-foot dwelling units that it believes will be cost effective, energy efficient, and attractive to both existing and prospective residents. These two story buildings will fit in well with the existing landscape of similarly-sized single family homes.



IWH's concept for a duplex building plan containing two 900-square-foot dwelling units that will be cost effective, energy efficient, and attractive to both existing and prospective residents.

These two story buildings will fit in well with the existing landscape of similarly-sized single family homes. The actual plan for the buildings will be dependent on the location, orientation, grade, and other natural features.



IWH's concept for clustering five buildings, containing two units each, in a comfortable village-like setting with shared parking and open space.

Each cluster will have parking for twenty vehicles, allowing for a parking to dwelling unit ratio of 2:1. The actual plan for each site will be dependent on the location, orientation, grade, and other natural features.

The Development Team

The development of IWH's workforce housing will be led by IWH Board Treasurer Peter Roth, who has over thirty years of experience developing affordable and market-rate housing at a range of scales, from clustered affordable single-family housing targeted at the local workforce in Concord, Massachusetts to a high-end, 160 unit urban apartment community in the South End neighborhood of Boston, and everything in between. Peter also teaches mixed-income housing development in the Master of Science degree program in Real Estate Development at the Massachusetts Institute of Technology, where he has served as an adjunct instructor for 25 years.

Andrew McCullough will serve as **Civil Engineer** for the project, and will be responsible for all civil site and utilities design. Andrew has a wealth of experience in Downeast Maine, and is well known in both Deer Isle and Stonington for his high degree of excellence in planning and engineering.

The **Architect of Record** for the project will be determined by the Real Estate Development Committee and approved by the full Board of Directors.

Due North LLC will provide **survey services** for the project. Owner Linda Campbell is the leading surveyor in the Deer Isle-Stonington community, and also serves on the IWH Board of Directors.

The **builder for the project** is yet to be determined, but will be selected by the Real Estate Development Committee of the Board of Directors, which includes Renee Sewall of Tomboy Construction, Treasurer Peter Roth, and Maggie Kirsch. The building construction budget has been developed with the assistance of Brian Burgess, a well-respected builder with over 20 years of experience building on the island.

The **construction and permanent lender** for the project will be an FHLB-member bank to be selected by the IWH Board of Directors.

Legal counsel for the project has yet to be determined, but will be selected by the IWH Board of Directors prior to closing on the Phase One land acquisition.

An experienced **property management company** to be selected by the IWH Board of Directors for management and oversight of all units developed. The property manager will be responsible for tenant screening and income certifications, keep the property fully occupied with qualified tenants, collecting rent and paying operating expenses and debt service in accordance with an approved budget, overseeing routine maintenance and repair, and providing monthly occupancy and financial reports to the IWH Asset Management Committee.

Development and Operating Budgets

The proposed budget for the first phase of development has been assembled by the Steering Committee of IWH with input from all the consultants identified above, and approved by the IWH Board of Directors. The detailed development budget for Phase One is as follows:

USES OF FUNDS	total phase one	per unit
Land Acquisition	\$35,000	\$3,500
Acquisition Legal, title ins., closing costs	\$5,000	\$500
Sitework	\$205,000	\$20,500
Building Construction	\$1,260,000	\$126,000
Construction Contingency	\$73,250	\$7,325
Permits	\$5,000	\$500
Architectural Plan & Administration	\$40,000	\$4,000
Civil Engineering	\$25,000	\$2,500
Survey	\$7,000	\$700
Utility backcharges	\$6,000	\$600
RE Taxes during development	\$1,500	\$150
Builder's Risk and GL Insurance	\$6,000	\$600
Legal	\$40,000	\$4,000
Construction Loan/Financing Costs	\$15,000	\$1,500
Construction Loan Interest	\$9,500	\$950
Marketing & Leasing	\$10,000	\$1,000
Development OH/Fee*	\$85,412	\$8,541
Lease-up Deficit Reserve*	\$20,000	\$2,000
Capitalized Operating Reserve*	\$12,000	\$1,200
Total Uses	\$1,860,662	\$186,066

*see explanations below

While most of the budget items set forth above are self-explanatory, a few bear some elucidation. The Development Overhead and Fee line item will compensate IWH for its work developing the project, and represents 5% of the direct development costs of the project. This fee is only half the fee allowed by public funders for affordable development projects, and will go toward the overhead expenses of the organization, including two part-time staff persons, one who will assist with fund-raising, and one who will be responsible for day-to-day oversight of the development project. The Lease-up Deficit Reserve will be available to cover fixed operating costs incurred during lease-up, when operating revenues will not be sufficient to cover such expenses. The Capitalized Operating Reserve will be available to cover any unplanned operating deficits, which might occur if, once fully leased, vacant units cannot be filled quickly.

