

U.S. Department of Housing and Urban Development Pathways to Removing Obstacles to Housing (PRO Housing) Grant

Removing Barriers to ADU Construction in Maine

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Table of Contents

Exhibit A Executive Summary	1
Exhibit B Threshold Requirements and Other Submission Requirements	4
1. Threshold Requirements	5
2. Other Submission Requirements	5
Exhibit C Need	6
1. Describe your efforts so far to identify, address, mitigate, or remove barriers to affordable housing production and preservation	7
2. Do you have acute demand for affordable housing? What are your remaining affordable housing needs and how do you know?	8
3. What key barriers still exist and need to be addressed to produce and preserve more affordable accessible housing?	11
Exhibit D Soundness of Approach	16
1. What is your vision?	17
2. What is your geographic scope?	20
3. Who are your key stakeholders? How are you engaging them?	20
4. How does your proposal align with requirements to affirmatively further fair housing?	21
5. What are your budget and timeline proposals?	24
Exhibit E Capacity	26
1. What capacity do you and your Partner(s) have? What is your staffing plan?	27
Exhibit F Leverage	29
1. Are you leveraging other funding or non-financial contributions?	30
Exhibit G Long-Term Effect	31
1. What permanent, long-term effects will your proposal have? What outcomes do you expect?	32
Attachment A Summary of Comments	34

Exhibit A Executive Summary
Maine Department of Economic and Community Development

Exhibit A Executive Summary

In April of 2022, Maine’s Governor Janet Mills signed a landmark piece of legislation, known locally as LD 2003, to remove unnecessary local regulatory barriers to housing production. Broadly, LD 2003 allows: (1) developers to take advantage of a density bonus for affordable housing developments in certain areas; (2) additional dwelling units on lots traditionally zoned for only single-family homes; and (3) accessory dwelling units on lots with existing single-family homes.¹ Currently, towns and cities across Maine are updating and adopting land use and zoning ordinances to comply with the new law. These far-reaching land use changes in Maine reduce some of the existing barriers to housing development in the state, allowing construction of multiple units on private land, which may not have been previously allowed.

In response to LD 2003, Maine commissioned a comprehensive housing report analyzing housing affordability and availability in the state.² This report, completed in October 2023, found that Maine needs approximately 38,500 homes to remedy historic underproduction and will need an additional 37,900 to 45,800 homes to meet expected population growth and household changes by 2030.³ The report particularly emphasized the need for affordable housing production for low-and moderate-income households, in addition to strategies to increase market rate housing overall because low-and moderate-income households are more constrained in their housing choices and currently are more likely to pay more than they can afford for a home.⁴ This acute need for housing in Maine, particularly affordable housing, can be contributed to a variety of factors including sudden in-migration, declining labor force participation amongst Maine’s aging population, low housing production, and an aging housing stock.⁵

Despite the new statewide allowances in LD 2003 and the need for affordable housing, mounting construction costs, confusing permitting processes, and a lack of access to financing options have hampered construction of additional units, particularly for the development of accessory dwelling units, known as ADUs. ADUs are small housing structures attached, detached, or within a single-family home which provide additional space for an aging parent, an adult child, or a small family. ADUs are traditionally financed by homeowners, who rely on assets and mortgages to finance the projects. These options for financing often prevent low-and moderate-income homeowners from constructing ADUs because they require homeowners to utilize personal savings or home equity.⁶ In many instances, only the wealthiest, and predominantly white homeowners, can finance and construct ADUs.⁷

¹ P.L. 2021, ch. 672.

² State of Maine Housing Production Needs Study, MaineHousing, Governor’s Office of Policy Innovation and the Future, Maine Department of Economic and Community Development, October 2023, https://mainehousing.org/docs/default-source/default-document-library/state-of-maine-housing-production-needs-study_full_final-v2.pdf.

³ State of Maine Housing Production Needs Study, Page 8.

⁴ State of Maine Housing Production Needs Study, Page 11.

⁵ State of Maine Housing Production Needs Study, Page 6.

⁶ Richard Green, Ben Metcalf, David Garcia, and Eric Valchuis, ADU Construction Financing: Opportunities to Expand Access for Homeowners, USC Lusk and UC Berkeley, Page 4, <https://turnercenter.berkeley.edu/wp-content/uploads/2022/07/ADU-Paper-FINAL-July-7th.pdf>.

⁷ Green, Metcalf, Garcia, and Valchuis, Page 4.

To address these barriers for low-and moderate-income homeowners, the Maine Department of Economic and Community Development (DECD) proposes to create a new grant program for municipalities to increase the development of ADUs. This proposed grant program provides funding to municipalities to (1) provide low-and moderate-income homeowners with pre-development and construction funding to build ADUs; and (2) contract with architectural and design entities to create ADU design types.

DECD's goal is to increase the number of ADUs across the state, especially for low-and moderate-income Maine homeowners by removing some of the financial and procedural barriers to starting and finishing an ADU project. DECD requests \$2,000,000 for this grant application, with the ability to leverage \$689,000 in state funding and non-financial contributions.

Exhibit B Threshold Requirements and Other Submission Requirements
Maine Department of Economic and Community Development

Exhibit B Threshold Requirements and Other Submission Requirements

1. Threshold Eligibility Requirements

The Maine Department of Economic and Community Development (DECD) meets the following requirements:

- a. Resolution of Civil Rights Matters: DECD does not have any outstanding civil rights matters.
- b. Timely Submission of Applications: DECD submitted its application on November 2, 2023.
- c. Eligible Applicant: DECD is an eligible state entity.
- d. Number of Applications: DECD submitted one application.

2. Other Submission Requirements

Included in DECD's application submission are the following forms:

- a. Application for Federal Assistance (SF-424)
- b. Applicant and Recipient Assurances and Certifications (HUD 424-B)
- c. Applicant/Recipient Disclosure/Update Report (HUD 2880)
- d. 424-CBW Budget Form
- e. Certification Regarding Lobbying
- f. Disclosure of Lobbying Activities (SF-LLL)
- g. PRO Housing Certification

DECD's Standards of Conduct is up-to-date, and DECD has completed its Federal Assistance Representations and Certifications section of its SAM.gov registration.

During the planning process, DECD consulted HUD's Final Guidance to Federal Financial Assistance Recipients Regarding Title VI, Prohibition Against National Origin Discrimination Affecting Limited English Proficient Persons, 72 FR 2732. Furthermore, DECD posted its public meeting notices on its housing listserv and website, as well as in local newspapers. DECD held its public hearing on its draft application virtually and in person to provide multiple methods of information delivery to stakeholders. The public hearing recording and transcript were made available for public viewing on DECD's website.

DECD will carry out the proposed activities of this grant proposal in a manner that affirmatively furthers fair housing in compliance with the Fair Housing Act. More information is provided in the Soundness of Approach section of the application starting on page 20. Furthermore, DECD will comply with applicable environmental requirements related to any awarded funds.

Exhibit C Need

Maine Department of Economic and Community Development

Exhibit C Need

1. Describe your efforts so far to identify, address, mitigate, or remove barriers to affordable housing production and preservation.

In 2021, the 130th Maine State Legislature established the Commission to Increase Housing Opportunities in Maine by Studying Zoning and Land Use Restrictions to review and consider measures to increase housing opportunities in the State of Maine.⁸ This Commission was comprised of 15 members, including legislative members, state government officials, a representative from the statewide municipal association, an agricultural representative, an affordable housing advocate, a regional planning representative, a real estate developer, a low-income advocate, an individual representing a racial justice or racial equity organization, and a real estate professional.⁹ Over the course of several months in 2021, the Commission met seven times and developed nine policy recommendations intended to increase housing options.¹⁰ These recommendations included allowing accessory dwelling units in zoning districts zoned for single-family homes, the elimination of single-family zoning restrictions, the creation of a statewide density bonus for housing that targets low-and moderate-income individuals, the creation of priority development areas for residential development, and the establishment of a financial assistance program for municipalities engaging in local zoning reform.¹¹

As a result of the Commission's recommendations, a landmark piece of legislation was created to remove unnecessary land use restrictions at the municipal level to increase housing opportunities across the state. In April 2022, Governor Janet Mills, signed this new piece of housing legislation into law.¹² Known locally as LD 2003, this legislation requires municipal governments to create or amend land use and zoning ordinances to increase housing opportunities. Broadly, the legislation requires municipalities to allow the following in local ordinance: (1) a density bonus for affordable housing developments in areas with public water and sewer or areas designated for growth; (2) between two and four dwelling units per lot where residential uses are permitted; and (3) accessory dwelling units on lots with existing single-family units.¹³

In addition, municipalities are required to ensure that local ordinances and regulations are designed to affirmatively further the purposes of the Federal Fair Housing Act and the Maine Human Rights Act.¹⁴ All municipalities must comply with the law by either January

⁸ Resolve 2021, ch. 59.

