

To: House Appropriations Committee – Government Operations Division

From: Don Sterhan, President
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Date: March 20, 2025

Ref: Testimony in Support of SB 2014; funding for the Housing Incentive Fund (HIF)

My name is Don Sterhan and I am the President of CR Builders, LLC. Our company is based in Billings, Montana, and for the past 22 years, we have dedicated ourselves to the finance and development of affordable housing projects, primarily in the states of North Dakota, Montana and Wyoming.

In North Dakota alone, acting as both a tax credit syndicator and affordable housing developer, I'm proud to say that we've successfully completed 16 projects, investing nearly \$110 million and delivering 583 affordable housing units to urban and rural communities throughout North Dakota.

If we drill down a little further into those numbers, we have utilized the HIF program in six of our affordable housing projects, a total of \$6.8 million in funding that has produced 279 homes for essential service workers and for seniors.

So with that background, I would like to first start by complimenting the North Dakota legislature and the North Dakota Housing Finance Agency (NDHFA) for the work they have done to make the Housing Incentive Fund (HIF) a reality. I believe it is paramount that the legislature of North Dakota continues to support the HIF program.

Because of the HIF program, projects that would not have been possible in the State are now a reality. The Fund has already made great strides to create housing options for vital members of our communities such as teachers, nurses and medical staff, as well as city, county and state employees. I'm grateful for the unique financing tool the HIF program has created and, again, I commend the work that is being done with this program to advance affordable housing.

Why is this program important?

- The Housing Incentive Fund (HIF) is a proven public-private partnership that works! This is a unique and innovative program – it's an idea that works and it's an idea that has proven itself to be successful. I see the HIF program as a critical strategy to provide much-needed gap financing, a layer of funding that is critical to get projects across the finish line.
- To offer more context, consider how things have changed over the past 3-4 years in our construction environment. Today our landscape is completely different. Development costs have nearly doubled, interest rates are way up, we have serious supply chain issues, and the lack of skilled manpower is evident in nearly every community. With these factors at play, the economics are tough and it's hard to get the math to work. Many affordable housing projects just don't pencil any longer.

- Against this backdrop, the type of financing available is critically important. The traditional sources and layers of financing (a combination of debt and equity) are no longer sufficient if 'affordability' is truly the goal and objective.
- In today's cost structure, there is indeed a "gap" in terms of the funding needed versus what is readily available. Additional layers of financing are needed to round-out the capital stack and complete the financing plan. It is this "gap funding" that is being addressed by the HIF program ... and that's why it's so important.
- With such a resource to fill the funding gap, any number of housing projects will now have the wherewithal to advance to completion. The net result is a new inventory of safe, quality housing – at an affordable price.

Economic and Community Benefits

- **Leverage:** The HIF Program allows us to further leverage federal sources and programs. The availability of federal funding is a big step forward in providing financing for affordable housing ... but it is only part of the solution. By augmenting these federal dollars with gap funding from local sources, we actually close the gap and complete the capital stack. Without the ability to do so, housing projects then stay on the shelf and we forego the opportunity to effectively utilize the federal dollars.
- **First-hand Experience with the impact and benefit of HIF:** Our company has applied for funding from the HIF program on several occasions as we've worked to produce affordable housing in North Dakota. As outlined in the attached exhibit, out of the sixteen projects we've helped to finance and develop in North Dakota overall, we've utilized HIF dollars in six of these projects over the past 10 years, totaling \$6.8 million and accounting for 279 new rental units for workforce housing and seniors aged 55+.
- This HIF contribution of \$6.8 million is only a portion of the overall capital stack of six projects, amounting to only 11.2% of the Total Development Costs. That's pretty effective leverage ... producing 279 homes that would otherwise be missing from our local communities.

