

North Dakota Housing Finance Agency
Division of the State Industrial Commission

March 11, 2021

Budget No. 473.0

SB 2014 - Testimony of David A. Flohr, Executive Director

House Appropriations – Government Operations Committee

AGENCY OVERVIEW

North Dakota Housing Finance Agency (NDHFA) was created in 1980 by an initiated measure to issue and sell Mortgage Revenue Bonds and Mortgage Backed Securities to investors and use the proceeds to purchase, from participating private-sector lenders, the mortgages of primarily first-time homebuyers. As a self-supporting and mission-driven state agency, NDHFA is dedicated to providing affordable housing opportunities for North Dakotans. The agency provides home financing to low- to moderate-income individuals and families and helps to ensure the continued availability of suitable rental housing for households of modest means, while focusing on the overall changing housing needs of communities.

2021-2023 AGENCY BUDGET

	NDHFA 2019-2021 Appropriation	NDHFA 2019-2021 One- time Funding	NDF 2019-2021 Base Budget	Senate 2021-2023 Approved	Senate Approved / NDHFA Base Budget
Salaries and Wages	\$8,509,015		\$8,509,015	\$9,637,524	\$1,128,509
Operating Expenses	\$5,346,276		\$5,346,276	\$6,144,060	\$797,784
Capital Assets	-		-	\$150,000	\$150,000
Grants	\$33,466,600		\$33,466,600	\$42,975,200	\$9,508,600
HFA Contingency	\$100,000		\$100,000	\$100,000	-
General Fund Transfers - HIF	\$7,500,000	(\$7,500,000)	-		
Total	\$54,921,891	(\$7,500,000)	\$47,421,891	\$59,006,784	\$11,584,893
Full Time Equivalentents (FTE)	44		44	49	5
Funding Source					
General	\$7,500,000	(\$7,500,000)	-	-	
Special	\$14,525,291		\$14,525,291	\$14,997,108	\$471,817
Federal	\$32,896,600		\$32,896,600	\$44,009,676	\$11,113,076
Total	\$54,921,891	(\$7,500,000)	\$47,421,891	\$59,006,784	\$11,584,893

2021-2023 BUDGET- SENATE VERSION DETAIL BY OBJECT CODE

Object Name	Budget Base	Senate Version	Change from Base							
Salaries and Wages	8,509,015	9,637,524	1,128,509							
Operating Expenses	5,346,276	6,144,060	797,784							
Capital Assets	-	150,000	150,000							
Grants	33,466,600	42,975,200	9,508,600							
HFA Contingency	100,000	100,000	-							
Total 21-23 Budget Request	47,421,891	59,006,784	11,584,893							
FTE	44	49	-							
Change Detail	Change from Base	Transfer BND Servicing	Transfer HOME Program	MultiFamily Software	Contract Admin Rent Supplements	Statewide Housing Needs Assessment	Rate Changes/ Primarily Technology	Microsoft 365	Reclassification	Compensation Package
Salaries and Wages	1,128,509	471,233	356,421	-	-	-	-	-	70,997	229,858
Operating Expenses	797,784	244,883	236,950	73,880	-	115,000	122,224	4,847	-	-
Capital Assets	150,000	-	50,000	100,000	-	-	-	-	-	-
Grants	9,508,600	-	7,700,000	-	1,808,600	-	-	-	-	-
HFA Contingency	-	-	-	-	-	-	-	-	-	-
Total Base Changes	11,584,893	716,116	8,343,371	173,880	1,808,600	115,000	122,224	4,847	70,997	229,858
FTE	-	(additional) 3	(transfer) 2							

FTE JUSTIFICATION

FEDERAL HOME PROGRAM TRANSFER FROM DEPT. OF COMMERCE– 2 FTES

The Dept. of Commerce is requesting to transfer HUD's HOME Program to NDHFA in Senate Bill 2018. The transfer will require two FTEs currently at Commerce to maintain management of the federal program. No impact to the state's General Fund.

