



Testimony from Lisa Rotvold

IN SUPPORT OF SB 2014

SB 2014 – A BILL for an Act to provide an appropriation for defraying the expenses of the industrial commission and the agencies under its control; to provide for a transfer; to provide for an exemption, and to provide for a report.

REGARDING: North Dakota Housing Finance Agency Budget – Housing Incentive Fund

House Appropriations – Government Operations Committee

March 20, 2025

Chairman and Committee Members, My name is Lisa Rotvold. I live in Hillsboro and serve on the Advisory Board for the North Dakota Housing Finance Agency. I have 30 years of housing and community development experience in communities, large and small. I currently serve as the Executive Director of the non-profit Red River Community Housing Development Organization (CHDO), based in Grafton. I work in the counties of Grand Forks, Nelson, Pembina and Walsh, in the northeast corner of the state, known as Region 4.

In my testimony, I will focus on how the Housing Incentive Fund is supporting the development of single family for sale homes in rural communities, a new use authorized by the 68th Legislative Assembly in 2023.

Why do we need to build new homes in small towns?

I get asked this question a lot. Good news, small town North Dakota is alive and well, and poised for growth. Every community I visit, mentions the need for additional housing as a top priority. There are any number of dynamics affecting the availability of housing in rural communities including:

- Aging housing stock - leaving some homes uninhabitable.

- Baby Boomers retiring and staying in their communities – Fantastic! They are retiring from good jobs, and those jobs need to be filled, so we need to make room for newcomers
- “Boomerangers” coming back to small towns - permanently or seasonally, after retirement, or working remotely
- A growing number of households own more than one home
- Household size is getting smaller so we need more homes to house the same number of people
- An influx of H2A visa workers in the region – Visa workers deliver the farm labor that helps drive the agricultural economy, and they all need a place to live. The number of visa workers has been growing. In 2024 farmers brought in nearly 1,000 H2A visa workers into Region 4.
- Regional employers are expanding – we need more workers to fill those jobs and in order to attract them we need more homes

In 2024 we commissioned a region wide housing study focused on the rural communities in Region 4. We wanted a forward-looking study that captured the opportunity that communities in the region have, and to quantify the housing needed to capitalize on it. Based on current and projected job postings, the study projected a need for 4,800 additional housing units by 2030. As part of the study, we also conducted a survey of more than 500 business owners and individuals. The survey found that:

- 77% of business owners believe a lack of housing in their community is affecting their business.
- 70% of business owners believe that their success depends on the development of additional suitable housing in their community.
- 52% of business owners surveyed, plan to hire additional staff in the next 12 months.
- 50% of individuals know people who would like to move to the region, but are unable to, due to a lack of suitable housing.
- 43% of individual respondents would sell their home if suitable housing was available in their community. Demonstrating a need for “move-up” and move-over” housing – people want to stay.

Why aren’t new single-family homes being built in rural communities?

The current state of rural housing markets is a result of long-term stagnation of new home construction. **A look at average (mean) annual building permits during the 20-year period from 2003 to 2023 shows:**

Nelson County	2.3	City of Grand Forks	139
Pembina County	1.5	Grand Forks County	24
Walsh County	4.5		

Nelson, Pembina, and Walsh Counties clearly have not had enough activity to support a healthy housing market. Now many of the resilient communities in the region have stabilized and have new

opportunities in front of them. But their housing markets are broken, and we need to find ways to jump-start them.

When a new home is built, and there are few or no other new homes to use as comparable sales, we end up with appraisal gaps. The cycle goes like this:

- Appraised value of a home is based on comparable sales.
- Banks size mortgage loans based on a percentage of appraised value.
- Buyers are unable to get adequate financing to purchase a newly constructed home when the appraisal comes in below the cost to build - unless they have savings to cover it.
- Builders don't build new homes if buyers can't buy them.
- So, there are no comparable new home sales

In response to these challenges Red River CHDO created what we call the **Spark Build Initiative**. Spark Build is our strategy to help manage risk, attract builders, and lift home values to reduce and hopefully eliminate appraisal gaps.

How is the Housing Incentive Fund helping?

With our Spark Building initiative, Red River CHDO is the risk taker. We are taking on the developer role in communities where the private sector isn't. In 2024, we used HIF funds to build two speculative homes in Lakota and two in Larimore. The HIF program provided a "forgivable" construction loan, which we used to leverage additional construction financing from local banks. Both Lakota homes are complete and sold, both Larimore homes will be complete the end of April and are under contract.

