

2009 HOUSE FINANCE AND TAXATION

HB 1177

# 2009 HOUSE STANDING COMMITTEE MINUTES

Bill No. HB1177

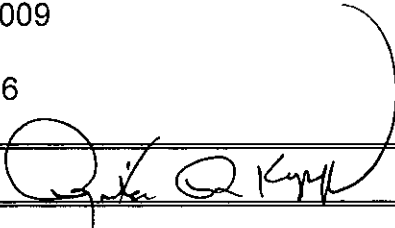
Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 13, 2009

Recorder Job Number: 6906

Committee Clerk Signature



Minutes:

**Chairman Belter:** I call the hearing to order on HB1177.

**Mike Anderson, North Dakota Housing:** I am here to represent the agency as well as the Industrial Commission. They have authorized the agency to introduce this bill. (**See Written**

**Testimony 1)**

**Representative Wrangham:** I have some concerns on page 1 with the definition on the last sentence "citizens who live in rural areas, but are not in an active territorial zoning plan". Would you be willing to take a look at amendments that would redefine areas around cities? For instance, the city may have the same housing means though they may not have chosen to exercise it through the territorial authority.

**Mike Anderson:** My concern would be to ensure that that would be a housing unit that would not have been built if it wasn't for the credit. We weren't going to make it easier for things that would happen anyway. If there is some way we can tie that into the community to assess whether or not that unit would be built anyway, I would be receptive to that.

**Representative Kelsh:** Is any taxpayer in North Dakota eligible for this credit? If a group of doctors wanted to get together and invest in a rural housing project knowing they would get this credit, they would be eligible for the program?

**Mike Anderson:** Yes, that's right.

**Representative Drovdal:** You mention cities of 10,000. Can you list the top three cities of 10,000 that would apply.

**Mike Anderson:** Off the top of my head, I would say Valley City, Devils Lake, Wahpeton.

**Chairman Belter:** Any other questions? Further testimony in support of 1177?

**Claus Lembke, Government Affairs Director, North Dakota Association of Realtors:** We support this bill.

**Doreen Redman, Executive Officer for North Dakota Association of Builders:** Our association also supports this legislation whole-heartedly. Mike Anderson was at our November Board meeting, and we unanimously voted to approve and support this. We do believe it would be an attracting tool for areas that are in need of housing.

**Jeb Oehlke, Greater North Dakota Chamber of Commerce: Read Testimony #2 by Bill Shalhoob, Economic Development Association of North Dakota.** We urge a "Do Pass" on this bill.

**Chairman Belter:** Further testimony in support of 1177? Mr. Anderson, could you come back to the podium. The bottom line of what we are dealing with here is banks are not willing to invest in properties in these areas because once they are built, they do not have the resale value based on the construction costs. Now we are asking the taxpayer to make up the difference?

**Mike Anderson:** There is no question that this private local investment will help mitigate the gap we perceive out there. The idea here is we are not going to attract development in our communities if the local community is not willing to do that. Today, even though we have seen a couple of instances where this has happened without this incentive, most communities are not willing to make that investment without sharing the risk. Essentially, we see the credit as

not only mitigating that risk for private investment, but it also spreads out that risk among everyone. We all have a basic interest in making sure our communities thrive and grow. We see it as more of a sharing of that risk.

**Chairman Belter:** Would you foresee construction of individual units or apartment houses and that type of development?

**Mike Anderson:** It depends on the community. If you look at the western part of the state where the energy and oil boom is causing a lot of demand, development will probably be more in the multi-family style small projects, but that isn't always the case. Those same communities are trying to attract and replace teachers, law enforcement, main street employees. In some instances, single family housing is also needed. What we have done with our rural outreach is to encourage a local housing needs assessment or market demand analysis. Most times there is a multiple need—not just a multi-family need or a single-family need. We would see that as the driving force behind the decision of what type of housing would go into a community.

**Chairman Belter:** What is the biggest problem? Is it a lack of down payment to cover the risk or is it lack of ability to pay?

**Mike Anderson:** On an individual basis, if an individual living in a particular community wants to move from rental into home ownership, they are going to move towards doing that. Sometimes it is a financing issue because of a potential gap for that. On the other hand, what we see that this would really target is getting the community behind the development of housing in a broader based situation. Say for economic development, whether it is oil or coal generated or not, a community needs to develop five or six units immediately. You are looking at somewhat of a speculative situation and looking at the city actually endorsing or advocating

the project where they need to raise local equity to make the project work and to attract a developer. That would be the key focus of what we are trying to accomplish.