⁹ Commission to Increase Housing Opportunities in Maine by Studying Zoning and Land Use Restrictions, Report to the 130th Legislature, December 2021, Page i, <https://legislature.maine.gov/doc/7705>.

¹⁰ Commission to Increase Housing Opportunities in Maine by Studying Zoning and Land Use Restrictions, Pages i-ii.

¹¹ Commission to Increase Housing Opportunities in Maine by Studying Zoning and Land Use Restrictions, Pages i-ii.

¹² P.L. 2021, ch. 672.

¹³ 30-A M.R.S. §§ 4364 to 4364-B.

¹⁴ 30-A M.R.S. § 4364-C(1).

1, 2024, or July 1, 2024, depending on if a municipality adopts land use ordinances using a town/city council or town meeting form of government.¹⁵

To support municipalities with implementation of the new law, the Maine Legislature, in 2022, created the Housing Opportunity Program within DECD to provide technical assistance and financial support to municipalities.¹⁶ Two full-time staff members provide technical assistance to regional groups, municipalities, and other housing stakeholders to support local policy changes to increase the supply of housing, particularly housing units affordable to low-and moderate-income individuals.¹⁷

The Housing Opportunity Program was also allocated funding from the Maine State Legislature to provide land use planning grants to municipalities and regional organizations to increase housing opportunities.¹⁸ As of October 2023, the Department has awarded almost \$1,000,000 to regional groups to provide community housing planning and implementation services to communities across the State. The Department anticipates opening another grant program in late 2023 to provide funding to municipalities interested in land use planning activities to remove land use barriers to increase housing opportunities. Finally, since July 2023, the Department has provided almost \$500,000 to more than 50 towns and cities to assist with the consultant, legal, and administrative costs of complying with LD 2003.

2. Do you have an acute demand for affordable housing? What are your remaining affordable housing needs and how do you know?

a. *Need for Affordable Housing*

In response to the passage of LD 2003, DECD, MaineHousing, and the Governor’s Office of Policy Innovation and the Future commissioned a housing needs report to provide further analysis and technical assistance to address housing affordability and availability in Maine. The State of Maine Housing Production Needs Study analyzes Maine’s housing needs to meet present demands, due to factors such as historical underproduction and recent population growth, and forecasts housing needs based on longer-term state demographic trends and economic and workforce projections through 2030.¹⁹ The report was created to help inform future planning by the state, legislature, and local officials to address housing needs in Maine.

¹⁵ LD 2003 was amended in 2023, in part, to extend the deadline for municipal compliance with the law. See P.L. 2023, ch. 192 (amending 30-A M.R.S. § 4364(1)(A) to require municipalities who enact ordinances without “further action or approval of the voters of the municipality” to adopt or create ordinances by January 1, 2024, and July 1, 2024, for all other municipalities.)

¹⁶ 5 M.R.S. § 31056-J(1).

¹⁷ 5 M.R.S. § 31056-J(1).

¹⁸ 5 M.R.S. § 31056-J(2).

¹⁹ State of Maine Housing Production Needs Study, MaineHousing, Governor’s Office of Policy Innovation and the Future, Maine Department of Economic and Community Development, October 2023, https://mainehousing.org/docs/default-source/default-document-library/state-of-maine-housing-production-needs-study_full_final-v2.pdf.

The report, completed in October 2023, found that Maine needs approximately 38,500 homes across the state to remedy historic underproduction and will need an additional 37,900 to 45,800 homes to meet expected population growth and household changes by 2030.²⁰ The report particularly emphasized the need for affordable housing units for low- and moderate-income households because those households are more constrained in their housing choices in Maine and currently are more likely to pay more than they can afford for a home.²¹

In addition to the data presented by Maine's housing report, the National Low Income Housing Coalition (NLIHC) estimates that Maine has a shortage of over 22,000 rental homes affordable to the lowest-income renters, whose incomes are at or below the poverty guideline or 30% of the area median income (AMI).²² More than 50% of these low-income renters are severely cost-burdened, meaning they spend more than half of their income on housing costs.²³ Another comparable study, conducted through the University of Southern Maine, found that Maine is presently short 30,000-40,000 new homes, which includes 20,000-25,000 homes for existing extremely low-income Maine residents, as well as 10,000-20,000 homes to attract workers to fill open job positions.²⁴

This pressing need for affordable housing, addressed in numerous state reports, can be contributed to a variety of factors including (1) the sudden in-migration of people during the pandemic; (2) declining labor force participation amongst Maine's aging population; (3) low housing production; and (4) an aging housing stock.²⁵

b. Demand-Side Drivers

Maine's population is growing due to sudden in-migration during and after the Covid-19 pandemic. From July 1, 2021, to July 1, 2022, Maine's population grew by 8,102 people (0.6%), ranking 15th for growth in the United States and first in New England.²⁶ On average, recent in-migrants have a somewhat higher income than existing households, with an average income of \$88,000, compared to an average income of \$78,000 for existing households.²⁷ This has increased the demand for housing across the income spectrum, but particularly at higher price points.²⁸

²⁰ State of Maine Housing Production Needs Study, Page 8.

²¹ State of Maine Housing Production Needs Study, Page 11.

²² Housing Needs by State: Maine, National Low Income Housing Coalition, <https://www.nlihc.org/housing-needs-by-state/maine>.

²³ Housing Needs by State: Maine.

²⁴ Sarah Sturtevant and Jacob Curtis, Availability of Workforce Housing in Maine, University of Maine, May 2023, Page 17, https://usm.maine.edu/shaw-innovation-fellows/wp-content/uploads/sites/406/2023/05/Workforce-Housing-in-Maine_Sturtevant-Curtis_Shaw-Innovation-Fellowship-8-May-2023-1.pdf.

²⁵ State of Maine Housing Production Needs Study, Page 6.

²⁶ Denise St. Peter and Amanda Rector, Maine's Economic Year in Review: 2022, Maine Department of Administrative and Financial Services, Office of the State Economist, Page 4, <https://www.maine.gov/dafs/economist/sites/maine.gov.dafs.economist/files/inline-files/2022%20Year%20in%20Review.pdf>.

²⁷ State of Maine Housing Production Needs Study, Page 17.

²⁸ State of Maine Housing Production Needs Study, Page 17.

Maine’s population is also growing due to the surge of asylum-seekers in recent years. Since 2018, the number of asylum seekers arriving in Maine has risen from under 400 to nearly 3,400.²⁹ Asylum seekers, facing short-term restrictions on employment by the Federal Government, rely on support from state programs to find subsidized housing or housing in the private market.³⁰ Furthermore, data from the Office of Maine Refugee Services indicates that asylum seekers have an average household size of four people, higher than the average for the state, making it difficult to find affordable homes that allow families to live together.³¹

Another demand-side driver is the decline in labor force participation in Maine. Due to Maine’s aging population and older adults leaving the workforce, Maine is experiencing a decline in labor force participation which has contributed to the need for additional housing units to support Maine’s existing economy.³² As of May 2023, Maine had 46,000 unfilled job positions.³³ These unfilled job listings tend to be for lower paying positions.³⁴ For instance, in the northeastern and coastal regions of the state, over 50% of job listings pay less than \$50,000 annually.³⁵ Research suggests that in-migrants, who generally have higher incomes, are not necessarily filling these lower paying positions at high rates when they move to Maine.³⁶ This trend exacerbates the mismatch between the home price that workers can afford and the price of available homes.

