

MINUTES

Workforce Housing Needs in SD Interim Study Committee



Representative Roger Chase, Chair
Senator Casey Crabtree, Vice Chair

Second Meeting, 2021 Interim
Wednesday, July 14, 2021

Rushmore Hall H – The Monument
Rapid City, South Dakota

The second meeting of the Workforce Housing Needs in SD Interim Study Committee was called to order by Representative Roger Chase at 3:00 p.m. (CST) in Rushmore Hall H of The Monument, Rapid City, South Dakota.

A quorum was determined with the following members answering roll call: Representatives Hugh Bartels, Roger Chase (Chair), Fred Deutsch, Mary Fitzgerald, Tim Goodwin, John Mills, Scott Odenbach, Lynn Schneider, Jamie Smith, and Mike Weisgram; and Senators Casey Crabtree (Vice Chair), Michael Diedrich, Red Dawn Foster, David Wheeler, and Larry Zikmund. Representatives Jennifer Keintz and Lance Koth; and Senators Jack Kolbeck and Herman Otten were excused.

Staff members present included Carter Dykstra, Fiscal Analyst; and Anita Thomas, Principal Legislative Attorney.

NOTE: *For the purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council office. This meeting was webcast live. The archived webcast is available on the LRC website at sdlegislature.gov.*

Approval of Minutes

Senator Diedrich moved, seconded by Senator Crabtree, to approve the minutes of the June 9, 2021, Workforce Housing Needs in SD Interim Study Committee meeting. The motion prevailed on a voice vote.

Opening Remarks

Representative Chase mentioned that the goal of the committee is to make a meaningful difference for the South Dakota housing market, and that the most significant limiting factor for people moving to South Dakota is housing.

Senator Crabtree commented that housing is an issue everywhere, from small towns to large cities.

Building Officials

Mr. Butch Warrington, Sioux Falls, commented that the adopted codes come in a three-year cycle on the national side, and that twenty years ago the codes were much different. Mr. Warrington also mentioned that oriented strand board (OSB) doesn't need to be used on the outside of a house and that the codes provide for a lot of options that don't require the builder to go through a structural engineer.

Mr. Tom Paisley, Spearfish, mentioned that in twenty-five years of enforcing codes, he believed that the codes are not the cause of increased costs for housing. He explained that it is up to local jurisdictions to amend their relative codes by meeting with their South Dakota building officials.

Representative Goodwin asked about thermal envelopes. Mr. Warrington explained that the thermal envelope includes everything except the mechanical room and that it requires R49 insulation for the attic.

Representative Fitzgerald asked if the OSB alternatives were just as structurally safe. Mr. Warrington reassured that the codes have been tested to hold up against strong South Dakota winds.

Senator Wheeler shared that most codes are adopted on a municipal level. He then asked if there were possibilities for any statewide cost-saving initiatives for changing codes to allow for more uniformity on a municipal level. Mr. Warrington said that there is a grandfather clause with building codes.

South Dakota Municipal League

Ms. Danna Boke, Mayor, Spearfish, shared a housing study from 2013. She said that 180 homes are needed to keep up with forecasted demand, and that Spearfish has partnered with a company that guarantees to build 100 homes.

Mr. Mike Harmon, City Administrator, Spearfish, shared his concern that infrastructure costs are inflating faster than wages. Mr. Harmon said that they have practiced buying lots and selling them at advantageous prices to the homebuilders. He emphasized the importance of price points when purchasing materials. Mr. Harmon said that the most prominent factor between different tiered homes is the square footage. He stated that even though lumber prices have dropped by about 60% since their high in May, a tier I home is around 1,200 square feet, and he has witnessed the average house price increase from \$280,000 to \$372,000 in a year.

Senator Crabtree asked that they provide the zero percent financing effect on tax incremental financing (TIF) in an email to the LRC. Mr. Harmon responded that they would provide what it looks like with zero percent interest. He shared that sixty days ago, there were 221 people on a waiting list for 180 homes, wherefore they hadn't even seen a floor plan yet.

Mr. Daniel Ainsley, City Manager, Sturgis, said that Sturgis only has fifteen homes currently for sale and that last month's final list-to-sales ratio was 115%. He mentioned that the challenge is that developers won't take the risk to bring their projects to small towns. Mr. Ainsley also said the infrastructure ends up being about 10% of the total cost, and TIFs will cover approximately 40-50% of that infrastructure. He mentioned raising the TIF total assessed value threshold is one solution. Mr. Ainsley spoke of the discretionary formula that allows a phased step-up in the assessed valuation for property taxes. He also suggested increasing TIF eligibility by mixing market-rate housing into the 100% affordable housing in a subdivision requirement. Mr. Ainsley said that the Governor's home program was a great success, however homes within this program take about one year from start to finish.

Representative Goodwin highlighted that the Governor's homes program can only produce about 150 homes a year.

Representative Mills mentioned that a discretionary formula is a massive tool in encouraging home-building efforts.

Ms. Kelsey Collier-Wise, Mayor, Vermillion, said that people choose to commute, rather than live in Vermillion, because of the lack of affordable housing. Ms. Collier-Wise noted that they have addressed this issue by launching phases of large-scale building projects and that TIFs can help reduce the risk of these projects.