**Chairman Belter:** Is this amount in the Governor's budget?

**Mike Anderson:** No, it is our understanding that this doesn't require an appropriation, just a fiscal note. I talked to Cory Fong last night and there has not been a request for a fiscal note at this point. I am not sure where that stands.

**Representative Froseth:** How does this work with Renaissance Zones? Can they take the credits and tax incentives off two programs? Is it an either or situation?

**Mike Anderson:** This bill does not specifically prohibit using both, but what we would look at is if they applied for Renaissance credits, we would only approve credit on this side to make the project feasible. In some instances, the gap may be so large that you need both. There is no specific prohibition against doing that, but we would be looking at controlling it and making sure there is no oversubsidization of a project.

**Representative Froseth:** The difference I would see is that Renaissance Zone credits take away the property taxes for a period of five years or so. Would this plan actually reduce the tax structure back to the municipality?

**Mike Anderson:** That is correct. Essentially when making an investment, who would be eligible for this would be looking at tax credit against their state income tax equal to 50% of their investment so this is an income tax credit. That is the return they will be looking at.

**Representative Grande:** You mentioned Williston because they have taken on the initiative and are seeing some growth and people are starting to build houses. You inferred they were disqualified from this. To me this type of thing would have been meant for that whole oil region from Crosby to Bowman. Yet we are going to cherry pick this?

**Mike Anderson:** I guess I would characterize it from a public policy standpoint. When we visited with the Industrial Commission on this, the concern was whether we would be subsidizing housing that would be created anyway. If that is the case, what's the point? What we are talking about is difficult to develop areas, areas where the credits will be used to spur development which would not otherwise be done. It is not so much cherry picking or leaving Williston out; it is more making sure that the state investment in housing is where it is needed and can't get done, not just another to make it easier to get done.

**Chairman Grande:** You talk about areas that would not be developed anyway. Then why are we forcing the issue?

**Mike Anderson:** There would be a demonstratable need for housing. The community just hasn't been able to get it done because of the nature of the area. We are trying to bring some private investment into those areas so that necessary housing can be developed that cannot be developed without public support.

**Representative Grande:** I know you have a limit on the size of towns and areas you are trying to develop here, but one issue we face in Fargo is that there is a lack of affordable housing. Yet we are going to take a tax break for an area that doesn't necessarily want to be developed and Fargo is trying to develop. I just think it is an odd thing that we are trying to bring in development to these areas. Your example of living in an apartment and wanting to get into a house is a big issue in Fargo.

**Mike Anderson:** I would like to clarify something. When we are talking about communities, it is not a matter of not wanting housing. They want housing but cannot get housing because market forces, without some intervention or assistance, cannot get it done. It is not a matter of want, it is a matter of need. This bill is intended to help rural areas of the state. There are other programs being offered right now and other initiatives being offered t his session that

deal with affordable housing, which is not necessarily going to be limited or restricted to urban vs. rural. It is wherever affordable housing is necessary. This is not an all-inclusive bill to handle all of the housing needs in North Dakota. This is for the rural areas only. There are other existing programs to deal with particularly the urban area.

**Representative Wrangham:** We were talking earlier about moving the mantle of home ownership. Just to be clear, this bill does not require owner occupied, is that correct?

**Chairman Belter:** Would you support an amendment to limit this to owner occupied units or single family? This could be used for single family or multi-family type dwellings.

**Representative Wrangham:** Multi-family could be condominium types. I was not suggesting that we limit it to single family.

**Mike Anderson:** I think we may be selling this program a little short if we limit it to single family. For example, elderly housing that cannot get developed without some assistance. They may not be looking for affordable, they may be looking for rental. I am concerned if we totally eliminate multi-family here because I believe in a lot of rural communities in the western part of the state that the housing need is on the rental side, as much as on the single family ownership side. The housing need right now, because of the workforce we are trying to attract, is on the rental side as much as single family.

**Representative Froseth:** There is nothing in here that says the developer must pass the credit on to the person who is either going to buy or rent that house.

