

Sioux Falls Affordable Housing Trust Strategic Vision and Guidelines

Proposed by the Sioux Falls Thrive Housing Action Team
Revised July 7, 2023

Contents

Introduction 2

Today’s Rents vs. Incomes 3

Eligible Applicants..... 4

Eligible Projects..... 4

Financing 4

Restrictions 4

Application Process and Priorities 5

Approval 5

Oversight 5

Supporting the Affordable Housing Trust 5

Conclusion 6

Introduction

A safe and affordable home is one of the basic needs we each have as human beings. In Sioux Falls, there is a significant housing gap for extremely low-income households, defined in terms of a family of four making \$27,200 or less annually. According to Augustana Research Institute, in 2021 there were only about **28 homes or apartments available and affordable for every 100 households** in that income bracket.

“Due to this gap, the lowest income renters have the highest housing cost burden of any group in the city.”

– Sioux Falls Housing Needs Assessment 2021. Conducted by The Augustana Research Institute.

Severely cost burdened low-income households are more likely than other renters to sacrifice basic necessities, for example healthy food, healthcare and prescription medication, in order to pay the rent. They are also more likely to experience unstable housing situations, such as evictions, which has a direct correlation to learning loss in children.

The Sioux Falls Affordable Housing Trust is proposed as a response to the need for homes and apartments that are affordable for these individuals and families.

Affordable housing is generally defined as housing for which the occupant is paying no more than 30% of gross monthly income for housing costs, including utilities, according to www.hud.gov.

Preschool teachers, grocery store stockers, emergency medical technicians and so many other local working people are unable to find housing they can afford with low-wage salaries in Sioux Falls.

Yet market rents continue to rise, and supply remains low, in part due to a need for more flexible locally based financing opportunities. The Affordable Housing Trust would fill a financing gap that hampers increased construction and rehabilitation in the city's supply of housing that is affordable to individuals and families at 40% and 30% of the median family income (MFI).

For a family of four, 40% MFI in Sioux Falls is \$36,300.

- Preschool teachers make about \$31,660 per year.
- Grocery store stockers earn an estimated \$30,010 annually.
- Emergency medical technicians bring home around \$29,450 each year.

For a family of four, 30% MFI in Sioux Falls is \$27,200.

- Teaching assistants make about \$26,570 annually.
- Hospitality workers earn an estimated \$25,760 per year.
- Childcare workers bring home around \$23,930 each year.

The Sioux Falls Housing Trust is proposed as an important resource for the City of Sioux Falls in expanding and preserving the stock of affordable rental homes. Through loans and grants from the Trust, Sioux Falls would have a flexible vehicle to respond to affordable housing needs.

