

NORTH DAKOTA HOUSING FINANCE AGENCY
DIVISION OF THE STATE INDUSTRIAL COMMISSION
BUDGET NO. 473.0
SB 2014 - TESTIMONY OF DAVID A. FLOHR, EXECUTIVE DIRECTOR
SENATE APPROPRIATIONS COMMITTEE

JANUARY 13, 2021

AGENCY OVERVIEW

North Dakota Housing Finance Agency (NDHFA) is a self-supporting and mission-driven state agency dedicated to making housing affordable for all North Dakotans. The agency provides affordable home financing to low- to moderate-income families and helps to ensure the continued availability of suitable rental housing for households of modest means, while focusing on the overall housing needs of our state's growing communities.

NDHFA was created in 1980 by an initiated measure supported by the state's REALTOR and banking associations. The agency's advisory board is made up of representatives of the real estate, lending, homebuilding, and manufactured housing industries, and the general public. NDHFA does not receive any general fund dollars.

NDHFA issues/sells Mortgage Revenue Bonds (MRBs) and Mortgage Backed Securities (MBS) to investors and uses the proceeds to purchase, from participating private-sector lenders, the mortgages of primarily first time homebuyers. The agency's operating expenses are covered by the spread between what we pay investors and the interest rate on the underlying mortgages. NDHFA also generates revenue by servicing mortgage loans. Over 47,000 homebuyers have utilized NDHFA homeownership programs since 1982 when our first bonds were issued.

Our multifamily development programs, the federal Low Income Housing Credit and National Housing Trust Fund (HTF), and North Dakota's Housing Incentive Fund (HIF), have supported the development of 9,400 affordable rental units since 1986. These programs provide low to very low-income households with affordable rental options along with supportive services, as needed. Expenses are paid through administrative fees earned under the programs. The agency is also a contract administrator for the U.S. Department of Housing and Urban Development (HUD) under their Performance Based Contract Administration program monitoring 2,900 rent-assisted units.

The net revenues NDHFA earns are used to fund single-family rehabilitation and construction programs, housing development loans/guarantees, and local housing market studies. Highlights from the current biennium include:

- The Helping HAND (Housing Across North Dakota) program assisted in the rehabilitation of 293 single-family homes with a total cost of over \$1 million.
- The Rehab Accessibility Program funded accessibility upgrades for 25 homeowners with a total cost of over \$186,000.
- NDHFA issued capital advances of over \$550,000 for the acquisition and rehabilitation of four single-family homes in Grand Forks through the Community Land Trust Pilot program.
- The Rural Housing Development Loan program provided funding to transform a city block into six separate single-family lots to address a housing need in Oakes.
- Our Rural Housing Rehabilitation program provided over \$425,000 in financing for repairs on a 56-unit USDA rent-subsidized project in Grafton and a 12-unit project in Crosby.

Since 1982, NDHFA has been a vital component to maintaining access and continuity across North Dakota's housing markets.

The following information is outlined in the order as requested by the Senate Appropriations Committee.