**Mike Anderson:** The person who would get the credit would be the person who was investing in the project—not necessarily the person who buys a single family home. The credit would go to the individual who makes the investment to make sure the house gets built. It would be the developer or local business person who wanted to invest that product. With respect to one

developer, there is nothing in the bill that restricts a builder to a project. That would be part of an allocation plan we would develop annually.

**Representative Froseth:** The reason I asked that is because in Stanley a developer came in and is building a 12 unit apartment complex. The rumor is that the rent on that is \$1,200-1,500 per month. That excludes your low come or needy people who are looking for housing. If that is what takes place with this program, all we are doing is giving the developer a big break and not really providing the low income housing that is needed.

**Mike Anderson:** Again what we are talking about is rural areas. It is not just an affordable housing issue—it's a housing issue across the board in terms of workforce, low income housing. It is not intended to target low income households. I will give you an example, if Stanley was going to do a 12 plex today, they would first have to demonstrate they could not build without this incentive. If they couldn't do that, the project would not be eligible for these credits. Having said that, whatever economic development, whether energy driven or not, is being stymied because we cannot house people who need to live in a area. It psychologically shouldn't be just an affordable housing issue. It is that we should not stymie economic development because we can't find homes for people.

**Representative Drovdal:** Can you tell me how this credit would actually work.

**Mike Anderson:** Again 50% of the investment would be the maximum credit. They can't go below zero. They can take that credit over a period up to five years.

**Representative Drovdal:** If they build a \$100,000 home, they can take up to a 50% credit and only have to pay taxes on \$50,000.

**Mike Anderson:** There is a formula there. If it is a \$100,000 home, the most investment that would be eligible for a credit would be 20% of that. \$20,000 would be the investment and they would get a 50% credit on that. The actual credit up to five years would be the \$10,000.



**Representative Headland:** In the case where you have multiple investors, it would be 20% and then 50% for each investor? Is there a maximum credit on that \$100,000 house if there are multiple investors or not?

**Mike Anderson:** We approve the maximum credit for the project regardless of how many individuals invested in that project. In the case we talked about, the \$10,000 credit, if there were five investors that equally invested in that \$20,000, they would equally split the credit.

**Representative Weiler:** If a builder from Minot goes to Mohall and it costs \$100,000 to build a house, is he getting a \$10,000 credit? How do you envision this working? If somebody wants to buy a house, is the builder going to sell it for \$100,000 or is he going to sell it for what he normally sells it for (\$130,000) and make \$30,000? Where is the benefit to the person that is going to buy the home? Do you envision the home would be less expensive because the builder is getting a \$10,000 tax credit from the state or is the builder going to get \$130,000 and get an extra \$10,000 from the state?

**Mike Anderson:** The cost caps were intended to limit the cost of the house. We are not trying to restrict the sales value of these homes. The builder is investing \$100,000; if he is going to take that credit himself (by the way, he can sell that credit) so whoever ends up with the investment will actually get the credit. The intent is not to reduce the value of homes that are being built; but what we want to target is what it is going to cost to build a home, the cash it will take to do that and to take some of the risk away from the investor by allowing him to take the credit.

**Representative Weiler:** So the builder is going to build this house that costs \$100,000, sell it to somebody for \$100,000 vs. if you built this house in Minot for \$100,000 and sold it for \$120,000. Now he is going to sell this house for \$100,000 and where he is going to make his money is the \$10,000 tax credit? Meanwhile the person who is going to buy this house in

Mohall and pay \$100,000 may find that six months later it is only worth \$75,000. Do you understand what I am getting at?

**Mike Anderson:** The problem we have in these areas is that when you build a house for \$100,000, six months later it is worth \$75,000. It doesn't matter how much the builder makes on it or how many of those houses you build, it is still only worth \$75,000. The problem in these rural areas is that people do not want to build a house there because it is like buying a car. Once you drive it off the lot, it has depreciated. I don't know how to answer that. The cap was not intended to get rid of the gap itself. It is to spur construction. Today that gap is still there.

**Representative Pinkerton:** Briefly, Representative Weiler, when you spend \$100,000 and it is only worth \$75,000, it is only going to be taxed at \$75,000. I don't see how you address the property tax issues here.

