NORTH DAKOTA housing FINANCE AGENCY

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Mr. Chairman and Members of the Economic Impact Committee:

The inventory of local, state and federal government programs regarding residential and commercial development assistance, including housing finance programs, energy efficiency programs, home and residential accessibility programs, disaster recovery programs, and other governmental programs as required in Section 2 of Senate Bill 2339 continues to evolve.

The North Dakota Housing Finance Agency (NDHFA) has been working with the Department of Commerce, Bank of North Dakota, North Dakota League of Cities, Economic Development Association of North Dakota, USDA Rural Development, U.S. Department of Housing and Urban Development and the Small Business Administration to compile the requested information.

Attached is a matrix of local, state and federal programs that are available in North Dakota. While this raw program information is interesting, we feel it does require some explanation and interpretation.

Local

The local programs should be considered to be representative and not a comprehensive listing. These programs were ones that were identified by respondents to a survey of city and economic development officials conducted with the assistance of the League of Cities and EDND. These incentives are not necessarily offered in each community.

The local assistance programs include four basic types – rehab, local match of Flex PACE, reduced price of land and property tax reductions.

The rehab programs most often are an effort to encourage local commerce by giving Chamber dollars for use at local businesses to buy construction materials. These are typically small-scale incentives.

Flex PACE matching funds are typically provided by the economic development corporation or Job Development Authority and structured as a loan. The matching funds required under the Flex PACE program vary by community.

Reduced price land is a strategy that some communities may be able to employ, but for many, especially in the oil-impacted areas, there are very limited amounts of land available. As housing development has accelerated in the last several years, my estimation is that this incentive has been used less and less.

The property tax incentives that are provided usually come through the Renaissance Zone program, as part of the builder exemption, or as a new or expanding business.

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Land and infrastructure costs are two factors that greatly impact housing costs. From a survey of housing stakeholders completed following the Statewide Housing Needs Assessment in late 2012, it was identified that local entities could play a greater role in incentivizing affordable housing development by taking on additional costs of expanding infrastructure and reducing permitting costs.

State

Two state-funded programs have been successful in incentivizing affordable housing production – NDHFA's Housing Incentive Fund (HIF) and BND's Flex PACE program. HIF provides a forgivable loan to housing developers who income and rent restrict a proportionate share of the units in the project for essential service worker and low- and moderate-income households. BND's Flex PACE program is an interest buy-down on the permanent financing of affordable multi-family housing units. There is a community match required as discussed above. Often, the programs are used together.

Other development programs offered by NDHFA include the Construction Loan Guarantee and the Rural Housing Development Loan Program. The Construction Loan Guarantee is provided as a backstop to local lenders on loans given for speculative single family development in communities with a population of under 5,000. The Rural Housing Development Loan is a short-term, below market-interest loan for pre-development costs associated with housing development in communities under 20,000 population. Rehab programs offered by NDHFA include the Rehab Accessibility Program (RAP), Helping Housing Across North Dakota (Helping HAND) and the Rural Rehab Loan Program. RAP is a grant to make necessary accessibility improvements to single- or multi-family housing units for lower-income individuals with physical disabilities to allow the household to remain in their home. Helping HAND is a grant given to certain eligible entities to provide for new construction or rehab of single- or multi-family housing. A Rural Rehab Loan is a low-interest loan for rehab of single- and multi-family housing units in communities with a population under 20,000 people.

With the exception of HIF, NDHFA administered programs are funded through borrowings from BND or utilizing Agency reserves.

Federal

The major federal programs for housing development include the Low Income Housing Tax Credit program (LIHTC), HOME Investment Partnerships Program and Community Development Block Grants (CDBG).

Prior to HIF, LIHTC was the largest producer of affordable housing units in the state. Federal income tax credits are awarded to housing projects for 10 years. Those tax credits are sold to investors to raise the capital necessary for the project. Depending on the market price of credits and level of income targeting, LIHTC generally raises about 70 percent of the cost of a project. NDHFA receives about $2.7 million in LIHTC authority annually and typically funds between 150-175 housing units each year with this resource.

NDHFA also administers the Neighborhood Stabilization Program (NSP) which is used to purchase revitalize and stabilize neighborhoods by redevelopment abandoned and blighted properties. There are very limited areas in which NSP funds may be expended. This was temporary funding provided under stimulus and no further funding is available.

