NORTH DAKOTA housing FINANCE AGENCY

David A. Flohr Executive Director

INDUSTRIAL COMMISSION
Doug Burgum Governor
Wayne Stenehjem Attorney General
Doug Goehring Agriculture Commissioner

North Dakota Housing Finance Agency
Division of the State Industrial Commission
SB 2040 – Testimony of David A. Flohr, Executive Director
Senate Appropriations Committee

January 28, 2021

TESTIMONY IN FAVOR OF SB 2040

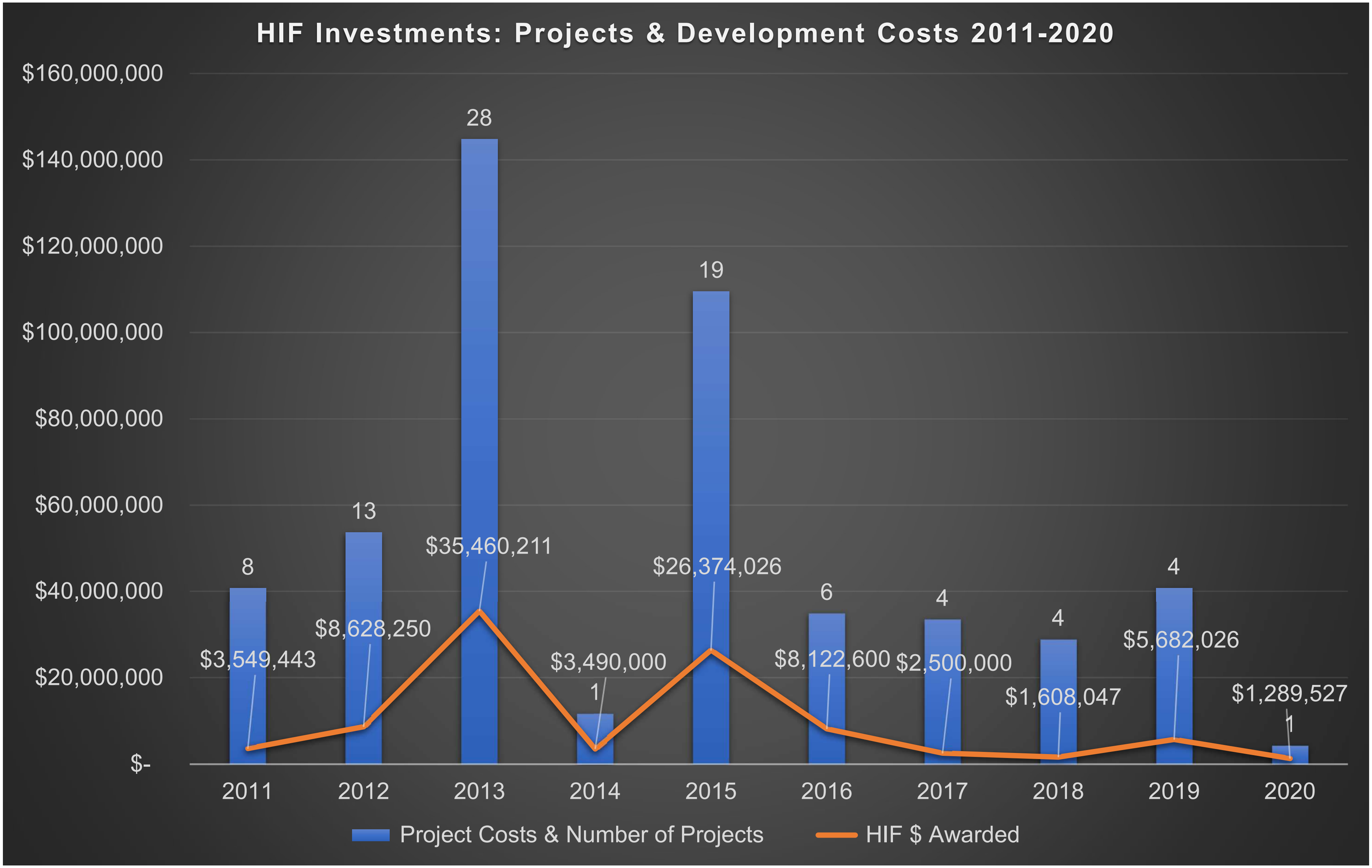
North Dakota Housing Finance Agency (NDHFA) supports SB 2040 and the allocation of $250 million for the Housing Incentive Fund (Section 5. 2. d. pg. 9 line 20).