1. NORTH DAKOTA CENTURY CODE CHAPTER(S) ASSOCIATED WITH NDHFA

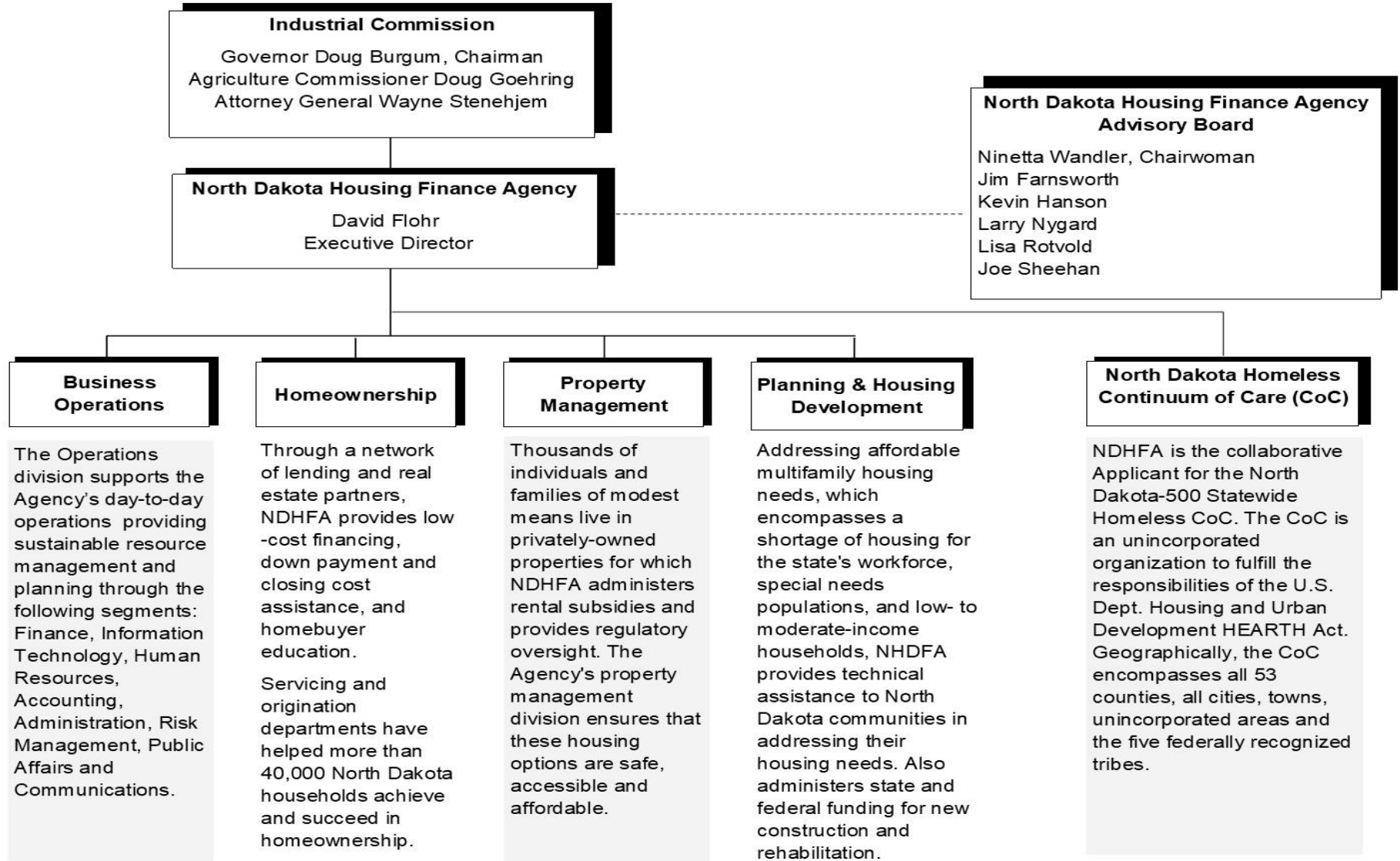
[N.D.C.C. 54-17-01](#) Industrial Commission to act as a state housing finance agency

[54-17-07.3-13](#) Housing finance programs

[54-17-40](#) Housing Incentive Fund – Continuing Appropriation

2. NDHFA DIVISIONS/PROGRAMS – ORGANIZATIONAL CHART

North Dakota Housing Finance Agency — FTE Count 44



3. FINANCIAL AUDIT FINDINGS

There were no findings in the agency's audit of financial statements for the years ended June 30, 2019, and 2020.

4. CURRENT BIENNIUM ACCOMPLISHMENTS, CHALLENGES AND NEXT BIENNIUM GOALS AND PLANS

Since 1983, NDHFA has provided more than 47,000 single-family loans across the state equal to approximately \$4.3 billion in financing. Multifamily housing leverages, local, state and federal funding; today the agency has assisted in the creation and preservation of more than 9,400 rental units. Specifically, the state's HIF program, launched in 2011, has committed over \$87.9 million in authorized funds supporting 2,380 units.