HOME funds are distributed from HUD to the Department of Commerce's Division of Community Services which distributes it to sub-recipients including the cities of Bismarck and Grand Forks, the Community Action Agencies and the two Community Housing Development Organizations – Eastern Dakota Housing Alliance (serving eastern North Dakota) and Affordable Housing Developers Inc. (serving western North Dakota). The City of Fargo receives its own allocation of HOME funds as a participating jurisdiction. The annual allocation of approximately $3 million in HOME funds is used for affordable housing development and rehab.

CDBG funds also are allocated by HUD to DCS with entitlement funds going to the cities of Bismarck, Grand Forks and Fargo. CDBG funds of approximately $3.6 million annually are distributed through the Governor's fund and through regional planning councils to eligible cities and counties. Funds can be used for housing rehab and other community development but are generally not available for new construction activities other than land acquisition or site improvements.

The Low Income Weatherization Assistance Program provides funding from the Department of Energy to help low-income households with energy conservation improvements. Annual funding of approximately $1.9 million flows through DCS to Community Action Agencies to fund these improvements.

USDA Rural Development has a couple of programs for housing development and rehab including their Rural Rental Housing Direct (Section 515) and Guaranteed Loans (Section 538) and the Housing Preservation Grant (Section 533). Section 515 loans are for the new construction or rehab of affordable rental housing. In 2013, two projects received loans totaling $448,000. Section 538 is a loan guarantee for the lender on rural rental housing projects. In 2013, one project received a loan guarantee of $1.6 million. Section 533 grants are to finance repairs and rehab for single-family and rental properties occupied by very low-income and low-income rural families. In 2013, two projects received a total of $150,000. The Farm Labor Housing program, while offered in North Dakota, has not been utilized in several years. All RD programs can only be used in communities with a population under 20,000 people.

Summary

The matrix we have provided outlines a number of programs to assist with housing development, but I don't want you to get the wrong impression. Housing development is a complicated issue and projects often require many layers of financing and funding to be feasible. Rarely is just one program used by a developer. More often, projects come together after numerous funding sources are secured demonstrating an apparent lack of overlaps within the affordable housing development system in North Dakota. Utilizing more than one funding source is not double-dipping but rather a necessity to get the rents to a level that is affordable for lower-income households.

We often hear the comment that with housing development going on at record pace, incentives are not necessary and that the private market will take care of the issue. There is truth to this in that high end rental housing is being developed at a rapid pace in certain communities. However, without programs like those I've outlined, housing costs would be much higher and would put enormous pressure on low- and moderate-income and fixed income households in affording housing. That, in turn, puts pressure on communities which would lose important workforce and consumers – stifling economic development. Affordable housing faces the same land, labor and material costs as market rate housing. Without incentives that bring with them mandatory income and rent restrictions, profit-minded developers will continue to maximize their cash flow and charge rents that are unaffordable for the low- and moderate-income residents of our state.

While housing development of all kinds is crucial, we are particularly concerned about housing that is affordable for low- and moderate-income households. NDHFA and the programs we administer have helped housing developers build this community resource that is in such dire demand. We aren't developers and we don't build the housing ourselves. Instead we and the communities involved rely on our housing development partners, both for-profit and non-profit, to make affordable housing development happen.

There certainly is much more analysis of this program information that would be useful to this committee and I can think of no better way than by hearing it first-hand from those affected. As such, I would strongly encourage the members of this committee to attend our Annual Housing Conference for a roundtable discussion with developers, state agency staff, lenders and other housing stakeholders regarding this study. We are planning to hold this session from 8:00-9:45 a.m. on Wednesday, February 26, 2014, at the Ramkota Convention Center in Bismarck. More information on this session was just sent out to you and I hope that you will all make plans to attend and join in this important discussion.

Thank you and I would be glad to answer any questions you may have.

