

MAIN STREET MONTANA PROJECT

A BUSINESS PLAN *For Montana by Montanans*

Housing and Construction KEY INDUSTRY NETWORK

Recommendations to Governor Bullock

PROBLEM STATEMENT 1

Government, Housing, and Construction stakeholders do not communicate well enough to achieve efficient and coordinated delivery of projects.

There is frustration among State Government Agencies and Private Industry related to construction permitting, policy and regulatory decisions, and timeliness. The current project review system is fragmented due to a lack of coordination and understanding among agencies and the private sector. A project review and delivery system is needed to move projects through the review process in a more efficient manner.

Review and permitting delays are costly and difficult to manage in the industry. Delays can cause difficulties managing work crews and staff, reduction in funding for projects, and overall lack of responsiveness to the market demand for construction and development. In addition, legal battles continue to direct monies toward disputes rather than toward solutions for economic growth and business development. Legal decisions do not meet the needs of the marketplace and create additional constraints in the industry and within Government, which may cause additional spending or regulation.

By national standards, Montana's regulatory process is efficient and achieves a balance between progress and the protection of public safety and the natural environment, but there is room for improvement. Development of a process for regular review and updates in these regulations will create an environment of economic growth and improved quality of life for all residents. The result will be enhanced predictability, which incentivizes increased investment in Montana.

Montana has examples of successful collaborative councils that address critical local issues and facilitate growth in real-time. These efforts foster communication and understanding between stakeholders that lead to creative solutions. The Housing and Construction KIN believes that Government and Industry are partners in progress and should operate in a more collaborative manner.

To assess and rapidly respond to the economic opportunities ahead, the KIN members propose the creation of a Governor's Appointed Collaborative Council, assigned to act in Montana's interests.

To assess and rapidly respond to the opportunities ahead, the KIN members are proposing the creation a forum empowered to act in the Industries' and State's interests.

KIN RECOMMENDATION #1

Create a Governor-appointed Housing and Construction Collaborative Council comprised of both public and private industry members.

Government representatives (ombudsmen):

The Governor's Housing Champion and Infrastructure Czar will co-lead this Council.

Include Agency Directors of:

- Department of Environmental Quality
- Department of Natural Resources
- Department of Commerce
- Department of Labor & Industry
- State Fund
- Montana Department of Transportation
- Governor's office of Economic Development
- Building Codes Advisory Board representative

Private Representatives (ombudsmen):

Include Chief Executive Officers of major construction employers and housing developers in Montana:

- Montana Building Industry Association (MBIA)
- Montana Contractors Association (MCA)
- Montana Association of Realtors (MAR)
- Montana Association of Planners (MAP)
- American Council of Engineering Companies (ACEC)
- Montana Association of Counties (MACO)
- Montana Infrastructure Coalition
- Montana Bankers Association (MBA)
- Business construction organization CEOs
- Others to be determined as necessary

The Council will be appointed and in place as soon as possible, will meet quarterly and begin to address the following list of issues. Additional issues will be added for review as the Council evolves.

1. Create a tiered environmental review and permitting fee system based on impact, cost, and complexity
2. Provide recommendations to help guide and implement continuous regulatory process improvement
3. Consider peer review by adjacent states for best practices and process improvement
4. Designate permitting fees to fund staffing for compliance and process review

5. Implement Total Quality Management (TQM) principles in state agencies
6. Improve staff compensation to reduce continuous staff turnover and retraining
7. Incentivize process improvements by rewarding agency employees for innovation and collaboration
8. Streamline licensing issues and timeline delays from the Bureau of Licensing, which is causing barriers to the entry of work for certain licensed fields
9. Redirect DEQ's understanding of the storm water regulations and create a separate section of the law for residential storm water compliance

Responsibilities in the charter for the Council will include:

- Create best practice for local and state engagement by demonstrating effective collaboration
- Create a process to continuously improve Montana's regulatory environment without compromising public safety and environmental quality
- Responsibility of every participant
- Identify current issues
- Change what can be changed
- Develop common understanding of work and coordination of agency and industry
- Address timeline for regulations: shorten timelines from proposal to permit and ensure quality submissions by contractors
- Create a process for development of collaborative solutions for project, permit and program challenges
- Address customer service delivery issues
- Council reviews proposed policy and gives opinion/recommendation prior to policy development
- Review and revise the mission statements of Agencies to be more customer focused
- Create a business partnership between government and industry
- Provide a mechanism for receiving input from both public and private entities that have identified ongoing and upcoming issues that impede growth in this industry

The Council will address the agencies about specific decisions and recommendations. Agencies can rebut, with justification, in writing. These rebuttals will be taken to the Governor for resolution.