MAJOR ACCOMPLISHMENTS

HOMEOWNERSHIP: Provided 3,272 low interest rate loans (ranging from 0.25 to 1 percent below market rate) with a total volume of over \$574 million for low- to moderate-income residents helping them to begin creating household wealth. Provided 2,526 residents with down payment and closing cost assistance totaling \$13.5 million to enable those households to preserve a share of their assets while still being required to contribute to the purchase of their home.

COMPLIANCE MONITORING: Administering rental assistance and compliance oversight for 2,925 HUD units, and monitoring 6,906 Low Income Housing Credit, 2,078 HIF, and 323 national Housing Trust Fund units.

PLANNING AND HOUSING DEVELOPMENT: A total of 15 new projects were completed, creating or rehabilitating 209 senior units, 112 units for individuals experiencing homelessness, 24 units for individuals with disabilities and 349 units for low income families.

AGENCY FUNDED PROGRAMS:

Helping HAND - Eleven non-profit and tribal agencies were allocated \$400,000. Leveraging agency capital, Helping HAND supports the needs of lower income households through grants to targeted single-family housing rehabilitation programs. During the biennium, a total of \$367,944 was expended to rehab 293 single-family units with total development costs of \$1,008,358.

Rehab Accessibility Program (RAP) - Committed \$100,000 in capital for accessibility upgrades for low-income homeowners and renters. During the biennium, a total of \$82,030 was expended on 25 accessibility projects totaling \$186,269 in total development costs.

Community Land Trust - Issued capital advances totaling \$554,848 for acquisition and rehabilitation of four single-family homes. These homes will continue to be part of the Grand Forks Community Land Trust portfolio and made available for qualified low-income households to purchase.

Rural Development Loan - Utilized by the community of Oakes to transform one city block that contains a single-family home, vacant seven-plex motel, and several trailer units, which are primarily only in use during the hunting season. The \$174,450 loan investment will be used to renovate the single-family structure, demolish the motel and trailer units, and replat the block into six separate lots to be sold.

Rural Housing Rehabilitation Loan - Utilized by two projects, a \$300,000 loan investment for a 56-unit USDA project in Grafton for exterior repairs and second loan investment of \$125,625 used on a 12-unit project in Crosby for exterior repairs.

FUTURE CHALLENGES

NDHFA does not receive funding from the General Fund for operational expenses. Therefore, the agency's ability to fulfill the private mortgage market's need to finance mortgages for low- and moderate-income homeowners is contingent upon the ability to exceed the mandated 2021-2023 base budget and 5 percent reprioritization. When the agency is able to grow organically, funding is available to meet homeownership demands in urban and rural communities. In addition to fulfilling the demands of the citizens of North Dakota, NDHFA has legal obligations to bond holders and investors to service the loan portfolio in accordance with industry standards and the covenants in the agreements with both of those entities.

To streamline the state's ability to manage loan servicing to the homeownership market, Bank of North Dakota (BND) will transfer its current residential loan portfolio to NDHFA in FY2021. BND also plans to exit the residential mortgage space creating a secondary mortgage market gap that will be filled by a combination of NDHFA programs and the private sector. This servicing transfer and increased production will require an additional 3 FTEs to manage the increased workload. The Dept. of Commerce is also requesting a transfer of the HUD's HOME program to NDHFA in FY2021. This transfer will require 2 additional FTEs to manage the increased workload; overall operating expenses for the agency will increase.

In addition to single- and multifamily housing program administration, NDHFA has included a budget change to cover the costs of updating the Statewide Housing Needs Assessment. The last time the assessment was completed was in 2016.

Across the state, there is an affordable housing shortage for households on fixed incomes, low wage earners, and persons experiencing homelessness. NDHFA and our stakeholders are working to find solutions to the housing affordability gap, rural value gap and preserving aging housing stock. Addressing these challenges require the agency to have the authority to manage risk and leverage diverse financial resources while executing our role and mission in the housing finance system. The following are specific challenges each division is facing.

The Homeownership Division's business partners in the mortgage industry are implementing more standardization and electronic business methods. This presents a critical issue for the agency to be flexible and more innovative, in order to remain relevant to business partners and the citizens of North Dakota.