BND LOAN SERVICING TRANSFER AND RESIDENTIAL MORTGAGE EXIT – 3 FTES

BND is in the process of transferring its mortgage service portfolio of 2,318 residential mortgage loans to NDHFA. BND and NDHFA have the common goal of consolidating residential mortgages within NDHFA, creating efficiencies, and allowing each entity to focus on their primary missions. BND also plans to exit the residential mortgage business, which will result in future production increases for NDHFA loan programs.

Currently, NDHFA has 13 loan servicing FTEs and is requesting two additional FTEs to manage the increased loan servicing workload.

- BND is not transferring FTEs to NDHFA.
- The National Mortgage Bankers Association's latest Loan Servicer report shows the average number of loans serviced per FTE has ranged from 647 to 1,182 over the last decade and currently is at 969 loans per FTE.
- NDHFA's current serviced loans per FTE/loan ratio is 867. Adding the BND loans brings the total servicing portfolio to 13,591 which would increase the loans/FTE ratio to 1,252 if no additional FTEs are added.
- NDHFA's portfolio is primarily first-time, low- to moderate-income homebuyers who typically utilize the government-insured loan products. These loan types are more difficult to administer due to the regulations involved.
- Two additional FTEs would create a 906 loans/FTE ratio.
- In addition to fulfilling the demands of the citizens of North Dakota, NDHFA has legal obligations to bond holders and investors to service the loan portfolio in accordance with industry standards and the covenants in the agreements with both of those entities.

BND's exit of the residential mortgage space will create a secondary mortgage market gap that will be filled by a combination of NDHFA programs and the private sector. The increased production will require one additional FTE to manage the increased workload and account for organic market growth.

HOUSING INCENTIVE FUND (HIF) JUSTIFICATION

The Senate Appropriations Committee allocated \$15 million from the General Fund for NDHFA to administer HIF. At the start of the session no funding was included in SB 2014, instead there were three different HIF bills, with varying funding sources and amounts. Those bills were either defeated or HIF language was removed.

DEPARTMENT OF JUSTICE (DOJ) SETTLEMENT AGREEMENT

Dept. of Human Services is leading the state's efforts to address the DOJ's settlement agreement to ensure that the state will meet ADA requirements by providing services, programs and activities for individuals with physical disabilities in the most integrated setting appropriate to their needs.

- HIF is a long-term, cost-effective solution to address the need for accessible, safe, and affordable housing for individuals transitioning out of nursing facilities.
- Permanent Supported Housing Requirements: affordable, permanent housing coupled with housing supports and other community-based services.

STATEWIDE NEED FOR HIF FUNDING

According to the 2019 Census, there are 84,037 households across the state that have an annual income less than \$35,000. The average rent for a two-bedroom apartment in North Dakota is \$841.

Household Annual Income Less than \$35,000		
Annual Income	Total Households	Affordable Monthly Housing Costs*
Less than \$10,000	18,144	\$250
\$10,000 to \$14,999	12,733	\$250 - \$375
\$15,000 to \$24,999	25,784	\$375 - \$625
\$25,000 to \$34,999	27,376	\$625 - \$875