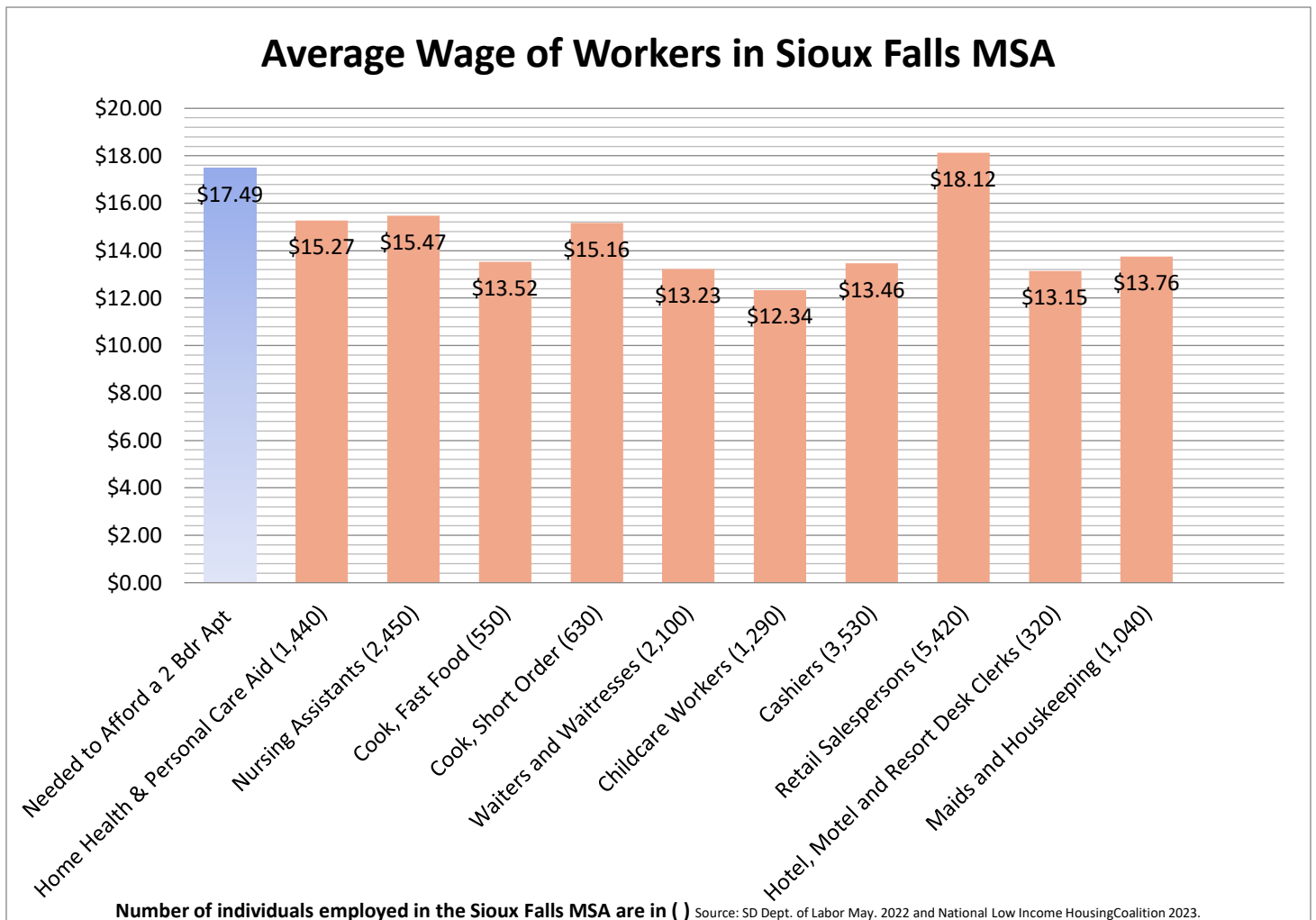
This document establishes the need, describes the purpose of the Sioux Falls Affordable Housing Trust, explains the priorities and goals for use of the Trust funds, and identifies a process and criteria for project application review.

Today's Rents vs. Incomes

What does it take to rent a two-bedroom apartment in Sioux Falls today? Current National Low Income Housing Coalition data shows that for the state of South Dakota the average market rent is \$909 per month. Renting that average two-bedroom apartment requires a salary of \$17.49/hour or \$36,371 annually, according to data released in June 2023.

In Sioux Falls, average rents are higher. Based on the statewide increase noted above, the average rent for a two-bedroom apartment in Sioux Falls is \$1,030 in 2023, requiring a full-time (40 hours/week) wage of \$19.80/hour or \$41,186 annually.

In 2021, 19,714 Sioux Falls households were living on less than \$35,000 annually, according to the Sioux Falls Housing Needs Assessment. By 2026, that number is still expected to be more than 19,500. Illustration 1 below includes a sampling of the jobs supporting those families in Sioux Falls using data from the National Low Income Housing Coalition for 2023 and the South Dakota Department of Labor for 2022.



(Illustration 1)

“Greater tax generation, creation of jobs, opportunities for economic development, increased job retention and productivity, and the ability to address inequality — all are among the economic benefits of increased access to quality, affordable housing.”

– Habitat for Humanity <https://www.habitat.org/costofhome/housing-affordability-and-economy>

Eligible Applicants

Applicants eligible for consideration would include:

- Property owners rehabilitating existing homes or apartments
- Non-profit developers
- For-profit developers
- Housing authorities
- Units of government
- Regional organizations
- Other non-profit organizations

All applicants would have development capacity and be able to document successful experience in the type of project proposed. Applicants would also be required to have the financial capacity to complete the project. Developers would be expected to be current on all property taxes, and to have favorable maintenance and management history with existing rental properties. Qualified applicants would plan for or partner with a service provider to administer flexible, voluntary support services designed to help the individual or family remain in stable, affordable housing.