The Housing Incentive Fund helped us manage risk. The forgivable nature of the HIF loan means it can cover appraisal gaps, and pay us a developer fee – which is our primary source of operating funding.

We attracted a builder by bundling four homes under one contract, and reduced his risk by limiting his role to just building the homes. HIF funds helped local lenders manage risk by reducing the loan-to-value ratio, and spending HIF dollars before any bank funds. Municipalities donate lots and give buyers a two-year tax exemption and promote the availability of the homes to help us find a buyer.

All four homes have sold to locals looking for single-level living. The ripple effect has been the resale of their existing homes at more affordable prices, creating opportunities for others seeking to purchase a home in the community.

Spark Building is working, and HIF is why. Based on current demand, we have potential to develop 24 additional homes in 2025 in communities like Park River, Grafton, Minto, Hoople, Michigan, McVile, and Pembina. Both Lakota and Larimore would also like us to build additional homes. The rest of the state has similar needs. HIF can make a positive widespread impact in rural North Dakota if adequate funding is made available.

Until recently, the housing needs of our rural communities have not been on the radar. The pressing need for housing can't be ignored anymore, it is impacting business growth and the regional economy. I have been working in this sector for a very long time. I know how much public money gets invested into housing in our population centers. Their needs are real, but they are not the only needs, and they are not more important than the housing needs in rural communities. One home houses one family, regardless of where it is located.

When considering funding levels for HIF this biennium please consider this. If each of the 8 planning regions around the state saw 5 homes built per year, with the support of HIF (a very modest goal), we would use nearly \$10 million – some of which will revolve back to NDHFA to be reinvested in more housing. If each region also pursued one small but much-needed rental development in a rural community (also a modest goal), that would use roughly \$16 million of HIF funding. **So, given these very modest goals, it is quite realistic that the rural communities of our state could put \$26,000,000 of HIF funding to work in this next biennium.**

A look back at where HIF funds were invested from 2011 to 2021. Just 6 % of funds were invested in communities under 5,000 people outside the oil patch, making up just 5% of the rental units produced. I don't mention this to diminish the needs in the population centers, but to elevate the housing needs of rural people to be on level playing ground with them. Rural areas have lacked the capacity to take on housing development and we need to work on that as well. The regional planning councils are leading the way on this.

So, thank you, and kudos to all of you who created and have continued to support the Housing Incentive Fund. It is a uniquely North Dakota solution to helping meet diverse housing needs. NDHFA is a great steward of the Housing Incentive Fund. Their programs, systems, and staff are responsive to evolving housing needs across the state.

As you consider funding levels for the next biennium, I want you to know that rural North Dakota is ready to put HIF dollars to work, improving housing availability and quality, and making room for newcomers.

My Board of Directors and I strongly support the Housing Incentive Fund, and support an appropriation of at least \$50,000,000 in this next biennium, as part of SB 2014.

Contact Information:

Lisa Rotvold, Executive Director; Red River CHDO; lisa@redriverrc.com

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Attachments:

1. Red River CHDO – About Us flyer
2. Red River CHDO's Spark Build Initiative flyer
3. Case Study for the Lakota "Spark Build" homes - showcases the important role that HIF played in getting these new homes built.





Red River Community Housing
Development Organization (CHDO)



Lakota, ND, population 686

The Red River Community Housing Development Organization (CHDO) is a Grafton based non-profit with a mission to grow opportunities for low-income and moderate-income people, and underserved rural communities, by developing decent and attainable housing and supporting community development, to help them thrive. This case study outlines the organization's efforts to increase single family housing production in rural communities in north east North Dakota. Lakota was our first community.

Primary Objectives

- Create opportunities for growth in rural communities
- Jumpstart new construction of single-family homes in rural communities,
- Lift values to reduce and/or eliminate appraisal gap in small towns
- Collaborated with builder on home design and budget to reach project goals
- Outreach to communities - in inquiries from 9 communities, 6 proposals, and 29 lots
- Selected communities, lots, and funding partners
- Secured conditional commitment of HIF forgivable construction loan
- Secured construction loan from local lender(s)
- Signed contract with builder
- Transferred ownership of lots to RR CHDO (updated abstract, title search, cleared lien, purchase liability and builders risk insurance, applied for building permit)
- Broke ground in May
- Sales contracts on both homes signed by end of June.
- Both homes complete and sold by end of year.
- Two additional homes currently under construction in Larimore.