HOUSING INCENTIVE FUND (HIF)

HIF is a state-funded gap financing program used with federal and private dollars to create affordable multifamily housing in urban and rural communities. NDHFA administers the program on behalf of the state of North Dakota. Leveraged as an upfront, one-time investment, HIF ensures rental homes in the supported projects will be affordable for a minimum of 15 years.

The state of North Dakota’s 10-year investment in HIF has resulted in 84 unique projects and 2,704 affordable rental homes. Each project has a complex funding portfolio requiring multiple funding sources such as federal funds, private equity, loans, endowments, grants, and donations. Every $1 of HIF funding invested has resulted in an additional $4.93 leveraged.

Funding currently varies each biennium, dependent on legislative appropriation.



HIF Investments: Projects & Development Costs 2011-2020
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$-
8
13
28
1
19
6
4
4
4
1
$3,549,443
$8,628,250
$35,460,211
$3,490,000
$26,374,026
$8,122,600
$2,500,000
$1,608,047
$5,682,026
$1,289,527
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Project Costs & Number of Projects
HIF $ Awarded

2021-03 LEGISLATIVE FUNDING PROPOSED FOR HIF

During this session, Governor Burgum proposed $8 million for HIF. There are three additional funding bills.

Estimated Future HIF Projects				
Proposed Funding	Amount	Funding Source	Use Period	HIF Projects Per Biennium**
Governor's Executive Budget	$8 million	Legacy Fund Earnings	2021-23	4-6 projects
SB 2040	$250 million	Bonds	TBD	100+ projects
SB 2127	$50 million	General Fund	2021-23	25 projects
HB 1380	$1 million*	Legacy Fund Earnings	On-going	1-2 projects

*Calculation based on 7% of $500 million Legacy Fund balance and the allocated 3% of that total for HIF.
** HIF projects per biennium calculated on past funding amounts and project awards.

PROJECT PIPELINE

Like any form of infrastructure, a community must decide if it can repair what it has or if it should build new. Urban and rural communities work with NDHFA and affordable housing partners to assess their housing needs and what type of project is feasible.

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.

Expiring Tax Credit Housing

Properties financed by affordable housing programs have periods of affordability that expire after a specific time period, typically 30 years or more. Between 2020 and 2025, there are 46 properties in the Low Income Housing Tax Credit (LIHTC) program that will no longer be obligated to maintain affordability requirements for 1,317 rental homes.