The result of in-migration and the reduction in labor force participation means that the ability to pay for higher-priced homes is increasing for some segments of Maine’s population, while others struggle to afford homes in a market that is not producing enough affordable housing.³⁷

c. Supply-Side Drivers

Even with the population demands, Maine continues to struggle to produce enough housing units relative to the increase in jobs across all regions.³⁸ All regions have gained significantly more jobs than housing units, with total housing inventory remaining essentially constant since 2016.³⁹ For example, in the coastal region of Maine, only 21,300 homes have been built relative to an increase of 39,334 jobs over the past decade.⁴⁰ In the

²⁹ State of Maine Housing Production Needs Study, Page 20.

³⁰ State of Maine Housing Production Needs Study, Page 21.

³¹ State of Maine Housing Production Needs Study, Page 21.

³² State of Maine Housing Production Needs Study, Page 21.

³³ State of Maine Housing Production Needs Study, Page 21.

³⁴ State of Maine Housing Production Need Study, Page 21.

³⁵ State of Maine Housing Production Needs Study, Page 21.

³⁶ State of Maine Housing Production Needs Study, Page 22.

³⁷ State of Maine Housing Production Needs Study, Page 23.

³⁸ State of Maine Housing Production Needs Study, Page 7.

³⁹ State of Maine Housing Production Needs Study, Page 26.

⁴⁰ State of Maine Housing Production Needs Study, Page 26.

central and western parts of the state, 2,389 units were built relative to an increase of 5,600 jobs over the past decade.⁴¹

In addition, based on data compiled by MaineHousing, Maine needs to build about 1,000 affordable units each year to meet the current demand for the lowest-income households.⁴² From 2014-2020, Maine only built about 25% of that need on average, resulting in Maine's historic underproduction of affordable housing.⁴³

Further contributing to Maine's housing challenges is the state's decline in overall rental homes.⁴⁴ Unlike other states, moderate and low-density rental homes in Maine have declined in stock since 2016, with Maine seeing a loss of 4,800 single-family homes and 4,100 low-density (2-9 unit) homes (a 5% decline).⁴⁵ These losses are concentrated among homes affordable to households earning 60-80% of AMI.⁴⁶

Finally, Maine has an aging housing stock. The number of homes in Maine built before 1960 make up about 35% of the housing stock across the state, relative to 27% in the United States as a whole.⁴⁷ As the housing stock ages, the share of homes that are unavailable due to poor conditions has increased.⁴⁸ As these homes deteriorate over time, the inventory of homes further declines through demolition.⁴⁹

Overall, Maine's numerous demand-side and supply-side drivers are impacting affordability and availability in Maine's housing market, making it difficult for Mainers to find available housing that they can afford.

3. What key barriers still exist and need to be addressed to protect and preserve affordable accessible housing?

With the passage of LD 2003, municipalities across the state are in the process of removing regulatory barriers in local zoning and land use ordinances to allow individual lot owners to develop additional units on lots. With the on-going amendments to local zoning ordinances to allow additional density, the challenge has now shifted to increasing the development of units allowed pursuant to LD 2003. The key barriers to implementing the goals of LD 2003 are the lack of financing options and subsidies for affordable housing, particularly financing options for individual homeowners who are interested in building accessory dwelling units (ADUs). ADUs are small housing structures attached, detached, or within a single-family home which provide additional space for an aging parent, an adult child, or a small family. In addition to financial barriers, homeowners also must navigate

⁴¹ State of Maine Housing Production Needs Study, Page 26.

⁴² MaineHousing, Development Program Metrics, September 2023, <https://mainehousing.org/policy-research/program-data/development-program-metrics>.

⁴³ Maine Housing, Development Program Metrics.

⁴⁴ State of Maine Housing Production Needs Study, Page 27.

⁴⁵ State of Maine Housing Production Needs Study, Page 28.

⁴⁶ State of Maine Housing Production Needs Study, Page 28.

⁴⁷ State of Maine Housing Production Needs Study, Page 28.

⁴⁸ State of Maine Housing Production Needs Study, Page 7.

⁴⁹ State of Maine Housing Production Needs Study, Page 7.

municipal permitting procedures to construct an ADU, which can be complex, time-consuming, and costly.

a. Financing ADUs

There are number of financing options available to a homeowner interested in building an ADU. Common financing options include cash-out refinancing, Home Equity Lines of Credit (HELOC), construction loans, renovations loans, and utilizing existing cash and/or assets.⁵⁰ For example, California researchers at the University of California Berkeley surveyed 800 individuals who applied for a permit or received a certificate of occupancy for an ADU in 2018 or 2019 in California.⁵¹ Of those 800 participants, the majority (62%) financed their ADU with liquid assets (wholly or partially on cash savings or money from a friend or relative).⁵² 43% of participants financed their ADUs through mortgages, including home equity loans, cash-out refinancing, and renovation loans.⁵³ The downside of these common financial options is that low-and moderate-income homeowners may not have the capital or credit to finance an ADU.⁵⁴

Cash-out refinancing rolls the unpaid balance of a homeowner’s current home loan into a new loan that would also cover the cost of constructing an ADU.⁵⁵ The challenge with this type of financing is that interest rates tend to be higher than a traditional 30-year mortgage and it is mainly available to people who have built up a considerable amount of equity in their home.⁵⁶ For homeowners that owe more on their mortgage, swapping a lower-interest rate for a higher one can be a financial risk.

Home Equity Lines of Credit (HELOC) is a financing option that allows a homeowner to take advantage of the equity in their own home.⁵⁷ This form of financing allows a borrower to determine how much money to borrow and when to borrow funds, with a limit.⁵⁸ However, this option has variable rates.⁵⁹ Like cash-out refinancing, this option may not be available to lower-income individuals because it is requires homeowners to have a significant amount of equity in their home.

⁵⁰ Jon Healey, You Do ADU Part 2: How to pay for your ADU, Los Angeles Times, April 5, 2023.

⁵¹ Karen Chapple, Dori Ganetsos, and Emmanuel Lopez. “Implementing the Backyard Revolution: Perspectives of California’s ADU Owners.” Center for Community Innovation: University of California, Berkeley, April 2021, <https://www.aducalifornia.org/wp-content/uploads/2021/04/Implementing-the-Backyard-Revolution.pdf>.

⁵² Chapple, Ganetsos, and Lopez, Page 13.

⁵³ Chapple, Ganetsos, and Lopez, Page 13.

⁵⁴ David Morley and Shannon Guzman, AARP, Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction, 2023, Page 74, https://planning-org-uploaded-media.s3.amazonaws.com/publication/download_pdf/Expanding-ADU-Development-and-Occupancy.pdf.

⁵⁵ Jon Healey, You Do ADU Part 2.

⁵⁶ Jon Healey, You Do ADU Part 2.

⁵⁷ Jon Healey, You Do ADU Part 2.

⁵⁸ Jon Healey, You Do ADU Part 2.

⁵⁹ Jon Healey, You Do ADU Part 2.

A construction loan is a short-term loan that uses the future value of the home with the addition of the ADU to qualify the homeowner for the loan.⁶⁰ This can be a useful mechanism for homeowners without much equity in their home, but interest rates can be higher than other mortgage options.⁶¹ Furthermore, homeowners may have to put down a down payment of 20% or more, which could be financially challenging for some homeowners.⁶²

Finally, a renovation loan is a type of construction loan that allows for the cost of a home purchase and ADU construction to be combined into one loan.⁶³ This option requires the homeowner to navigate complicated and expensive requirements to borrow funding,⁶⁴ and tends to carry higher interest rates.⁶⁵

For many homeowners interested in constructing ADUs, there is limited access to adequate financing, especially for low-and moderate-income homeowners who may have lower credit scores or limited equity in their homes. As a result, ADUs tend to be disproportionately built in higher-income, high home-value areas, as well as whiter areas.⁶⁶ In a recent survey conducted in Sacramento, the majority of the 502 single-family homeowners surveyed rated construction costs and development fees as “major obstacles” to ADU development.⁶⁷ Although difficulties securing financing was not the highest ranked barrier to ADU construction overall, Black and Hispanic respondents responded that financing was a larger concern compared to their white counterparts.⁶⁸

b. Municipal Permitting Procedures

In Maine and other states, local municipalities have discretion to implement permitting procedures to regulate the construction of ADUs. Individual homeowners are responsible for initiating the permitting process for construction of an ADU. This process can be complex and time-consuming. In some cases, homeowners may also need to make the case for construction of an ADU at a public hearing. For individuals that may not have construction experience, this can be a challenging process and may be a deterrent to building an ADU. For example, Concord, Massachusetts, until recently, required

⁶⁰ ADU Finance Guide for Homeowners, The Casita Coalition, March 2021, Page 2, https://www.hcd.ca.gov/policy-research/accessorydwellingunits/docs/cc%20adu%20finance%20guide%20for%20homeowners%20v5%203.18.21_ada.pdf.