**Mike Anderson:** I didn't necessarily intend to address any property tax issues.

**Representative Drovdal:** The goal in this is to get housing where we cannot get investors to build housing. I want this out in the rural areas (inaudible).

**Chairman Belter:** Any other questions? Any other testimony in support of 1177?

**Connie Sprynczynatyk, League of Cities:** The only question we had on this bill was why it was limited to cities of 10,000 and under. Representative Drovdal won't be surprised to hear it was someone from Williston who chimed in on that. I just wanted to testify that there is a real need out there. Every spring the League does a couple thousand mile circuit around the state, which covers an awful lot of cities because the host cities invite the surrounding community. They talk about problems and progress. Last April there was not a single time we did not hear about the housing needs, not just in western North Dakota, not just in northwest North Dakota, but everywhere from Fargo to Bowman to Pembina and everywhere in between. I commend

the agency for trying to get housing resources in the underdeveloped areas. I know personally the problems we have in the cities because I live in the second largest city; but I also know because of my day job, that these problems exist in communities as small as Columbus and Noonan. If the committee can fix it and still give us those resources in difficult to develop areas, it would be a great help. Thank you.

**Representative Froseth:** If you don't limit it to communities of 10,000 people or less, you might just as well go spend the money in Fargo, Grand Forks or Minot. The rural communities won't see the benefit of it. My concern is that this will affect the affordable cost of the house a person is buying.

**Connie Sprynczynatyk:** I absolutely agree with you. There was not a specific request for an amendment regarding the population issue. Of course, if I were a developer and owned a construction company, I would much rather go to a larger community where I can get better bang for my buck and where the property values keep slowly marching up. You are absolutely right in the smaller communities, it is virtually impossible to get developers interested. That is not to say anything bad about developers because they are in business to make a profit. I understand that, but somehow we have to find a tool that helps in these areas that are just so difficult to develop. I try not to miss an opportunity to thank the legislature for the hard work you have done starting in 1999 on the Renaissance legislation. It is one of the best pieces of community development legislation that applies to cities of all sizes across the state. If somehow we can use that concept of encouraging private development in an area that needs an infusion of development, that is a good thing. I know the devil is in the details, but I do know the need is out there.

**Chairman Belter:** Connie, you are an astute politician. Isn't this an extension of Fannie Mae

and Freddie Mac?

**Connie Sprynczynatyk:** I can understand why you would suggest that although I can tell you that I served on the ND Office of the Fannie Mae Advisory Board for a number of years and I am also an outside Director for Starion Financial which now has banks in Bismarck, Ellendale, Oakes, and Fargo. I can tell you from sitting on that Advisory Board and serving on a bank board for twelve years, I would sometimes listen to what Fannie Mae could do and think—how do they do that? Is that legal?

I don't sense that the Housing Finance Agency is trying to be all that creative, but it is really looking for a good tool. Perhaps it needs amendments. The legislature has been pretty good about how to make things work but step into things carefully. If the bill isn't perfect, let's improve it.

**Representative Froseth:** Last session we passed legislation to allow cities to sell revenue Bonds. Do you know how many small cities sold bonds?

**Connie Sprynczynatyk:** You might be talking about the Essential Function Bond from a couple of sessions ago. There were a number of communities that took advantage of that housing development tool—Garrison, Valley City; there were a number of them who used that tool. The idea there is that if you can—let's say your target is a 6 plex in town and you want to help elderly people that are ready to get out of their single family home and live in an enclosed neighborhood environment because they can't handle the single family home; the idea is that you are going to be able to move Grama and Grampa into the 6 plex, have somebody buy their house and fix it up. Literally the issue is the availability of housing especially in rural communities although Representative Grande is absolutely right about the availability of affordable housing being a huge issue.

**Chairman Belter:** Any questions? Any other testimony on 1177? If not, any opposition to

1177? If not, we will close the hearing on 1177.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1177

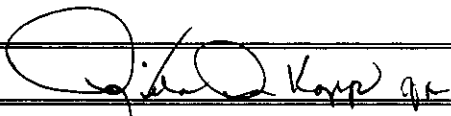
House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: **January 19, 2009**

Recorder Job Number: 7242

Committee Clerk Signature



Minutes:

**Chairman Belter opened discussion of HB 1177.** I guess I'm not supportive of this bill from the standpoint we're putting money into programs to build houses that banks don't want to finance because they don't have the value after they get done.