The proposed operating budget has been developed by the IWH Steering Committee, with input from staff members at the Penquis Housing group, a non-profit developer and operator of

affordable and workforce housing in Bangor, Belfast, Ellsworth and Searsport. Proposed rents are based on the Hancock County maximum two-bedroom rents for the respective household income categories of 50% and 80%, as set forth in the 2019 MaineHousing Income and Rent Limit Schedule, adjusted downward slightly to assure the highest possible occupancy. The net rents carried in the Operating Budget result from reducing the gross rents described above by the appropriate HUD 2019 utility allowances, assuming all units will be separately metered for electricity, to be paid by the tenant.

PHASE ONE OPERATING BUDGET	total annual	per unit
Income		
2 units at 50% AMI @ \$475/mo	\$11,400	\$5,700
8 units at 80% AMI @ \$800/mo	\$76,800	\$9,600
Total gross rent	\$88,200	\$8,200
less vacancy at 5%	(\$4,410)	(\$441)
Other Income: Revenue from AH TIF (see below)	\$6,000	\$600
Net Rental Income	\$89,790	\$8,979
Expenses		
Property management fee @ 6%	\$5,027	
Rent certifications	\$2,000	
Legal	\$1,000	
Bookkeeping & tax returns	\$6,000	
Landscape maintenance	\$2,500	
Repairs & turnover expenses	\$3,500	
Snow removal	\$2,500	
Septic & well maintenance	\$1,000	
Common electric (well & septic pumps only)	\$500	
Real estate taxes (before TIF revenue share)	\$6,500	
Insurance	\$8,000	
Replacement reserve	\$3,000	
Miscellaneous	\$1,000	
Total operating expense	\$42,527	\$4,253
Net operating income	\$47,263	\$4,726
Annual debt service	(\$42,966)	(\$4,297)
Cash flow	\$4,297	\$430

The real estate tax budget carried here assumes the Town in which the Phase One project is located has agreed to an Affordable Housing TIF (described in Section 7 above.) Replacement reserve funding will begin at \$3,000 a year, and increase 2.0% annually. Debt service is based on a fixed-rate permanent loan with 110% debt service coverage, a 4% interest rate supported by an interest rate subsidy from the Federal Home Loan Bank, and 30 year amortization.

Proposed Plan for Funding

IWH proposes to fund the \$1.86 million development cost of Phase One with the following sources:

PHASE ONE SOURCES OF FUNDS	Total Phase One	per unit
Permanent Loan	\$678,569	\$67,857
FHLBB - AHP Grant	\$500,000	\$50,000
Foundation Grants	\$250,000	\$25,000
IWH Phase One Capital Campaign	\$371,681	\$37,168
IWH Deferred Fee Loan (repaid from CF)	\$60,412	\$6,041
Total Sources	\$1,860,662	\$186,066

The permanent loan amount set forth above is based on an interest rate of 4%, achievable through an indirect subsidy from the Federal Home Loan Bank's Affordable Housing program. Other terms include a Debt Coverage Ratio of 110%, and an amortization period of 30 years.

In addition to the indirect FHLB subsidy, the project is eligible for a direct grant from the Federal Home Loan Bank of Boston's Affordable Housing program, which funds projects throughout New England. With a minimum size of ten units, 20% must be set aside for households earning up to 50% of AMI. Other units in the project may be rented to households earning up to 80% of AMI. The AHP program requires that the project maintain the agreed income restrictions for a period of 20 years (IWH intends to restrict them in perpetuity), and requires annual income certifications from all tenant households to confirm on-going eligibility for occupancy. The 2020 AHP funding cycle is anticipated to include a late spring application deadline, with awards announced in early Fall.

The funding budget for Phase One assumes that IWH can achieve \$250,000 in grant funding from foundations and charitable institutions. IWH believes this is realistic given the foundation funding landscape in Maine, which provided over \$182 million dollars in charitable funding to programs and projects in Maine during 2018, according to the Maine Philanthropy Center's most recent report.