Multifamily Rehab Needs

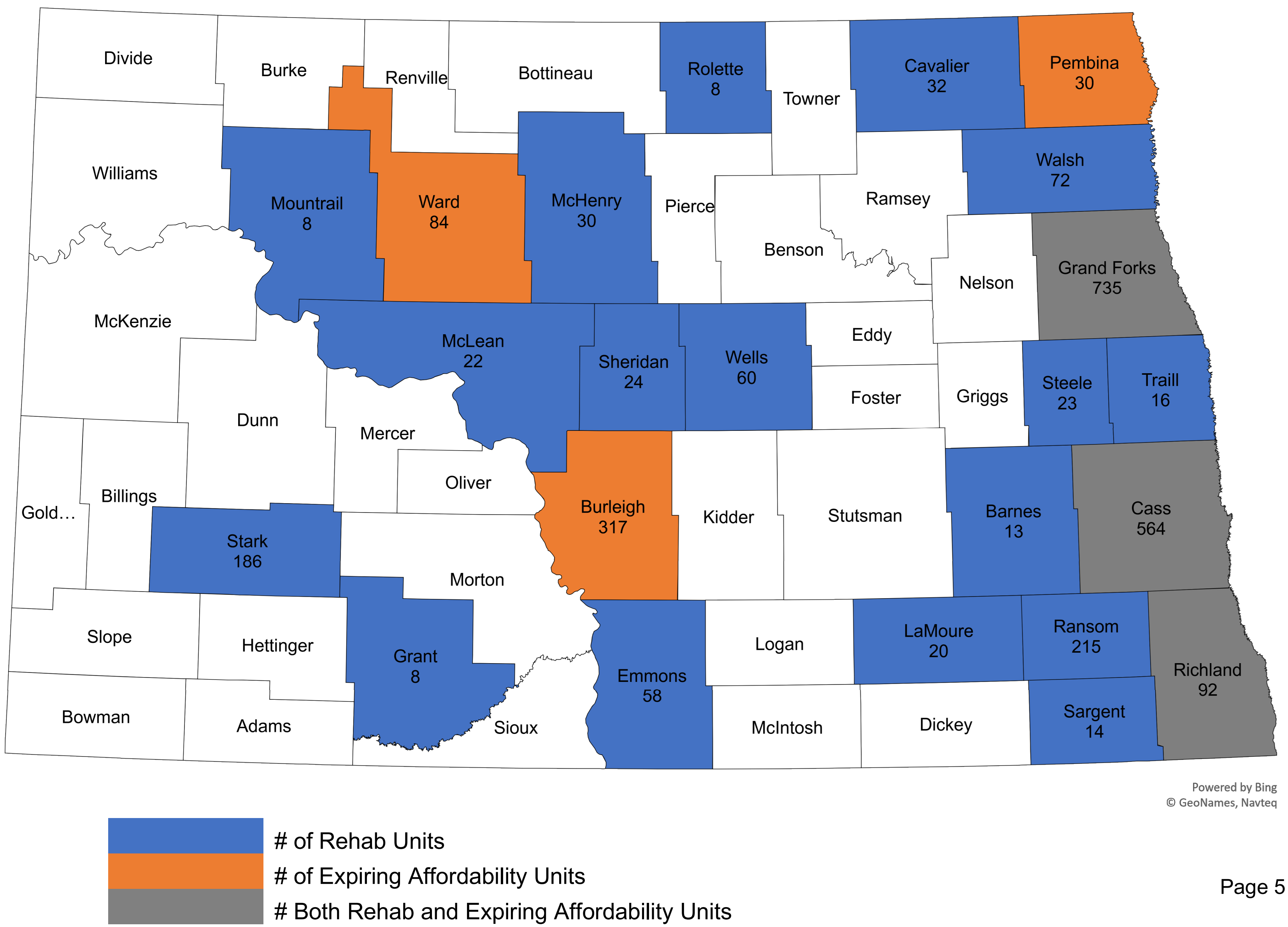
Rehabilitating existing affordable multifamily housing can be a cost-effective means to update windows, heating and cooling systems, increase physical accessibility and improve the functionality and aesthetics of the building.

In addition to the LIHTC properties that will age out of the affordability requirements, USDA Rural Development identified another 24 communities with USDA Rural Development properties needing rehabilitation totaling more than $5 million to modernize 841 units.

The Grand Forks Housing Authority alone has a list of 17 properties with rehab needs at a cost of almost $15 million.

As of today, 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 Rehabiliation



HOUSING IS MORE THEN INFRASTRUCTURE, IT IS A HOME

No matter what shape a dwelling takes – single-family house, apartment, condo, manufactured housing, etc. – to the individuals who live there, it is home. HIF helps to ensure that low- to moderate-income individuals and families have access to safe and affordable homes in both our urban and rural communities.

To assess which North Dakotans have the greatest barriers to accessing affordable housing, NDHFA works with stakeholders, reviews public comments, and analyzes data trends. These decisions are critical as state, private and federal funding is extremely limited, never enough to meet our state's housing needs. The program prioritizes the development of housing by targeting for specific populations including Seniors, Individuals who are Homeless/Chronically Homeless, and the Lower-Wage Workforce.