The Planning and Housing Development Division is faced with changes in federal housing policy and programs, resulting in additional administrative responsibilities in addition to the threat of federal funding cuts. The only state financed multifamily funding program, HIF, is a critical gap financing mechanism, utilized by urban and rural communities for both construction and rehabilitation of affordable rental housing. A long-term financing commitment from the state would address numerous housing shortfalls for vulnerable populations.

The Property Management Division is responding to changing federal regulations and privately owned properties that are opting out of federal subsidization. Most of the properties receiving federal assistance were built in the 1960s-1970s and need rehabilitation to meet standards of living thresholds.

NDHFA has had the following section incorporated into its budget to facilitate the utilization of unanticipated additional revenue: "In addition to the amount appropriated to Housing Finance Agency in subdivision of section 1 of the Act, there is hereby appropriated any additional or unanticipated income from federal or other funds which may become available to the Agency for the biennium beginning July 1, 2021." Accordingly, the Agency is submitting the 2021-2023 budget in its entirety.

NEXT BIENNIUM GOALS AND PLANS

NDHFA's 2020-2025 Strategic Plan was built on five core priorities: Homeownership, Multifamily Financing and Development, Compliance Monitoring, Collaboration and Staff Development.

The plan can be found here: <https://www.ndhfa.org/wp-content/uploads/2021/01/StrategicPlan2020-2025.pdf>

HOMEOWNERSHIP

NDHFA helps North Dakotans achieve successful homeownership with homebuyer education, down payment and closing cost assistance, and affordable mortgage loans. More than 40,000 North Dakota households have achieved their homeownership dreams with the agency's support.

Goal 1: Create and support access to affordable single-family housing and expand housing choices for low- and moderate-income individuals and families.

Goal 2: Enhance the client and partner experience of homebuying through technological updates that will improve program performance.

Goal 3: Proactively pursue strategic partnerships to support investment in affordable housing across the state.

MULTIFAMILY FINANCING AND DEVELOPMENT

NDHFA is charged with addressing the state's changing housing needs, including a shortage of housing for the state's workforce and low- to moderate-income households, and providing technical assistance to North Dakota communities struggling to address their housing needs. The Division is committed to providing financing for affordable rental housing and preserving existing affordable rental housing stock by supporting property improvements and extensions of rental assistance.

Goal 1: Create and support access to affordable multifamily to expand housing choices for low- and moderate-income individuals and families.

Goal 2: Cultivate strong, multisector partnerships to increase access to affordable housing for vulnerable populations.

Goal 3: Support community and economic development, ensuring feasibility and long-term success to address the needs of vulnerable populations.

COMPLIANCE MONITORING

NDHFA provides regulatory oversight of privately-owned properties for thousands of individuals and families designed to provide modestly priced housing opportunities for low-income families, seniors, and individuals with disabilities. Working closely with federal agencies, NDHFA ensures that these rental housing options are safe, clean and accessible.

Goal 1: Manage the multifamily portfolio for physical and financial conditions and fulfillment of regulatory guidelines.

Goal 2: Create and improve training and technical assistance to strengthen multifamily housing monitoring and compliance practices while improving the customer and partner experience.

COLLABORATION

NDHFA leverages partnerships with local, state, federal and tribal entities, and the private and nonprofit sector to create and sustain affordable housing. Collaboration is essential to reach the public about services offered and to develop strategies for providing housing for the state's vulnerable populations.

Goal 1: Improve marketing and outreach efforts to raise brand awareness of NDHFA to encourage public engagement in the creation and preservation of affordable housing.

Goal 2: Take action on critical housing issues to address vulnerable population needs.

STAFF DEVELOPMENT

NDHFA's greatest resource are the people that come to work every day to administer our housing programs or provide the operational support to make the Agency run smoothly. Ensuring that employees understand the importance of their role in the housing system and to create a culture of inclusivity and constant personal and professional improvement is vital to the success of the Agency's mission.

Goal 1: Identify and provide training and development opportunities that are tailored to strengthen employee skills and encourage personal and professional growth.

Goal 2: Create a succession plan to develop a pool of trained employees to be able to fill key roles.