Eligible Projects

Funds from the Trust could be available to help fill financing gaps for:

- New construction of multifamily projects
- Retrofitting of existing buildings that would include four or more homes or apartments
- Preservation of existing assisted projects

Properties could be located anywhere within city limits. Preference would be given to projects that provide homes and apartments for individuals and families at 40% of the median family income (MFI) and below, with priority for 30% MFI. Funding awards would be determined by administrative guidelines that address several criteria, including but not limited to cash flow, income of tenants, and maximum rents.

Construction plans and designs would be provided to Sioux Falls City Planning and Development Services for review and approval. All developments shall comply with all applicable building, fire and zoning codes of the City of Sioux Falls.

Financing

The Affordable Housing Trust would rarely be the sole funder of a project or program, and it would often be the most flexible, including options for grants and/or long-term forgivable loans depending on the requirements for success on specific projects. Leveraging the Trust's resources with other funding streams would be a high priority. By offering maximum flexibility to the developer or provider, the fund would help with creative solutions that might not be fundable elsewhere.

Restrictions

All funded homes and apartments would be leased to households in lower median family income levels with adjustments for family size and would be restricted to affordable rents for a specified length of time, known as the affordability period. Priority would be given to those developments that lease to households living at or below 30% of median family income.

Rent increases throughout the affordability period would be reviewed by Sioux Falls City Housing staff. Rent increases would be limited to 2% per year. Tenants would receive no less than 60 days' notice of potential rent increases.

Assisted projects would meet a minimum standard for affordability of not less than 10 years with priority given to projects that would remain affordable for 20 to 30 years. Properties awarded Low Income Housing Tax Credits (LITHC) would automatically have an affordability period of 30 years. To incentivize smaller rehabilitation projects, more flexible options would be fine-tuned in the guidelines.

To ensure compliance with Affordable Housing Trust restrictions, developers would be required to prove their own expertise, partnership with agencies that have LIHTC property management, or equivalent experience. All tenant income must be verified with documentation prior to leasing a restricted home or apartment.

Application Process and Priorities

Applications would be taken on an established schedule through a Request for Proposal (RFP) process. Projects would be evaluated and ranked based on the priorities to be established in the Administrative Rules, with this sampling as part of the consideration:

- Expands supply of affordable housing for households at 40% MFI or below
- Priority would be given to those developments with the greatest number of units available to households at 30% MFI.
- Provides a mix of home or apartments sizes, including three- and four-bedroom units
- Includes a mix of incomes or uses
- Provides appropriate supportive services
- Development of site would include blight remediation
- Located within a walkable distance of a Sioux Area Metro route or established bike route/recreation trail
- Incorporates new or improved public spaces within the project's footprint
- Located in an existing development area

Approval

With recommendation from the Accessible Housing Advisory Board (AHAB), projects requesting Affordable Housing Trust funds would require City Council approval.

Oversight

The Sioux Falls Affordable Housing Trust would be overseen by AHAB, a joint jurisdictional body including representatives of the city of Sioux Falls, Minnehaha and Lincoln counties, and the Sioux Falls School Board as outlined in "Joint Powers Agreement for the Creation of and Minnehaha County Involvement with the Accessible Housing Advisory Board" adopted by the Sioux Falls City Council April 7, 2020.

In addition to providing oversight of the Affordable Housing Trust and advice to the City Council on its uses, AHAB would be responsible for overseeing additional city staff whose sole responsibility is management and promotion of the Affordable Housing Trust, including:

- **Establishing the Affordable Housing Trust's programs**, including day-to-day operations, administrative and program guidelines, and requests for proposals. A management fee amounting to no more than 10% of the fund's annual revenue would help pay administrative costs, including salary and benefits for Affordable Housing Trust staff.
- **Funding projects**, including reviewing applications, making awards, providing technical assistance, monitoring funded projects, and reporting on expenditures and accomplishments.
- **Taking fiscal responsibility for the Trust**, working in tandem with the City Finance Department to hold, invest, and administer the Trust.
- **Ensuring the Affordable Housing Trust meets its obligations**, and reporting to the governing bodies which hold ultimate authority.
- **Providing an annual report** on the activities and accomplishments of the Affordable Housing Trust. Governing bodies may also require periodic updates throughout the year.

