NORTH DAKOTA housing FINANCE AGENCY

Michael A. Anderson Executive Director

INDUSTRIAL COMMISSION
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North Dakota Housing Finance Agency
Agency of the North Dakota Industrial Commission
Testimony of Michael Anderson, Executive Director
Budget Section of ND Legislative Council
December 8, 2010

Chairman Holmberg and members of the ND Legislative Council Budget Section Interim Committee, my name is Mike Anderson and I am Executive Director of the North Dakota Housing Finance Agency. I come before you today to provide a report on the Rural Housing Investment Incentive Pilot Program.

The Agency was directed in its 2009-2011 biennium budget, SB2014 section 17, to establish a pilot project using funds available at the Agency to provide an incentive for private sector investment in single-family and multifamily housing development in difficult to develop areas of the state. I am here today to report on the results and current status of the pilot project.

First, the purpose of the pilot was to demonstrate that by providing incentives for private sector investments in housing you can, in fact, spur housing development in difficult to develop areas of the state. The Agency committed $400,000 of its own reserves to carry out the pilot.

A pilot program Request for Proposals (RFP) was developed and approved by the Agency's Advisory Board and the Industrial Commission in October of last year. The RFP was published in December of 2009 with a deadline of written proposals set for February 12, 2010. Some of the key program provisions of the RFP included:

- **Difficult to Develop Areas**: defined as communities with a population of 5,000 or less and who can demonstrate an unmet housing need or housing shortage.
- **Eligible Investors/Contributors**: includes individuals, corporations, financial institutions, municipal governmental entities.
- **Eligible Investments**: includes cash, donated land and infrastructure, buildings, property tax and other municipal incentives that would reduce the gap on the project.
- **Eligible projects**: new construction of single family or multifamily projects or substantial rehabilitation of existing uninhabitable structures that create additional housing units.
- **Matching Funds**: the Agency would provide a dollar for dollar match to help cover the projected gap between the cost of the project and its appraised value. The maximum combined eligible investment and matching funds could not exceed 20 percent of total project costs (50 percent of costs for substantial rehab projects).

2624 Vermont Avenue • PO Box 1535 • Bismarck, North Dakota 58502-1535 www.ndhfa.org
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Agency matching funds would be limited to a maximum of $100,000 per project and no more than one award per community would be allowed. The Agency committed to using its best efforts to allocate 50 percent of the funds to single family projects and 50 percent to multifamily projects.

The matching funds would be subject to recapture. In the case of a single family project, if the sale price resulted in a lower than anticipated gap, the excess gap assistance will be repaid at the time of sale. Any remaining gap would be assumed by the home buyer and subject to repayment using a shared equity relationship with the Agency during the first five years of ownership that would be proportionately forgiven each year.

In the case of multifamily, a recapture could occur upon completion of the project if the final appraisal or cost certification resulted in a lower than the anticipated gap. Any remaining match will be structured as a deferred loan and become payable out of positive cash flows after appropriate reserves are fully funded.

All recapture provisions would be enforced through subordinate liens. The recapture provisions did not seem to deter applicants from applying for the funds.

The Agency received fourteen project proposals requesting $1,063,634 of matching funds. Total projected project costs were $22.3 million with a projected gap of $4.177 million.

Ten proposals were for multifamily projects and four were single family projects. All single family proposals were new construction. Six of the multifamily proposals were new construction, three were rehab projects, and one was a combination of new construction and rehab.

Seven projects, one single family and six multifamily, were approved. Total project costs were $6.7 million and the estimated gap on approved projects was $3.2 million. Eligible matching equity and other local contributions totaled more than $2.1 million. Attached to this report is a spreadsheet showing details of applications received and those funded.

- The value gap was clearly demonstrated in the proposals where, in some cases the gap was more than 50 percent of the project costs. All funded projects have at least a 20 percent gap.