Goal 3: Create a culture of employee engagement.

5. COMPARE NDHFA'S REQUEST/RECOMMENDATION TOTALS, INCLUDING FTE POSITIONS FOR THE NEXT BIENNIUM COMPARED TO THE CURRENT BIENNIUM

	NDHFA 2019-2021 Appropriation	NDHFA 2019-2021 One-time Funding	NHFA 2019-2021 Base Budget	NDHFA 2021-2023 Request	Governor's 2021-2023 Recommendati on	Governor's Recommendation/ NHFA Base Budget
Salaries and Wages	\$8,509,015		\$8,509,015	\$9,407,666	\$9,534,152	\$1,025,137
Operating Expenses	\$5,346,276		\$5,346,276	\$6,139,213	\$6,144,060	\$797,784
Capital Assets	-		-	\$150,000	\$150,000	\$150,000
Grants	\$33,466,600		\$33,466,600	\$42,975,200	\$42,975,200	\$9,508,600
HFA Contingency General Fund	\$100,000		\$100,000	\$100,000	\$100,000	-
Transfers - HIF	\$7,500,000	(\$7,500,000)	-	-	-	-
Total	\$54,921,891	(\$7,500,000)	\$47,421,891	\$58,772,079	\$58,903,412	\$11,481,521
Full Time Equivalent (FTE)	44		44	49	48	4
Funding Source						
General	\$7,500,000	(\$7,500,000)	-	-	-	-
Special	\$14,525,291		\$14,525,291	\$14,815,552	\$14,893,736	\$368,445
Federal	\$32,896,600		\$32,896,600	\$43,956,527	\$44,009,676	\$11,113,076
Total	\$54,921,891	(\$7,500,000)	\$47,421,891	\$58,772,079	\$58,903,412	\$11,481,521

SALARIES AND WAGES

NDHFA requested 5 FTEs, the Governor recommended 4 FTEs. Without the 5 FTEs, NDHFA will not be able to accomplish the following:

- Transfer 2 FTEs from Dept. of Commerce - administer the federal HOME Program
- Additional 2 FTEs - administer servicing loan portfolio transferred from BND to NDHFA
- Additional 1 FTE - manage future housing market growth and address succession planning needs

OPERATING

Increase for servicing loans transferred from BND, administration of the HOME program transferred from Dept. of Commerce and technology enhancements.

GRANTS

Administration of the HOME program and the Homeless Continuum of Care program. Performance Based Contract Administration rental supplements increased due to HUD rate and utilization changes.

6. FUNDING INCLUDED IN EACH PROGRAM/LINE ITEM

a. Amounts included in the base budget and their purpose and use.

NDHFA is a self-supported, non-general funded agency. The net revenues the agency earns are utilized to fund agency programs for single-family rehabilitation, single-family new construction, housing development loans/guarantees, and local housing market studies.

NDHFA's base budget is funded with mortgage program revenues and program administration fees that cover the costs associated with agency operations and administration of agency programs. Excess revenues are reinvested into agency funded grant programs such as RAP, Helping HANDS, and local housing market studies, and to cover administration of programs such as the Homeless Continuum of Care. Grants includes federal funding received from HUD.

b. AMOUNTS INCLUDED IN THE REQUEST/RECOMMENDATION AND JUSTIFICATION FOR THE CHANGE FROM THE BASE BUDGET. DISCUSS CHANGES RELATING TO:

(1) SALARIES AND WAGES

The Governor's recommended budget increase of \$1,025,137 above the agency's base budget includes 4 FTEs, the Governor's recommended compensation increases, and reclassification of one current FTE. NDHFA requests the approval of the Governor's recommendations plus the additional FTE, for a total of 5 FTEs, that was included in the agency's request.

(2) OPERATING EXPENSES

Operating costs increases of \$797,784 correlates with the increase in mortgage loan servicing. The homebuyer market remains strong across the state and business has remained consistent throughout COVID-19. Additional operating costs included in the re-prioritization budget are associated with new IT software, a state-wide housing needs assessment and administration of the HOME program.