IWH will begin its fundraising efforts with a large, introductory "cultivation" event at the end of August, 2019. The campaign itself will launch immediately upon securing a site for the first phase of development, anticipated by Sept. 30, 2019. With a Phase One capital campaign goal of \$400,000, we plan to secure a minimum of \$150,000 in commitments in a quiet phase between site control in early Fall and December 1, 2019, and launch the public phase of the campaign immediately thereafter in order to take advantage of year-end charitable giving at the end of 2019. IWH hopes to wrap up the campaign by the end of August 2020, in anticipation of beginning construction in the late fall of 2020 upon award of the FHLB grant and indirect subsidy identified above.

Finally, IWH anticipates deferring some portion of its fee to support the project, however it will draw no less than \$25,000 of the scheduled fee to cover overhead and personnel costs associated with the development of Phase One. The final amount of the deferred fee will depend on the success of the capital campaign, the final costs of the project, and the need to have a strong organizational structure in which to ground IWH.

Organizational Structure to Support the Strategic Plan

The last element of this Strategic Plan addresses the structure of the organization relative to its goals over the next five years. While the current board members offer a breadth and depth of knowledge in many aspects of the task at hand, and IWH is fortunate to already have dozens of interested volunteers ready to leap on any task asked of them, the organization does need to be tweaked to be fully capable of achieving its goals. Specific areas to be strengthened with respect to the Board of Directors include fund raising and property/asset management, ideally bringing in new Directors who are deeply familiar with the island. In addition, committees need to be formally established and strengthened where possible with volunteers bringing specific skills and interests. Further, basic functions such as book keeping, day to day communication and reporting protocols, and records management need to be accommodated. Finally, the question of whether to commit to paid staff arises. Many of IWH's smaller peer organizations, like North Haven Sustainable Housing, continue to operate with no regular, paid development staff, though they engage consultants for specific projects. (North Haven does have paid staff for its energy audits and weatherization programs, which we believe to be funded through grants from DOE and utility companies). Even our somewhat larger peer organizations, such as Island Housing Trust on MDI, operate with only part-time paid staff.

Roughly half of the individuals serving on IWH's Board of Directors are mostly or fully retired, and can dedicate a significant amount of time to the organization. That said, it would be highly desirable to have a capable, well-rounded person with a housing- or planning-related background, basic book-keeping but excellent communication skills, to reliably support the organization on a regular part-time basis. Such a position would cost between \$25K and \$35K a year, and could be supported through fundraising prior to breaking ground, and through the development overhead/fee income from each project phase once the first phase of development was under construction. Such an employee would report to the Executive Committee on a day-to-day basis, keep track of all communications, support grant-writing and development activities under the direction of the Fund-Raising Committee, and maintain all project records and communications under the direction of the Development Committee.

From this point forward, IWH leadership recommends that the full Board of Directors meets every other month, with Executive Committee meetings each month, and other Committee meetings as needed, but with advance scheduling coordinated bi-monthly.

IWH leadership recommends the following committee structure for the organization:

- The **Executive Committee** shall include the Board Chair, Vice Chair, Treasurer, and the chairperson of each of the standing committees.

- The **Fundraising Committee** shall include the Treasurer, at least two other Directors, and non-Director members as approved by the full Board (initially Mike Wood, Peter Roth, Linda Campbell and Henry Teverow).
- The **Real Estate Development Committee** shall be chaired by Peter Roth, and at least two other Directors (initially Renee Sewall, and Maggie Kirsch). Non-Director members may join the RE Development Committee upon approval by the full Board.
- The **Property and Asset Management Committee** shall include the Vice Chair and at least two other Directors (initially Henry Teverow and Peter Roth). Non-Director members may join the Property/Asset Management Committee upon approval by the full Board.

Governance functions, including Committee appointments and Director nominations, will initially be accommodated by the Executive Committee. At some point in the future it may be necessary to have a separate Governance and Nominating Committee, but it isn't a high priority at this point.

Overall, Island Workforce Housing shall likely continue as an all-volunteer organization until its first project is mostly funded and ready to move toward a construction loan closing. The hiring of paid staff could change if a capacity building grant is awarded prior to the first project being fully funded, or if fundraising turns out to be easier than expected.