Sincerely,

Jolene Kline

Jolene Kline
Executive Director

Program	Agency	Type of Assistance	Maximum Amount per Project	Match Requirement	Limitations	Income Restrictions	Rent Restrictions	Program Funding Source	Total Amount of Program Funding	Program Duration	# of Units	Notes
Local Housing Rehab incentives	Local Chambers of Commerce, Economic Development organizations, JDAs	Funds redeemable through Chamber businesses are issued to residents to help rehab of owner-occupied homes	Varies by community	N/A	Only redeemable at participating Chamber businesses; must be for the permanent structure of the home; no labor costs	N/A	N/A	Economic Development/JDA sources	Varies	Permanent	Varies by Community	
Local match of Flex PACE	Local Economic Development organizations, JDAs	Loan or grant to help with the local community match required under Flex PACE	Varies by community with the State's Share limited to $100,000	Per Flex PACE		Same as Flex PACE requirements	Same as Flex PACE requirements	Economic Development/JDA sources	Varies	Permanent	Varies by community	
Reduced price of land for development	Cities, Economic Development organizations, JDAs	Land owned by the city or economic development corporation is sold for the development of housing/commercial for a reduced price	Varies by community	N/A		N/A	N/A	N/A	N/A	N/A	Varies by community	
Property tax exemption	local taxing jurisdictions	Property tax exemption or reduction on new housing/commercial development projects	Varies by community	N/A		N/A	N/A	N/A	N/A	N/A	Varies by community	
Renaissance Zone Program	DCS, cities	Tax incentives for projects located in Renaissance Zones to revitalize communities	Single-family residence tax credit up to $10,000 for five years; Business or investment income exemption for up to five years; Historic Preservation and renovation tax credit of 25% of investment up to $250,000; Municipality may grant a partial or complete property tax abatement.		Property must be within Renaissance Zone boundaries. Up to $500,000 of income exempted annual on income derived at an approved Zone business project.					Permanent		Credits and exemptions may transfer to new owners on sale of single-family residential property.
Community Loan Fund	Eastern Dakota Housing Alliance	Loan for the development of affordable multifamily housing projects targeted to rural underserved areas	Minimum loan amounts from $10,000 (Loan not to exceed 15% of total loan capital)		Project must be in EDHA investment area; Rural LTV 85%; Urban LTV 95%	80% AMI for new construction and rural rehab; 120% AMI for urban rehab		Revolving loan fund utilizing CDFI Funds from U.S. Treasury			History to date: 136	Can be used independently or with other loans for gap financing; interest rates and policies are determined by EDHA
Housing Incentive Fund II	NDHFA	Zero interest, forgivable loan to incentivize multifamily rental housing development.	30% of project cost or: 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.	Developers must assist in raising contributions into HIF	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.	30% to 140% of HUD published area median income (AMI)	30% of qualifying median income	$15,400,000 transfer from state general fund (2013 SB 2014); $20,000,000 taxpayer contributions in exchange for state income tax credits (2013 HB 1029)	$35,400,000	Temporary (sunset June 30, 2015)	2013: 934	First priority on housing for essential service workers

