

Thursday, June 14, 2012

Chairman Koppelman and members of the Administrative Rules Committee,

My name is Mike Anderson, Executive Director of the North Dakota Housing Finance Agency. I have been asked to provide you information regarding the administrative fee established for the Housing Incentive Fund (the HIF Program).

The HIF Program was created by the sixty-second Legislative Assembly to help address the growing need for affordable rental housing. The legislature authorized the issuance of state tax credits as an incentive to entice taxpayer contributions to the HIF Program fund. The aggregate amount of tax credits first authorized was \$4 million but was increased to \$15 million during the special session last fall. I make this point as it comes into play when we were considering setting the administrative fee for the HIF Program which I will explain in a few minutes.

There were two other provisions of the authorizing legislation that were important to us when establishing the administrative fee. First, we could only draw administrative fees from the fund. We could not assess the developer or the resulting projects to cover our administrative costs which is the permitted method under the federal Low Income Housing Tax Credit Program (LIHTC). At the time the HIF Program was authorized, we assumed we would be able to utilize this method. In addition, authorization for the HIF Program expires June 30, 2013, and any uncommitted balance in the HIF Program fund at that time will revert to the state's general fund. That means there will be no funding available for ongoing administrative costs after that date.

Considering these factors, our experience in the cost of administering the LIHTC program, and the following points, it was decided to set the administrative fee at 10 percent of program funds:

- The only source of operating funds available to the Agency is through the administrative fees from the programs we administer.
- We would incur extraordinary start up costs for guideline development and the promotion and marketing of a new program. This includes costs beyond the routine administrative costs associated with an established program.
- We would incur an uncertain amount of costs and expenses for a fundraising campaign targeted to taxpayer contributions. As it is turning out, this has been occupying as much, if not more, staff time than program development and delivery.

- We would have to calculate and collect up front anticipated costs of compliance monitoring over time (15 to 30 year compliance period) since there would be no avenue for reimbursement after the program's expiration. We will base this amount on the compliance monitoring fees we currently charge LIHTC projects (\$50 per project and \$35 per LIHTC assisted unit) and apply a present value formula to this aggregate amount.

The HIF Program Allocation Plan, which established the administrative fee, went through a public hearing process and was adopted by the North Dakota Industrial Commission in August 2011. At the time of adoption, the program was authorized at \$4 million. This means the maximum administrative fee the Agency would be able to collect to cover program development and implementation, fundraising, and compliance monitoring would be \$400,000. Clearly we were concerned our costs over time would not be covered.

When changes to the program were made during the special legislative session and such changes were being incorporated into the Allocation Plan, the thought of revisiting the administrative fee provision did not come up.

However, it has always been our intent that we will only collect actual costs associated with the HIF Program capped at 10 percent. We began tracking staff time and out of pocket costs in August 2011. Attached are two spreadsheets which reflect our costs incurred to date and an estimate for the next two fiscal years, as well as the present value amount of anticipated compliance monitoring fees based on the formula described above. I need to point out that none of these projections include an inflation factor.

It is also our intent to draw administrative costs in conjunction with payments from the fund to projects. The amount of that draw and all future draws will be the lesser of actual costs incurred to date or 10 percent of the payment to the project.

Finally, any portion of the 10 percent set aside for administrative costs in excess of actual costs as described above will be allocated to additional project(s) prior to June 30, 2013.

**Housing Incentive Fund  
FY 2012**

Description	Actual										Estimate (Avg Nov - Apr)		Total
	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12		
Salaries & Benefits	4,660.92	4,622.21	6,489.91	12,473.51	15,600.52	15,714.79	11,468.87	11,871.39	15,343.68	13,745.46	13,745.46	125,736.72	
Rent	162.40	203.68	246.28	549.85	669.84	643.87	456.25	407.61	635.06	635.06	635.06	5,244.96	
Telephone	39.83	55.65	64.50	133.00	220.18	157.92	118.76	109.17	152.35	152.35	152.35	1,356.06	
Data Processing	40.72	73.20	55.15	135.66	184.19	160.09	110.61	100.68	96.59	96.59	96.59	1,150.07	
Travel	-	513.52	-	279.94	911.54	159.46	458.91	158.73	329.97	329.97	329.97	3,472.01	
Postage	-	-	-	-	34.35	88.34	8.18	14.14	24.99	24.99	24.99	219.98	
Marketing	-	500.00	125.00	515.00	515.00	10.00	-	390.00		1,953.75	1,953.75	5,962.50	
Professional Services			38.62		200.80	799.34	355.25		15.44			1,409.45	
Agency Publication & Conf					240.87					-	250.00	490.87	
Supplies / Printing							496.75					496.75	
Other							125.00			-	200.00	325.00	
												-	
Total Billed	4,903.87	5,968.26	7,019.46	14,086.96	18,577.29	17,733.81	13,598.58	13,051.72	16,598.08	16,938.17	17,388.17	145,864.37	
Total Amount Due	4,903.87	5,968.26	7,019.46	14,086.96	18,577.29	17,733.81	13,598.58	13,051.72	16,598.08	16,938.17	17,388.17	145,864.37	

Housing Incentive Fund  
Administrative Expenses  
No Inflation Factor on Monitoring

Description	FY2012	FY2013	FY2014 (July - Dec)	FY2015 Year 1	FY2016 -2035 Year 2-20	Total Admin
Salaries & Benefits	125,740.00	184,800.00	97,020.00			407,560.00
Rent	5,240.00	6,600.00	3,300.00			15,140.00
Telephone	1,360.00	1,800.00	900.00			4,060.00
Data Processing	1,150.00	1,680.00	840.00			3,670.00
Travel	3,470.00	2,340.00	-			5,810.00
Postage	220.00	360.00	180.00			760.00
Marketing	5,960.00	3,480.00				9,440.00
Professional Services	1,410.00	4,500.00	4,500.00			10,410.00
Agency Publication & Conf	490.00	-	-			490.00
Supplies / Printing	500.00	2,000.00	1,000.00			3,500.00
Other	330.00	1,560.00	780.00			2,670.00
<b>Total Development Costs</b>	<b>145,870.00</b>	<b>209,120.00</b>	<b>108,520.00</b>	<b>-</b>	<b>-</b>	<b>463,510.00</b>
<b>Total Monitoring Costs</b>				<b>18,345.00</b>	<b>348,555.00</b>	<b>366,900.00</b>
<b>Total Admin Costs</b>	<b>145,870.00</b>	<b>209,120.00</b>	<b>108,520.00</b>	<b>18,345.00</b>	<b>348,555.00</b>	<b>830,410.00</b>
Total Development Costs						463,510.00
Total Monitoring Costs						366,900.00
Total Admin Costs						830,410.00
HIF Appropriation						15,000,000.00
Admin Cost Percentage						5.54%