Conclusion

This strategic plan lays out the background, development, rationale, and plan for the first five years of endeavor by Island Workforce Housing in addressing the compelling need for workforce housing in the Deer Isle - Stonington community. It is the product of almost nine months of meetings, due diligence, research, fundraising, debating, and cheerful effort by dozens of volunteers. Mostly, however, it is the product of the Steering Committee of the organization, which consists of Mike Wood, Linda Campbell, Peter Roth, Maggie Kirsch, Henry Teverow, and James Fisher.

If IWH is successful in accomplishing the plan as set forth herein, in four years time it will be time to re-evaluate the landscape of workforce housing in the Deer Isle - Stonington community in light of our experience and four years of evolution of the community. IWH leadership anticipates that once we have made headway with addressing the rental housing shortage, we might be able turn to homeownership, perhaps with development of first-time homebuyer opportunities, perhaps with a down-payment assistance program and first-time homebuyer training programs. Time will tell. In the meantime, IWH will be busy fulfilling the goals set forth in this first Strategic Plan, which will take an immense effort by many sectors of the island community. Hopefully the next five years will be as pleasurable as the first year has been, and IWH leadership looks forward to realizing its goals in this wonderful community of supportive and generous people.

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Appendix A: HUD Utility Allowances

Allowances for Tenant-Furnished Utilities and Other Services	U.S. Department of Housing and Urban Development Office of Public and Indian Housing	Date January 1, 2019					
Locality 4,5,6,7	Unit Type <u>Low Rise,Walk up, Row,Garden,Townhouse</u>						
Utility or Service	Monthly Dollar Allowances						
	0BR	1BR	2BR	3BR	4BR	5BR	6BR
HEATING							
a. Oil	77	107	140	174	221	247	284
b. Electric	77	102	154	195	222	258	297
c. Natural Gas	46	65	77	87	103	114	127
d. Bottle Gas(Propane)	90	123	159	192	246	282	324
e. Wood	38	51	67	81	94	110	138
f. Kerosene	89	124	162	201	255	286	328
g. Electric(heat pump)Other/Other	36	43	51	57	63	70	75
AIR CONDITIONING							
COOKING							
a. Electric	9	11	14	18	24	28	30
b. Natural Gas	5	6	8	9	12	14	15
c. Bottle Gas(Propane)	16	19	25	30	38	44	49
OTHER ELECTRIC LIGHTING REFRIGERATION, ETC.	24	32	42	52	64	75	80
WATER HEATING							
a. Oil	27	33	43	55	70	79	91
b. Electric	30	41	54	67	86	99	105
c. Natural Gas	17	23	29	36	45	53	60
d. Bottle Gas(Propane)	41	46	60	74	96	109	126
WATER	11	13	17	21	25	29	34
SEWER	13	15	20	25	30	35	40
TRASH COLLECTION	27	27	27	27	27	27	27
RANGE	9	9	9	9	9	9	9
REFRIGERATOR	11	11	11	11	11	11	11
ACTUAL FAMILY ALLOWANCES (To be used by family to compute allowance)		Utility or Service			Per Month		
Name of Family		Heating.....					
		Air Conditioning.....					
Address of Unit		Cooking.....					
		Other Electric.....					
		Water Heating.....					
		Water.....					
		Sewer.....					
		Trash Collection.....					
		Range.....					
		Refrigerator.....					
Number of Bedrooms		Other.....					
		TOTAL					

Executive Summary

The Problem

Located along the Eastern Maine coastline, the towns of Deer Isle and Stonington (together, the “Study Area” or “Deer Isle-Stonington”) are a working community on a bridge-accessed island that draws visitors from Maine and across the country during the summer months. The area’s natural beauty has led to its popularity as a location for a large and growing number of seasonal residences, second homes, and short-term vacation rentals. This increase in seasonal homes continues to put upward pressure on rental housing prices, particularly during the summer months. As Deer Isle and Stonington’s year-round housing stock dwindles, many year-round workers are forced to live off the island and commute in for work, and as a result, Deer Isle and Stonington’s year-round population continues to decrease. Continued decreases to the number of young families, working age individuals, and schoolchildren puts age-related pressures on the community. This includes, but is not limited to, a decrease in civic engagement and involvement and lower levels of school district enrollment.

The Response

In response, Island Workforce Housing (IWH) engaged Camoin 310 to conduct a Rental Housing Needs Analysis and Assessment. The purpose of this Assessment is to:

- understand the current housing situation in Deer Isle-Stonington;
- quantify unmet year-round rental housing demand for year-round workers in comparison to the existing housing supply; and
- provide data and analysis that can be used in the creation of strategies to address the issue.