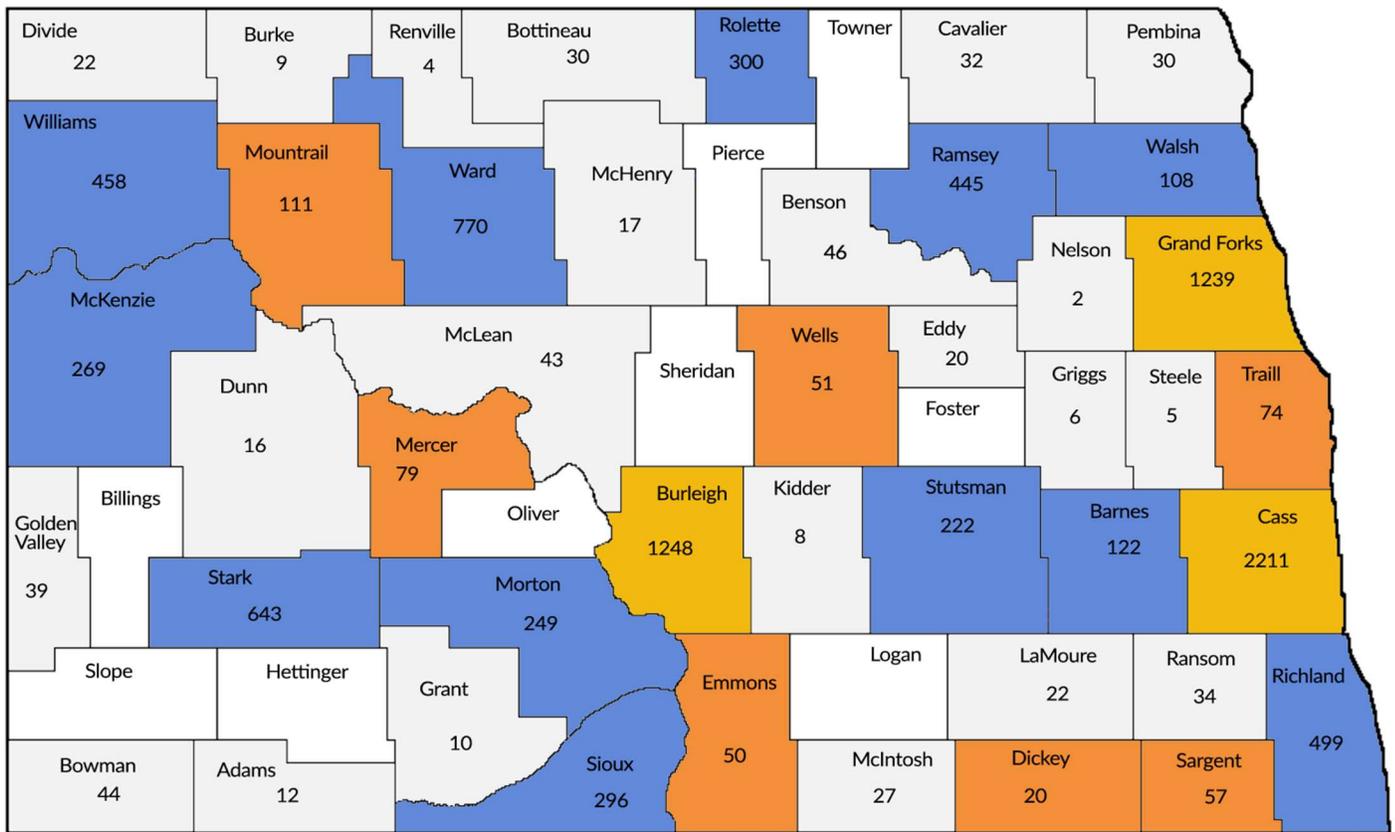
2019: American Community Survey 5-Year Estimates Data Profile

*U.S. Dept. of Housing and Urban Development's standard calculation for "affordable" is to spend up to 30 percent or less of household income on housing expenses.

As of November 2020, approximately 6,900 households have federal housing vouchers. These vouchers assist very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.

NDHFA monitors affordability and livability for nearly 10,000 apartments that received state and/or federal funding. With the combined almost 17,000 subsidized housing units monitored by the state and the federal housing vouchers, there is not enough affordable housing options for the 84,037 households that earn \$35,000 or less annually. Some of these households may be living in extremely housing cost-burdened situations, which impacts their housing stability and their ability to afford other basic needs.

NDHFA Multifamily Housing Compliance Monitoring Total Units by County



LEVERAGING HIF

The state of North Dakota’s 10-year investment in HIF has resulted in 84 unique projects and 2,704 affordable rental homes in urban and rural communities. Communities, working with a developer, assess the market need before pursuing an affordable multifamily housing preservation or new construction project. HIF is the only flexible, gap financing options communities have to address affordable housing needs. Accessing federal tax credits is challenging for small projects in rural communities.

