EXHIBIT A

WASHINGTON COUNTY
Community
Development
Agency

# GROW Fund Policy

## Gap Financing for Redevelopment and Rental and Owner-Occupied Housing in Washington County

Effective March 15, 2022

# GROW FUND OVERVIEW

The Washington County Community Development Agency (the "Agency") is committed to the development of affordable housing and community redevelopment. The Agency established the GROW Fund (Gap Financing for Redevelopment and Rental and Owner Occupied Housing in Washington County) in 2005 to assist in the construction, rehabilitation, and preservation of affordable rental and owner-occupied housing. In 2012, the GROW Fund was expanded to assist Washington County municipalities in redevelopment efforts. The GROW Fund is available to fill financing gaps for projects implemented by eligible public or private entities with the capacity to develop affordable housing and/or redevelop distressed property.

## Fund Purpose

The GROW Fund is available to:

- Fill financing gaps resulting from restricted rents/sales prices (affordable housing) or public intervention (redevelopment);
- Demonstrate local commitment to affordable housing and redevelopment activities to state and federal funding partners; and/or
- Leverage public and private sector funds.

## Delegation of Authority

The Agency's Board of Commissioners has established this policy to guide the use of the GROW Fund. Agency staff is responsible for ensuring that funds are provided only to eligible applicants and expended only for allowable costs. GROW Fund recommendations will be presented by Agency staff to the Board of Commissioners for final approval at a regularly scheduled meeting.

## Capitalization of the GROW Fund

The GROW Fund consists of, but is not limited to, funding provided by the Agency.

- CDA Levy: The Agency established the GROW Fund by appropriating funds through the Agency's special benefit levy. The Agency evaluates its commitment to the GROW Fund on an annual basis through the adoption of its annual budget.
- Fund Income: The Fund will utilize a “Revolving Loan Fund” concept. Loan repayments and prepayments will be considered Fund Income and will be deposited back into the Fund to make additional loans.
- Match Funding: From time to time, the Fund may receive additional funds from outside sources. Moneys received from other sources will be deposited into the Fund and used to make loans.

## Funding Availability

GROW funds are available on a first come, first served basis. Applications will be accepted throughout the year as long as uncommitted funds are available and the application meets both the GROW fund requirements and Agency priorities. The Agency requires a minimum of 60 days from the date a full and complete application is received to the date approved by the Board of Commissioners. The Agency may determine to fund an application in whole or in part. In its sole discretion, the Agency reserves the right to waive any provision of this policy.

## RENTAL AND OWNER-OCCUPIED HOUSING APPLICATIONS

### A. Rental and Owner-Occupied Housing Applications

Applicants proposing an affordable rental or owner-occupied housing project, must submit to the Agency an application in the form provided by the Agency and complete with all requested attachments (See Application for full list of submittals).

1. Applicant: The Agency will accept applications from rental housing owners and developers and owner-occupied housing developers. Applications will not be accepted from individual homebuyer/homeowners.

2. Application Fee: Rental and owner-occupied housing applications must be accompanied by a fee of $1,500.00. Except when an application is withdrawn by a developer prior to review by Agency staff, application fees shall be nonrefundable.

3. Community Review/Letters of Support: At the time an application is submitted for GROW Funds the applicant must include a letter from the city in which the development is located stating the current zoning and approval status.

    a. In addition, the Agency will submit all applications for GROW funding to the city in which the development is located for review and comment. Cities will be given a reasonable period of time to review and submit comments.

    b. The Agency will not approve any request for funding where a community indicates that the development is not consistent with the community's plans, policies, or goals.

4. Leverage: Applications must be able to demonstrate a minimum of two dollars of other funds public or private to one dollar of GROW Funds (i.e. 2:1 ratio).

5. Funding Request: Requested GROW funding must be in the form of a loan. Grant requests will not be accepted.

### B. Threshold Eligibility Requirements

To be eligible for funding through the GROW Fund, the following threshold requirements must be met:

1. Income Requirements: Income restrictions will be established according using HUD/MTSP area median income (AMI) guidelines for the Minneapolis/St. Paul metropolitan statistical area as applicable:

    a. Rental projects: The annual gross income of the renter household must be at or below 60% AMI.
    b. Owner-occupied projects: The annual gross income of the home buyer household must be at or below 80%AMI.

2. Rent Limits: For rental applications, rents must be limited to the most current HUD/MTSP AMI rent schedule (e.g. Low Income Housing Tax Credit Rent Limits) for 50% AMI or below, less applicable utility allowance.

