

THE CASE FOR WORKFORCE HOUSING ASSISTANCE

Greater Minnesota's Business and Industry is poised for growth, with world-class industries like Polaris, Textron/Arctic Cat, Marvin, Digi-Key, New Flyer, KLN, Hormel, Jennie O, AGCO, Toro, 3M, among hundreds of others dotting the rural Minnesota landscape. What is holding them back? A lack of housing for a growing workforce. In Northwest Minnesota alone, industry leaders like Polaris, Marvin, Arctic Cat and Digi-Key are



in need of hundreds of additional workers to meet current production demands. However, despite efforts to recruit new talent from across the country, these businesses are stifled by the lack of available workforce housing to accommodate their growing labor force. If proper housing solutions are not created in our rural Minnesota communities it is likely many of these jobs will leave the State of Minnesota and move elsewhere.

WHY IS IT CRITICAL TO SUPPORT RURAL COMMUNITIES & MANUFACTURERS?

Minnesota's rural communities support roughly 1/2 of the total manufacturing employees and manufacturing output of the State. According to MN DEED statistics, in 2016 there were 147,304 people employed by rural manufacturers in Minnesota, those jobs in turn supported another 350,000 related jobs across the state. The manufacturing sector consistently provides the highest wages, best employee benefits, and is one of the most significant GDP contributors of any of the state's industries. Healthy rural manufacturers will lead to a healthy State of Minnesota. Providing State resources to alleviate critical workforce housing shortages will have a tremendous payback in terms of increased capital investment, job creation, rising wages, and ultimately increased tax income for the State.

WOULDN'T HIGHER WAGES SOLVE THE PROBLEM?

Rural Minnesota manufacturers, on average, pay the best wages in their respective communities and above State averages. It's not that wages are too low, it is that construction costs are so high and there doesn't exist a robust housing market in most small rural cities. These economic factors make housing investment in rural Minnesota extremely risky and provides for extremely low rates of return to private investors. Housing developers and investors are increasingly focusing efforts and resources on Minnesota's metropolitan markets. The competitive wages of our rural manufacturers are not enough to overcome the market dynamics of rural Minnesota's housing sector.

