

January 1998

AFFORDABLE HOUSING STUDY - BACKGROUND MEMORANDUM

House Concurrent Resolution No. 3046 (1997) (attached as an appendix) directs the Legislative Council to study the availability of affordable housing for middle income households, for the elderly, and in rural areas of the state. In assigning this study, the Legislative Council directed that the study address the availability of housing for all income levels.

Testimony received during the hearings on House Concurrent Resolution No. 3046 indicated that the resolution was introduced to address concerns regarding the availability of housing in cities that have experienced increased job growth but lack housing. The testimony indicated that state and federal housing assistance programs have generally focused on the larger cities in the state and rural areas and the smaller cities have experienced housing shortages. The resolution states that the ability of rural communities to attract private home construction at an affordable price is hampered by the differential between the construction cost and the appraised value.

BACKGROUND

According to the United States Bureau of the Census, the home ownership rate in North Dakota in 1996 was 68.2 percent. The national home ownership rate in 1996 was 65.4 percent. North Dakota ranked 25th nationally with its 68.2 percent rating. Between 1986 and 1996, the North Dakota home ownership rate decreased 1.45 percent, which was 43rd in the national rankings with respect to the percentage change.

The United States Bureau of the Census estimates the median home value in North Dakota in 1990 was \$50,800, compared to the national median of \$79,100. Census data figures also indicate that North Dakota ranked 49th nationally in the percentage change in the number of new housing units authorized from 1995 to 1996. The Morgan Quitno Press publication *State Rankings 1997* reports that the percentage change in the number of new housing units authorized from 1995 to 1996 in North Dakota was minus 32.46 percent. However, *State Rankings 1997* also indicates that North Dakota ranked third nationally in the percentage change in the existing home sales from 1995 to 1996 with a 13.21 percent change.

State Rankings 1997 ranked North Dakota 14th for per capita state and local government expenditures for housing and community development for 1993, which was the last year available. According to the ranking, North Dakota state and local government expenditures per capita were \$73.29 which exceeded the national per capita average by about \$1.25.

1992 HOUSING NEEDS ASSESSMENT

In 1992, the North Dakota Housing Finance Agency and the Office of Intergovernmental Assistance prepared a North Dakota Housing Needs Assessment. The purpose of the report was to provide a comprehensive picture of housing needs in the state by gathering information regarding housing market demand and supply, structural conditions of housing, financing and affordability of housing, and the effectiveness of federal, state, and local housing programs. The report concluded that in most areas of the state there was a sufficient supply of owned and rental units that were affordable and in good repair. However, the report also indicated that some aspects of the housing market could be improved, such as housing for young families making the transition from renting to owning and improvement of rental markets in growing cities.

The report identified 13 specific action areas.

1. **Increase the affordability of home ownership.** The report indicates that approximately seven percent of the state's homeowners are considered cost-burdened because the homeowners pay more than 28 percent of their monthly income in mortgage payments. The report states that if new construction does not become more affordable, new homeowners will become cost-burdened and many persons will remain "involuntary renters."
2. **Increase the quality and condition of the housing stock.** The report states that over 16 percent of all homeowners in the state believe that their home has a need for repairs that the homeowner cannot afford. In addition, the report states that almost 15 percent of the renters in the state claim that rental units have a need

