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**Housing Incentive Fund update
North Dakota Housing Finance Agency
Division of the State Industrial Commission
Jolene Kline, Acting Executive Director**

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Chairman Delzer and members of the Government Finance Committee:

The Housing Incentive Fund (HIF) was reauthorized during the 63rd Legislative Assembly in House Bill 1029. As you will recall, the fund is capitalized by \$20 million in tax credits and a \$15.4 million general fund appropriation for a total fund size of \$35.4 million.

The purpose of the Housing Incentive Fund is to assist multifamily rental housing development for essential service workers and low- and moderate-income households. Essential service workers are defined as individuals employed by a city, county, school district, medical or long-term care facility, the state of North Dakota, or others as determined by NDHFA who fulfill an essential public service.

Attached you will find a development fact sheet on the Housing Incentive Fund II detailing many of the requirements set out under the allocation plan and reflecting the changes the Legislative Assembly made to the program during the 2013 session.

Since enactment of HB 1029 earlier this year, NDHFA held two allocation rounds ending on June 28 and September 30. Please find attached the listing of the projects receiving conditional commitments to date.

During the first round, we received 26 applications requesting \$36.3 million – nearly \$1 million more than the total funds available for the biennium. Eighteen projects were awarded conditional commitments of funds worth approximately \$20.4 million. Those projects are slated to create 494 housing units, 160 of which will be set aside for essential service workers; 168 will also be income and rent restricted for low- and extremely low-income households (80% and 30% of Area Median Income respectively). Those HIF dollars will spur \$79.6 million in housing construction activity in 13 communities across North Dakota.

During the second round of allocations, 23 applications requesting \$31.3 million were received. Sixteen projects were awarded conditional commitments last week of \$16.5 million. A project in Mandan that was awarded a \$1.5 million conditional commitment of funds during the 2011-13 biennium was turned back recently and we reallocated those funds during this round, which explains the higher allocation amount. This set of projects will produce 440 housing units with 60 set aside for essential service workers and 313 affordable for low- and extremely low-income

households. The \$16.5 million in HIF funds will spur an additional \$73.2 million in housing construction activity in 12 communities across the state.

In total during this biennium, the Housing Incentive Fund will create 934 housing units with 220 set aside for essential service workers and 481 income and rent restricted to low- and extremely-low income households. The \$36.9 million in state funds will spur more than \$152.8 million in housing construction activity in Arnegard, Beach, Bismarck, Burlington, Crosby, Devils Lake, Dickinson, Dunn Center, Fargo, Grafton, Hettinger, Jamestown, Lignite, Mandan, Minot, New Rockford, Turtle Lake, Watford City, and Williston.

On the capitalization side, HIF has received \$10,832,816 in contributions (as of Nov. 5) which leaves approximately \$9.2 million to raise before December 31, 2014. We have had informal discussions with several companies recently and are expecting some large contributions to be made soon. We are optimistic that we will be very close to fully capitalizing the fund before the end of this year. In past experience, we saw the majority of contributions received at the end of the year and so expect an increase in interest in the HIF tax credits in the next two months.

The Housing Incentive Fund was first authorized during the 62nd Legislative Assembly in 2011 with \$4 million in tax credit authority and was increased to \$15 million during the November special session. There are currently 23 projects that have been developed or are under development utilizing this first iteration of the program. These projects created 607 new housing units in 13 communities and spurred \$91.7 million in housing construction activity – that is \$7.56 in private activity for every HIF dollar spent.

Since the program's beginning, 1,541 housing units have been or will be created across the state utilizing \$49,438,795 and leveraging \$244,506,019 in housing construction activity.

The Housing Incentive Fund was recently recognized with an Award for Program Excellence by the National Council of State Housing Agencies. The program was selected as the winner in the "Encouraging New Production" subcategory of the Rental Housing division and I had the opportunity to share information on HIF with our sister state housing finance agencies across the country at the NCSHA Annual Conference in October. While it is heartening to have HIF be recognized as a best practice, what has been more satisfying is meeting the individuals and families that found new homes in the projects we have completed to date using the program.

HIF has proven to be a popular program both as a state tax credit and, most importantly, in developing new affordable housing options. We appreciate the vision the Governor and Legislative Assembly have shown in keeping this valuable program working.

The overwhelming demand for HIF funds demonstrates the ongoing pent up need for affordable housing units, not just for essential service workers, but also for low- and moderate-income families, disabled individuals and seniors. In less than six months of the biennium, we conditionally committed all \$35.4 million; had to reject another \$14.1 million in unduplicated

funding requests that could have created an additional 463 new units; and have no funds available for the remainder of the biennium.