Ms. Vicki Fisher, Rapid City, shared that more and more of the people moving to Rapid City are challenged in finding affordable housing. Ms. Fisher said that local property buyers couldn't compete with the out-of-state buyers, and that companies are having trouble recruiting high-end professionals because they can't find higher-end housing. She mentioned that builders and contractors need and want more employees, but that the employees have nowhere to live.

Representative Fitzgerald asked what the rent has been in recent years. Ms. Fisher said the rents in Rapid City have gone from \$900 to \$1,600 for an apartment. Ms. Fisher also said that homebuyers are paying above the appraisals and making offers without contingencies.

South Dakota Ellsworth Development Authority

Ms. Lynn Kendall, Ellsworth Housing Director, thanked the committee for their efforts to address the local workforce's housing issues for military members. Ms. Lynn provided a statement from Ellsworth leadership ([Document 1](#)).

Representative Deutsch asked what the forecasted growth for Ellsworth is in the next ten years. Ms. Kendall responded that there is no definitive answer or timeline for growth and that, as of now, only two plans are in production. She said the approximate estimate is that one thousand homes are needed for the next 5-7 years at Ellsworth to keep up with the 10,000-15,000 growth in population they expect. Ms. Kendall discussed how eventually phasing out the B-21 could reduce the population growth estimate from 15,000 back to 13,000. Ms. Kendall said that pilots, security weapons, medical, and mission support personnel all need to be in place before the aircraft. The current expectation is that the aircraft will be operational around 2025 or 2026.

Representative Goodwin asked if the B-1 and the B-21 will be at Ellsworth together for a period of time. Ms. Kendall responded by saying that the B-1 and the B-21 will both have personnel at Ellsworth for a while before they reach a phase-out period. Ms. Kendall said there is nothing in the planned budget to add housing on base. She said they are partnering more with the local communities to build dorms for single airmen to hopefully resolve the issue. Ms. Kendall promoted the Low-Income Housing Tax Credit (LIHTC) and Community Development Block Grants (CDBG).

Mrs. Rebecca Pisle, self, said that the home she bought a couple of years ago would now be appraised at 20% above what she and her husband paid for it. She stated that some families are living in campers while they look for a home. Mrs. Pisle shared testimony about military families and the struggles they face in terms of affordable housing.

Ms. Nicole Schneider, City Administrator, Box Elder, stated that Box Elder and other municipalities face a gap between what municipalities can afford and what developers can absorb. Ms. Schneider commented that Ellsworth's Air Force Base (AFB) is within the city boundaries of Box Elder and that municipalities need help to make up for the housing shortfall.

Mr. Doug Curry, Director of Public Works, Box Elder, said that marketing by Governor Noem, scarce COVID restrictions, and the B-21 program have all caused an influx of South Dakota residents. Mr. Curry noted that assistance with infrastructure is an essential part of the conversation about incentivizing developers to build affordable workforce housing.

Common Bond Communities

Ms. Deidre Schmidt, President and CEO, Common Bond Communities, shared that the Low-Income Tax Credit program funds approximately 90% of all federal rental assistance programs. She explained that every \$100 of greater rent affordability equates to \$25,000 of debt under current and favorable terms. Ms. Deidre commented that American Rescue Plan Act (ARPA) funds and private philanthropy could have a role. She discussed other possible solutions such as tax-exempt debt, access to low-cost debt capital, and maximizing the use of the federal Low Income Housing Tax Credit ([Document 2](#)).

Rapid City Strategic Housing Trust Fund

Mr. David Lust, Rapid City Strategic Housing Trust Fund, shared that Rapid City Strategic Housing Trust Fund is accessed outside of municipalities and does not require government subsidies. Mr. Lust explained that the Rapid City Strategic Housing Trust Fund is making loans to developers to entice them to go below market with the assistance of flexible financing. He said that the leverage of private/public sources of revenue results in low regulation. Mr. Lust said that the Rapid City Strategic Housing Trust Fund focus is on those who make between \$20,000 and \$50,000 a year, with rent often \$500 to \$1,100 a month.

Representative Weisgram asked what the Rapid City Strategic Housing Trust Fund's goal is. Mr. Lust responded that the goal is to have a revolving fund large enough to make 8-10 one to four million-dollar loans which would result in approximately one thousand units in that area. Mr. Lust said he would like to see a one-to-three-dollar match from the legislature. Another metric that Mr. Lust provided was that every one million dollars the Rapid City Strategic Housing Trust Fund loans will leverage about six to eight million dollars through equity from developers, traditional lending, and some other governmental programs.

Representative Mills asked if this housing would be on the property tax rolls or not. Mr. Lust replied that the properties being developed would be on the property tax rolls and that the trust fund is something that should be replicated across the state.

Representative Deutsch asked what size community is required to replicate this idea elsewhere. Mr. Lust said that it is important for a community to have a group/charitable foundation in which such a trust can be housed. The donations are tax-deductible, and the regulatory burden does not exist. A community with a solid funding base is necessary to support this type of foundation.

Adjournment

Representative Chase announced that the next meeting will be held at Southeast Technical College on Thursday, August 5. Representative Chase also mentioned that they will talk about lumber brokers, manufactured housing, and associated contractors.

Senator Crabtree moved, seconded by Senator Diedrich, that the Workforce Housing Needs in SD Interim Study Committee meeting be adjourned. The motion prevailed on a voice vote.

The Committee adjourned at 4:30 p.m.