

HABITAT FOR HUMANITY OF SOUTH DAKOTA

Creating South Dakota's first true housing trust fund

In 2010, Habitat South Dakota began working diligently to build a broad coalition to persuade the state legislature and governor to create South Dakota's first state-funded housing trust fund. After three years of outreach to economic development allies, research on potential dedicated sources, and persistent meetings with state legislators, Habitat and the coalition won bipartisan support for a Housing Opportunity Fund on the very last night of the 2013 legislative session. Since then, the Housing Opportunity Fund has served 1,770 South Dakota families and has made more than \$11 million available statewide for the development and preservation of new affordable homes and rental housing, in addition to homelessness prevention activities.

Background

South Dakota's economy came out of the Great Recession booming. In 2011, demand for ethanol, rising average temperatures and new farming practices made corn a major industry in the state. The boom in corn and related industries created a huge need for workers and exposed a major shortage of workforce housing. Employers reported losing good candidates because the people they wanted to hire could not find homes they could afford. The limited supply of rentals and homes for sale at various price points impeded the growth of employers who struggled to find enough workers to meet demand.

Before 2011, South Dakota had not invested state funds in workforce housing or other types of affordable homes. The state operated a Housing Trust Fund, but it was supported entirely by funds from Fannie Mae and Freddie Mac that were allocated to the state as part of the 2008 federal Housing and Economic Recovery Act. As a deeply conservative state with Republicans occupying a supermajority of the state legislature, South Dakota was very cautious about increasing state spending.

Housing Opportunity Fund

State-funded housing trust funds supplement federal resources to help local communities meet diverse housing needs. Like local funds, state housing trust funds are typically more flexible than federal housing programs like HOME. They can be customized to meet a state's unique needs, supporting affordable housing by a broader array of housing providers, and serving a wider range of incomes.

As of 2018, roughly two-thirds of states with housing trust funds employed a dedicated revenue source. Other housing trust funds relied on periodic budget appropriations from the state's general fund or received infusions from housing bonds that raise funds for a handful of years at a time.

South Dakota's Housing Opportunity Fund, or HOF, spearheaded by Habitat South Dakota, is a hybrid model. It currently relies on two sources of revenue: a dedicated portion of the state's contractor excise tax and periodic revenues allocated at the legislature's discretion.

HOF funds may be used for new construction, the purchase of rental or homeownership housing, substantial or moderate rehabilitation, housing preservation, homelessness prevention activities, and community land trusts.

Advocacy

In 2010, inspired by a keynote presentation from Mary Brooks at Habitat on the Hill, Patty Bacon, Habitat South Dakota's executive director, began exploring the idea of a state-funded housing trust fund for South Dakota. Having previously served as the executive director of a local affiliate, Bacon knew firsthand that "you can only rely on local fundraising for so long."

Bacon set up a conference call to discuss the idea with other housing organizations in the state. A loosely knit coalition soon began working to make a housing trust fund a reality.

With help from Brooks' organization, the Center for Community Change, Bacon educated other state advocates about what a trust fund could do, and what it would take.

To reach Republicans, who held the governorship and close to 80 percent of state legislative seats, the coalition realized it needed to connect the housing trust fund idea to economic development. It found help from a study by the U.S. Chamber of Commerce and Harvard University (see "Resources" below), which featured interviews and research from CEOs linking affordable housing to workforce performance, workforce retention and economic development.

The economic development argument was broadly appealing. Habitat recruited economic development organizations from throughout the state to the coalition, including Grow South Dakota, and the Rural Electric Economic Development Fund. One of the new partners helped recruit the Republican state senate majority leader, who soon led the legislative push. Other legislators followed. Explains Bacon, "A large number of legislators in South Dakota are from rural districts that are begging for economic development. They know they can't recruit businesses without housing for employees."

The coalition, later known as Homes for South Dakota, conducted research on potential revenue sources and conferred with the South Dakota Housing Development Authority. One promising source was unclaimed property, which by law is supposed to revert to the state. But the coalition discovered that the unclaimed property law was not being fully enforced. Unclaimed property includes credit card balances, which can be significant in a state like South Dakota where credit card companies like Citibank and Wells Fargo reside. But these funds were not accruing to the state.

A bipartisan group of legislators (two Republicans and two Democrats) picked up the idea of dedicating unclaimed property revenues to affordable housing, and crafted a bill for a Housing Opportunity Fund, or HOF. The HOF was ultimately rolled into a package of economic development programs called Building South Dakota, which would collectively receive a portion of unclaimed property revenues starting in 2015, and receipts from the contractor's excise tax on large-scale projects. Twenty-five percent of the total would go to the HOF.

Within the coalition, Habitat South Dakota and its local affiliates took the lead in encouraging legislators to support the package deal (SB 235). Bacon secured a grant to bring a VISTA member on board to help staff the coalition. The new VISTA member joined Bacon in organizing trainings for affiliates on messaging and legislative visits. Help also came from Scott Parsley, a state legislator at the time who now serves as board chair for Habitat South Dakota.