⁶¹ ADU Finance Guide for Homeowners, The Casita Coalition, Page 2.

⁶² Jon Healey, You Do ADU Part 2.

⁶³ ADU Finance Guide for Homeowners, The Casita Coalition, Page 2.

⁶⁴ Shelby R. King, How Financing Barriers Keep ADUs Expensive, Shelterforce, May 2022, <https://shelterforce.org/2022/05/09/how-financing-barriers-keep-adus-expensive/>

⁶⁵ Jon Healey, You Do ADU Part 2.

⁶⁶ Green, Metcalf, Garcia, and Valchuis, Page 4.

⁶⁷ Jamey Volker and Susan Handy, Exploring Homeowners’ Openness to Building Accessory Dwelling Units in the Sacramento Metropolitan Area, Journal of the American Planning Association, Volume 89, Number 1, 2023, <https://www.tandfonline.com/doi/epdf/10.1080/01944363.2022.2036222?needAccess=true>.

⁶⁸ Volker and Handy, Exploring Homeowners’ Openness to Building Accessory Dwelling Units in the Sacramento Metropolitan Area.

homeowners to seek out a special building permit for construction of an ADU.⁶⁹ These special permits were tied to the owner, not the property, and required homeowners to make their case for the addition of ADU at public hearings.⁷⁰ Due to this special permitting process, the town issued only 52 special permits between 1974 and 2020.⁷¹ Similarly, California researchers at the University of California Berkeley surveyed 800 individuals who applied for a permit or received a certificate of occupancy for an ADU in 2018 or 2019 in California.⁷² 47% of survey respondents noted that the ADU approval process was one of their top two challenges in constructing an ADU.⁷³

Maine's new land use law, LD 2003, attempts to streamline the permitting process in local ordinance by permitting municipalities to establish application and permitting processes for accessory dwelling units that do not require planning board approval.⁷⁴ Despite this allowance, municipal permitting process still vary across municipalities and require time and money for a homeowner to navigate, ultimately serving as barrier to construction.

c. Maine's ADU Stakeholder Group

Recognizing the two barriers discussed above, the Maine Legislature directed the Governor's Office of Policy Innovation and the Future (GOPIF) in 2023 to study methods to encourage the development of accessory dwelling units.⁷⁵ Pursuant to this Resolve, a stakeholder group was created to review existing models for financing and incentivizing ADUs, to explore standardized building designs, and to review municipal efforts to adopt ADU ordinances.⁷⁶ This stakeholder group, comprised of 40 experts, included individuals from financial institutions, community development financial institutions (CDFIs), community planning, building design, architecture, off-site construction, academia, code enforcement, and municipal government officials.⁷⁷

This stakeholder group convened for the first time on September 12, 2023, and met for six additional sessions throughout September and October 2023.⁷⁸ On October 31, GOPIF published the group's 10 recommendations in a report to the 131st Maine Legislature.⁷⁹ Recommendations included (1) establishing a financial incentive program, such as grants,

⁶⁹ The Editorial Board, Statewide zoning could boost accessory dwelling unit construction, The Boston Globe, October 22, 2023.

⁷⁰ The Editorial Board, Statewide zoning could boost accessory dwelling unit construction.

⁷¹ The Editorial Board, Statewide zoning could boost accessory dwelling unit construction.

⁷² Karen Chapple, Dori Ganetsos, and Emmanuel Lopez, Implementing the Backyard Revolution: Perspectives of California's ADU Owners, Center for Community Innovation: University of California, Berkeley, April 2021, <https://www.aducalifornia.org/wp-content/uploads/2021/04/Implementing-the-Backyard-Revolution.pdf>.

⁷³ Chapple, Ganetsos, and Lopez, Page 9.

⁷⁴ P.L. 2023, ch. 192, sec. 19 (codified at 30-A M.R.S. § 4364-B(8)(A)).

⁷⁵ Resolve 2023, ch. 107.

⁷⁶ Resolve 2023, ch. 107.

⁷⁷ Governor's Office of Policy Innovation and the Future, L.D. 654, Resolve Directing the Office of Policy Innovation and the Future to Study Methods to Encourage the Development of Accessory Dwelling Units, November 2023, Page i, https://www.maine.gov/future/sites/maine.gov/future/files/inline-files/ADU_Report_GOPIF_131st.pdf.

⁷⁸ Governor's Office of Policy Innovation and the Future, L.D. 654, Page i.

⁷⁹ Governor's Office of Policy Innovation and the Future, L.D. 654.

deferred loans or interest buy-down, to off-set the costs of ADUs; (2) creating a financial product to securitize existing financing options or make a secondary mortgage possible; (3) establishing municipal incentives for ADUs such as tax increment financing or property tax relief; (4) investigating the use of sale-lease back agreements for older adults; (5) addressing technical barriers including owner-occupancy requirements, allowances for condominium conversion, and terminology used to define ADUs; (6) designing education and training programs to inform consumers about ADUs; (7) creating a pre-approved ADU design program within the state; (8) creating pre-approved ADU design types that streamline approvals, meet Maine’s building codes, and are not compulsory for consumers; (9) focusing on using modularly built ADUs to bring more modular building to Maine; and (10) establishing grant programs to assist municipalities with limited capacity to administer pre-approved programs and conduct permit reviews.⁸⁰

⁸⁰ Governor’s Office of Policy Innovation and the Future, L.D. 654, Page ii.

Exhibit D Soundness of Approach
Maine Department of Economic and Community Development

Exhibit D Soundness of Approach

1. What is your vision?

DECD is applying for HUD's PRO Housing Grant to expand on the work of LD 2003 by removing some of the financial and procedural barriers to creating accessory dwelling units, especially for low-and moderate-income households. DECD's proposed project will directly benefit low-and moderate-income persons, by facilitating affordable housing production. This proposal meets the following two eligible activities as outlined in HUD's Pro Housing Notice of Funding Opportunity: (1) establishing incentive programs, designing pre-approved floorplans, or introducing more flexible zoning to enable and promote accessory dwelling units; and (2) financing the construction or rehabilitation of affordable housing.

To address these barriers, DECD proposes to create a new grant program for municipalities to (1) provide low-and moderate-income homeowners with pre-development and construction funding to build ADUs; and (2) contract with architectural or design entities to create ADU design types to expedite the ADU permitting process for residents. The goal of this project is to incentivize property owners to create ADUs to increase the supply of housing that is affordable to low-and moderate-income individuals.

Each municipality will be eligible to receive up to \$650,000 from DECD to cover the costs of creating an ADU grant program, which includes up to \$150,000 for pre-approved designs and up to \$500,000 to fund design, pre-development, and construction costs for eligible homeowners.

Municipalities, or a group of municipalities, may apply for a grant, through DECD. A municipal application that serves a priority geography, as defined by HUD, will be awarded additional points. DECD will also encourage municipalities to prioritize and market the grant opportunity to applicants from underserved groups. All municipalities applying for and receiving funds from DECD are subject to the procurement policies and procedures required by the State of Maine.

a. Part 1 of Municipal ADU Grant Program: Homeowner ADU Construction

Part 1 of DECD's grant application allows municipalities to provide low-and moderate-income homeowners with design, pre-development, and construction funding to build ADUs. Municipalities may receive up to \$500,000 to fund this portion of the project.

Part 1 of the grant program will include the following components:

- A municipality applying for DECD grant funding must ensure that homeowners are eligible to receive funding. Eligible homeowners are individuals who (1) own a year-round, single-family home in the specified municipality; and (2) have an income of 120% or less of the Area Median Income (AMI) based on the current year limits established by HUD.