As the population continues to grow statewide and we see more and more temporary oil industry positions changing to permanent, the demand for housing is projected to remain at a heightened level across the state. The Statewide Housing Needs Assessment that we published in 2012 projects that the number of households in North Dakota will grow by about 83,000 or 30.2 percent between 2010 and 2025. Because many communities are experiencing near zero vacancy rates, these new households will in many cases translate directly into the need for additional housing units.

We feel strongly that HIF has demonstrated itself to be a successful tool to encourage new multifamily housing production with a focus on making units affordable. It has leveraged millions of dollars in private investment in housing; it is creating additional employment opportunities; and it is serving thousands of people in North Dakota who have struggled under great pressure to afford housing costs. While HIF won't solve all of the housing challenges in the state, it is having a positive effect.

- Purpose:** To assist multifamily housing development for essential service workers and low- and moderate-income households throughout North Dakota.
- Eligible Applicant:** Units of local, state or tribal government; local or tribal housing authorities; community action agencies; regional planning councils; non-profit or for-profit developers.
- Eligible Projects:** **New construction** of multi-family housing. **Substantial rehab** of uninhabitable residential structures or habitable structures at risk of becoming uninhabitable due to deterioration. **Substantial rehab** of existing uninhabitable units when a minimum of 50 percent of the units in a building are uninhabitable due to flooding or other natural disaster. **Adaptive reuse** of existing non-residential buildings that create additional housing units. **Retirement of market rate debt** to convert market rate units to affordable units. **Acquisition rehab** of projects opting out of a HUD or USDA-RD contract. **Acquisition** of publicly-owned essential service worker housing by a private entity with the commitment of continued affordability.
- Maximum Allocation:** **For projects receiving 9% federal tax credits under the Low Income Housing Tax Credit program or the Historic Preservation Tax Credit program:** No more than \$600,000 per project.
- For non-federally subsidized projects:** No more than \$3,000,000.
- Assistance, in the form of a loan with terms determined on a case by case basis, will be limited to not more than 30% of the total project costs.
- Eligible Costs:** Cost of construction is defined as site acquisition and improvements, hard construction costs, associated soft costs including financing costs and acceptable profit margins. Recognizable construction costs for new multi-family housing will be capped at \$160,000 per unit and at \$100,000 per unit for substantial rehab or adaptive reuse. Profit margins of 12% or less for combined builder profit, overhead and general requirements and 12% or less for developer fees will be considered reasonable.
- Project Award:** Successful applicants will be issued a 60-day conditional commitment of funds (57% state tax credits, 43% cash appropriation) during which time applicants will be required to reach certain benchmarks including obtaining commitments of contributions to the Housing Incentive Fund. Upon satisfactory review of these items, a financial award will be issued.
- Available Funds:** \$35,400,000 is available for development assistance, of which a maximum of \$20,000,000 in state tax credits will be issued for contributions to the fund.
- Recapture:** Determined on a project specific basis to achieve project feasibility.
- Fees:** \$500 nonrefundable application fee. Successful applicants will be charged a 5% origination fee due prior to first draw, plus an annual compliance monitoring fee: currently \$50 per development plus \$35 per restricted unit.

HIF Project Awards (2013-15)