RURAL

MANUFACTURERS

Contribute \$25 billion to
Minnesota's economy

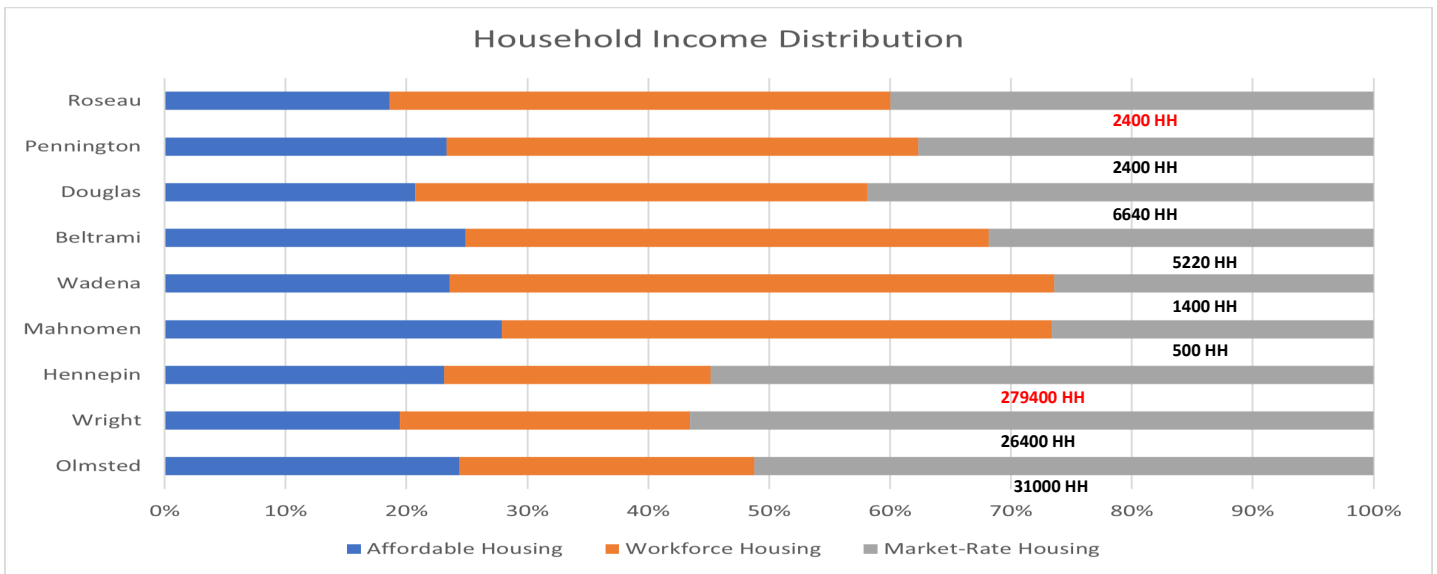
Employ 150k people

Accounts for 7% of the
State's GDP

Produces \$10 billion in
wages

Pay an average annual wage
over 16% higher than the
State average

Why Doesn't the Housing Market Work in Rural Minnesota?



County Income Distributions and Market Sizes Vary Greatly Across Minnesota Impacting Housing Investment

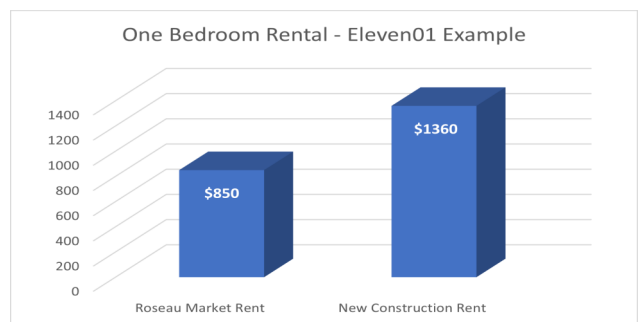
The chart above highlights the very different income distributions represented across Minnesota's counties. The first three bars represent counties with a strong manufacturing presence, the middle three represent some of Minnesota's poorer counties and the bottom three represent metro dominated counties. Each set of counties have similar characteristics that impact housing development. The lower income counties are better able to take advantage of the State's affordable housing programs because of the significant need for low to moderate income housing options. Minnesota's metro counties have over 50% of their population earning incomes (>\$75,000/yr.) sufficient to demand market rate private housing development. However, Minnesota's manufacturing counties don't have significant numbers of low-income earners and not enough high-income earners to warrant any type of new housing development.

In addition to having much larger proportions of high income households, the metropolitan areas simply have a larger number of high-income households to fill new projects, significantly reducing investment risk. For example, Roseau County has a total of 2,400 high-income households, while Hennepin County has 279,400 high-income households. The risk factor of the small markets in rural Minnesota alone make attracting private developers out of the metro areas extremely difficult. It is far less risky for a developer to overbuild in a metro county than it is to be the only developer in a largely rural county, despite the actual demand for housing in our rural areas.

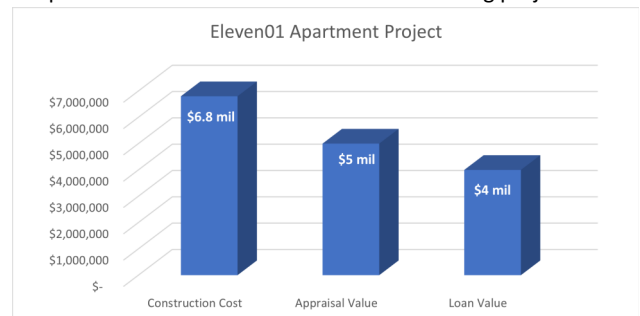
The only viable solution to the Workforce Housing shortage in rural Minnesota is for additional State and local investment into Workforce Housing projects to incentivize private investment.

- ⇒ **Workforce Housing TIF**—this a critical vehicle for local community investment in workforce housing. *Needs to be expanded from 9 years to 25 years to match other housing TIF statutes*
- ⇒ **Workforce Housing Grant Program**-this is a vital matching program for bridging the large appraisal gaps on workforce housing projects. *The annual funding level of this program is far too low to make a real impact statewide. Also program prevailing wage requirements diminish the impact of the program by significantly increasing costs.*
- ⇒ **Workforce Housing Infrastructure Grant Program**—*this proposed matching program would provide much needed assistance to local communities in preparing suitable locations for workforce housing projects.*
- ⇒ **Workforce Housing Tax Credit Program**—*expand State Tax credit program to include Workforce Housing to increase private investment by local employers.*

The Appraisal Gap Problem in Rural Minnesota



The bar to the left represents the average market rental rates in Roseau County. The bar on the right reflects rental rate required to cash flow a new market rate housing project.



The graph above illustrates how the low rental rates lead to huge appraisal gaps on new construction projects