- Eligible homeowners may receive up to \$50,000 from a municipality to cover ADU design, pre-development, and construction costs.
- A municipality must ensure that the funds are used to create an accessory dwelling unit that meets all requirements of LD 2003 and other federal, state, and local regulations.
- ADUs must be occupied by income-qualified individual(s) (under 80% AMI for the current year as published by HUD) for a period of 5 years. Units will not exceed the lower of HUD's published Fair Market Rent (FMR), or 30% of the individual's monthly income (including utilities) for a period of 5 years.
- Municipalities must establish procedures to oversee the construction of the ADUs.

b. Part 2 of the Municipal ADU Grant Program: Pre-Approved ADU Designs

DECD also proposes to include in this new municipal grant program funding to municipalities to contract with a design or architectural entity to create ADU designs that can be utilized by residents to expedite the permitting process for ADUs. DECD will provide up to \$150,000 to each municipal grantee to complete this aspect of the project. The goal behind this aspect of the municipal ADU grant program is to reduce the time and money that a homeowner would spend on hiring an architect and working with a local planning board to get project approval.

The municipality will work with this contracted entity to design ADU plans to meet the needs of a variety of residents. Designs must take into consideration square footage and layout options, as well as accessibility, environmental, and aesthetic characteristics. The municipality must provide these pre-approved designs to residents free-of-charge.

c. California's Initiatives

DECD's proposal to create a municipal ADU grant program is inspired by some of California's initiatives to remove financial barriers to ADU construction. Through legislative and local efforts, California has a variety of programs to incentivize ADU construction, including a program to cover some of the costs of ADU development for eligible homeowners, as well as publicly available ADU designs.

For instance, the California Housing Finance Authority (CalHFA) recently created a grant program to provide eligible homeowners with up to \$40,000 towards pre-development and non-reoccurring costs associated with the construction of ADUs.⁸¹ This includes financial assistance with site prep, architectural designs, permits, soil tests, impact fees, surveys and energy reports.⁸² Eligibility for the program is based on the homeowner's income.⁸³

⁸¹ California Housing Financing Authority, ADU Financing Program, <https://www.calhfa.ca.gov/adu/homeowner/adu-steps.pdf>

⁸² California Housing Financing Authority, ADU Financing Program.

⁸³ California Housing Financing Authority, ADU Financing Program.

California estimates 2,500 units will be financed with the initial \$100 million.⁸⁴ CalHFA, in late October 2023, approved the final details for a second round of funding.⁸⁵

Following the creation of CalHFA ADU Grant Program and pursuant to state law, CalHFA convened an ADU working group in early 2023 to develop recommendations regarding the grant program.⁸⁶ The working group found that the grant program was effective in incentivizing ADU production.⁸⁷ Furthermore, the grant program was viewed by participants as an effective way to make it easier for a borrower to access financing for an ADU.⁸⁸ However, the group received feedback that the eligibility for funding should be narrowed to target lower-income individuals, disadvantaged communities, rural communities, and deed-restricted units.⁸⁹

In addition to ADU financing incentives, some California municipalities have adopted pre-approved ADU design types to assist homeowners with the creation of ADUs, by reducing the time and money associated with planning for ADU construction. For example, the City of Encinitas offers eight pre-approved construction and architecture designs for ADUs, free to homeowners.⁹⁰ The designs include exterior design options, foundation/framing plans, interior floor plans, plumbing and electrical plans, and many design and architectural elements.⁹¹ These designs streamline the planning and approval process by eliminating the initial design process and reducing review and approval time of the proposed ADU plan.⁹² Furthermore, using pre-approved designs has reduced overall costs for homeowners in Encinitas.⁹³ In the first eight months of the program, 27 ADUs were built, which constituted approximately 25% of Encinitas' total ADU development.⁹⁴

d. Local Initiatives

Two Maine municipalities, Kittery and Auburn, have also created ADU grant programs for eligible property owners. Auburn provides eligible property owners with forgivable loans of up to 15% of actual construction costs (max \$33,000) to build ADUs.⁹⁵ Properties must be owner-occupied, year-round residential properties and property owners must qualify at or below 120% of the Area Median Income (AMI). Furthermore, the cost of renting these

⁸⁴ California Housing Financing Authority, ADU Financing Program.

⁸⁵ California Housing Financing Authority, ADU Financing Program.

⁸⁶ Accessory Dwelling Unit Working Group Overview, California Housing Finance Agency, July 2023, <https://www.calhfa.ca.gov/about/press/reports/adu-working-group-overview-2023.pdf>

⁸⁷ Accessory Dwelling Unit Working Group Overview, California Housing Finance Agency.

⁸⁸ Accessory Dwelling Unit Working Group Overview, California Housing Finance Agency.

⁸⁹ Accessory Dwelling Unit Working Group Overview, California Housing Finance Agency.

⁹⁰ Kristen Kopko and Andrew Warfield, ADU Case Study, Pre-Approved ADUs: A Tool for Revitalizing California's Affordable Housing Struggle, UC Riverside: Inland Center for Sustainable Development, <https://icsd.ucr.edu/case-study-adu>.

⁹¹ Kopko and Warfield, ADU Case Study.

⁹² Kopko and Warfield, ADU Case Study.

⁹³ Kopko and Warfield, ADU Case Study.

⁹⁴ Kopko and Warfield, ADU Case Study.

⁹⁵ Auburn Accessory Dwelling Unit Development (ADUD), Notice of Funding Opportunity, City of Auburn, Maine, <https://www.auburnmaine.gov/CMSContent/CDBG/Auburn%20ADUD%20%20NOFO.pdf>.

ADUs cannot exceed the lower of HUD’s published Fair Market Rent, or 30% of a renter’s monthly income (including utilities) for a period of 5 years.⁹⁶

Similarly, Kittery established an ADU program to provide two property owners with \$50,000 each for the costs of designing, permitting, and constructing an ADU.⁹⁷ Like Auburn, Kittery placed income restrictions on eligible applicants, determining that only households who make 80% or less of AMI were eligible for funding.⁹⁸ Also, tenants who rent the constructed ADU must be at 80% of AMI or less.⁹⁹

Using local municipal and statewide programs as inspiration, DECD’s application proposes to target its municipal grant program to lower-income homeowners and renters, individuals who make less than 120% of AMI. In addition, DECD’s grant process will prioritize municipalities serving priority geographies, as defined by HUD.

2. What is your geographic scope?

With the passage of LD 2003, all municipalities across the state will be required—at a minimum—to allow homeowners to build one accessory dwelling unit on a lot with an existing single-family home.¹⁰⁰ All Maine municipalities will be eligible to apply for DECD’s grant program to incentivize ADU construction in their respective municipalities. However, a municipal application will be allocated additional points by DECD if its proposal serves a priority geography, as defined by HUD.

3. Who are your key stakeholders? How are you engaging them?

a. Stakeholders

Maine, pursuant to recent legislation, established a stakeholder group to incentivize ADU construction.¹⁰¹ This stakeholder group is composed of the following members: ADU development companies; municipal staff; bank and credit union staff; non-profit organizations; academic institution representatives; and representatives from Maine’s municipal group.

Other key stakeholders are Maine’s ten regional planning organizations (planning commissions and councils of governments). These entities receive funds from the Maine Legislature to provide general planning assistance to municipalities within their assigned regions. This assistance includes answering general questions, advising on committee formation, explaining Maine’s land use laws and rules, and providing information on resource planning.

⁹⁶ Auburn Accessory Dwelling Unit Development (ADUD).

⁹⁷ Town of Kittery Launches ADU Grant Pilot Program, Kittery, Maine, June 2022, <https://www.kitteryme.gov/home/news/town-kittery-launches-adu-grant-pilot-program>.

⁹⁸ Town of Kittery Launches ADU Grant Pilot Program

⁹⁹ Town of Kittery Launches ADU Grant Pilot Program.

¹⁰⁰ 30-A M.R.S. § 4364-B.

¹⁰¹ Resolve 2023, ch. 107.