"Spark Build" Initiative

After identifying barriers RRCHDO identified strategies to overcome them resulting in the Spark Build Initiative

- Red River CHDO acts as developer to be the risk taker in places where others aren't willing or able to do so.
- Acquires lots, finds builder, contracts with builder, secures all construction financing, pays builder monthly for work completed, collects lien waivers, markets homes, sells homes, repays construction financing

Process

- Sent RFP to 12 contractors in region, no responses received
- Shifted strategy to recruit a builder



Challenges

- Finding a builder – busy, not interested, skeptical, not general contractors
- Attracting bank financing for construction – risk averse
- Accessing HIF dollars – not able to use for single family for sale housing until after law change in 2023 legislature
- Timing – getting on a builder's schedule – typically book jobs out a year (or more) in advance, require signed contract and down payment
- Single family construction payment structure – pay ahead vs. after work complete
- Appraised value vs. cost to build
- Opened up two well-kept single-family homes in Lakota for sale at + or - \$200,000. One new first time home buyer
- Opened up one rental apartment – already re-leased

Partners

- Red River Community Housing Development Organization (CHDO)
- City of Lakota
- State Bank of Lakota & First United Bank
- North Dakota Housing Finance Agency
- Gemmill Custom Cabinets and Homes

Outcomes

- Expanded housing stock and created movement in local housing market.
- Two new single-family homes started, finished, and sold in 2024
- Lakota retained two “empty nester” households in need of single level living

Lessons Learned

- Developer, risk taker, is missing link
- Construction financing - another missing link
- Challenges encountered at every level in rural area – builders, financing, lots, marketing, home values/appraisals, risk management.
- Stick to a single house plan for multiple homes - saved time, saved money, fewer decision points
- Bundling multiple homes under one contract - good for builder, good for CHDO, saved time and money
- Build a relatively basic home – appraisal gap not as bad as expected – “extras” and upgrades may increase value gap
- Every partner needs to manage their risk - developers, builders, lenders, and cities
- Housing Incentive Fund (HIF) was the key to risk management and pulling this all together



2024 Fall
Both homes
complete &
sold

THE SPARK BUILDING INITIATIVE

SPARKING NEW HOUSING CONSTRUCTION IN REGION 4

The non-profit Red River Community Housing Development Organization (CHDO) is rolling out its Spark Building Initiative in 2024. Spark Building is focused on sparking new construction of single family for sale homes in small towns that have struggled with inactivity. Red River CHDO is taking the speculative nature of new home construction out of the way for contractors to encourage them to take a risk on small town new construction.



BARRIERS TO NEW CONSTRUCTION

- **Risk.** Builders can view speculative new home construction in small towns to be risky.
- **Profits.** Builders can earn larger profits on a custom homes than on workforce or entry level homes many communities need.
- **Appraisal Gaps.** New construction in slow markets can often appraise for less than the cost to build. This gap can make it difficult for home buyers to secure adequate financing to purchase new construction home.

SPARK BUILDING SOLUTIONS

- **Reducing Risk.** Red River CHDO will reduce the risk to builders by being the developer, managing development details, construction financing, and home sales so builders don't have to.
- **Improving Profit.** By bundling construction of two or more homes under one contract, Red River CHDO can offer builders an opportunity to earn profits on par with a larger custom home.
- **Managing Appraisal Gaps.** As a non-profit organization Red River CHDO is applying for funding to buy down appraisal gaps. Further, by continuing to build a small number of homes each year, we create comparable sales for the next new home, with a goal of ultimately eliminating the appraisal gap problem.





WHY **SPARK** BUILDING?

Communities in Region 4 are poised for growth with a healthy economy, and growing job opportunities. A low unemployment rate means we need to attract newcomers to the region.

Quantity, quality, and affordability all affect rural housing markets. By making new construction both available and affordable, communities can make room for newcomers, helping employers attract the workers they need.

Due to a long term lack of new construction, appraisal gaps are hindering builders, buyers, and communities.

As a non-profit developer, Red River CHDO can take a risk on small towns in the region to jump start new construction activity.