**Representative Drovdal:** I would like to say coming from an area that has had a housing problem for a long time and listening to my economic development people asking everyone in every session, "what can we do?" for not only the homeowners, but also the investors. Is there anything that can be used to get outside people as well as our local people to invest in their local community? Recognizing, as an investor myself, there is nothing that is going to make me invest in Arnegard, Bowman or Hettinger over Fargo, Bismarck or Minot. I've been asking our economic development people what will work. When I got this I asked them if this will work. They said it would be something in the tool chest that they could take out to go along with other items.

**Representative Schmidt:** In our town we Sumner Manufacturing—they have about 40 employees. They say the employees are driving in from all over as we have no decent houses in Maddock. That factory is doing great. The employees are the owners. Last year was the best year they had. I think homes in Maddock as well as some other little towns are

selling pretty well. The place where Bobcat is has people driving in from all over. Especially when fuel is \$4 a gallon, we need some homes. This would give a developer or an owner incentive to build a home. I think it's a good deal.

**Representative Headland:** I think there are all types of factors relative to not wanting to build in these areas. I just can't believe anybody is going to go build in an area that is undeveloped and needs their housing for a tax credit. I think the reason they would do this is for a profit. If the only thing they will receive is a tax credit, I don't see it happening. I'm going to oppose this bill.

**Representative Brandenburg:** There is no guarantee that they are going to pass the cost of the subsidy to the person who buys the house.

**Representative Wrangham:** There were many problems with resale of existing houses. You will drive up property taxes.

**Discussion closed.**

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1177

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 01/21/09

Recorder Job Number: 7488

Committee Clerk Signature

*Lou Engelson*

Minutes:

**Chairman Belter opened the hearing on HB 1177.**

**Chairman Belter:** That's the housing finance bill. I'll entertain a motion on that.

**Rep. Weiler:** I move a **do not pass**.

**Rep. Brandenburg:** Second.

**Chairman Belter:** I have a motion for a do not pass. Any discussion? If no discussion, the clerk will read the roll.

The roll was read by the clerk.

**7 yes, 3 no, 3 absent. Rep. Weiler was assigned to carry the bill.**



**FISCAL NOTE**  
**Requested by Legislative Council**  
01/02/2009

Bill/Resolution No.: HB 1177

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1177 creates a housing tax credit program for difficult to develop areas in the state.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The bill authorizes the industrial commission to establish a housing tax credit program. The tax credit will be available to financial institutions, corporations and individuals to be claimed on their income tax returns starting with tax year 2009.

The actual reduction in general fund revenues that will occur if HB 1177 is enacted is unknown. However, Section 1 limits the total amount of investment vouchers that will result in tax credits to \$2 million per calendar year. The total amount of revenue loss would, therefore, be \$4 million or less for the 2009-2011 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/12/2009

Date: January 21, 2009

Roll Call Vote #: 1

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1177**

House FINANCE AND TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken  Do Pass  Do Not Pass  Amended

Motion Made By Weiler Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	/		Representative Froelich		/
Vice Chairman David Drovdal		/	Representative Kelsh		/
Representative Brandenburg	/		Representative Pinkerton	/	
Representative Froseth	/		Representative Schmidt		
Representative Grande			Representative Winrich		
Representative Headland	/				
Representative Weiler	/				
Representative Wrangham	/				

Total (Yes) 7 No 3

Absent 3 Schmidt / Winrich / Grande

Floor Assignment Weiler

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
January 26, 2009 5:33 p.m.

**Module No: HR-15-0975**  
**Carrier: Weiler**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1177: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (7 YEAS, 3 NAYS, 3 ABSENT AND NOT VOTING). HB 1177 was placed on the Eleventh order on the calendar.**

2009 TESTIMONY

HB 1177



**North Dakota**  
**Housing Finance Agency**

PO Box 1535 · Bismarck, ND 58502-1535

*Testimony #1*

INDUSTRIAL COMMISSION  
JOHN HOEVEN, GOVERNOR  
WAYNE STENEHJEM, ATTORNEY GENERAL  
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

HB 1177

January 13, 2009

**North Dakota Housing Finance Agency**  
**Division of the State Industrial Commission**  
**Testimony of Michael Anderson, Executive Director**  
**House Finance and Taxation Committee**

Chairmen Belter and members of the Finance and Taxation Committee, my name is Mike Anderson, Executive Director of the North Dakota Housing Finance Agency (North Dakota Housing). We have been authorized by the Industrial Commission to introduce HB 1177 and to appear here in support of it.