The process for completing the Assessment included research and data analysis, as well as interviews with stakeholders. The process was overseen and guided by the Steering Committee of Island Workforce Housing, which provided input and feedback through a series of meetings.

It should be stressed that the purpose of this Assessment is to quantify the state of housing in Deer Isle and Stonington today. Equipped with this Assessment, IWH will be able to work with Deer Isle and Stonington’s various stakeholders to set a course of action that aligns with the housing needs of the community.

Addressing demand for year-round workforce rental housing is necessary to:

- ✓ Ensure younger residents put down roots in Deer Isle-Stonington, supporting school district enrollment, local volunteer organizations, and community group membership;
- ✓ Establish a larger customer base of year-round residents for local businesses;
- ✓ Better enable businesses to attract and retain workers; and
- ✓ Create a more vibrant culture and a stronger sense of place that is attractive to both current and potential residents.

The State of Rental Housing in Deer Isle-Stonington – Key Findings

A comprehensive understanding of the state of rental housing in Deer Isle and Stonington is critical before actions can be taken to address challenges. Key findings from the Assessment are presented below.

Deer Isle-Stonington Housing Stock Summary

A breakdown of housing units in the Study Area as a percent of total units is as follows:

- Year-Round Owner-Occupied: 34%
- Seasonal Owner-Occupied: 30%
- Seasonal Rental: 16%
- Year-Round Rental: 15%
- Vacant: 5%

- ✓ Only 15% of housing units in Deer Isle-Stonington are year-round rentals.
- ✓ Seasonal vacation rentals are increasing. Between 2012 and 2018 the number of AirBnB listings increased from 3 to 298.

- **The year-round housing stock is shrinking, while the number of seasonal units grows.** According to the U.S. Census Bureau’s American Community Survey, between 2010 and 2017 the number of occupied year-round units decreased by 73 while the number of seasonal units increased by 223 (from 1,130 to 1,353). The seasonal share of the housing stock (including seasonal rentals and owner-occupied seasonal homes) increased from 40% to 46% of total housing stock over the same time period. This is well above the share of seasonal units in Hancock County (35%), Maine (17%), and the U.S. (4%). *The high number of seasonal housing units precludes year-round workers from being able to find and afford year-round housing.*
- **Only 15% of housing units are year-round rentals.** While this is in line with the percent of year-round rentals in Hancock County, this presents challenges for Deer Isle-Stonington. The lack of available and affordable year-round rentals hits young workers who are early in their career the hardest. Oftentimes, these workers look to rent while saving up to purchase a home and settle down. The lack of year-round rentals means that many choose to either reside outside of Deer Isle-Stonington and commute in for work, or reside and work outside of the Study Area. As young individuals and families are forced to choose to live outside of Deer Isle-Stonington, this negatively impacts the community through decreased civic engagement and school enrollment as well as increased age-related pressures.
- **The year-round population is decreasing.** Between 1990 and 2017 Deer Isle-Stonington experienced a 4% decrease in year-round population, from 3,081 to 2,969. Much of this is due to a decrease in year-round population in Stonington. Between 1950 and 2017 Stonington experienced a 38% decrease in year-round population (from 1,660 to 1,032), while Deer Isle experienced a 57% increase in population (from 1,234 to 1,937).
- **The year-round population is aging.** Limited options for affordable year-round housing means fewer young families, declining public school enrollment, and accelerated aging of the towns’ population. The largest year-round age group in 2018 was in the 55 to 74 range, skewing older than Maine and the U.S. At the same time, Deer Isle and Stonington have a notably small concentration of young adults of home-buying age, particularly 25 to 44 year-olds.
- **The housing stock is aging.** The aging housing stock in Deer Isle-Stonington poses a challenge to potential year-round renters. With over a third of units being constructed in 1939 or earlier, much of the available housing stock is old and has suffered from deferred maintenance. The challenges associates with the renovation and upkeep of older homes are not affordable to potential year-round residents.