Council's Measures of Success:

- A reduction in the amount of time between submission and DEQ/DNRC/MDT permit reviews
- A revision of the Sherlock ruling – exempt wells in rural residential development and replace with a collaborative solution
- Set a maximum number of reviews being done by DEQ, MDT, and DNRC at any one time
- Clear and predictable processes with consistent outcomes
- Decrease in number of days from grant to contract

- Programs and projects that are efficient
- Streamline permitting and regulatory processes
- Greater use of existing resources for agencies and private industry
- Increase staffing for the permitting and regulatory agencies to ensure appropriate levels for the development activity forecasted in the market

ECONOMIC DEVELOPMENT BENEFIT

The benefits of creating the Council:

- Creating a communication platform that is focused on resolving development issues
- Streamlining of permitting and environmental review processes
- Improved transparency and predictability of time and resources required for permitting and environmental review
- Improve the investment environment for economic development and job creation
- Establish permitting costs and time requirements that are proportional to the proposed project or action
- Improve the financial viability of projects by increasing the amount and efficiency of investment in economic activity
- Support adequate staffing and resources
- Focus resources on innovation and improvement rather than historical methods and means.

PROBLEM STATEMENT 2

Montana's infrastructure is in bad shape and there is a shortage of funding resources for infrastructure and capital improvements in Montana.

Montana's infrastructure is suffering from old age, deferred maintenance and a lack of critical investment for capacity building that allows economic development (The 2014 Report Card for Montana's Infrastructure, compiled by the American Society of Civil Engineers (ASCE)).

Montana relies heavily on property taxes for local infrastructure funding, including; Special Improvement District (SID), Rural Special Improvement District (RSID) and Bond Initiatives. Local communities and state agencies need access to additional funding mechanisms that do not place the entire burden of infrastructure funding on property owners. The existing state funding programs provide a fraction of the revenue required to repair existing infrastructure, let alone provide for capacity building for economic development and growth.

Many former Montana residents are making important life-change decisions and are moving back to Montana to start a new business venture. Communities with sound infrastructure and attractive livability factors will be the places people choose to live and start their businesses. High quality work force and good schools for their children are essential. Communities that accommodate an active daily lifestyle and high quality cultural environment will be the place these people choose to start their new businesses and invest their assets.

Strategic investment in public infrastructure should strive to leverage five to seven times the private sector investment in redevelopment and economic growth. In other words, for every \$10 million dollars in public infrastructure investment, strategically directed, \$50 - \$70 M in private sector investment will be incentivized. This investment in infrastructure will create thousands of permanent jobs in Montana and provide for the future growth of our economy.

Historically, the Legislative process uses infrastructure funding to balance the final State budget and funding is often a casualty of partisan discord. The funding levels are largely based on limited revenue projections rather than the needs assessment and prioritization through financial analysis and costs of deferred maintenance and repair. Two year legislative funding cycles do not provide a long term or reliable revenue source for economic development, community development or business investment. An example is that many contractors are unable to purchase expensive equipment without some assurance that infrastructure funding sources will be stable and predictable.

To respond to the opportunities ahead, the KIN members are proposing the following action:

KIN RECOMMENDATION #2

1. Increase fuel tax \$0.10 per gallon for transportation infrastructure funding. This enables the funding to cover all aspects of infrastructure and not just roads and bridges. The funding must cover the necessary state match to bring federal dollars into the state for infrastructure projects
2. Consider a Visitor Tax for community infrastructure needs
3. Establish an Infrastructure “Czar” at the Cabinet level to coordinate infrastructure programs across state agencies
 - a. Use The Road Information Program (TRIP) report in addition to the Engineers’ report to coordinate policy and decisions within the Industry
4. Coordinate County and Community efforts to prepare Capital Improvement Plans on 20 year cycles
5. Prepare a “Best Practices Analysis” of infrastructure funding by peer states
6. Educate legislature on needs of the state and work with the Legislature to establish a long term Capital Improvement Program for the entire state in all funding categories
7. The policy should incentivize smart-development patterns which promote–redevelopment, infill, and higher-density, mixed use neighborhoods. A focus towards controlling the geographic range of communities which match the tax base must be considered to holistically maintain the necessary and anticipated infrastructure.
8. Preservation of our rural and agricultural environment is part of the policy

ECONOMIC DEVELOPMENT BENEFIT

The economic development benefits of infrastructure investment are clear. A solid infrastructure policy will serve as a catalyst for investment and will strengthen the image of Montana as a great place to live, work and own a business. Montana’s current economic resurgence is based in part on the notion that entrepreneurs and business owners can live and work where they vacation. Factors influencing the decision to start a new business venture include infrastructure availability, community livability, workforce skills and availability, and the quality of education available.