HB 1177 is proposing the creation of a state housing tax credit program for difficult-to-develop areas of the state. The purpose is to incentivize private investment in housing development in rural communities that are in need of additional housing for its existing residents, as well as growing population.

In 2006 North Dakota Housing made one of its top priorities to assist rural communities with their housing issues. Since then we have created several loan and grant programs to assist with this effort. Some have been successful. Others have had limited impact. But, we continue to look for effective and efficient ways of making housing development in our rural areas work. We believe a state housing tax credit will add an essential tool to our tool chest for accomplishing this.

As we have been working with a number of rural communities we continue to be frustrated with a local reluctance to participate in housing development. It has been well chronicled that this reluctance can be attributed to uncertainty due to an inactive local housing market leading to perceived risk of project failure. This reluctance can also be attributed to the gap between cost to develop and value once completed. Actually, both are intertwined.

In many of these communities there has been little or no housing development for years, if not decades. Thus, there is little or no local experience in housing development. This coupled with the aforementioned value gap makes the risks deemed too high to entice commitment to and investment in the housing everyone acknowledges is needed.

A lack of housing activity also means there are few, if any, local developers and builders. Communities have to rely on attracting developers and builders from outside their community. However, without the local commitment, without mitigating the risk associated with rural housing development, they will not come.



A tax credit attached to private investment in housing could raise the necessary capital to close the gap and mitigate, or at least share, the risk of project development. This should open the door for attracting developers and/or builders to these areas.

The bill proposes a tax credit of \$.50 for every dollar invested in the new construction of single family homes or multifamily rental units; or in the substantial rehabilitation or reengineering of other existing structures that will result in additional habitable units. If the housing units will be targeted to families earning less than 80% of area median income, the tax credit would be equal to \$.75 for each dollar of investment. So, although the program will work well for work force or market rate housing, there is an added incentive to develop affordable housing.

The amount of investment eligible for the credits could not exceed 20% of the cost of construction (50% of the cost of rehabilitation/reengineering) with total cost caps in place to prevent any form of over subsidization. The bill proposed a cost cap for a single family unit of \$225,000 or the Firsthome acquisition cost limit. The proposal cost cap per multi-family unit is \$125,000 or the limit prescribed in our annual low-income housing tax credit program annual qualifying allocation plan. Substantial rehabilitation has a minimum rehab requirement of \$40,000 per unit.

Eligible investments or contributions could be in the form of cash, buildings, land, or development or construction cost services. Eligible investors include individuals, corporations, limited liability companies, financial institutions, or any other entity that would be subject to paying North Dakota income tax. We see likely investors or contributors would be local successful business persons, banks, employers wanting to attract employees, etc.

Eligible areas would be communities with populations under 10,000 and safeguards would be in place to insure that credits would only be used for development that would not occur without the credits. A community would be required to provide a third party validation of its housing need or shortage before the tax credits would be approved. An example of this would be a housing market study that North Dakota Housing already advocates through its STAT and Housing Market Survey Grants programs.

The bill proposes authorizing \$2,000,000 of tax credits annually or \$4,000,000 during the biennium. If fully utilized the program could spur as much as \$20 million annually in new single family and/or multi-family housing development. If all the credits went to substantial rehab projects it would generate \$8,000,000 of rehab or redevelopment projects annually. If fully utilized for affordable housing projects the annual numbers would be \$13.3 million and \$5.3 million, respectively.

In terms of number of additional housing units that could be realized from the credits, assuming a \$150,000 single family home cost, an additional 130 homes could be built. In the case of multi-family and \$100,000 per unit cost, an additional 200 units could be created. Substantial rehab project meeting the minimum cost of \$40,000 would generate an additional 200 units. If utilized for affordable housing projects only, the number of units would be 25 to 30 percent fewer units.