- The average rents of the multifamily projects were decreased from $27 to $168 per month per unit as a result of the equity from the pilot and local matching funds.

- Project proposals were geographically dispersed around the state signaling gap issues and housing needs all across North Dakota.

- We received an assortment of applicant types including for-profit and non-profit entities, economic development corporations, local housing authorities, Native Americans, and local governments.

- Project proposals had a variety of focus including both single family and multifamily, market rate and income targeted housing, assisted living, senior friendly, and workforce housing.
- Funded projects created 65 new housing units through both new construction and major rehabilitation of existing structures.
- Local investment came from a variety of sources and in a number of forms including developer cash contributions and donated labor; tax abatements, donated land and infrastructure through local government; cash contributions from employers, economic development corporations, local housing authorities, and philanthropic organizations.
- Projects used a variety of debt financing instruments including bond financing, conventional loans from local banks, loan participations, and the NDHFA Rural Rehab Loan Program.

We believe the level of response to the pilot is indicative of not only the need for housing in rural North Dakota, but potential for housing development in these areas. We allowed only 45 days from publishing the RFP to submission of proposals and gave priority to projects that were shovel ready. So, most all of the project proposals were already on the drawing board and all they needed was that last infusion of capital for the projects to be feasible and for them to move ahead. Thus, the pilot did prove that providing an incentive for local investment can spur housing development in difficult to develop areas.

One of the things about the pilot that we heard consistently from participating developers and community leaders was their appreciation for the flexibility the program offered. Each of the communities that were awarded an allocation had a different housing need and this program was able to assist in meeting those needs. For example, the community of Maddock was in need of rental housing for its growing workforce. Because their focus was workforce housing and federal housing programs typically have income restrictions, traditional federal programs did not work for Maddock. The pilot program, without income restrictions, was able to help in this case. The pilot program is flexible enough to help meet the gap needs that traditional funding sources cannot.

The pilot further demonstrated significant leveraging power. It utilized $400,000 of public funds to generate $6.8 million in housing related economic activity – nearly a 17 to 1 ratio. Therefore, it is my recommendation that the Rural Housing Investment Incentive Program should be replicated and expanded. However, a sustainable expansion of the program would require additional funding from outside of the Agency.

Rural Housing Investment Incentive Pilot Program (RHIIP)

Funded Projects

City	Applicant	Project Description	# Units	Total Project Cost	Total Debt to be Financed	Projected Value Gap *(Cost Minus Final Appraisal)*	RHIIP Funding Requested	RHIIP Funding Awarded	Eligible Matching Equity Contribution	Other Equity Contribution	Sources of Debt Financing	Sources of Equity (Matching Equity in Bold)	Impact of RHIIP and Matching Funds
Underwood	Building Innovations, LLC	Single Family New Construction	1	$ 186,000	$ 150,000	$ 36,000	$ 20,000	$ 18,000	$ 18,000	$ -	Conventional local bank loan.	Owner contribution; Land from City & local EDC; City down payment grant.	Encourage speculative development by reducing value gap risk.
Velva	Whitetail Properties, LLC	Multi-Family Rehabilitation	3	153,464	50,098	88,464	70,000	38,366	65,000	-	Personal loan from owners of the development company.	Owner contribution	Reduced debt allows average unit rent reduction of $169, ensuring affordability for area median income households.
Maddock	LSS Housing Maddock, LLC	Multi-Family Rehabilitation	8	371,900	271,900	180,900	50,000	50,000	50,000	-	Conventional local bank loan; NDHFA loan.	Cash contributions from local business & EDC.	Reduced debt allows average unit rent reduction of $88, enabling low-income occupancy.
Parshall	LSS Housing Parshall, LLC	Multi-Family New Construction	20	2,344,000	1,500,000	1,344,000	100,000	100,000	100,000	644,000	Bond; Federal HOME Program; Local Housing Authority.	Local Housing Authority; Land and infrastructure from City; Owner contribution; Federal NSP; Developer concession.	Reduced debt allows average unit rent reduction of $119, enabling low-income occupancy.
Stanley	LSS Housing Stanley, LLC	Multi-Family Rehabilitation	17	2,004,700	909,700	1,100,000	100,000	100,000	510,000	485,000	Bond; Federal HOME Program; Local Housing Authority.	Local Housing Authority; Institutional Philanthropy; Local donors and investors; Federal HOME and CDBG Programs.	Reduced debt allows average unit rent reduction of $58, enabling low-income occupancy.
New Rockford	Eddy County Housing Authority	Multi-Family New Construction	4	525,000	415,000	225,000	100,000	50,000	60,000	-	Bond; Federal HOME Program.	Local Housing Authority; Local Economic Development Corporation.	Reduced debt allows average unit rent drop of $126, enabling low-income occupancy.
Beach	LSS Housing Beach, LLC	Multi-Family New and Rehabilitation	12	1,195,350	954,750	265,350	43,634	43,634	44,600	152,366	NDHFA loan; USDA-guaranteed loan.	Land from City; Owner contribution; Federal HOME and USDA programs.	Reduced debt need helps keep required rents affordable.
		Total - Funded Projects:	**65**	**$ 6,780,414**	**$ 4,251,448**	**$ 3,239,714**	**$ 483,634**	**$ 400,000**	**$ 847,600**	**$ 1,281,366**			