- for repairs that the landlords are not undertaking.
3. **Make home construction, rehabilitation, buying, selling, and renting cost-effective and accessible.** The report states that private sector financing is difficult to obtain in some parts of the state and developers and financiers often do not have the information needed to recognize changes in housing demand. The report indicates that the state is not taking full advantage of its potential share of housing assistance moneys.
 4. **Address the need for multifamily housing in selected communities.** The report states that several larger cities in the state are experiencing an increase in the number of low-income households, and private sector developers are sometimes slow to respond to the need for more affordable rentals because of perceived thin profit margins. In addition, the report finds it was often difficult acquiring multifamily construction loans in communities in the state that had uncertain economic futures.
 5. **Provide assistance in housing in economically developing areas.** The report states that rural economic development in some areas resulted in an overwhelming burden on the local housing markets.
 6. **Expand transitional housing for homeless and special needs groups.** The report concludes that some individuals leaving institutional settings or the homes of family or friends are not ready to live independently, and that there is a need for transitional housing for those individuals. The report states that many of those individuals remain institutionalized, continue to live with family or friends, or become homeless as a result of the lack of transitional housing.
 7. **Increase homeless shelter operating funds.** The report states that although data on the number of homeless persons is not readily available, the budgets of homeless shelters are strained. The report indicates that the lack of stable, long-term funding sources threatens to close some shelters.
 8. **Move toward independent living for special needs groups.** The report concludes that the goal of maximum feasible independence for special needs groups requires affordable housing and community-based services that allow individuals to live independently but still receive appropriate levels of support. The report states that because of the lack of adequate housing those individuals often "cluster" into public housing complexes, which is deemed inadvisable by special needs advocates.
 9. **Coordinate housing and community-based services.** The report states that subsidized services for special needs and low-income households often are not available where the need is. In addition, the report concludes that funding is not adequate to meet the need for all programs, and service providers are overwhelmed by the variety of programs available.
 10. **Continue to make physical accessibility improvements.** The report concludes that there is a statewide shortage of housing units with physical accessibility improvements.
 11. **Improve Indian reservation housing.** The report states that there is a shortage of housing units on all the Indian reservations in the state, and the existing housing is often poorly constructed and undermaintained. In addition, the report concludes that much of the reservation housing is unaffordable.
 12. **Provide migrant worker housing.** The report states that migrant worker housing often is not available.
 13. **Make a range of senior housing available in urban areas.** The report states that North Dakota has gaps in its continuum of senior housing. The report indicates there is a shortage of affordable assisted living units that sometimes results in elderly persons entering nursing homes prematurely.

STATE CONSOLIDATED HOUSING PLAN

The National Affordable Housing Act of 1990, Public Law 101-625, requires each state and local jurisdiction that receives housing assistance under the Act and the community development block grant program to prepare and to submit to the Department of Housing and Urban Development a comprehensive housing affordability strategy to cover a five-year period with annual updates. The comprehensive housing affordability strategy must examine the need for housing and homeless assistance in the jurisdiction and

devise a strategy to supplement and expand upon existing programs. The strategy must include:

1. A description of the estimated housing needs for the ensuing five years and the need for assistance for very low-income, low-income, and moderate-income families.
2. A description of the nature and extent of homelessness within the jurisdiction and of the jurisdiction's strategy for addressing the needs of various categories of the homeless.
3. A description of the means of coordination among the state and local governments to implement the housing strategies.

The Office of Intergovernmental Assistance has replaced the comprehensive housing affordability strategy with a consolidated plan that combines the planning and application aspects of various Department of Housing and Urban Development programs with the requirements for the comprehensive housing affordability strategy. The consolidated plan for North Dakota fiscal years 1995 through 1999 states that the plan is to further the following goals (1) to provide decent housing; (2) to establish and maintain a suitable living environment; and (3) to expand economic opportunities for each citizen of North Dakota. The plan describes housing and community development needs and resources, establishes strategies, and prioritizes the use of housing and community development dollars for the state and each planning region. Because Bismarck, Fargo, and Grand Forks received housing assistance directly, those cities also are required to prepare comprehensive plans. The Indian reservations are not required to be included within the plan. However, the Office of Intergovernmental Assistance included Bismarck, Fargo, and Grand Forks and the Indian reservations in the plan to the extent possible.

With respect to affordable housing, the consolidated plan for fiscal years 1995-99 identifies the following objectives:

1. Improve the quality and condition of the existing rental and owner occupied housing stock for extremely low, low, and moderate-income households through rehabilitation.
2. Provide home ownership opportunities to more low and moderate-income families.
3. Increase the supply of affordable multi-family housing units.

4. Assist more extremely low-income families in obtaining affordable rental units through the provision of security deposits.
5. Pursue the creation of a fair housing law that is substantially equivalent to the federal Fair Housing Act.
6. Strengthen landlord/tenant rights laws and update the *Landlord/Tenant Rights in North Dakota* handbook.
7. Create a mechanism to inform lenders, developers, nonprofits, cities, counties, and other interested entities about state and federal housing programs.