PROBLEM STATEMENT 3

Homeownership and rental housing is out of reach for many Montanans.

Since 2006, the percentage of homeowners in Montana has dropped from 69.9% to 66.4%. Montana is one of the five states that does not fund housing development. The others are: Alabama, Arkansas, Idaho and Rhode Island.²

In nearly every county, there is a shortage of housing for sale for Montanans. In some cases, over regulation has pre-empted common sense solutions that would make home development more affordable.

The expense of meeting more stringent building codes, local development fees and delays in approvals all add to the cost of homes. Incremental changes from various state agencies can have a substantial cumulative effect on a home price.

Local interpretation of regulations causes variations in housing costs among jurisdictions and promotes urban sprawl as builders move outside of the city limits. Builders are opting to build homes on acre lots or develop less than 5 home sites to reduce their regulatory burden

The most recent data shows that the Average Annual Income in Montana is \$48,348. For this income, a home costing \$170,489 is affordable, and monthly rent of \$993 is affordable.¹

Businesses seeking to relocate to Montana refer to housing as an impediment to relocation. Housing stock for employees within the desirable communities is a critical resource to future economic development.

1. US Census Bureau, Data: American Community Survey (ACS) 2009-2013 Estimates, Compiled by the Census & Economic Information Center, MT Dept. of Commerce
2. Center for Community Change, Housing Trust Fund Project

To respond to the opportunities ahead, the KIN members are proposing the following:

KIN RECOMMENDATION #3

Fund the Housing Montana Fund with an appropriation of \$25,000,000 annually to be used:

-
- For low-interest loans for development of new homes and apartments and to preserve existing homes and apartments to developer, builders and prospective home owners
- To provide a financing mechanism to encourage the use of 4% housing credits, including allowing real estate tax abatement at 60% of AMI
- To provide rental assistance funded by savings in Medicaid and other state department budgets, mandating that discharges from an institution must be accompanied with rental support
- Provide home buyer assistance
- Renovation of single family houses
- Middle-market housing development
- Infrastructure funding for development

Create a coherent state housing policy to include:

- Creation of a permanent “Homes for Montanans” Champion within the Governor’s office at the beginning of fiscal year 2017, to:
 - Work with state agencies and the industry to assess the life-cycle impact of proposed regulations
 - Explore public and private funding options (including savings in Medicaid, Corrections and other supportive public funds)
 - Serve as a resource for State, Indian and local governments and the legislature
- Creating funding streams for housing, such as;
 - Allowing Targeted Economic Development District (TEDD) and Resort Tax revenue to be used for housing
 - Rewarding good planning with Tax Increment Financing (TIF) funding
 - Innovative financing through the Montana Board of Housing to incent density and energy-efficiency
 - Allow deferred-equity share financing, potentially using the Board of Investments and retirement funds as loan pools
 - Support homebuyer education.
- Adopt the Uniform Manufactured Housing Act (UMHA) to give owners and buyers of manufactured homes the ability to have their homes classified as real property by following an easy-to-use, streamlined procedure.

ECONOMIC DEVELOPMENT BENEFIT

The benefit of developing and preserving homes far reaches the actual home and family within that home. Job creation, income growth as well as community stability are all credited to the development of housing throughout the nation.³

3. NAHB, April 2015 Housing Policy Department Report

PROBLEM STATEMENT 4

The construction and housing industries require qualified, skilled and educated individuals in order to meet the demands of growth within the State. There is a shortage of qualified workers in the industry.

There is no coordination and communication between the housing and construction industry and the state's education institutions. The results are a shortage of qualified Montanans to fill good paying jobs, and a lack of secondary and post-secondary education offered for jobs skills that are required for our growing economy.