3. Purchase Price Limits: For owner-occupied applications, purchase prices must be limited to the most current Metropolitan Council purchase price limit.

A housing development applying for GROW funds which receives a public or non-profit subsidy, tax credits or other assistance under a state or federal may contain market rate units, insofar as permissible under those Funds. However, GROW funds may not be used to support market rate units.

## C. Eligible Activities / Costs

GROW Funds can be used for the following activities on either rental or owner-occupied projects:

1. Land acquisition
2. Construction and/or rehabilitation
3. Architectural and engineering services
4. Environmental remediation
5. Site improvements (i.e. streets, sewer, water, lighting, landscaping)
6. Demolition

## D. General Requirements

1. Design Requirements: Design of the project must comply with all applicable codes, rules and regulations including but not limited to zoning, building and energy codes, accessibility and other local, state, and federal requirements. Those developments in cities and municipalities, which have not adopted the State Building Codes, must design and construct the development to comply with the State Building Code.

2. Organizational Capacity: Applications must be received from a duly created and validly existing corporation, partnership, or other entity. Applicants must also demonstrate that the skills and experience of the development team and the property management team (if applicable) are appropriate to the size and complexity of the project.

3. Site Control: Applicants must be able to provide, at the time the application is submitted, evidence of single owner site control.

4. Relocation Plan: If applicable, applicants must show that a relocation plan has been developed to ensure that comparable units within the community are available and the budget is adequate to cover relocation costs. Applications proposing to relocate existing tenants who are utilizing Housing Choice Vouchers will not be accepted.

5. Developer Fee Limits: Maximum developer fee allowable for rental projects shall be 15% of project costs before developer fee for the first 50 units; thereafter 8% per unit for units 51+. For owner-occupied projects, developer fee may not exceed 10% of project costs before developer fee. The Agency reserves the right to waive developer fee limits and/or approve changes to amount of developer fee proposed in the initial application.

## E. Applicant / Developer Eligibility Requirements

In order to be eligible to receive GROW Funds, all applicants must complete a Developers Qualifications form. The Agency may apply for GROW funds as a developer or as a partner in a development project. Developers that have been disbarred from funding from U.S. Department of Housing and Urban Development or the Minnesota Housing Finance Agency will not be eligible for GROW Funds.

In addition to the preceding General Requirements, recipients of GROW funding must also comply with the following ongoing requirements.

1. Monitoring: Initially applicants must provide to the Agency a list of actual tenant rents and incomes and certify that the tenant rents and incomes are accurate and in compliance with the rent and income requirements established by the Fund. To fulfill this requirement the Agency will accept copies of reports submitted for other affordable housing programs (Low Income Housing Tax Credits, Tax Exempt or Housing Revenue Bonds, etc.). Otherwise, the developer must generate and submit a report in a format acceptable to the Agency to document compliance.

   Additionally, the developer of a project receiving GROW funding will be required to certify to the Agency that the rental rates are within applicable limitations on an annual basis.

2. Continuing Affordability: For those owner-occupied projects assisted with GROW funds, units must remain affordable for a period of not less than 15 years. Rental projects assisted with GROW funds must remain affordable for a period of not less than 30 years. The affordability period will be documented through a Declaration of Land Use Agreement.

3. Acceptance of Section 8 Housing Choice Vouchers: Developers of rental units will be required to sign an agreement that it will participate in the Section 8 Housing Choice Voucher program for the duration of the affordability period. Participation means that to the extent the developer has units that meet the requirements of the GROW Fund, they will not exclude from consideration qualified families receiving tenant-based rental assistance through the Section 8 Housing Choice Voucher program.

## F. Loan Limits and Terms

1. The maximum available to affordable housing applications meeting Threshold Eligibility Requirements is $10,000 per eligible unit, up to $500,000 per project.

   When the Threshold Eligibility Requirements are exceeded in any of the following ways, Developers may request an increased award of $25,000 per qualifying unit:

   a. Project aims to preserve affordability of a Naturally Occurring Affordable Housing (NOAH) development or renew/extend the affordability commitment for a LIHTC development nearing the end of its initial compliance or extended use period;
   b. Rental project includes eligible units with rents and incomes restricted to 30% AMI;
   c. Rental project includes project-based rental assistance;
   d. Project will set aside units for special populations (High Priority Homeless; Persons with Disabilities) and provide supportive services to those households; and/or

   e. Project has extraordinary development costs as a result of historic preservation, environmental conditions, or utility extensions.