All eligible investments must be approved by North Dakota Housing by issuing an investment voucher. We will adopt the guidelines for approval, issuance, and administration of investment vouchers. We anticipate the credits will be approved on a first-come basis. However, if over time demand exceeds available credits, we may have to resort to establishing a competitive application and scoring process. If that were to occur, like we currently do under the Low

Income Tax Credit (LIHTC) program, we would seek public comment and work with our Advisory Board and the Industrial Commission to develop an annual allocation plan.

The state housing tax credit program is similar to the highly successful LIHTC program, a program that has brought approximately \$175m in private investment into affordable housing in North Dakota since the program's inception in 1987. While highly successful, the Federal LIHTC program cannot be used to address many of the state's housing needs due to specific federal requirements. It is restricted to low and very low income households and, thus, works best for larger multi-family projects in urban areas.

Currently 19 other states are successfully operating state housing tax credit programs. Virtually all of these programs are targeted to affordable housing. However, I suggest North Dakota's housing needs, especially our rural areas, are unique by comparison. But, the concept is the same. Private investment will spur housing development. They just need that little incentive to make that investment.

If we are going to solve the housing shortages and needs of our rural areas, if we're going to meet the housing demands associated with a growing economy, if we're going to be successful in our workforce recruitment efforts, it's time for the State to make this small investment in the future of it rural areas.



**Testimony of Bill Shalhoob  
Economic Development Association of North Dakota  
HB 1177  
January 13, 2009**

Mr. Chairman and members of the committee, my name is Bill Shalhoob. I am representing the Economic Development Association of North Dakota (EDND).

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations. We are asking that you support HB 1177 and thus, North Dakota's economic growth.

Last session several bills were heard that attempted to address this problem. In many rural areas the cost of construction for new housing is valued less than the construction cost. This creates an additional financing gap that must be filled by additional down payment requirements that are often not within the ability of buyers. Unfortunately the bills failed, mostly because of budget constraints. Our rural communities are not going to grow without additional housing that meets the needs of today's buyers. We hope this bill will provide a start to addressing the housing shortage in rural North Dakota and be a catalyst for further programs to meet this need.

EDND believes HB 1177 will aid development in North Dakota and start to address a persistent development need in our state. We urge a do pass. I would be happy to answer any questions.



# Support HB 1177

Give our rural communities a chance to grow.

Rural North Dakota has the opportunity for growth for the first time in many years. Demand for housing is real. A lack of affordable housing stifles the ability of communities to maintain and develop viable and stable economies. Solving the financing gap (difference between construction cost and appraised value) problem and providing affordable housing are the two most pressing needs.

## Creating Affordable Housing

- This incentive has the potential to provide affordable housing options to families moving back to rural communities, seniors moving on to low-maintenance units, and low to moderate-income families in rural and urban areas.
- Homebuyers will be able to purchase houses because the down payment will become affordable.

## Providing Incentives for Investment

- Loans will become bankable as internal and external lending guidelines will be met. This allows lenders and investors to put money into rural North Dakota.
- New development spurred by demand will serve to reduce the financing gap over time. Although a housing tax credit will not directly eliminate value gap, it would offset it without increasing the level of profit of the developer.

## Single Family Home Example

\$150,000	construction cost and the normal selling price
\$130,000	appraisal value
\$20,000	value gap (necessary private investment needed)
\$117,000	loan (assuming 10% down payment based on appraisal)
\$13,000	down payment (10% of the appraisal value)
\$33,000	down payment without additional private investment (without HB 1177)
\$20,000	maximum private investment eligible for tax credit (with HB 1177)
\$13,000	down payment after additional private investment (with HB 1177)

## Multi-family Affordable Housing Example

\$2,000,000	construction cost
\$1,400,000	appraisal value
\$1,000,000	MIDA Bond (75% of the appraisal value)
\$216,908	second mortgage
\$200,000	HOME
\$225,000	NDHFA
\$50,000	local land contribution
\$85,714	deferred developer fees
\$358,092	gap in financing

The project developers are aware of various private investors who would be able to fund the project, but have no incentive to invest in such a high-risk project. With the proposed tax incentive in HB 1177, these private investors would be much more likely to invest in the project. Without this additional financing, rent in this project would likely be \$700-\$900 per month and well outside the affordability range of the target teachers, government workers, clerks, medical staff and retail workers earning between \$10 and \$15 per hour. With additional private investments spurred by tax credits, rent would be a much more affordable \$500-\$650 per month.

**Economic Development Association of North Dakota**