PRESERVING AFFORDABLE MULTIFAMILY HOUSING CAN BE A COST-EFFICIENT SOLUTION.

Below is a sample cost scenario for a \$2 million project to rehabilitate a 20-unit building. The project needed \$1.4 million in non-traditional funding to move forward and maintain affordable rents.

Rehabilitation Project Scenario 20-Unit Apartment Building Cost \$2,000,000			
TRADITIONAL FINANCING		AFFORDABLE DEVELOPMENT	
		<i>To maintain current rents of \$610-647, the project will require more than 70% of the rehab funds to be soft debt or equity.</i>	
Loan	\$1.4 million (70%)	Soft Debt/Equity	\$1.4 million
		Loan (5%, 20 year)	\$600,000
Annual Project Expenses		Annual Project Expenses	
Loan Payment (5%, 20 year)	\$135,604	Existing Rural Development	\$16,313
Existing Loan Payment Rural Dev.	\$16,313	New Loan Payment	\$48,145
Project Operating Expenses	\$103,000	Project Operating Expenses	\$103,000
Needed annual revenue from rent	\$254,917	Annual Revenue from rent to break even	\$167,458
Average monthly rent per unit needed to cover annual expenses	\$1,062	Average rent per month to cover annual expenses	\$698
Project's current rent	\$610-647		

NEW CONSTRUCTION OF AFFORDABLE MULTIFAMILY HOUSING

The cost to construct new market-rate multifamily housing and affordable multifamily housing is the same. The difference is the non-traditional fund sources used to reduce the amount of debt. Below is a cost scenario comparison for a new 24-unit building.