Exhibit A

North Dakota - Affordable Housing		Placed in Service Date	City	Construction Type	Project Type	Units	Total Development Cost (TDC)	HIF Amount	% of TDC
1	Serenity Apartments Limited Partnership	Sep 2005	West Fargo	New	Senior	18	\$1,577,950		
2	Heritage Village Limited Partnership	May 2004	Milnor	New	Family	6	\$503,312		
3	Homestead Commons Limited Partnership	Sep 2004	Gwinner	New	Family	6	\$626,739		
4	Garden Hills, L.P.	Jun 2007	Jamestown	New	Senior	37	\$3,686,649		
5	MDI Limited Partnership #92 (Park Century Apartments)	May 2008	Bismarck	Rehab	Family	60	\$3,870,208		
6	MDI Limited Partnership #100 (Library Square II)	May 2008	Mandan	New	Senior	45	\$5,457,399		
7	Northwood Village Limited Partnership	Oct 2008	Northwood	New	Family	16	\$2,181,459		
8	Independence Pointe, LP	Nov 2014	Bismarck	New	Disabled	24	\$3,998,480	\$425,000	10.63%
9	ParkRidge Townhomes	Sep 2015	Williston	New	Family	36	\$7,226,526	\$2,048,224	28.34%
10	Sierra Court, LLC	Oct 2016	Bismarck	New	Senior	40	\$7,464,871	\$600,000	8.04%
11	Northern Place, LLLP	Dec 2016	Dickinson	New	Family	36	\$7,956,602		
12	Dacotah Ridge LLLP	Oct 2019	Dickinson	Rehab	Disabled	24	\$4,168,069	\$315,000	7.56%
13	Century Cottages, LLLP	Sep 2020	Bismarck	New	Senior	35	\$8,712,960	\$408,047	4.68%
14	Jackson Flats Community, LLLP	Feb 2023	Grand Forks	New	Senior	40	\$10,766,970		
15	Prairie Ridge 4% LLLP	Jul 2024	Fargo	New	Senior	120	\$28,782,679	\$3,000,000	10.42%
16	Century View Apartments	Sep 2024	Bismarck	New	Family	40	\$12,424,600		
						583	\$109,405,473	\$6,796,271	

Exhibit B

CR Builders, LLC -- Affordable Housing Projects that include funding from the HIF program

North Dakota - Affordable Housing	Placed in Service Date	City	Construction Type	Project Type	Units	Total Development Cost (TDC)	HIF Amount	% of TDC
1 Independence Pointe	Nov 2014	Bismarck	New Const	Disabled	24	\$3,998,480	\$425,000	10.63%
2 ParkRidge Townhomes	Sep 2015	Williston	New Const	Family	36	\$7,226,526	\$2,048,224	28.34%
3 Sierra Court	Oct 2016	Bismarck	New Const	Senior	40	\$7,464,871	\$600,000	8.04%
4 Dacotah Ridge	Oct 2019	Dickinson	Rehab	Family	24	\$4,168,069	\$315,000	7.56%
5 Century Cottages	Sep 2020	Bismarck	New Const	Senior	35	\$8,712,960	\$408,047	4.68%
6 Prairie Ridge Apartments	Jul 2024	Fargo	New Const	Senior	<u>120</u>	<u>\$28,782,679</u>	<u>\$3,000,000</u>	<u>10.42%</u>
					279	\$60,353,585	\$6,796,271	11.26%

Recap and Fact Summary

The 2024 North Dakota Statewide Housing Needs Assessment

The following points highlight the key findings and projections regarding housing needs and trends in North Dakota:

Population Characteristics

- **Growth Trends:** North Dakota's population grew by 16% from 2010 to 2020, driven by the oil and gas industry. Growth has slowed to 0.6% annually since 2015.
- **Aging Population:** The number of residents aged 65 and older is projected to increase by 22% by 2027.
- **Diversity:** The racial and ethnic diversity of the state has nearly doubled since 2010.

Housing Characteristics

- **Homeownership:** Homeownership rates have declined across all income levels, with the greatest declines among lower and moderate-income households.
- **Rental Costs:** Median gross rent increased by 50% from 2012 to 2022, significantly outpacing inflation.
- **Housing Sales:** Average home sale prices increased in all major cities, with the highest increase in West Fargo (89%).

Housing Affordability

- **Cost Burden:** 39% of renters and 15% of homeowners are cost-burdened, spending more than 30% of their income on housing.
- **Income Disparities:** Lower-income households face significant challenges in finding affordable housing, with only 34% of owner-occupied homes affordable for families earning up to \$58,081.

Future Housing Needs

- **Projected Growth:** The state needs an additional 20,382 housing units by 2027 to meet future demand.
- **Elderly Housing:** The most significant increase in housing needs will be for the elderly population, projected to grow by 22%.

Affordable Housing Programs

- **Subsidized Units:** There are 11,216 subsidized multifamily housing units in the state, with 35% receiving rental assistance.
- **Program Challenges:** Many affordable housing units are aging and may need repair and rehabilitation.