Project Name	Location	Applicant / Developer	Tenant Type	Project Activity	Total Units	Essential Service Worker Units	Total Development Cost	HIF Funds Requested	HIF Funds Committed
June 28, 2013 Application Round:									
Loretto Bay 7	Beach	Loretto Bay 7	Workforce/ Family	New Construction	12	6	\$1,833,433	\$350,000	\$350,000
Independence Pointe	Bismarck	Independence Pointe, LP	Disabled	New Construction	24	0	\$3,800,563	\$600,000	\$425,000
North 19th Street 4-Plex	Bismarck	Community Homes of Bismarck, Inc	Disabled	New Construction	5	0	\$1,205,610	\$400,000	\$361,683
Agassiz Circle Phase II	Devils Lake	Agassiz Properties, LLLP	Family	New Construction	8	0	\$1,287,599	\$385,269	\$385,269
Sullivan Apartments	Dickinson	Sullivan Properties	Family/ Disabled	New Construction	30	0	\$4,794,132	\$1,416,837	\$1,416,837
Heritage Hills	Dickinson	Heritage Hills I LLLP	Senior	New Construction	42	0	\$8,194,643	\$300,000	\$200,000
Dunn Center Apartments	Dunn Center	LSS Housing, Inc.	Workforce/ Family	New Construction	18	6	\$2,324,200	\$700,000	\$700,000
North Sky I	Fargo	Beyond Shelter, Inc.	Senior	New Construction	24	0	\$2,855,460	\$1,142,184	\$1,142,184
Courtside Village	Hettinger	LSS Housing, Inc.	Workforce/ Family	New Construction	24	12	\$3,062,500	\$1,000,000	\$932,400
Lignite Housing Project	Lignite	Lignite Investments, LLC	Workforce/ Family	New Construction	28	9	\$4,564,060	\$1,389,735	\$1,265,000
Collins Place	Mandan	Dakota Commercial & Development	Family/ Senior	New Construction	29	0	\$3,885,000	\$1,100,000	\$1,100,000
Rolling Ridge Estates	Minot	SW Design Build	Workforce/ Family	New Construction	48	24	\$7,500,000	\$2,250,000	\$2,250,000
Turtle Lake Community Housing	Turtle Lake	Turtle Lake Housing Authority	Family	New Construction	8	0	\$1,503,126	\$450,938	\$450,938
McKenzie Ranger District Station Apts	Watford City	Joseph M and Margaret Ann Girard Family Trust	Workforce	Adaptive Reuse	9	9	\$2,426,615	\$900,000	\$725,000
McKenzie Healthcare Systems Employee Housing	Watford City	McKenzie County Healthcare Systems	Workforce/Family	New Construction	24	18	\$3,600,000	\$1,200,000	\$1,200,000
Wolf Run Village	Watford City	Wolf Run Village, Inc	Workforce/ Family	New Construction	42	10	\$6,721,699	\$1,553,647	\$1,483,231
WSC Housing- Phase II	Williston	Dakota Commercial & Development	Workforce/ Family	New Construction	74	43	\$10,000,000	\$3,000,000	\$3,000,000
Renaissance on Main	Williston	Renaissance Station LLC	Workforce/ Family	New Construction	45	23	\$10,014,069	\$3,000,000	\$3,000,000
Totals for June 28, 2013 Funding Round:					494	160	\$79,572,709	\$21,138,610	\$20,387,542
September 30, 2013 Application Round:									
Arrowhead Estates	Arnegard	Big Mountain Development	Workforce/Family	New Construction	16	8	\$3,580,215	\$1,074,065	\$1,021,000
Independence Living	Bismarck	Independence Living LLC	Disabled	New Construction	14	0	\$1,665,802	\$483,045	\$483,045
Boulevard Ave Community Center	Bismarck	Ruth Meiers Hospitality House	Homeless	Adaptive Reuse	80	0	\$10,752,617	\$3,000,000	\$3,000,000
The Willows	Burlington	Beyond Shelter, Inc.	Workforce/Family	New Construction	40	8	\$8,108,500	\$3,240,000	\$3,000,000
Crosby Municipal Building	Crosby	City of Crosby	Workforce/Family	New Construction	12	6	\$2,543,300	\$762,990	\$762,990
Heritage Hills II	Dickinson	Beyond Shelter, Inc.	Senior	New Construction	39	0	\$7,900,000	\$600,000	\$600,000
North Sky II	Fargo	Beyond Shelter, Inc.	Senior	New Construction	30	0	\$4,197,100	\$600,000	\$600,000
Prairieview Apartments	Grafton	Dakota Commercial & Development	Workforce/Family	Adaptive Reuse	12	3	\$1,816,801	\$545,000	\$545,000
Garden Hills II	Jamestown	Hometown Living LLC	Senior	New Construction	37	0	\$4,114,584	\$1,234,375	\$250,249
Jamestown Court Rowhomes	Jamestown	Jamestown Rowhomes LP	Family/Senior	New Construction	24	0	\$4,716,588	\$600,000	\$600,000
Fieldcrest	Minot	Beyond Shelter, Inc.	Workforce/Family	New Construction	42	9	\$7,700,000	\$2,310,000	\$2,310,000
Cook's Court	Minot	Beyond Shelter, Inc.	Senior	New Construction	40	0	\$6,830,000	\$600,000	\$600,000
Second Avenue Apartments	New Rockford	Lesmeister Enterprises, LLC	Workforce/Family	New Construction	8	3	\$800,000	\$240,000	\$240,000
McKenzie Healthcare 5-Plex	Watford City	McKenzie County Healthcare Systems	Workforce/Family	Retirement of Debt	5	3	\$550,000	\$136,950	\$136,950
714 Place	Williston	Envision Land & Development	Workforce/Family	Retirement of Debt	5	2	\$1,125,000	\$315,000	\$315,000
ParkRidge Townhomes	Williston	ParkRidge Townhomes LLC	Workforce/Family	New Construction	36	18	\$6,827,414	\$2,048,224	\$2,048,224
Totals for September 30, 2013 Funding Round:					440	60	\$73,227,921	\$17,789,649	\$16,512,458
Totals for All Funding Rounds:					934	220	\$152,800,630	\$38,928,259	\$36,900,000