The Agency may consider expanding the per-project limit up to $750,000 if project exceeds Threshold Eligibility Requirements in any of the ways identified above and meets two or more of the following conditions:

   a. Developer commits to an affordability period greater than 30 years;
   b. Intermediary costs are below 15%;
   c. GROW loan to be structured as interest-bearing with interest payments made annually and/or amortizing;
   d. Developer fee does not exceed 80% of maximum allowable; and/or
   e. Project provides the Agency with a right of first refusal or other means of future ownership opportunity.

2. GROW Funds will be awarded to the owner or developer (not individual homeowners). All funds will be structured as loans secured against the property. Loan structure will be dependent on the period of affordability and the project's ability to repay, as determined by the Agency's underwriting and financial feasibility analysis. Loan agreements for owner-occupied projects shall include provisions to preserve income eligibility requirements and affordability through subsequent resales. The Agency will opt to recover its funds as quickly as possible to recycle funds for additional loans. Where feasible, the Agency will consider term loans. The Agency will consider:

   a. Term Loan: Repayable with flexible terms and reasonable interest rate.
   b. Deferred Loan: Repayable at a future certain date, upon available after-tax cash flow, and/or upon on sale of property, default, or refinancing.
   c. Loan Guarantee: Escrowed in a third-party account as a credit enhancement for a private or public lender.
   d. Forgivable Loan: Forgiven after certain conditions of the agreement are met. This structure shall only be considered under exceptional circumstances or for special needs projects.

3. A closing fee of $3,500 will be payable to the Agency prior to closing. At its discretion, the Agency may seek reimbursement from the applicant for costs in excess of the required closing fee, including extraordinary legal fees.

4. To ensure GROW Funds can remain available to support eligible projects, reservations will expire 12 months after the date of Board approval unless the applicant demonstrates significant progress toward securing funding commitments and land use approvals. Developers may request an extension to accommodate extenuating circumstances; the Agency reserves the right to consider each request on a case-by-case basis. GROW Fund reservations will automatically expire if the primary financing source proposed in the application is not awarded within the timeframe proposed in the application.

### G. Feasibility Analysis

In order to ensure that limited resources are utilized in the most effective manner, funding applications will be reviewed by Agency staff, analyzing the following items:

1. Reasonableness of costs

   a. Per-unit construction and developments costs: Applicants must demonstrate the project is cost-reasonable and in line with per-unit costs of comparable developments. The Agency will utilize predictive cost modeling and take into consideration special construction techniques or features that support the needs of targeted demographics.
   b. Developer fee: Maximum developer fee allowable for rental projects shall be 15% of project costs before developer fee for the first 50 units and 8% per unit thereafter for units 51+. For owner-occupied projects, developer fee may not exceed 10% of project costs before developer fee. The Agency reserves the right to waive developer fee limits and/or approve changes to the fee proposed in the developer's initial application.
   c. Consultant fees and financing costs
   d. Reasonableness of Maintenance and Operating costs
   e. Level of Operating and Replacement reserves

2. Debt coverage ratio

3. Cash flow analysis: Cash flow after required debt service and deferred developer fee payments shall be evaluated for reasonableness relative to effective gross expense. Cash flow analysis shall exclude required reserve deposits and fees for supportive services; asset management, partnership, and/or investor fees shall be included.

4. Market analysis and demonstration of need for affordable housing: Developer's market study for new construction or acquisition-rehabilitation projects must demonstrate reasonable demand and anticipated absorption rate for housing product proposed.

5. Development Team Capacity
   a. Developer experience
   b. Ownership experience
   c. Property management experience, if applicable
   d. Supportive services provider experience, if applicable
   e. Compliance history

6. Level of affordability
   b. Rents or purchase price restrictions
   c. Income restrictions
   d. Length of affordability period

7. Leverage of outside dollars (e.g. private, nonprofit):

8. Readiness to proceed

9. Prioritization of Funds: When evaluating competing applications from developers, the Agency may choose to prioritize projects located in submarkets or municipalities identified in the Agency's most current Comprehensive Housing Needs report as having greater need.

## REDEVELOPMENT APPLICATIONS

### A. Application

Applicants proposing a redevelopment project must submit an application in the form provided by the Agency with all requested attachments.

1. Applicant: The Agency will accept applications from municipalities and their development authorities (i.e. housing and redevelopment authorities, port authorities, and economic development authorities) located in Washington County.

