

**Testimony in Support of HB 1014 – Housing Incentive Fund –
with an amendment**

House Appropriations Education and Environment Division

Hearing – March 9, 2023

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Good morning, Chairman Sorvaag and members of the Committee. I appreciate the opportunity to appear before you this morning in support of HB 1014 – with an amendment. I am Dawn Mandt - the Executive Director of the Red River Regional Council serving Region 4 – four counties in northeastern North Dakota.



– with our headquarters in Grafton. I am also the current Chairwoman of the ND Rural Development Council. I have spent the past 30 years working in a rural community and economic development in North Dakota.

Our rural area **has the need for upwards of 1,500 new employees over the next five years** ranging from main street businesses, healthcare, teaching, and manufacturing and more. **90% of these businesses are in growth mode.** Key barriers to this growth include **lack of adequate workforce, housing, and childcare** – three themes you’re undoubtedly hearing much about in this session.

These barriers are beginning to have a negative impact.

We are seeing our companies expand elsewhere in North Dakota or out of state.

We are seeing growth plans tempered.

We are seeing companies relocate – such as Motor Coach Industries – which is leaving a 209,000 sq ft facility that they’ve occupied in Pembina since 1963 vacant and 200 employees to relocate to Minnesota.

In January 2022, I asked several partners to participate on a Rural Housing Development

Task Force. **The intent of this task force was to study the impediments holding back housing development in rural North Dakota despite strong demand and need. Most importantly, we aimed to develop a set of recommendations to solve these issues so we can begin to move the needle on new housing development in rural communities.** Members of this task force included several leaders from the ND Housing Finance Agency, Bank of North Dakota, ND Department of Commerce as well as a couple nonprofit housing developers – Beyond Shelter and Community Works North Dakota.

Collectively, this Task Force has 200+ years of experience related to housing and community development. This Task Force held numerous meetings, conducted research, and reached numerous conclusions – as highlighted in the attached one-page summary as well as the full report which is available via the QR code on the attached summary.

A few of our conclusions:

- rural projects are more expensive (as much as 25% more than urban communities)
- developers are not attracted to rural communities due to the lack of scale more commonly found in our urban centers.
- existing housing stock is old and often doesn't fit the demand and/or lacks supply.
- rural projects often have an appraisal gap – market value is less than construction cost – as well as a have a lack of comparable properties needed to secure financing.
- Urban projects often couple low-income housing tax credits with the Housing Incentive Fund. Generally, rural projects would not attract the necessary investors for the low-income housing tax credits due to the lack of sizable projects of under \$2 million.
- The cost of construction would lead to rents that are generally unaffordable in most rural areas – in excess of \$1,200 per month for a two-bedroom, 1.5 bath, and double garage in a duplex.
- The Housing Incentive Fund has been significantly underfunded to address the housing shortages across the state. The program typically only has one round of applications in each biennia due to the high demand and lack of funding.
- Rural projects require multiple sources of funding and typically take more time to

develop.

Our task force report included several recommended solutions and resources at all levels – city, county, and the state as well as private sector partnerships with large employers.

HIF is ideal for helping rural communities finance smaller-scale development, by filling financing gaps and allowing for a greater mix of incomes.

Significantly, we recommended a substantial increase to the Housing Incentive Fund program – and thank you to Sen. Kreun for SB 2220 which included this recommendation. **We recommended a \$50 million biennial appropriation to address the needs of both urban and rural communities.**

HIF needs to be permanently funded.

HIF needs to be funded at this higher level to give rural communities access and opportunity.

HIF can also be a valuable tool to jump-start single-family development in rural areas.

I strongly encourage you to support HB 1014 – with an amendment.

Why Small Towns Need the Housing Incentive Fund

Since 2011 North Dakota's Housing Incentive Fund (HIF) has invested \$105 million to meet important workforce housing needs, producing 3,143 units across the state.

Only 3% of those units are in small towns outside the oil patch.

Adequate, Predictable Funding

a higher funding level is needed to include small town needs, and offer annual funding cycles

Greater Flexibility than Federal Funds

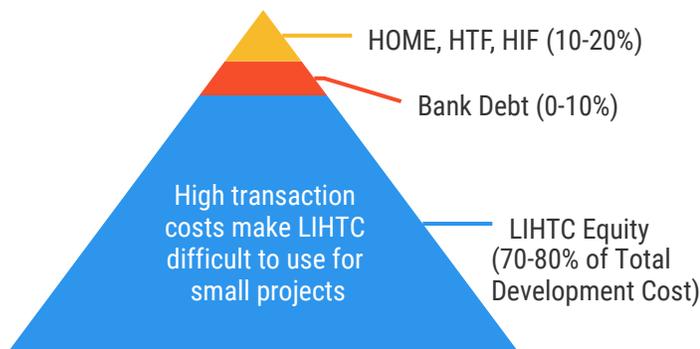
stagnant real estate markets have depressed home values in small towns, HIF can be used to spark new development

Increase in HIF funding to \$50,000,000 as a part of HB1014 (Industrial Commission Budget Bill)

Allow HIF to be used for single family development in small towns.

Small Towns Need HIF

Typical Funding Stack in Large Scale Development (30+ units)



Small affordable housing projects in small towns start with an 80% financing gap compared to larger projects using LIHTC.

Low Income Housing Tax Credits are the primary source of financing for new affordable housing development. High transaction costs for LIHTC developments make small projects extremely difficult to do.

HIF can replace LIHTC equity and enable small projects in small towns to be financially viable.



Without adequate housing in small towns, attracting new residents is difficult. Without new residents, new jobs and business expansion opportunities are going elsewhere.