SPARK BUILD 2024

Red River CHDO is proud to be partnering with the Cities of Lakota and Larimore for this inaugural year of the **Spark Building Initiative** (a.k.a. "Spark Build 2024"). Both communities are poised for growth with business expansion driving housing demand. Red River CHDO will build two homes in each community. Each City has donated the lots for the homes, and will offer buyers a two year real estate tax exemption.

Homes will be sold at appraised value. Resources such as down payment assistance, reduced interest rates, or loan guarantees may be available to qualified buyers from USDA Rural Development, North Dakota Housing Finance Agency, Federal Home Loan Bank, FHA and VA . Each home will feature three bedrooms and two bathrooms, with an attached two stall garage.



Red River Community Housing Development Organization (CHDO) is a 501(c) 3 non-profit organization who's purpose includes housing and community development for low and moderate income people, and underserved communities in Grand Forks, Nelson, Pembina, and Walsh Counties.



Mission

Red River CHDO's mission is to grow opportunities for low income people and the communities they call home by developing quality affordable housing and supporting community development.

Who we are

- Red River Community Housing Development Organization (CHDO)
- 501(c)3 non-profit organization
- Service Area (Region 4): Grand Forks, Nelson, Pembina, and Walsh counties
- Organized in 1996 by Red River Regional Council
- Volunteer board of directors representing low income, public, and private sector
- Primarily self funded operations

What we do

- Develop single family and multi-family housing
- Partner with communities, service providers, and other developers and builders
- Package multiple financing sources
- Access gap funding
- Study housing needs in the region
- Participate in project that address unique community needs, including childcare and entrepreneurship
- Share the stories of rural communities with policy makers

Experience

- Staff with 30 years of housing development experience
- 1,200+ homes in ND, SD, and MN
- Initiated Spark Build 2024 program to increase new home construction in rural communities
- Regional Housing Study and Action Plan - published in August 2024

Operations

- Located in Grafton, serving Grand Forks, Nelson, Pembina, and Walsh counties
- Sister organization to Red River Regional Council
- Seeks ways to aggregate needs and solutions to bring more funding and development to the region
- Developer fees are the primary source of operational funding



Red River CHDO 2024 Activity

Regional Housing Study and Action Plan

A four county regional housing study and action plan coordinated by Red River CHDO and Red River Regional Council was completed in August of 2024. The plan identified a need for 4,800 additional housing units in the region (outside of the city of Grand Forks) by 2030. It also outlines five strategies that communities can use to support an increase in production of new housing. The study was funded by Nelson, Pembina, and Walsh County JDAs, Grand Forks Housing Authority, Regional Development Corp. and Growth Fund, North Dakota Housing Finance Agency and Minnesota Housing Partnership. The study can be found on the Regional Council's website. <https://redriverrc.com/housing-chdo/>

Spark Building Initiative

In 2024 Red River CHDO implemented its Spark Building Initiative pilot. The initiative sought to reduce barriers to new construction in rural communities. Serving as the developer, Red River CHDO broke ground and sold two homes in Lakota, and broke ground on two more in Larimore. Those homes will be complete in May 2025. Additional Spark Build homes are being planned for the 2025 construction season.

Walsh County Childcare Center

In early 2024 Red River CHDO partnered with the Walsh County JDA to raise funds for the new childcare center on Hill Avenue in Grafton. Three local banks donated a total of \$92,000 with participation of the Member Impact Fund through the Federal Home Loan Bank of Des Moines. We continue to facilitate additional fund raising efforts to complete the project. The project opened its doors in February 2025. Later in 2025 Red River CHDO will take ownership of the building and assume the lease to the childcare provider.

532 Hill Business Incubator

Red River CHDO also partnered with Red River Regional Council to finance and develop the 532 Hill small business incubator project in Grafton. The project includes a full commercial kitchen where start-up and emerging food entrepreneurs can produce product. Additionally these and other small business start-ups will be able to tap into the Red River Regional Council's experienced staff and resources to build their businesses. In 2024 Red River CHDO received a grant of \$250,000 from the US Bank Foundation to support program development for the incubator. These funds have made it possible to hire a project coordinator to move this complex project forward.

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Paul Houdek

Grafton

Dawn Mandt

Ex-Officio
Grafton

Executive Director

Lisa Rotvold

lisa@redriverrc.com