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Flex PACE Affordable Housing Program	BND	Interest buy-down on the permanent financing of affordable multi-family housing units	$25,000 per unit up to $500,000 per project	Dependent on Community Percentage Factor	The interest buydown shall not exceed the projected amount of rental relief provided over the term of the affordable housing project. The local housing authority or other local government agency will provide annual verification of the borrower's affordable housing compliance.			Bank profits	$12,000,000	Temporary (ends June 30, 2015)	$3,529,404 of interest buydown has been committed to 10 projects that will create 281 affordable rental units	BND must participate in at least 50% of the loan but no more than 80%. Principal and interest payments will be required. Length of term, amortization, personal guarantees, and loan-to-value percentages to be negotiated between lead lender and BND on a case-by-case basis.
Construction Loan Guarantee	NDHFA	Construction loan guarantee to lenders for contractors who build or rehabilitate affordable single-family housing in rural communities (populations less than 5,000) on a speculative basis for resale.	Construction loans provided by lender may not exceed 85% of the lesser of the value of the housing unit (including lot and improvements) or total cost. The maximum guarantee will be the lesser of 50% of the net loss after sale of the property or $93,500. NDHFA must be notified of pending loss within 18 months of the origination of the construction loan.	N/A	No more than three guarantees may be active at one time per contractor. No more than five guarantees may be active in a community at one time. The lender or contractor must demonstrate that a need exists for additional affordable housing in the community and the local governing body supports the new housing.	N/A	N/A	N/A - Guarantee only.	N/A	Permanent	2013: 1; History to Date: 39	
Rural Housing Development Loan Program	NDHFA	Short-term, low-interest loan to facilitate development in rural communities.	75 percent of project cost not to exceed $200,000. If the loan purpose includes construction financing, and there is no permanent loan take out commitment, the maximum loan amount will be 50 percent of project cost not to exceed $200,000.	25% equity investment	Can be used only by rural communities with a population of less than 20,000 and non-profit organizations working in partnership with these communities.	None	N/A	Agency line of credit with BND	N/A	Permanent	2013: 0; History to Date: 27	Maximum three year loan term with extensions available on a case-by-case basis. Interest rates based on the Agency's cost of funds at the time of commitment and depend on loan term, the property type and household income restrictions. Periodic interest payments. Principal repayment tied to housing units placed into service (i.e. as single family lots are sold, or the permanent financing for multi-family project or a single-family home is closed.)
Helping Housing Across North Dakota (Helping HAND)	NDHFA	Grant funds intended to support the new construction or rehabilitation of existing single family or multi-family housing.	Established set-asides of $177,000 for CAP agencies (distributed by poverty level amongst seven agencies); $55,000 for tribal entities (six tribal entities with a maximum of $9,166 per entity); $15,000 for Habitat chapters (five entities with a maximum of $3,000 per entity) and $3,000 for three eligible non-profits (Rebuilding Together Bismarck/Mandan Area, Rebuilding Together Fargo/Moorhead Area and Camp of the Cross Ministries-Dream Catchers with a maximum of $1,000 per non-profit).	25% of total project cost	Existing housing projects with project-based rental assistance are not eligible to receive funding. Funds must be expended within 12 months of approval.	80% AMI	N/A	Internally funded with Agency reserves	$250,000 annually	Permanent		
Rehab Accessibility Program	NDHFA	Grant funds used to make accessibility improvements to single-family or multifamily housing units occupied by lower-income individuals with physical disabilities.	$4,000	25% of total project cost	One grant per rental property or single-family home in a fiscal year.	80% AMI with priority for lowest income	N/A	Internally funded with Agency reserves	$50,000 annually	Permanent	2013: 9; History to Date: 266	Eligible improvements are those that address the accessibility needs of people with physical disabilities. Examples of qualifying renovations include the installation of ramps, door levers, walk-in/roll-in showers, grab bars and widening of doorways.

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Rural Housing Rehabilitation Loan	NDHFA	Low-interest loan for rehabilitation of single-family and multifamily rental housing units.	For single family 75% of project costs not to exceed $25,000. For multi-family 75% of project costs not to exceed $100,000.	25% equity investment	Can be used only in rural communities with a population of less than 20,000. Multi-family properties must target at least 20% of its units to households with incomes at or below area median income. May not be used for the construction or rehab of sheds, storage facilities or other buildings or facilities attached to or adjacent to the property, swimming pools, decks, patios, saunas, spas or other purely recreational facilities. May not be used to acquire a property.	100% AMI	N/A	Agency line of credit with BND	N/A	Permanent	2013: 0; History to Date: 95	For single family a maximum term of 20 years or minimum payment of $50. For multi-family projects a maximum term of 25 years or minimum payment of $150. In the case of multi-family the loan may include a 5 year balloon and provisions for renewal. Interest rates based on the Agency's cost of funds at the time of commitment and depend on loan term, the property type and household income restrictions. Funds must be used for any improvement to the property bringing it to a decent, safe and sanitary condition, requiring more than routine or minor repairs or improvements that may vary in degree from gutting and extensive reconstruction to cosmetic improvements combined with cure of substantial accumulation of deferred maintenance, the construction of additions, the rehabilitation of an attached or detached garage, driveway, and sidewalks, improvements to achieve energy efficiency.
Low Income Housing Tax Credits (Housing Credits)	NDHFA	Federal income tax credits to fund the development of low-income housing units	The tax credit is intended to provide, over a 10-year period, a "present value" credit of either of the following: (1) 30 percent of the property's Qualified Basis for new buildings with a federal subsidy or for the acquisition costs of eligible existing buildings that are rehabilitated. A new building is treated as federally subsidized if there is tax-exempt financing. (2) 70 percent of the property's Qualified Basis in the case of new construction or the substantial rehabilitation costs on an acquired building.		No one project eligible for more than 25% of the annual allocation amount.	A property must, for at least a 15-year period, have a minimum of either 20 percent qualified low income units occupied by households with incomes under 50 percent of area median income, or 40 percent qualified low income units occupied by households with incomes under 60 percent of area median income.	30% of qualifying median income	Federal income tax credits	$2,635,000	Permanent	Typically 150-175 per year; 2013: 144; History to Date: 6,174	Mandatory 10% set-aside for non-profit organizations; 10% set-aside for tribal entities.
Neighborhood Stabilization Program 3	NDHFA	Funds to purchase foreclosed, abandoned or vacant property and redevelop these properties into housing in order to stabilize neighborhoods and stem the decline of house values	N/A	N/A	Must be used within qualifying census tracts within the communities of Alexander, Belfield, Bowman, Dickinson, Fargo, Glenburn, Grand Forks, Mohall, Ray, Rolla, Rolette, Sherwood, South Heart, Tioga, and Williston.	120% AMI (25% of the funds must be used for households at or below 50% AMI)	FMR (for VLI households, lesser of FMR or 30% of 50% AMI)	Federal	$5,000,000	Temporary	2013: 48; History to Date: 289	