Finally, DECD also works closely with community leaders, affordable housing developers, CHDOs, local housing authorities, advocacy groups, providers of housing and services, and interested individuals.

b. Engagement

DECD held a virtual stakeholder engagement session on September 28, 2023, to give stakeholders the opportunity to provide feedback on DECD's proposed grant idea prior to the publication of a draft. This event was attended by 21 individuals from a variety of organizations including local municipalities, state partners, and non-profit leaders.

In addition, DECD posted its draft application on its website on October 6, 2023, for public feedback. DECD also held a public hearing on October 11, 2023, to review the application components and allow for verbal feedback on DECD's application. This public hearing was a hybrid hearing with in person and virtual participation. Three individuals attended. DECD advertised its public hearing in two local newspapers and on its housing listserv and website. DECD's housing listserv includes community leaders, developers, CHDOs, local housing authorities, advocacy groups, not-for-profit organizations, providers of housing and services, and interested individuals. DECD's comment period remained open until October 22, 2023. More detail about stakeholder comments is provided in the attached Summary of Comments.

DECD, if awarded this funding, anticipates hosting multiple informational sessions on its grant program to encourage municipalities to apply for funding to create their own municipal ADU grant programs. These informational sessions would be advertised across numerous platforms including newspapers, social media, government websites, and listservs, to involve and engage a diverse set of stakeholders in the process, particularly low-and moderate-income homeowners interested in building ADUs and eligible municipalities.

4. How does your proposal align with requirements to affirmatively further fair housing?

Historically, land use policy has prioritized single-family home ownership, perpetuating racial and economic segregation. With the passage of LD 2003 in Maine, exclusive single-family zoning is prohibited, requiring municipalities to update and create ordinances to allow increased density, including by permitting ADUs on lots traditionally zoned for only single-family homes.¹⁰² Allowing ADUs on lots typically zoned for only single-family homes allows for more equitable outcomes for homeowners and renters alike and reduces the risk of displacement of vulnerable residents.

a. ADUs, A Tool to Increase Access to Housing for Underserved Groups

Established neighborhoods, that have been traditionally zoned for only single-family homes, tend to include individuals with the same income, class, age, and race because an individual's income dictates the affordability of certain neighborhoods and housing

¹⁰² P.L. 2021, ch. 672.

types.¹⁰³ Allowing ADUs in more neighborhoods across Maine provides opportunities for low-and moderate-income renters to live in neighborhoods that they might otherwise be priced out of. This proposal will assist some homeowners in diversifying the housing types in their neighborhoods to make housing more affordable and accessible.

Furthermore, accessory dwelling units are uniquely suited to help older and/or disabled adults age in place. For instance, an older adult can continue to live on their property in an ADU, while their adult child or a trusted individual lives in the primary dwelling unit.¹⁰⁴ In the alternative, an ADU can provide a home to a caregiver for an adult who continues to live in the primary dwelling.¹⁰⁵ ADUs further can also be designed with accessibility in mind, including zero-step entrances and accessible hallways and bathrooms.¹⁰⁶

Finally, ADUs can provide rental income to existing homeowners to help cover mortgage payments and property maintenance. This proposal, by placing restrictions on what property owners are eligible to receive funding from a municipality, can help provide extra income to low-and moderate-income property owners.

b. California's Report on Barriers to ADU Construction

California, in August 2022, published a report seeking to (1) understand the barriers to ADU construction for low-and moderate-income Black, Indigenous, and People of Color (BIPOC) households in California; and (2) recommend actions to help with the removal of those barriers.¹⁰⁷ Relying on past research and focus group data, the report found that the benefits of ADUs are more accessible to households who are aware of legislative changes and have access to funding to pay for the construction of legal ADUs.¹⁰⁸ These households, research suggests, tend to be “disproportionality White, high-income, and highly educated.”¹⁰⁹

One of California's proposed recommendations to reverse this trend was to “expand and invest in programs that provide targeted financial resources to BIPOC and/or low-and moderate-income households,” including the development of state programs.¹¹⁰ Another recommendation was to “promote improved local agency ADU administration to reduce

¹⁰³ Sarah Cipkar, ADUs and the Just City: How additional dwelling units can shape urban environments towards equitable outcomes in Canadian cities, *Frontiers in Sustainable Cities*, January 2023, <https://www.frontiersin.org/articles/10.3389/frsc.2022.1053439/full>.

¹⁰⁴ Gabriela Hasbun, Accessory Dwelling Units Allow Homeowners to Choose Where they Age, AARP, April 2020, <https://www.aarp.org/home-family/your-home/info-2020/accessory-dwelling-unit.html#:~:text=ADUs%20allow%20people%20to%20age,accessible%20home%20on%20the%20property>.

¹⁰⁵ Hasbun, Accessory Dwelling Units Allow Homeowners to Choose Where they Age.

¹⁰⁶ ADUs are Good for People and Places, AARP Livable Communities, AARP, <https://www.aarp.org/livable-communities/housing/info-2019/adus-are-good-for-people-and-places.html>.

¹⁰⁷ Julia Greenberg, Hannah Phalen, Karen Chapple, David Garcia, and Muhammed Alameldin, ADUS for All: Breaking Down Barriers to Racial and Economic Equity in Accessory Dwelling Unit Construction, Terner Center for Housing Innovation, UC Berkeley, August 2022, <https://ternercenter.berkeley.edu/wp-content/uploads/2022/08/ADU-Equity-August-2022-Final.pdf>.

¹⁰⁸ Greenberg, Phalen, Chapple, Garcia, and Alameldin, Page 2.

¹⁰⁹ Greenberg, Phalen, Chapple, Garcia, and Alameldin, Page 2.

¹¹⁰ Greenberg, Phalen, Chapple, Garcia, and Alameldin, Page 9.

cost and complexity to homeowners” by, in part, streamlining local permitting processes.¹¹¹ The report notes that using streamlined processes at the local level, including pre-approved ADU designs, has the ability to limit the confusion and complexity that was noted by the participants in the report’s focus group.¹¹²

c. Maine’s Approach to Affirmatively Furthering Housing

Based on California’s recommendations, DECD proposes to increase the number of ADUs in the state by removing some financial barriers to construction to increase housing choice for underserved groups, people with disabilities, and protected classes. DECD's proposal prioritizes ADU development for low-and moderate-income households by placing eligibility requirements on its ADU grant program, as well as placing rent restrictions on constructed units so that units are affordable to lower-income renters.

Maine is one of the least diverse states in the United States, with 92.2% of the population identifying as white alone, not Hispanic.¹¹³ Certain areas of the state have greater diversity including the Portland and Lewiston metro areas, which has the greatest black population.¹¹⁴ Maine’s Native American population is greatest in the Passamaquoddy Indian Township in Washington County and its Asian population is greatest in the communities of Portland, Lewiston, and Bangor.¹¹⁵

Recent population changes, however, have increased Maine’s racial and ethnic diversity. From 2021-2022, 61% of the state’s 8,000+ population gain came from populations other than white, non-Hispanic.¹¹⁶ With this influx of people, Maine will need a variety of housing options to accommodate the needs of a variety of groups. ADUs represent one cost-effective option to ensure that a variety of underserved groups have a place to live. Maine, by incentivizing the construction of ADUs through this grant proposal, hopes to use ADUs as one tool to increase housing equity across the state.

If DECD were to receive funding to complete these two proposed projects, DECD anticipates collecting data on which municipalities and homeowners utilize pre-approved ADU designs. Furthermore, DECD also anticipates collecting data on built ADUs that utilized this funding. Collected data will include, but is not limited to, the following: (1) municipality where the ADU was built; (2) characteristics of the built ADU; (3) rental information; (4) disclosed general demographic information of homeowners and/or renters.

¹¹¹ Greenberg, Phalen, Chapple, Garcia, and Alameldin, Page 10.

¹¹² Greenberg, Phalen, Chapple, Garcia, and Alameldin, Page 10.

¹¹³ Maine’s Population Outlook 2020 to 2030, Office of the State Economist, Maine Department of Administrative and Financial Services, June 2023, Page 9, https://www.maine.gov/dafs/economist/sites/maine.gov.dafs.economist/files/inline-files/Maine%20Population%20Outlook%20to%202030_0.pdf.