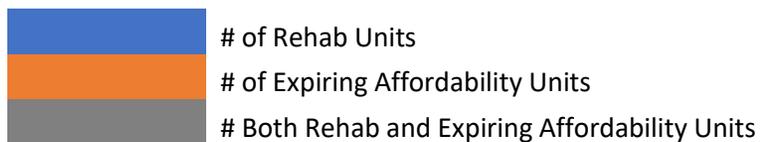
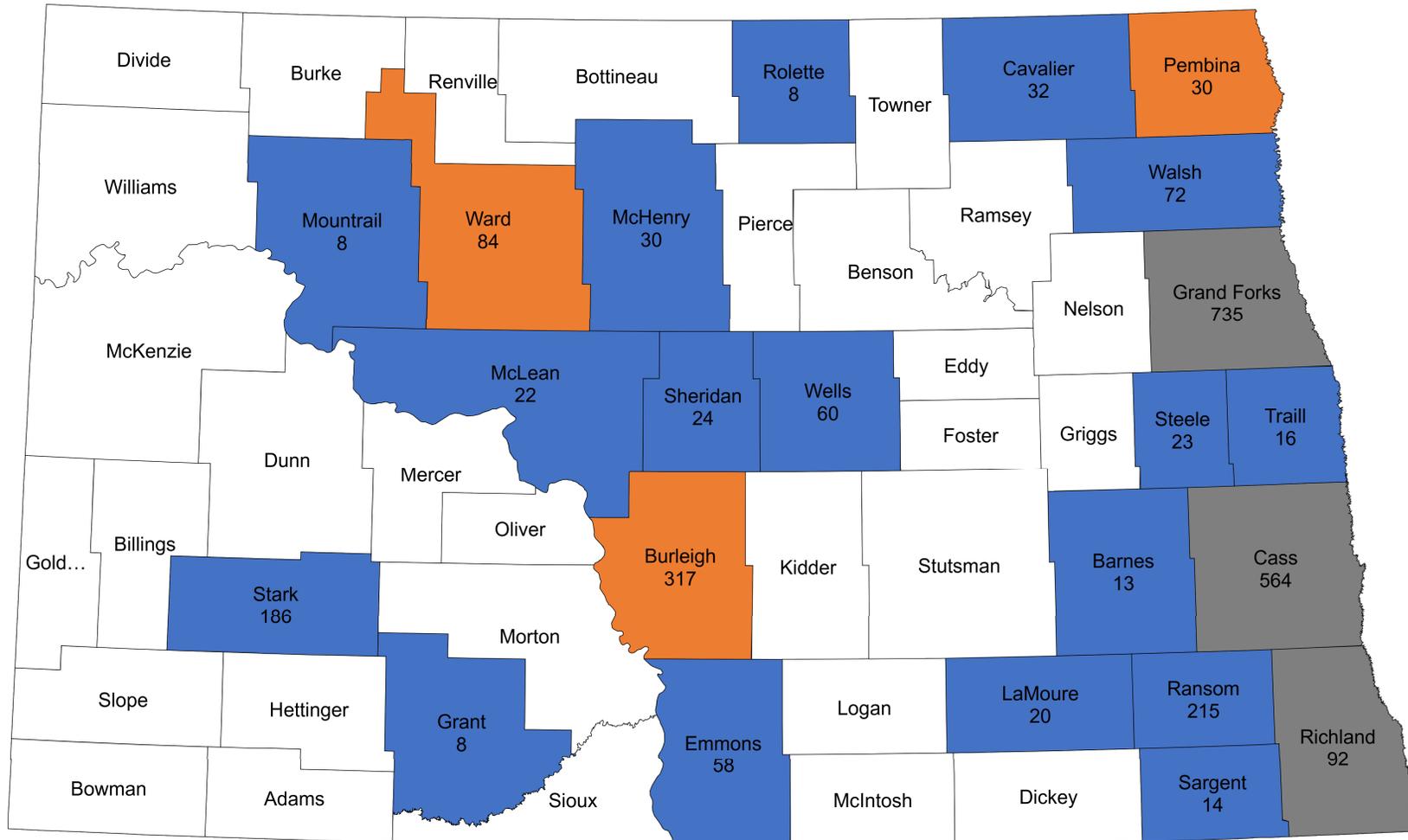
Affordable Housing – New Construction Scenario			
24-Unit Apartment Building			
Cost of Construction is \$175,000/per unit x 24 units = \$4.2 million			
	Traditional Financing Market Rate Rent	Non-Traditional Financing Affordable Rate Rent	
Equity Investment	\$1.26 million (30%)		
Loan	\$2.94 million (70%)		
Gap Financing (federal funds, private investments, donations, HIF)		\$2.94 million (70%)	
ANNUAL EXPENSES			
Loan Payment (6%, 20 years)	\$252,757	\$0.00	
Operating Expense	\$120,000		
Return on Equity (8%)	\$100,800		
Annual Revenue needed from rents to cover expenses	\$473,557	\$220,800	
Average Monthly Rent Per Unit to Cover Expenses	\$1644		
Income Restricted Rent Structure to Cover Expenses		5 units at \$403	5 units at \$493
		5 units at \$898	9 units at \$1050

RISK OF LOSING AFFORDABLE MULTIFAMILY HOUSING

HIF is a solution to preserve older, affordable multifamily properties by financing rehabilitation and ensuring affordable rents for an additional 15 years. NDHFA, housing partners and communities have identified a project pipeline across the state.

- 43 percent of counties, for a total of 23 counties, have identified either a need for rehabilitation of 1,314 affordable multifamily housing units or are at risk of losing 1,317 units due to expiring affordability requirements.

Affordable Multifamily Housing Units At Risk of Losing Affordability and/or Needing Rehabilitation



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APPROVALS & AMENDMENTS

NDHFA Requests the approval of the following items:

- Section 4. APPROPRIATION. In addition to the amount appropriated to the housing finance agency in subdivision 4 of section 1 of this Act, there is appropriated any additional income or unanticipated income from federal or other funds which may become available to the agency for the biennium beginning July 1, 2021, and ending June 30, 2023.

Century Code changes and additions in the Proposed Amendments to Senate Bill No. 2014:

- SECTION 25. 54-17-07.3 (created and enacted)
- SECTION 26. 54-17-10 (amendment)
- SECTION 28. 54-17-07.12 (repeal)