The plan identifies potential federal, state, and other funding resources that may be available to address housing priorities identified in the plan and lists the following state resources that may be available:

1. The state revolving fund program administered by the North Dakota Bond Bank and the State Department of Health to provide financing for the construction and improvement of wastewater treatment systems owned by political subdivisions through a below-market subsidized interest rate on loans.
2. The North Dakota Future Fund (now the North Dakota Development Fund) administered by the Department of Economic Development and Finance to provide funds to primary sector businesses and grants to local development agencies.
3. The Regional Rural Development Revolving Fund (now the North Dakota Development Fund) administered by the Department of Economic Development and Finance to provide funds to new or expanding primary sector businesses located outside cities having a population of 8,000 or more.
4. The partnership in assisting community expansion (PACE) fund administered by the Bank of North Dakota to provide loans to businesses involved in manufacturing, processing, value-added processing, major destination tourist attractions and targeted service industries.

NORTH DAKOTA HOUSING PROGRAMS

Housing Finance Agency

The Industrial Commission, acting as the State Housing Finance Agency, is authorized under North Dakota Century Code Section 54-17-07.3 to establish the following housing finance programs:

1. **Home mortgage finance program.** A program or programs to provide financing

or refinancing of loans made by lenders, including second mortgage loans and leasehold mortgage loans on tribal trust or other reservation lands, and leasehold mortgage loans that are insured or guaranteed through an affordable housing program, to persons or families of low and moderate income for the purchase or substantial rehabilitation of owner-occupied, single-family residential dwelling units, which includes mobile homes and manufactured housing.

2. **Mobile home and manufactured housing finance program.** A program or programs to provide financing of loans made by lenders to persons or families of low and moderate income to finance the purchase of mobile homes and manufactured housing other than on a real property mortgage basis.
3. **Multifamily housing finance program.** A program or programs to provide financing directly or indirectly of construction, permanent, and combined construction and permanent mortgage loans (including participations in mortgage loans) for the acquisition, construction, refurbishing, reconstruction, rehabilitation, or improvement of multifamily housing facilities.
4. **Mortgage loan financing program.** A program or programs to provide for the purchase of mortgage loans originated by lenders on residential real property in addition to such mortgage loans acquired or to be acquired under subsections 1 through 3.
5. **Home improvement finance program.** A program or programs to provide full or partial indirect financing of improvements to existing residential dwelling units.
6. **Housing grant program.** A program or programs to provide grants other than those authorized by Section 54-17-07.6 to encourage and promote housing availability for persons of low or moderate income.

Section 54-17-07.4 authorizes the Industrial Commission to fund its housing finance programs by issuing and refunding revenue bonds or evidences of debt and indebtedness of the state. The section provides that the principal of and the interest on the bonds are payable only from revenues generated under the housing financing programs and that the bonds do not constitute a debt of the state.

Section 54-17-07.10 authorizes the Industrial Commission to establish a program or programs to provide housing for persons of low or moderate income through the acquisition of residential real property and related real personal property and to maintain, repair, improve, or convey leasehold interests in that real and personal property to, or for the benefit of, persons of low or moderate income.

Office of Intergovernmental Assistance

Section 54-44.5-04 designates the Office of Intergovernmental Assistance as the state entity to administer federal block grant programs. In addition, the office is required to develop a state energy conservation policy and manage federal energy conservation program activities. The office was designated by the Governor to act as the lead agency for developing, facilitating, implementing, and monitoring the consolidated plan to comply with the requirements of the National Affordable Housing Act of 1990.

Among the housing-related programs administered by the Office of Intergovernmental Assistance are:

1. An emergency shelter grants program which provides assistance to homeless and domestic violence shelters in the state.
2. A low-income shelter assistance program which provides assistance with heating and cooling costs to shelters.
3. The HOME program which provides federal funds for home ownership assistance and rental assistance.
4. The housing acquisition and rehabilitation program which provides assistance to low-income families to purchase or rehabilitate homes.
5. A security deposit program to assist families in providing funding for security deposits.
6. A weatherization program which provides funding to improve the energy efficiency and comfort level of residences occupied by low-income persons.
7. The community development block grant program which provides funding to cities and counties to assist with housing rehabilitation assistance.