- **Single family homes are prevalent.** There are very few multifamily units in Deer Isle-Stonington, with the majority of homes being single family units. According to Stonington’s 2018 Comprehensive Plan, single family units make up 77% of the housing stock in the town, while mobile homes (or similar housing) make up another 15% of the stock. Of all housing types, single family homes are the most expensive to maintain and operate. Thus, the prevalence of single family, aging homes makes it even more difficult for workers of modest means to settle in Deer Isle-Stonington.
- **Housing availability challenges make it difficult for employers to attract and retain workers.** Nearly a third (32%) of Deer Isle-Stonington workers commute to the Study Area for work from other places, with some traveling from as far away as Bangor. This figure excludes self-employed workers and contractors, many of whom also commute to Deer Isle-Stonington and make up a large portion of the workforce. A lack of available housing is a major challenge for employees and is an impediment to attracting additional workers to the area. In particular, there is a lack of housing options to serve young individuals and families between when they start their careers or move to the area and when they are able to buy a home.

Deer Isle-Stonington Year-Round Rental Affordability Summary

Rentals range from \$550 to \$950 per month in the off-season (September-May) and differ based on unit size and utilities included.

Summer rates spike to between \$1,200 and \$3,000 *per week* on many of these same units.

- **Rents increase dramatically during the summer months and are not affordable to year-round workers.** From September to May, rents for rental units on Deer Isle-Stonington range from \$550 to \$950 per month depending on the unit size and utilities included. During peak season (June to August) rents on many of those same units increase to between \$1,200 and \$3,000 per week. Oftentimes a homeowner can obtain a higher profit from short-term vacation rentals than from renting to a local resident. This creates an incentive to rent to vacationers over year-round residents, thereby limiting the supply of year-round options.
- **Inconsistent pricing leads to under-housing of year-round workers.** Although rents are generally affordable to full-time workers during the off-season, price spikes on many of those same units during the summer season preclude full time workers from being able to rent them for the entire year. Oftentimes this results in young workers living with parents or other relatives if possible and staying out of the housing market entirely, or forces people who rent units during the off-season to find alternative places to live during the summer months. This can include living in tents, or other similar accommodations, to bridge the gap between months where rent is affordable.
- **A rise in short-term vacation rentals continues to constrict the supply of year-round rental housing, putting upward pressure on housing costs.** Over the six years between 2012 and 2018, the number of AirBnB listings for Deer Isle-Stonington increased from 3 to 298. This is in addition to approximately 130 vacation rentals listed through agencies, as well as other seasonal rentals listed independently.

Rental Housing Supply and Demand

If nothing is done to change current trends, Deer Isle-Stonington is expected to see a continued decrease in the number of year-round households in the coming years. Considering the profitability incentive for property owners to rent to seasonal visitors, the working population of the Study Area will continue to shrink as they are increasingly squeezed out of the housing market and are unable to find available year-round housing.

Our assessment of current and projected demographic and housing trends shows that there is significant demand for new affordable year-round workforce housing units in Deer Isle-Stonington. In this analysis, we identified two groups of full-time workers that contribute to demand for affordable year-round rental housing:

- People who work in Deer Isle-Stonington but may live elsewhere (“in-commuters”); and
- People who are under-housed and either live with their parents/relatives/others, or rent a vacation home during the off-season and live elsewhere from June through September.

Based on data related to commuter trends and the number of young adults who do not live independently we have determined that there is total unmet demand for 30-85 year-round, affordable, rental units.

Demand is for units with monthly rent ranging between \$650 and \$850 per month. Rental units with two or three bedrooms are most in demand, however there is an appetite for a range of unit sizes. Rentals of homes with multiple bedrooms are highly demanded by young families who desire the space to grow their families while being a part of the community and living close to their place of work. New affordable two- or three-bedroom rental options that are, or have the feel of a single-family home, would likely be absorbed quickly in the market if they can be offered. Additionally, there is some need for attached units for single workers or those living with roommates. The following table summarizes demand by unit size.

Table 1: Rental Demand by Unit Size

Rental Demand by Unit Size			
# Bedrooms	# Units	% Units	Monthly Rent
1	6-17	20%	~\$650-750
2	18-51	60%	~\$750-900
3	6-17	20%	~\$875-1,050
Total	30-85	100%	

Source: Camoin 310

Year-Round Rental Housing Unit Demand

Demand for an additional **20-65** year-round rental units from in-commuters.

Demand for an additional **10-20** year-round rental units for under-housed resident workers.

Total unmet demand:

30-85

year-round rental units

This strategic plan was prepared by the Steering Committee of Island Workforce Housing. For more information, contact:

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This report is also available at: www.islandworkforcehousing.org