(3) CAPITAL ASSETS

Software purchase of \$150,000 streamline multifamily financing applications and compliance reporting requirements. This software will streamline the process to upload documents and data removing the need for manual input, reducing human error and tracking projects in a centralized location.

(4) GRANTS

Federal grant funding increased \$9,508,600 due to the HOME program transfer from the Dept. of Commerce and increases in rate and utilization of HUD's Performance Based Contract Administration program.

(5) ANY SPECIAL LINE ITEMS

No changes. Governor Burgum recommended HIF be funded with \$8 million in Legacy Funding earnings in his 2021-2023 executive budget.

(6) ESTIMATED INCOME – SPECIAL FUNDS

NDHFA generated revenue is derived from mortgage loan production and loan servicing revenue. All revenue streams are allocated to cover operating expenses and fund agency grants.

(7) ESTIMATED INCOME – FEDERAL FUNDS

Federal funding increased \$9,508,600 due to the HOME program transfer from Dept. of Commerce and increases in rate and utilization of HUD's Performance Based Contract Administration program.

(8) General Fund

NDHFA does not receive General Fund monies.

(9) FTE

The agency requested 5 FTEs. The Governor’s recommendation includes 4 FTEs. NDHFA is requesting all 5 FTEs. The additional FTE will increase the base budget by \$149,154 which will be paid for by the agency’s special funds.

7. PURPOSE AND USE OF ANY ONE-TIME FUNDING ITEMS FOR THE CURRENT BIENNIUM

During the 66th North Dakota Legislative Session, \$7.5 million was allocated for HIF. The program provides gap assistance and matching funds to address unmet housing needs in the state. Allowable projects include new construction, rehabilitation and acquisition of multifamily housing. Eligible recipients include local, state and tribal governments and housing authorities, community action agencies, regional planning councils and multifamily housing developers.

In Sept. 2019, an application round for HIF was held in conjunction with the federal Low Income Housing Credit and national Housing Trust Fund application rounds. A total of eight applications were received, requesting over \$8.2 million in HIF funding. Originally, \$7.2 million was committed to five projects, however, one project was unable to move forward, forfeiting the award. A second funding round concluded in April 2020 to award the remaining \$1.2 million. As of today, four projects have been committed funding; two new construction for senior housing in Minot and Fargo totaling 106 new units, and rehabilitation of a senior and family multifamily projects in Rugby and Bismarck, preserving 128 units.

Since the inception of HIF in 2011, more than \$95 million has been leveraged to construct and preserve 2,646 multifamily housing units across the state, in urban and rural communities. Housing projects that utilize HIF address the housing needs of the state’s most vulnerable populations such as low wage workers, the state’s aging population, individuals with disabilities, and persons at-risk of homelessness.

For more information about HIF visit: <https://www.ndhfa.org/index.php/ndhif/>

8. IDENTIFY AND JUSTIFY THE NEED FOR ANY ONE-TIME FUNDING BEING REQUESTED/RECOMMENDED

Using agency resources of a one-time funding amount of \$35,000 will be used to commission a Statewide Housing Needs Assessment. The assessment identifies issues and solutions that can be used to make strategic decisions related to the housing market. The assessment is leveraged by city, county, state and tribal government as the basis for future housing and policy decisions.

Developers and planning consultants also use the study to determine the validity of new and rehabilitated single- and multifamily housing in addition to comprehensive planning studies.

The proposed assessment will utilize new census data and update forecasting models and fulfills Century Code 54-17-03 and 54-17-40 requirements to “address unmet housing needs and housing shortages across the state.”

9. AGENCY COLLECTIONS DEPOSITED IN THE GENERAL FUND OR SPECIAL FUND

GENERAL FUND – no funds are deposited into the General Fund.

SPECIAL FUND – NDHFA Generated Fees

MORTGAGE LOAN PORTFOLIO

- Revenue increases are anticipated for the fees associated with our mortgage loan portfolio.
 - Bond revenue fees received during the origination process, underwriting and assumption fees, and loss mitigation fees.
 - Service fees are collected for performing loan servicing and late payments.
 - Fees associated with the purchase of the mortgage loans are anticipated to increase.
 - Based on data from the Census Bureau’s American Community Survey, North Dakota has a large segment of its population entering the prime homebuying ages of 25 to 40 years old.
 - Fees associated with servicing loans is anticipated to increase due to the additional funding and the transfer of BND residential mortgage loans to NDHFA.