Seniors
Ages 75-85
$35,900 *annual median income*
76.1% *homeownership rate*
15.3% *two or more disabilities*
$898 *affordable monthly rent*
Ages 85+
$19,700 *annual median income*
62.8% *homeownership rate*
50.1% *two or more disabilities*
$492 *affordable monthly rent*
Social Security Income
$16,133 *annual median income*
$403 *affordable monthly rent*
29,057 *rely on social security for 90% or more of their income*

Homeless/Chronically Homeless
$30,000—$50,000 *annual cost per chronically homeless person*
75.5 *average chronically homeless population*
1,102 *average homeless population*
26,964 *living in extreme poverty*
2,658 *homeless youth in the public school system*
4,482 *individuals experiencing homelessness needed support in 2019*
3.6% *have been homeless for more than 3 years*
2,648 *women and children domestic violence survivors needed emergency, transitional and short and long-term housing*

Lower-Wage Workforce
Who is experiencing a housing cost burden? **42,000** *renters*
28.7% *Native Americans*
33.4% *people of color*
Below the Poverty Level Socioeconomics
6.5% *of working adults (16-64)*
29.2% *non-working adults (16-64)*
32.6% *single women with children*
17.7% *have one or more disabilities*

Failure access affordable housing affects every community. Not everyone priced out of cities by high housing costs moves elsewhere; because moving to a new city can cost thousands of dollars, people priced out of cities become homeless instead of moving. Especially if they are employed and want to continue working.

The average hourly wage needed to afford a fair market rate, two-bedroom apartment costing $841 per month in North Dakota is $16.18. Rents vary greatly by community. While the majority of North Dakotans are working, there is a segment of the population that will struggle to pay for their housing costs.

Below is a table of the top five employment industries in North Dakota, the average wage earned by industry and affordable housing assumptions.

Industries with the Highest Number of Employees in North Dakota[1]						
Rank	Industry Sector	Avg. Hourly Wage	Avg. Weekly Wage	Avg. Annual Wage	30% of Income	Affordable Monthly Housing Costs
1	Health Care and Social Assistance	$24.95	$998	$51,896	$15,569	$1,297
2	Retail Trade	$15.48	$619	$32,188	$9,656	$805
3	Education Services	$21.63	$865	$44,980	$13,494	$1,125
4	Accommodation and Food Services	$8.90	$356	$18,512	$5,554	$463
5	Manufacturing	$26.93	$1,077	$56,004	$16,801	$1,400

The standard calculation for “affordable” is to spend 30 percent or less of household income on housing expenses. Multifamily housing projects leveraging HIF and federal funding sources have a sliding scale for monthly rents based on household income. Financial eligibility for those living in affordable units is verified annually.

Not having access to affordable housing imposes costs on infrastructure of the community in which people live. Depending on the person, they may just need cheaper rent to get back on their feet. Others need support services to overcome repeating situations involving behavioral health, justice involvement, addiction and chronic homelessness. HIF is the flexible financing resource needed to reduce a project’s debt, which lowers the cost of rents.

[1] Labor Market Information Center, Job Service North Dakota, QCEW Unit, September 2020

Vacancy rates for HIF-funded units fluctuates depending on the local community housing market. As of December 2020, state vacancy for affordable HIF units was 11 percent. Depending on the location of the housing and the targeted tenants can skew the vacancy rate. For example, the vacancy rate of affordable senior housing is around two to three percent. These units are leased as soon as they become available. Multifamily housing in the outlining communities in western North Dakota have higher vacancy rates.