Habitat South Dakota recognized that it was the one group in the coalition with the ability to put "boots on the ground" throughout the state. Habitat convened state affiliates to strategize on how to educate legislators about the legislation. At a major convening of affiliates, Habitat South Dakota's staff laid out photos and bios of every legislator and had affiliates stay until each legislator had been matched with an affiliate. Between mid-November and mid-January 2013, affiliates held a flurry of meetings with representatives in their home districts, speaking with roughly three-quarters of the legislature's 105 members.

The entire economic development package, Senate Bill 235, became known as the "Habitat bill." In March 2013, on the last night of the legislative session, at the stroke of midnight, the bill passed. The full legislature gave itself a standing ovation.

RENEWING THE HOUSING OPPORTUNITY FUND

The impact of this victory was diminished somewhat in 2014 when the governor maneuvered to delink unclaimed property revenues from the Building South Dakota Fund so that they could instead revert to the General Fund. In place of this revenue, the governor and legislators agreed to allocate \$30 million to Building South Dakota over three years, or \$10 million per year.

The first allocations of the Housing Opportunity Fund ran from 2014 to 2016. After funds had been expended in 2016, Habitat and coalition partners stepped up again to support the HOF's continuation. This time the coalition faced a more challenging fiscal and political environment. Legislative support had waned for the nonhousing components of the Building South Dakota package, which were undersubscribed. More significantly, the state faced a tough economic year, with a significant drop in sales tax revenues, the state's primary source of revenue in the absence of a personal or corporate income tax.

The coalition sharpened its messaging to emphasize the housing component of economic development, and spoke to the need for a full spectrum of housing choices from low-income rental housing to starter homes. Habitat also organized a legislative committee hearing about the need for housing, with three speakers (one from a local affiliate) speaking to the opportunity to help move residents out of "poverty housing," link workforce housing to worker economic security, and support local businesses. This time around, with Bacon retired, Habitat South Dakota board members led the push.

As a result of Habitat's efforts, and with help from other advocacy partners, the HOF was sustained for at least several more years. Legislators agreed to increase the share of funding allocated within Building South Dakota to the HOF, from 25 percent to 35 percent. Additionally, the state Housing Development Authority is now supplementing this funding with its own \$1.5 million annual contribution to the HOF, using funds from its mortgage revenue bonds. The legislature recently convened a study group to identify a permanent funding source for the HOF and Building South Dakota to replace the loss of dedicated funding from unclaimed property revenues.

Impact

Over four years (2014-17), the Housing Opportunity Fund has allocated \$11.4 million to support a range of housing needs in South Dakota. This includes new owner-occupied homes built by Habitat, home rehabilitation and repair programs, new affordable rental housing, renovated rental housing, support for a community land trust, down payment assistance, and a homelessness prevention program. The fund has benefited 1,770 families thus far, ranging from extremely low- to moderate-income.

Scott Parsley says the first \$11 million in state funding from the HOF has been "invaluable" for state affiliates and other South Dakota housing providers still recovering from the Great Recession and growing back their donor base. Parsley adds that renewed funding also helps as housing needs in the state continue to grow.

Lessons

- 1. In conservative states, tie housing to workforce and economic development.** "The study from the Chamber of Commerce and Harvard really helped," Bacon says. "As long as you continue to talk workforce and economic development, you're going to get the ears of the conservative legislators you need to pass legislation." Bacon has retired from Habitat South Dakota but is now using an economic development argument to pass a local housing trust fund in the city of Brookings, where she serves on the City Council.
- 2. Habitat's affiliates can generate significant grassroots support for state legislation.** "Habitat is the reason our legislation was passed without any pushback," Bacon says. "No one had the boots on the ground that we did. We could do that piece that is so critical."
- 3. Proactive advocacy is especially important in conservative states.** Parsley stresses that this is especially important when housing is not otherwise part of the conversation at the state legislature.

4. **Coalitions are invaluable.** Speaking as a former state legislator, Parsley is a believer in coalitions: “The more voices you have in advocacy, and the more diverse, the more you get listened to. And being heard is the only way you get these things done.” Parsley adds that coalitions can keep things from “getting too political” for any one organization.

Resources

- Patty Bacon, former Executive Director, Habitat for Humanity South Dakota, pattybacon5@gmail.com.
- Harvard/Chamber of Commerce Workforce Housing Study: innovations.harvard.edu/sites/default/files/wh05-1_workforce_housing_report.pdf.
- Senate Bill 235: sdlegislature.gov/docs/legsession/2013/Bills/SB235ENR.htm.
- Center for Community Change’s Housing Trust Fund Project: housingtrustfundproject.org/publications-and-resources/publications/.



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