2. Community Review/Letters of Support: A resolution of support and authorization to submit the application from the applicant city must be included with the application.

3. Leverage: Applications must be able to demonstrate a minimum of two dollars of other funds public or private to one dollar of GROW Funds (i.e. 2:1 ratio).

4. Funding Request: Requested GROW funding must be in the form of a loan. Grant requests will not be accepted.

### B. Threshold Eligibility Requirements

To be eligible for funding through the GROW Fund, the following threshold requirements must be met:

1. Redevelopment projects must include blighted or under-utilized areas which do not maximize their potential economic value and are or will be impacting the livability of a community.

2. The proposed redevelopment site requires additional capital or service costs.

3. The municipal applicant does not have sufficient resources to adequately implement redevelopment activities.

### C. Eligible Activities / Costs

GROW Funds can be used for the following activities on redevelopment projects:

1. Land acquisition
2. Relocation expenses
3. Environmental investigation and/or remediation
4. Site improvements (i.e. streets, sewer, water, lighting, landscaping)
5. Demolition

### D. General Requirements

1. Organizational Capacity: Applications must be received from a duly created and validly existing municipality, economic development authority, housing and redevelopment authority, corporation, partnership, or other entity. Applicants must also demonstrate that the skills and experience of the redevelopment team are appropriate to the size and complexity of the project.

2. Community Participation:  At the time an application is submitted for GROW Funds the applicant shall demonstrate its commitment to the project through some form of financial contribution including but not limited to waiving/reducing fees, land acquisition, demolition expenses, installation of public improvements, tax increment financing, or other types of expenditures documented by the municipality.

3. Site Control:  Applicants must be able to provide, at the time the application is submitted, evidence of site control.  Evidence includes: deed of trust, current and executed purchase agreement or sale agreement, current title showing applicant as owner, or option agreement.

4. Relocation Plan:  If applicable, applicants must show that a relocation plan has been developed to ensure that comparable units within the community are available and the budget is adequate to cover relocation costs.

**E. Applicant / Developer Eligibility Requirements**

Only one application from a municipality will be considered in each calendar year.

**E. Loan Limits and Terms**

1. The maximum available to redevelopment applications is $250,000 per project.  The Agency may consider expanding the per project limit under the following conditions:

   a. Project has extraordinary development costs as a result of historic preservation, environmental conditions, and utility extensions.
   b. Project has a unique economic benefit to the community and/or county.

2. GROW Funds will be awarded to the municipality or its development authority (not to contracted developer).  All funds will be structured as loans. Loan structure will be dependent on the project's ability to repay, as determined by the Agency's underwriting and financial feasibility analysis. The Agency will opt to recover its funds as quickly as possible to recycle funds for additional loans. Where feasible, the Agency will consider term loans.  The Agency will consider:

   a. Term Loan:  Repayable with flexible terms and reasonable interest rate.
   b. Deferred Loan:  Repayable at a future certain date, upon available after-tax cash flow, and/or upon on sale of property, default, or refinancing.
   c. Forgivable Loan:  Forgiven after certain conditions of the agreement are met. This structure shall only be considered under exceptional circumstances or for special needs projects.

**F. Feasibility Analysis**

In order to ensure that limited resources are utilized in the most effective manner, funding applications will be reviewed by Agency staff, analyzing the following items:

1. Reasonableness of costs
   a. Redevelopment costs
   b. Developer fee

   c. Consultant fees and financing costs

2. Leverage. Applications should include a variety of other funding sources committed to the project. Other funding sources could include CDBG, TIF, DEED, Metropolitan Council, municipal, or other public and private resources. Municipal sources may include waived fees.

3. Readiness to Proceed. The applicant should be ready to proceed with the identified project upon funding award determined through financing commitments, land use approvals, property ownership, and other documentation.

4. Housing Affordability. The Agency places greater priority on redevelopment projects that will result in new affordable housing in Washington County. Applicants should consider the inclusion of affordable housing in their redevelopment plans.

5. Mixed-Use Development. The Agency encourages redevelopment which promotes both economic and community development through a mixture of property types and uses demonstrating greater housing variety and density, compact development, pedestrian and bicycle friendly design, and/or recreation opportunities which will create a strong sense of community.

6. Transit Oriented Development Principles. The Agency encourages redevelopment supportive of public transit.

7. Sustainability. The Agency encourages redevelopment which results in healthier communities including the use of sustainable materials and methods; pursuing LEED certification; and/or otherwise improving the health and energy efficiency of the community.