Supporting the Affordable Housing Trust

Spring 2023 estimates suggest construction of a 40-unit apartment building costs upwards of \$180,000 per unit. Access to LIHTC funding is limited in South Dakota, and even more so in Sioux Falls, but those federal dollars are critical to successful affordable housing projects. In fact, without LIHTC dollars in the funding mix, it is currently almost impossible to build homes and apartments that would be affordable for households at 30% and 40% MFI.

While a proposed one-time infusion using budget surplus dollars could be considered a down payment on the future of improved access to affordable housing in Sioux Falls, it does not represent a long-term commitment from the community or a sustainable source of funding for housing in the targeted range.

Dedicated revenue and established city policy goals for the Affordable Housing Trust would help fill that funding gap by providing incentives and predictability for investors, developers, and non-profit providers of support services. This requires that both the proposed sources of funding and the proposed goals for construction or rehabilitation be committed in city ordinance.

Therefore, as a matter of city policy, the Sioux Falls Affordable Housing Trust would be built on the following funding guidelines:

- Initial capitalization of \$6 million from city sales tax surplus funds.
- 10% of the proceeds of all future Tax Increment Financing projects.¹
- 50% of the annual CPI cost of living increase to property tax rates as approved by the City Council.²
- 50% of the proceeds from the sale of off-sale dealer liquor licenses, above the minimum initial fees established in City Code 111.015.1 which designates those proceeds for purposes of community benefit including housing of at-risk populations.
- 100% of the vacant building fees collected annually under City Code 150.158.
- Occasionally, other funds may be awarded to the Affordable Housing Trust, for example private donations, other city funds and the like. Any private contributions would be held at the Sioux Falls Area Community Foundation until such time as they are part of an award from the Trust.

The baseline for approval and construction goals is the estimated 18 units built in this deep income target in 2023. Proposed policy statements would encourage creative solutions and focus limited funds on projects where the need is greatest and most difficult to fund:

- 2024 goal for funding homes or apartments = 20 units
- 2025 goal = 30 units
- 2026 goal = 40 units
- 2027 and onward goal = 50 units annually

In addition, community development grants would continue to support the growing need for supportive services.

Conclusion

State and local housing trust funds across the United States advance community support of affordable housing by guaranteeing that revenues are available each year for these critical needs.

In Sioux Falls, community advocates have been working for more than 10 years to establish this tool in public policy. Under the directive of the City Council's Homeless Task Force in the fall of 2022, and Mayor TenHaken's ongoing emphasis on affordable housing as a top goal, the time has come for city leaders, developers, non-profit service providers, and community stakeholders to join forces. This collaborative proposal represents the work of dozens of people from all walks of life to find solutions for housing the community's most vulnerable individuals and families.

¹ A community wide campaign would support the establishment of a new source of economic development grants which are considered a qualifying cost for the proceeds of Tax Increment Financing. The proposal seeks City Council action to designate 10% of the proceeds of every future TIF project, regardless of its intended purpose (housing, industrial, entertainment etc.), to help fund affordable housing projects in the target income range.

Only TIF districts established after the adoption of the Affordable Housing Trust would be considered. However, for reference on the potential for funding: When TIF district 25 was established in 2021, there were 15 active TIF districts that had been established over a period of 12 years in Sioux Falls. Taxable value totaled more than \$52 million, 10% of which would have been approximately \$5.2 million. It's important to note that prior to the pandemic, taxable values of TIF districts were somewhat lower. The 10 districts created between 2010 and 2017 had a total taxable value of \$20.1 million for a \$2.1 million contribution to an Affordable Housing Trust, had one been in place at that time.

² Only property taxes collected after the adoption of the Affordable Housing Trust would be considered. However, for reference on the potential for funding: Since 2018, 50% of the cost-of-living increase averaged over \$640,000 annually.

~ Housing Action Team, Sioux Falls Thrive