HOW AFFORDABLE FINANCING WORKS

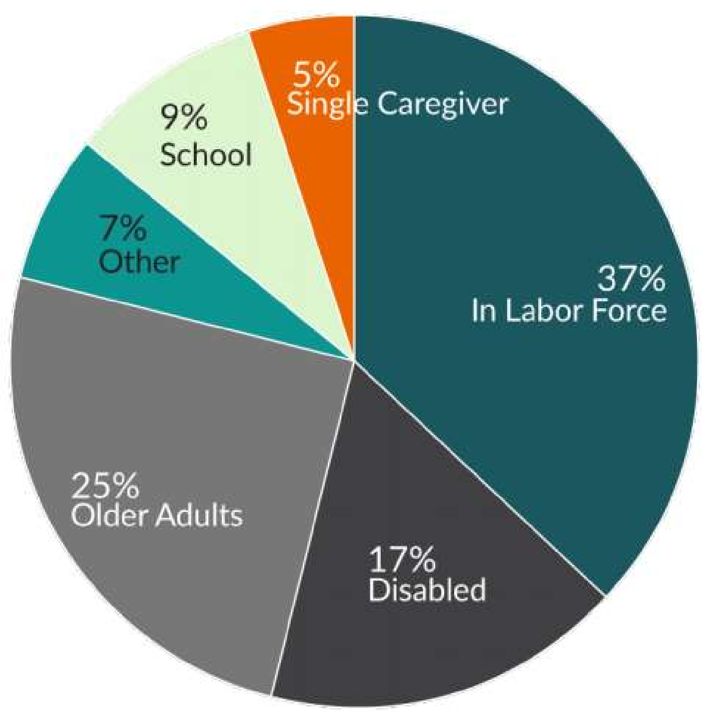
HIF can fund up to 30 percent of total development costs up to $3 million, unless the project is using federal tax credits, then HIF funding will be less. On average, HIF covers 20 percent of the gap financing needed to move a project forward.

The development of market-rate multifamily housing will not address the housing needs of people with disabilities, older adults with limited incomes, lower-income wage earners, and persons and families on the brink of homelessness and those experiencing chronic homelessness.

In 2018, 30 percent of all North Dakota housing units were renter-occupied. These 113,486 units housed 37 percent of the state's population. That same year, 39 percent of North Dakota's renters were spending more than 30 percent of their income on housing expenses. [2]

For 3 percent of the renters across the state, fair market rate rents will never be affordable. Currently, there are 26,485 renter households that are considered extremely low income (ELI), and 37 percent are in the labor force. Physical abilities and age are factors impacting an ELI renter's ability to earn a higher income or work full-time.[3]

Extremely Low Income Renter Households [9]



[2] American Community Survey One Year Estimates, Table CP04

[3] National Low Income Housing Coalition, 2020

Preserving affordable multifamily housing can be a cost-efficient solution. However, finding funding to rehab the units and keep debt expenses low is a requirement to keep rents affordable. Below is a cost scenario comparison for a $2 million project to rehabilitate a 20-unit building. The projects needed $1.4 million in non-traditional funding to move the project forward.

20 Unit Apartment Building Rehabilitation Costs $2,000,000			
TRADITIONAL FINANCING		**AFFORDABLE DEVELOPMENT**	
		To maintain current rents of $610-647, the project will require more than 70% of the rehab funds to be soft debt or equity.	
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		

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

HIF awards are available to local housing authorities, tribal entities, and nonprofit or for-profit housing developers. The maximum award size varies depending on whether a project also receives federal funding. The award amount typically equals less than 30 percent of the total development cost, and no more than $3 million. Awards are competitive and projects must meet strict scoring criteria.

Without HIF, affordable housing developers and nonprofit agencies will not be able create safe, affordable multifamily housing. Projects that house homeless individuals must have even lower mortgage debt to keep their doors open and the people safely housed. Providing support services is the main priority of housing projects for homeless people. Helping these individuals and families regain their independence lessens the cost burden placed on their community.

EVERYONE DESERVES A SAFE AND AFFORDABLE HOME

NDHFA's mission is to ensure that every North Dakotan has a safe and affordable place to call home. Our most vulnerable households are the ones that need our help the most. Federal funds are insufficient to address the needs of these vulnerable households. We respectfully ask this committee and this legislative body to recognize that an investment in housing is an investment in the infrastructure of our state.