¹¹⁴ State of Maine Consolidated Plan: CDBG, ESG, HOME, HTF, Plan Years 2020-2024, Page 47, https://www.mainehousing.org/docs/default-source/policy-research/federal-funds/2020-2024-consolidated-plan.pdf?sfvrsn=19978e15_4.

¹¹⁵ State of Maine Consolidated Plan, Page 47.

¹¹⁶ Maine’s Population Outlook 2020 to 2030, Page 9.

d. Affirmative Marketing

Furthermore, if DECD were to receive funding, it will advertise the grant award and subsequent initiation of the project through a wide variety of channels to market this initiative. These advertising channels include: (1) DECD's housing listserv; (2) DECD's website; (3) state social media accounts; (4) regional planning organizations; (4) Maine's municipal advocacy organization; (5) Maine's affordable housing groups; (6) realtor association groups, (7) social advocacy groups; (8) community development agencies; and (9) housing developers. This data will be used to evaluate the effectiveness of DECD's proposal and its goal of affirmatively furthering fair housing with this proposed project.

5. What are your budget and timeline proposals?

a. Budget:

DECD requests \$2,000,000 from HUD to create a new grant program for municipalities to (1) provide low-and moderate-income property owners with pre-development and construction funding to build ADUs; and (2) contract with architectural or design entities to create ADU design types. DECD also proposes to allocate \$689,000 in state funding and non-financial contributions to supplement the funding provided by HUD. The majority of the HUD Pro Housing funding will be used to provide grant funding to up to four municipalities. DECD anticipates each municipality will receive up to \$650,000 in grant funding, with up to \$150,000 for pre-approved designs and up to \$500,000 for ADU construction costs. A detailed breakdown of the budget is provided in the 424-CBW Budget Forms.

DECD determined its budget for its proposed project by reviewing established state and local government ADU programs. Specifically, DECD spoke with housing experts in California, as well as municipal officials from Auburn, Maine to determine the costs of creating ADU designs, as well as construction costs to ensure that its proposal is in line with industry standards and are appropriate for the scope of the project.

If DECD were to receive the minimum award or 50% of its requested funding (\$1,000,000), it still anticipates that it could carry out its proposed project, simply on a smaller scale. With a reduced budget, DECD would still create a new municipal grant program, but would award funding to fewer municipalities.

b. Timeline:

DECD proposes the following timeline for the Municipal ADU Grant:

- **February 2024:** DECD notifies stakeholders of awarded funding and hosts informational session(s) for municipal leaders, interested homeowners, and ADU developers.
- **March 2024-April 2024:** DECD drafts a Request for Applications (RFA) as required by established state procurement procedures.
- **May 2024:** RFA opens for municipal applications.

- **June 2024:** DECD hosts an informational session for municipalities to understand the grant components.
- **July 2024:** RFA process closes.
- **August 2024:** DECD reviews and scores municipal applications.
- **November 2024-January 2025:** DECD contracts with awarded municipalities.
- **January 2025-July 2025:** Municipal grantees create municipal ADU programs, advertise for new program, and provide grant applications to residents and design entities.
- **July 2025-September 2029:** DECD monitors municipal grantees progress through biannual progress reports. DECD will require a final report at the end of the grant.

Exhibit E Capacity

Maine Department of Economic and Community Development

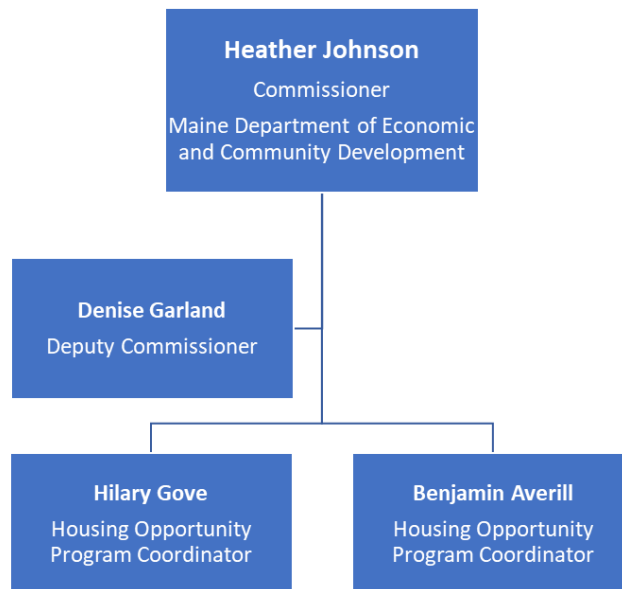
Exhibit E Capacity

1. What capacity do you and your partner(s) have? What is your staffing plan?

a. Administration of the Grant

The Housing Opportunity Program, within DECD, will lead implementation of the proposed activities. The Housing Opportunity Program, created as part of LD 2003, encourages and supports the development of housing units in the State, including housing units that are affordable for low-and moderate-income individuals. The Housing Opportunity Program provides technical and financial assistance to support communities implementing zoning and land-use related policies necessary to increase housing development. The Program supports regional approaches and encourages policies that support increased housing density, where feasible, to protect working land and natural lands.

The Housing Opportunity Program has two-full time staff members, Hilary Gove and Benjamin Averill, who will manage the grant if DECD receives funding from HUD. DECD is overseen by Commissioner Heather Johnson and Deputy Commissioner Denise Garland. DECD does not anticipate hiring additional staff to implement the proposed projects. Please see the organizational chart below.



DECD also houses the Office of Community Development (OCD). OCD's primary focus is the administration of HUD's Community Development Block Grant Program. The Office of Community Development is available to provide guidance and support with

fulfillment of the grant responsibilities because of its expertise and experience with overseeing and fulfilling federal grants.

DECD is well suited to oversee this grant project because of its history overseeing HUD's Community Development Block Grant Program. OCD, within DECD, works closely with Maine municipalities, regional partnerships, and non-profit organizations to meet a broad array of economic and community development initiatives. OCD's projects are designed to support initiatives that (1) are integrated in a community strategy; (2) provide for further public and private investment; (3) benefit low- and moderate-income persons; (4) promote quality housing, jobs, and sense of community; and (5) maximize citizen participation and regional partnerships. Furthermore, OCD has experience operating programs, such as the Community Development Block Grant Program, that focus on civil rights and fair housing to support low-and moderate-income individuals.

In addition to internal knowledge and capacity, DECD works closely with another state entity, the Department of Administrative and Financial Services, to quickly provide the necessary financial and procurement services associated with the administrative of grants.

This application was written by Hilary Gove and Benjamin Averill, the two coordinators of the Housing Opportunity Program within DECD. Review and feedback on the draft application was provided by the Office of Community Development within DECD and the Governor's Office of Policy Innovation and the Future. External stakeholders also provided feedback as described in the attached Summary of Comments.

b. Experience

The Housing Opportunity Program within DECD has experience working with community stakeholders including government agencies, municipalities, and regional planning organizations through administering its own grant programs. In the summer of 2023, the Housing Opportunity Program created a grant program, utilizing the state's established procurement services, for service providers to provide land use planning services to municipalities. As part of this grant program, thirteen service providers applied and were awarded about \$1,000,000 in grant funding. The Housing Opportunity Program also anticipates creating another grant program before the end of the year to support municipalities with community housing planning and implementation services to increase housing opportunities.

Exhibit F Leverage

Maine Department of Economic and Community Development

Exhibit F Leverage

1. Are you leveraging other funding or non-financial contributions?

DECD proposes to leverage \$689,000 in the form of state funding and non-financial contributions, in addition to its request of \$2,000,000 from HUD. As part of LD 2003, DECD was allocated funding by the Maine State Legislature to solicit grant applications to assist municipalities with community housing planning and implementation services to increase housing opportunities in Maine.¹¹⁷ DECD can leverage \$600,000 in state funding to support the specific activities in this application. In addition, DECD can also leverage \$89,000 in non-financial contributions, in the form of staff labor costs and fringe benefits. Further information on leveraged resources is available in the provided resource commitment letter.

¹¹⁷ 5 M.R.S. § 31056-J(2).