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Community Development Block Grant Program	DCS	Financial assistance to eligible units of local governments in the form of grants and loans for housing rehabilitation	$500,000		Only cities and counties are eligible applicants. Cannot generally be used for the construction of new permanent residential structures or for any program to finance new construction.	80% AMI	30% of qualifying median income	HUD	$3,617,517	Permanent	2013: 62	Approximately 49% are distributed through the Governor's fund. The remainder is distributed through the Regional Planning and Develoment Councils.
HOME Investment Partnerships Program	DCS	Funds for single-family rehabilitation and rental production and rehab	Cities of Bismarck and Grand Forks $350,000; Community Action Agencies $150,000; CHDOs $350,000	25%		80% AMI	Determined by HUD	HUD	$3,000,000	Permanent	2013: 86	Funds dispersed through CHDOs, community action agencies and the cities of Bismarck and Grand Forks. Home funds may be used as equity investments, loans, interest subsidies and grants.
Low-Income Weatherization Assistance Program	DCS	Energy conservation improvements made to homes owned or occupied by low-income persons			Households may only receive weatherization once. Savings must equal amount of costs. Repairs can be only be made if they support eligible weatherization measures.	200% of poverty level		DOE	$1,906,536	Permanent		Dispersed through Community Action Agencies.
Rural Rental Housing Direct Loan (Section 515)	USDA-RD	Loan for the new construction or rehab of affordable rental housing	Up to 100% of total development cost for non-profit developers; 97% for for-profit; 95% for for-profit with LIHTC		Project must be in rural area with populations of 20,000 or less	80% AMI		Federal	FY 2013: $448,000 for 2 projects	Pemanent		30 year term with up to 50 year amortization
Rural Rental Housing Guaranteed Loan (Section 538)	USDA-RD	Loan guarantee for new construction or substantial rehab of rural rental housing	Up to 90% LTV for for-profit entities and up to 97% LTV for non-profits		Project must be in rural area with populations of 20,000 or less			Federal	FY 2013: $1.6 million for 1 project	Pemanent		Negotiated interest rate; repayment terms are 25 to 40 year amortizaiton
Housing Preservation Grant (Section 533)	USDA-RD	Grant to finance repairs and rehab for single family and rental properties occupied by very low- and low-income rural families			Eligible applicants include public bodies and non-profit organizations; project must be in a rural area with populations of 20,000 or less	80% AMI		Federal	FY 2013: $150,000 for 2 projects	Pemanent		
Farm Labor Housing (Section 514 and 516)	USDA-RD	Grants and loans to finance the new construction or substantial rehab of rental housing for farm workers	516 grant - 90% of development costs		No population restriction.			Federal		Pemanent		514 loan - 1% interest for 33 years. *Have only done one loan since 2009.*