There are not enough workers to do the jobs in the housing and construction industries. Employers are not able to keep qualified employees on the job through project completion and ensure a continuity of workforce for prospective development because if a person is skilled, they move to a higher salary offered by the competition. Ideal employees need specific training on how buildings function – such as flashing, setting the grade, skilled trades work and industry careers.

Students in Montana are encouraged to go to 4-year schools while 25% are not completing this education track. More emphasis should go towards encouraging students to go into the trades in Montana. The Department of Labor and Industry promotes trades in the work force development division, but it is not equally promoted in the K-12 environment.

- The Construction Industry is responsible for the fifth highest demand for private employees in Montana.
- The South Central region of Montana, alone, projects an annual employment growth of 1,600 for Insulation Workers, Cement Masons, Carpenters, and Construction Managers.
- Statewide, for the Construction Industry, the average job gain per year is 770.
- The Projected Job Gains in the Construction Industry in Montana, from 2014 to 2024, is over 6,500.
- The Projected Occupational Demand in the Construction and Extraction Occupations, for 2014 to 2024, is 1,273 job openings each year. This includes 710 new jobs and 563 replacement needs.
- Carpenters, the second highest paid occupation, are one of the top ten with the most job openings between 2014 and 2024. The average annual wage in 2014 was \$39,610. There are 224 annual openings.
- First-Line Supervisors of Construction Trades are among the high-earning careers in Montana, with 87 annual openings and an average annual wage of \$62,633.
- Construction Managers are projected to have 38 openings per year and earn an average annual wage of \$85,862.
- For the Architecture and Construction career cluster, there are total annual openings of 1,795.⁴

There are work-and learn programs that are effective in the marketplace that require additional support and offer workforce solutions to many employers as well as Montanans seeking good-paying jobs.

4. Montana Economy at a Glance, Montana Department of Labor & Industry, Research and Analysis Bureau, 2015: Employment Projections, State of Montana 2015-2024, Montana Department of Labor & Industry

To rapidly respond to the opportunities ahead, the KIN members are proposing the following:

KIN RECOMMENDATION #4

The Governor's advisor on Education will promote industry-focused educational policy and development of new programs.

The Education policy advisor will convene public education and private industry leaders with Montana Contractors Association, Developers, Unions, and higher education leaders to do the following:

1. Develop scholarships for workforce development in the housing and construction industry to incent participation in work and learn programs
2. Create opportunities for focused career marketing / job fair outreach by the industry
3. Montanans need reciprocating state for licenses, review and consider changing regulations to improve recruitment efforts
4. Create licensing or credentialing process for construction employees to facilitate hiring and skill development
5. Explore incumbent worker programs and create a training tax credit for businesses in the housing and construction industries (not just small businesses) - to assist employers with training and paying employees to grow within the industry
6. Develop a credentialing system for prospective employees required in the industry including stackable credentials
7. Create a hands-on certification program
8. Leverage the Department of Labor Codes Bureau to educate the work force.
9. Explore sources of funding such as the Montana Community Foundation for student apprenticeship scholarship funding
10. Increase awareness of apprenticeship and College / High school transition
11. Create an early awareness of construction trades across gender boundaries
12. Maximize apprenticeship programs in the trades and industry workforce
13. Leverage existing on-the-job training programs in Montana to facilitate a cohesive policy and program
14. Encourage private / public partners to collaborate and solve workforce training issues within the industry
15. Encourage apprenticeships to ensure additional labor needs in HS/Jr. College and technical schools
16. Increase quantity and quality of workforce over the course of the next biennium.
17. Create a strategic educational industry focused workforce plan
18. Coordinate with Cross-kin groups to deal with this issue in the state
19. Create a link between K-12 education and industry
20. Pursue dual credit in K-12 for apprenticeships in high school
21. Appraisers require a 4-year degree plus two years of apprenticeships to work – there is a shortage in the market

22. This education focus must also address the licensure requirements and discrepancies in licensure requirements.
23. Re-engage the Gear up Program
24. Double the Incumbent Worker Training Program Grant allocation from approximately \$500,000 to a \$1,000,000. Each year, the total allocation is spent within the first 6 months. By doubling these resources, this program could fully utilize and impact training of our workforce immediately. This program lives in the Department of Commerce and has fairly good and measurable data to measure its success.

ECONOMIC DEVELOPMENT BENEFIT

The benefits of this recommendation mirror that of other KINs including:

- Streamlining investment in education toward stable, good paying jobs and,
- Increased job placement rates for Montana's young people.