Exhibit G Long-term Effect

Maine Department of Economic and Community Development

Exhibit G Long-term Effect

1. What permanent, long-term effects will your proposal have? What outcomes do you expect?

a. Deliverables

If DECD were to receive this grant funding from HUD, it anticipates creating a new grant program for municipalities interested in supporting its residents with ADU development. Maine needs, at a minimum, 38,500 units to meet current housing needs.¹¹⁸ Increasing the number of accessory dwelling units in the state by providing financial incentives will help to reduce that number. DECD anticipates that it could provide up to four municipalities with funding to provide a portion of construction costs to around 10 eligible homeowners in each municipality, as well as pre-approved designs that all residents, including the individuals receiving funding for ADU construction, could use to support ADU development.

Furthermore, allowing ADUs in more neighborhoods across Maine provides opportunities for low- and moderate-income renters to live in neighborhoods that they might otherwise be priced out of. This proposal will assist some homeowners in diversifying the housing types in their neighborhoods to make housing more affordable and accessible for the long-term.

b. Reduction of other Costs

LD 2003 does take into consideration the value of placing accessory dwelling units in areas where individuals can access amenities, public services, employment, transportation, and schools. The law prohibits municipalities from creating any additional parking requirements for the addition of an accessory dwelling unit beyond the parking requirements of the single-family dwelling unit on the lot where the accessory dwelling unit is located.¹¹⁹ Homeowners, interested in building an ADU, may be more likely to build an ADU on lots located near amenities and services because of this parking restriction.

c. Model for other Communities:

DECD's model can be replicated by other state and local governments. Depending on the funding sources of the jurisdiction, DECD's model could be scaled up to cover a portion of ADU construction costs for more households, similar to California's CalFHA program.¹²⁰ In the alternative, creating a grant program for ADU construction costs can be scaled back to assist a smaller amount of homeowners, similar to Kittery's ADU grant program.¹²¹ Furthermore, jurisdictions, who have limited funding resources, could support

¹¹⁸ State of Maine Housing Needs Study, Page 8.

¹¹⁹ 30-A M.R.S. § 4364-B(4).

¹²⁰ California Housing Financing Authority, ADU Financing Program.

¹²¹ Town of Kittery Launches ADU Grant Pilot Program.

ADU development by adopting pre-approved ADU designs to expedite the permitting process for residents.

d. Environmental Impacts:

In December 2020, Maine’s four-year climate plan, *Maine Won’t Wait*, was released to outline the steps Maine must take to combat climate change.¹²² This climate plan includes key strategies to assist the state in meeting its climate goals such as reducing carbon emissions in the energy sector, modernizing transportation and housing in the state, and investing in resilient infrastructure.¹²³ DECD’s proposal will continue the work outlined in Maine’s climate plan by focusing on modernizing buildings across the state to become more energy efficient.¹²⁴ Furthermore, Governor Janet Mills has prioritized working with Maine communities to reduce emissions, prioritize clean energy, and prepare for the effects of climate change by providing grants and technical support to municipalities.¹²⁵ DECD will work with grantee municipalities to ensure that pre-approved ADU designs and built ADUs incorporate resilient and energy-efficient features to help municipalities, and property owners, mitigate the effects of climate change.

e. Ongoing Challenges

Despite the passage of LD 2003 and its requirement that all municipalities allow ADUs on all lots with an existing single-family home, municipalities have expressed concerns about incorporating ADU allowances in local ordinance because of the administrative burdens associated with ordinance updates and the creation of new municipal land use procedures. This burden is felt most acutely in municipalities that do not have staff to assist with ordinance updates, nor the financial resources. Many towns in Maine rely on volunteers to implement land use laws and comprehensive plans.

To support municipalities with LD 2003 implementation, two staff members from the Housing Opportunity Program, and regional planning organizations, provide technical and financial assistance to Maine’s municipalities. However, providing municipalities with the additional resource of pre-approved design types has the potential to reduce some of the administrative burdens on a municipality of reviewing and granting permits for ADUs.

¹²² *Maine Won’t Wait: A Four-Year Plan for Climate Action*, Maine Climate Council, December 2020, https://www.maine.gov/future/sites/maine.gov.future/files/inline-files/MaineWontWait_December2020.pdf.

¹²³ *Maine Won’t Wait*, Page 9.

¹²⁴ *Maine Won’t Wait*, Page 49.

¹²⁵ Community Resilience Partnership, Governor’s Office of Policy Innovation and the Future, <https://www.maine.gov/future/climate/community-resilience-partnership>.

Attachment A Summary of Comments
Maine Department of Economic and Community Development

Attachment A Summary of Comments

The Maine Department of Economic and Community Development (DECD) opened the public comment period for its draft application on October 6, 2023, by publishing the application on its website and sending out notice on its listserv. DECD held a hybrid public hearing on its draft application on October 11, 2023. Three individuals attended. Comments were also accepted until 11:59pm on October 22, 2023, by emailing comments to housing.decd@maine.gov. This document summarizes the comments that were received during the comment period.

Section 1. List of Commenters:

1. Brian Eng, Developer
2. Gail Wilkerson, Planning and Development, City of Biddeford, Maine
3. Eli Rubin, Community Planner, City of South Portland, Maine

Section 2. Comments

1. Letters of Support:

One commenter inquired if letters of support from municipalities would be helpful to support DECD's application.

Response: DECD welcomes letters of support from interested municipalities.

2. Priority Geographies:

One commenter inquired about priority geographies, namely if Biddeford was a priority community. If not, commenter asked if Biddeford could partner with a priority community to receive funding from DECD, if it was awarded funding through HUD. Commenter also asked if entitlement communities were eligible for funding from HUD. Commenter further asked if DECD intended to forgo the priority points. Finally, commenter asked if DECD had been in contact with any priority geographies and if DECD was actively seeking letters of support from those communities.

Response: Biddeford is not a priority geography, as defined by HUD. DECD has yet to create its municipal ADU grant program, which is contingent upon receiving this funding from HUD. If DECD were to receive funding from HUD, it intends to prioritize HUD's identified priority geographies in its new municipal ADU grant program by awarding municipalities who prioritize priority geographies with additional points. However, all municipalities—not just priority geographies—would be eligible to apply for DECD's new grant program if funds were awarded. Furthermore, DECD amended its application to include the ability for municipalities to apply jointly for ADU grant program funding. DECD has been in contact with priority geographies and welcomes letters of support from interested municipalities.

3. Other Housing Typologies

One commenter asked if DECD could structure its grant to incorporate more than just ADUs. Commenter provided an example that pre-approved ADU designs could be used

for a standalone house, such as a primary dwelling unit. Furthermore, commenter inquired if the pre-development cost grant could be used for more than just ADUs.

Response: While DECD acknowledges the need for many different types of housing across all Maine municipalities to address Maine’s acute need for affordable housing, at this time, DECD proposes to keep its application focused on the removal of barriers for ADU construction due to the smaller amount of funding requested by DECD.

However, in DECD’s proposed application, it requires grantee municipalities to work with an entity to create pre-approved ADU design types. These design types must be made publicly available. The municipality, per the grant program, would have the discretion to determine whether these pre-approved ADU designs could be modified by a homeowner to create a different type of housing structure, such as a second dwelling unit on a lot.

4. Cost of ADU Construction as a Barrier

One commenter noted that in their municipality, homeowners have applied for permits to build an ADU, but likely due to construction costs, the ADU is never built. Commenter was concerned that only having a grant for pre-development costs will not actually assist a homeowner in getting an ADU built. Commenter suggested having the grant be used for more than just pre-development costs, or have it be cost-shared.

Furthermore, one commenter noted that there was not an upper limit in the application that a municipality could grant to an eligible homeowner. Commenter suggested that this amount would need to be at least \$50,000 or more, resulting in fewer homeowners, because otherwise there is a very narrow window of homeowners that can financially take advantage of this program.

Response: DECD agrees with the commenter’s suggestion and amended its application to include not only pre-development costs, but construction costs. DECD also amended its application to include an upper limit in the application that a municipality could grant to an eligible homeowner of \$50,000.

Section 3. Comments Not Accepted

1. Expanding DECD’s municipal ADU grant program to include additional housing typologies.

Response: While DECD acknowledges the need for many different types of housing to address Maine’s acute need for affordable housing, at this time, DECD proposes to keep its application focused on the removal of barriers for ADU construction. This is based on the smaller amount of funding requested by DECD at this time.