Unfunded Projects

City	Applicant	Project Description	# Units	Total Project Cost	Total Debt to be Financed	Projected Value Gap	RHIIP Funding Requested	RHIIP Funding Awarded	Eligible Matching Equity	Other Equity Contribution	Proposed Sources of Debt	Proposed Sources of Equity
Buffalo	City of Buffalo	Multi-Family New Construction	6	$ 626,510	$ 350,000	$ 116,510	$ 100,000	$ -	$ 100,000	$ 76,510	Conventional local bank loan.	Owner contribution; Local investors; Land & tax abatement from City; Other unspecified assistance.
Underwood	Building Innovations, LLC	Multi-Family New Construction	4	500,000	384,000	20,000	40,000	-	76,000	0	Conventional local bank loan.	Land from Local Housing Authority; Local EDC grant; Unspecified private investor.
Parshall	Fort Berthold Housing Authority	Single Family New Construction	40	7,625,464	0	*Information was not provided in the application.*	100,000	-	400,000	7,125,464	None indicated.	Tribal business council; LIHTC; HUD first-time homebuyer programs; unspecified state and federal programs.
Hazen	Hazen Community Development	Multi-Family New Construction	20	1,951,000	850,000	801,000	100,000	-	800,000	201,000	Bond	Owner contribution; Local community development corporation; City contribution; Other unspecified sources.
Wishek	Wishek Home for the Aged	Multi-Family New Construction	8	1,400,000	600,000	0	100,000	-	700,000	0	Participatory loan from local bank and BND.	Owner contribution; Local tax abatement.
Underwood	Building Innovations, LLC	Single Family New Construction	2	420,000	350,000	0	40,000	-	30,000	0	Conventional local bank loan.	Land from City; Local EDC down payment grant.
Garrison	3-Mile High LLC	Single Family New Construction	20	3,000,000	2,800,000	0	100,000	-	100,000	0	Unspecified	Owner contribution of land.
		Total - Unfunded Projects:	**100**	**$ 15,522,974**	**$ 5,334,000**	**$ 937,510**	**$ 580,000**	**$ -**	**$ 2,206,000**	**$ 7,402,974**		
		Total - All Applications:	**165**	**$ 22,303,388**	**$ 9,585,448**	**$ 4,177,224**	**$ 1,063,634**	**$ 400,000**	**$ 3,053,600**	**$ 8,684,340**		

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REQUEST FOR PROPOSALS
Rural Housing Investment Incentive Pilot Program
North Dakota Housing Finance Agency

Introduction

The North Dakota Housing Finance Agency (the Agency) is dedicated to maximizing housing opportunities for all North Dakotans and proactively addressing the housing needs of low and moderate income households.