Local Housing Authorities

Section 23-11-03 authorizes the governing body of a city or county to adopt a resolution declaring that there is a need for a housing authority in the city or county if it finds that

unsanitary or unsafe inhabited dwelling accommodations exist in the city or county or that there is a shortage of safe or sanitary accommodations in the city or county available to persons of low income at rentals they can afford to pay. A local housing authority may operate housing projects and issue bonds and accept financial assistance from the federal government for housing projects.

1997 LEGISLATION

Senate Bill No. 2077 authorized the Industrial Commission, acting as the state Housing Finance Agency, to establish a housing grant program to provide grants to encourage and promote housing availability for persons of low or moderate income. The bill also provided that the home mortgage finance program may be used to provide second mortgage loans and leasehold mortgage loans on tribal trust or other reservation lands and leasehold mortgage loans that are insured or guaranteed through an affordable housing program.

The 1997 Legislative Assembly considered, but failed to pass, Senate Bill No. 2026, which was recommended by the interim Budget Committee on Government Services. That bill would have prohibited a city, township, or county from restricting the use of land for a proposed residential structure for the sole reason that the proposed structure is a manufactured home. The Budget Committee on Government Services recommended Senate Bill No. 2026 after studying the feasibility and adaptability of a long-term funding initiative to make available housing for

families who are low income, homeless, or are disabled, or who require transitional housing to assist them toward independent living. The committee reviewed the 1992 Housing Needs Assessment and the comprehensive housing plan prepared by the Office of Intergovernmental Assistance for fiscal years 1994 through 1998. The committee received information regarding housing assistance programs administered by the Office of Intergovernmental Assistance and the state Housing Finance Agency as well as testimony from various interest groups. Senate Bill No. 2026 was the only recommendation of the committee regarding the housing study.

SUGGESTED STUDY APPROACH

A possible approach to this study would be to receive information from the state Housing Finance Agency and the Office of Intergovernmental Assistance regarding the housing programs administered by those entities. In addition, the committee may seek information from other interested parties regarding housing needs in the state and potential solutions to the problem. Because the Governor has established a housing task force that is due to present a report regarding its findings in the near future, the committee may desire to review the findings of that task force. The committee may be able to use some of the findings of the task force in conducting this study.

ATTACH:1

Fifty-fifth Legislative Assembly, State of North Dakota, begun in the Capitol in the City of Bismarck, on Monday, the sixth day of January, one thousand nine hundred and ninety-seven

HOUSE CONCURRENT RESOLUTION NO. 3046
(Representatives Berg, Belter)

A concurrent resolution directing the Legislative Council to study the availability of affordable housing for middle income households, for the elderly, and in rural areas of this state.

WHEREAS, the 1995-96 interim Legislative Council study of funding to provide housing for low-income, homeless, or disabled families resulted only in a recommendation concerning zoning restrictions; and

WHEREAS, there is a need for home financing programs geared to provide assistance to individuals who do not qualify for either low-income programs or conventional financing; and

WHEREAS, there is a special demand for housing due to the increasing elderly population of this state; and

WHEREAS, some rural communities in this state are growing and are not able to meet the demand for housing; and

WHEREAS, the ability of rural communities to attract private home construction at an affordable price is hampered by the differential between the construction cost and the appraised value; and

WHEREAS, there are multiple agencies and organizations that provide housing and home financing, but there is no single agency to coordinate housing activities;

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF NORTH DAKOTA, THE SENATE CONCURRING THEREIN:

That the Legislative Council study the availability of affordable housing for middle income households, for the elderly, and in rural areas of this state; and

BE IT FURTHER RESOLVED, that the Legislative Council report its findings and recommendations, together with any legislation required to implement the recommendations, to the Fifty-sixth Legislative Assembly.

Filed March 26, 1997