



GROW Fund Policy

Growing Affordable Rental and Owner-Occupied
Housing in Washington County

Effective May 21, 2024

GROW FUND OVERVIEW

The Washington County Community Development Agency (the "Agency") is committed to the development of affordable housing. The Agency established the GROW Fund (Growing Affordable 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. The GROW Fund is a Local Housing Trust Fund as defined in MN Statute §462C.16. The GROW Fund is available to fill financing gaps for projects implemented by eligible public or private entities with the capacity to develop and preserve affordable housing.

Fund Purpose

The GROW Fund is available to:

- Fill financing gaps resulting from restricted rents/sales prices on qualifying affordable housing developments including:
 - New affordable multifamily rental developments
 - New homeownership developments subject to purchase price and resale restrictions
 - Preservation of properties with an existing affordability restriction or rental assistance contract
- Demonstrate local commitment to affordable housing 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 are 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. The Agency's Executive Director is authorized to approve administrative revisions to this GROW Policy from time to time.

Capitalization of the GROW Fund

The GROW Fund consists of, but is not limited to, funding from the following sources:

- State and Local Affordable Housing Aid: Funds allocated by the State of Minnesota to Washington County via the Local Affordable Housing Aid and Statewide Local Housing Aid Acts, MN Statutes §477A.35 and §477A.36, respectively.
- 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.

Reporting

Per MN Statute §462C.16, Subd. 5, the Agency shall report annually on GROW Fund activities.

RENTAL AND OWNER-OCCUPIED HOUSING NEW DEVELOPMENT AND PRESERVATION PROPOSALS

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: 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 comprehensive plan.
4. Leverage: Applications for new rental development 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). Applications for preservation projects must seek to leverage additional funds, including existing operating or replacement reserves and other state/local resources, when feasible and reasonable. Staff will review leverage on preservation applications on a case-by-case basis.
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 homebuyer household must be at or below 115% 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 MN Housing Start Up program 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 program 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
7. Financing or soft costs related to the above activities

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.
6. Underwriting: Rental development applications must align with current Minnesota Housing underwriting criteria, unless a waiver request is submitted in writing and accepted by the Agency in its sole discretion. Underwriting analysis will be conducted for all applications by the Agency to promote the long-term sustainability of the proposed development. The final GROW loan amount will be no larger than financially necessary as determined by the Agency's underwriting analysis.

E. Applicant / Developer Eligibility Requirements

In order to be eligible to receive GROW Funds, all applicants must complete a Developer's 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. **Rent Increase Limits:** Developments receiving GROW Funds shall be subject to a restriction on rent increases at annual lease renewal. Once the project is placed in service, annual rent increases for existing residents in all GROW Units shall not exceed the lower of the maximum allowed under the Section 42 of the Internal Revenue Code or up to a 6% increase from the existing resident's prior year contract rent. GROW Units are not required to charge the maximum rent allowed and are encouraged to charge lower rents where financially feasible.

For GROW Units with project-based or tenant-based rental assistance, annual contract rents may be increased to the applicable Fair Market Value or Housing Assistance Payment Standard. If the applicable Fair Market Value or Housing Assistance Payment Standard is lower than the maximum allowed under Section 42 of the Code, annual rent increases for GROW Units with project-based or tenant-based rental assistance shall be subject to the same annual rent increase limitations stated above for existing residents.

Where actual operating expenses have been significantly higher than projected, the Owner may submit a request to the CDA for an annual rent higher than allowed under this section. This request shall be submitted at least 90 days prior to the proposed implementation date of annual rent increase and shall be subject to CDA review and approval in its sole discretion.

4. **Acceptance of Rental Vouchers:** Developers of rental units will be required to sign an agreement that it will participate in the Section 8 Housing Choice Voucher and other rental voucher programs 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 and other rental voucher programs.

F. Loan Limits and Terms

Rental Developments:

The maximum available to affordable rental housing applications meeting Threshold Eligibility Requirements is \$25,000 per eligible unit, up to \$1,000,000 per project.

When the Threshold Eligibility Requirements are exceeded in any of the following ways, Developers may request an increased award of \$50,000 per qualifying unit:

1. Project aims to renew/extend the affordability commitment for a LIHTC development nearing the end of its initial compliance or extended use period;
2. Rental project includes eligible units with rents and incomes restricted to 30% AMI;
3. Rental project includes project-based rental assistance;
4. Project will set aside units for special populations (High Priority Homeless; Persons with Disabilities) and provide supportive services to those households; and/or
5. 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 \$2,000,000 if project exceeds Threshold Eligibility Requirements in any of the ways identified above and meets two or more of the following conditions:

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

Homeownership Developments:

Developers may apply for either new construction or acquisition-rehabilitation projects. To be eligible for GROW funding, homeownership projects must include resale provisions that facilitate long-term affordability through subsequent sales to income-qualified buyers. Resale provisions must be memorialized in a document to be recorded against the property, such as a ground lease or other covenant.

The maximum per-unit award available to affordable homeownership applications meeting Threshold Eligibility Requirements shall be the lesser of \$100,000 or the value of the land, as established through a land appraisal. The maximum loan for proposals meeting Threshold Eligibility Requirements shall be \$1,000,000 per project.

The Agency may consider increasing the per-unit award to \$200,000 and the maximum loan to \$2,000,000 for projects that exceed Threshold Eligibility Requirements by serving households at or below 80% AMI.

General Terms:

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. When financially feasible, 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:

1. Term Loan: Repayable with flexible terms and reasonable interest rate.
2. Deferred Loan: Repayable at a future certain date, upon available after-tax cash flow, and/or upon on sale of property, default, or refinancing.
3. Loan Guarantee: Escrowed in a third-party account as a credit enhancement for a private or public lender.
4. 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.

A closing fee of the greater of \$3,500 or 1% of the loan amount 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.

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. Agency staff may require revisions to the market study to reflect current local market conditions, comparable properties, reasonable market demand areas, etc.
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.