During the past legislative session, the Agency was directed to establish a pilot program to provide incentives for private sector investment in housing development in difficult to develop areas of the state. This directive was provided by amendment to SB 2014 (section 14) of the Agency's budget bill and authorizes the use of Agency reserves for the program. The purpose of the pilot program is to demonstrate that private or local investment can spur housing development in difficult to develop areas. The Agency has committed up to $400,000 of its reserves for this pilot program.

This RFP details the criteria and selection process that will be followed by the Agency in the award of funds under the pilot program.

Deadline for Submission

Interested parties must submit a written proposal to be considered for this funding. The deadline for submission is February 15, 2010. Your proposal must be received in our office by the close of business on February 15th.

General Information

Difficult to develop areas are defined as those communities with a population of 5000 or less and who can demonstrate an unmet housing need or housing shortage. **Eligible applicants** are City, County or Tribal Housing Authorities; non-profit or for-profit developers or any entity or individual acting in a developer role. **Eligible investors/contributors** are individuals; corporations; financial institutions; municipal governmental entities; and other businesses. **Eligible investment or contribution (private investment)** includes cash; donated land and infrastructure improvements; buildings; property tax incentives and other municipal incentives that reduce the gap on the project. **Eligible projects** are defined to be the new construction of single family or multifamily housing units or the substantial rehabilitation of existing uninhabitable structures that create additional housing units. A project could include one or more single family homes intended for resale. For general purposes of this pilot program, multifamily is defined as any structure with more than one unit intended as rental. The Agency may consider variations of this definition on a case by case basis.

For proposals involving new construction, the Agency will match on a dollar for dollar basis, the eligible investment or contribution up to a combined total of the lesser of 1) the gap between cost of construction and appraised value; or 2) 20% of the cost of construction. For purposes of determining Agency match, **cost of construction** is defined to include site acquisition and site improvements, hard construction costs, associated normal soft costs including financing costs and acceptable profit margins. Recognizable construction costs for new single family homes will be capped at $190,000 and at $125,000 per unit for multifamily properties.

For proposals involving substantial rehabilitation, the Agency will match private investment up to a combined total of 50% of the hard construction cost of the rehabilitation. Rehabilitation expenditures must meet a minimum level of $40,000 in hard construction costs per unit to be eligible. For purposes of determining the match, recognizable hard construction costs for rehabilitation will be capped at $100,000 per unit for both single and multifamily units.

2624 Vermont Avenue • PO Box 1535 • Bismarck, North Dakota 58502-1535
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info@ndhfa.org

Profit margins for combined builder profit, builder overhead and general requirements cannot exceed 10% of the hard construction costs. A developer fee cannot exceed 15% of the hard construction costs.

Available Funds

The Agency has committed up to $400,000 of reserves for this pilot program. During the ranking of proposals, the Agency will use best efforts to allocate 50% of the funds for activities involving multifamily and 50% for single family developments. Multifamily projects will be limited to a maximum of $100,000 of Agency funds per project. Likewise, a single family project consisting of one or more single family homes will be limited to a maximum of $100,000 of Agency funds. A community will be limited to no more than 25% of the total available funds.

Evaluation Process

Proposals received by the due date will be reviewed and ranked within an approximate 30 day timeframe. Successful proposals will be issued a 60 day conditional commitment of Agency funds. Applicants will be required to reach certain benchmarks during this timeframe such as obtaining commitments for investor equity, construction and permanent loan commitments and other items identified in the Agency's conditional commitment letter. Upon satisfactory review of these items, a financial award will be issued.

Use of Funds

Draws against a financial award can be made on a reimbursement basis commensurate with other eligible private investment equity. A recapture lien must be in place prior to release of any Agency funds.