MULTIFAMILY HOUSING

- Fees associated with tax credits are anticipated to increase due to the monitoring of additional housing units to meet federal compliance regulations.

AGENCY INVESTMENTS

- Interest generated from NDHFA-owned loans and investments.

FEDERAL FUND

- Base Budget: Agency administered federal programs include Performance Based Contract Administration, Mod Rehab, Housing Counseling, and National Housing Trust Fund.
- Additional Programs Added: HOME (transferred from Dept. of Commerce) and the Homeless Continuum of Care.

10. NEED FOR OTHER SECTIONS INCLUDED IN THE AGENCY APPROPRIATION BILL

NDHFA requests the approval of Section 4. Appropriation.

Section 4. APPROPRIATION. In addition to the amount appropriated to the housing finance agency in subdivision 4 of section 1 of this Act, there is appropriated any additional income or unanticipated income from federal or other funds which may become available to the agency for the biennium beginning July 1, 2021, and ending June 30, 2023.

Continuing this provision during the upcoming biennium will provide the agency with the flexibility to capitalize on new funding opportunities and continue to meet the state's housing challenges.

11. OTHER BILLS BEING CONSIDERED AND POTENTIAL BUDGETARY IMPACT

Governor's Executive Budget recommendation allocating \$8 million of Legacy Fund earnings to HIF.

[SB 2040](#) –Provides for bonding of up to \$2 billion with \$250 million allocated to HIF.

[SB 2127](#) – Special revolving fund at BND to finance HIF. Appropriation of \$50 million for the 2021-2023 biennium.

12. IMPACT OF BUDGET CHANGES MADE TO MEET THE GOVERNOR'S BUDGET GUIDELINES

In order to meet the Governor's five percent budget reprioritization guidelines, since the 2019-2021 budget, NDHFA shifted four FTEs within the agency; three of the positions were reallocated to the Homeownership Division to accommodate increases in mortgage loan activity and one position was allocated to administer the HUD Homeless Continuum of Care program. The agency was approached by the ND Coalition for Homeless People and HUD to take on the administration of the Continuum of Care program, in order for nonprofit organizations working with individuals and families experiencing homelessness to be able to continue receiving funding. The total cost to fund these 4 FTEs for the biennium is \$666,989.

Operating costs increases correlate with the increase in mortgage loan servicing. The homebuyer market remains strong across the state and business has remained consistent throughout COVID-19. Additional operating costs included in the re-prioritization budget are associated with IT software.

13. ITEMIZED LIST OF CHANGES NHDFA IS REQUESTING TO THE EXECUTIVE RECOMMENDATION

The Governor's executive recommendation included 4 FTEs. NDHFA is requesting a total of 5 FTEs. The additional FTE would cost \$149,154 over the biennium and the agency would cover the cost.

14. COMPARISON OF NDHFA'S OPTIONAL ADJUSTMENT REQUEST TO THOSE RECOMMENDED IN THE EXECUTIVE BUDGET

There are no optional adjustment requests.

15. IDENTIFY FEDERAL FUNDING AVAILABLE TO NDHFA RELATING TO THE CORONAVIRUS

No federal funding was received relating to the Coronavirus.

16. ADDITIONAL INFORMATION

North Dakota Housing Finance Agency website

www.ndhfa.org

The Current State of Housing In North Dakota – a study of the affordability of single and multifamily housing, the impacts of COVID-19, and housing challenges face by vulnerable populations in 2020

<https://www.ndhfa.org/wp-content/uploads/2020/11/CurrentStateofHousing.pdf>

Housing Incentive Fund 2011 to Present

<https://www.ndhfa.org/index.php/ndhif/>

North Dakota Housing Finance Agency 2020-2025 Strategic Plan

<https://www.ndhfa.org/wp-content/uploads/2021/01/StrategicPlan2020-2025.pdf>