Recapture of Funds

A lien or mortgage will be placed on the property in the amount of the Agency's investment in the project. In the case of single family, a portion of Agency funds could be subject to recapture upon sale of a single family unit if the sales price results in a lower than anticipated gap. For example, if the cost of construction is estimated at $160,000 and the appraisal is $140,000 the gap would be $20,000. In this example the Agency initial investment would be $10,000. If the home sells for $150,000 the actual gap would be $10,000 of which Agency investment would be limited to $5000 resulting in an immediate recapture of $5000 upon sale. The remaining lien of $5000 would survive the sale of the home and be assumed by the buyer. Agency funds remaining in the single family home at the time of sale will be subject to full recapture by the Agency using a shared equity relationship during the first five years of ownership. Recapture will be phased out during the subsequent five years (forgiveness of 20% each year).

In the case of multifamily, a recapture could occur upon completion if the final appraisal or cost certification results in a lower than anticipated gap. For example, a project with estimated eligible costs of $1,000,000 that appraises at $800,000 would be eligible for Agency funds of $100,000 and other private investment of $100,000. If upon completion, the final cost certification shows lower eligible costs or appraises higher than initially stated, there would be recapture of Agency funds in excess of 10% of the final gap. Remaining Agency funds in a multifamily project will be structured as a deferred loan and becomes payable out of positive cash flow after appropriate reserves are fully funded. Agency funds may be recaptured in whole or in part upon resale of the property. Lien position will be subordinate to other financing sources with the exception of other "matching" private investment. Lien must be in place prior to any draws of Agency funds.

Evaluation Criteria

The proposal can be in narrative form with a budget or pro-forma showing projected sources and uses of funds. Proposals will be evaluated by Agency staff on a range of factors including but not limited to:

- Proposed activity must be located in a community with a population of 5000 or less.
- Applicant must demonstrate to Agency's satisfaction that the community has an unmet housing need or housing shortage. Items including, but not necessarily limited to, community housing demand analysis or letters from

local community leaders, trade organizations or major employers are examples of ways to demonstrate need or shortage.

- Applicant must be able to demonstrate a positive impact in the community from the proposed activity; i.e. how will proposed activity address the unmet housing need or shortage?
- Proposed activity must be either 1) new construction of single family or multi-family housing; or 2) the substantial rehabilitation of structures that create additional housing units. To qualify as a substantial rehabilitation project, applicant must be able to demonstrate by way of a capital needs assessment; engineer's report; or report from city inspector or other objective third party; that the existing structure is not habitable in its current condition. Rehabilitation of existing "habitable" housing is not an eligible activity.
- Applicant must demonstrate both short term and long term feasibility of project in the proposal.
- Proposal must include a scheduled timetable for completion of the activity. Applicants will be ranked on readiness to proceed and preference will be given to proposals with the earliest start and completion dates.
- Proposal must demonstrate applicant's ability to raise capital through private investment. Applicants will be ranked based on readiness to proceed in the generation of private investment.
- No one proposal is eligible for more than $100,000. In the case of multiple single family homes within one project, the cost caps will be applied individually but the project in aggregate will be limited to the $100,000 maximum. Applicant must be able to demonstrate financial feasibility with a maximum of $100,000 of Agency funds (Agency funds based on gap or cost of construction.).
- Eligibility is limited to one award per community. If more than one proposal is received for a community, only the highest ranking proposal will be considered.

Processing Fees

A nonrefundable processing fee of $500 must accompany the proposal. Successful applicants will be charged an origination fee of 1% of Agency investment in the project due upon financial award.

Submitting a Response to the Request for Proposals

Proposals may be submitted electronically or in hard copy to:

Jolene Kline
North Dakota Housing Finance Agency
PO Box 1535
Bismarck ND 58502-1535
jkline@ndhfa.org

To be eligible for consideration, all proposals must be received in our office by the close of business on February 15, 2010.