



STAFF REPORT

DATE: 11/19/2024

CONSENT

TO: City Council
FROM: Jason Stopa, Community Development Director
AGENDA ITEM: Approve Local Affordable Housing Aid Agreement with Washington County Community Development Agency (CDA)
REVIEWED BY: Nicole Miller, City Administrator

BACKGROUND:

In the 2023 state legislative session, the Local Affordable Housing Aid (LAHA) program was created to help build and preserve affordable housing. It is funded by a metro area sales tax, beginning on October 1, 2023. The funds are distributed to counties and to cities with populations over 10,000. The amount of LAHA is grossly based on the proportion of cost-burdened households (those who pay more than 30% of their income on housing) living in the county/city. Below is a link to the Department of Revenue's website, which has additional information and the certified amounts for 2024. Lake Elmo's amount is \$48,810.97.

<https://www.revenue.state.mn.us/local-affordable-housing-aid>

ANALYSIS:

The purpose of this Agreement is to authorize the County to undertake essential community development and housing assistance activities pursuant to the LAHA Program. Current programs include the GROW Fund, NOAH GROW Subfund, and the First-Generation Homebuyer Grant program. The program policies are attached.

Prior CDA Programs:

Economic Development:

Open to Business – 14 businesses located in Lake Elmo and 12 entrepreneurs reside in Lake Elmo (may overlap) over past 3 years.

Predevelopment Finance Fund – 2 grants, for master plan for 180 acres on Ideal Ave (\$8,800.00) and for a wetland delineation study (\$3,628.80) in 2019 and 2021, respectively.

Homeownership:

Homeownership Advisory/Counseling Services – 3 homebuyers, 3 foreclosure prevention, and 4 HECM (reverse mortgage) counseling clients over past 3 years.

Home Improvement Loan Program – 1 homeowner currently on wait list.

Septic Repair/Replacement – 8 loans and 4 grants over past 3 years, totaling \$221,500.

ISSUE BEFORE COUNCIL: Should the city approve the Local Affordable Housing Aid agreement with the Washington County CDA?

FISCAL IMPACT: None

OPTIONS:

- Approve the LAHA Agreement
- Deny the LAHA Agreement
- Table for future discussion

RECOMMENDATION:

If removed from the Consent Agenda, staff recommends the following motion:

“Motion to approve the Local Affordable Housing Aid Agreement between the City of Lake Elmo and Washington County CDA.”

ATTACHMENTS:

- Washington County CDA Agreement
- GROW Fund, NOAH GROW Subfund, and the First-Generation Homebuyer Grant program policies

LOCAL AFFORDABLE HOUSING AID AGREEMENT
between
CITY of LAKE ELMO, MINNESOTA
and
WASHINGTON COUNTY COMMUNITY DEVELOPMENT AGENCY

THIS LOCAL AFFORDABLE HOUSING AID AGREEMENT (the “Agreement”) is entered into as of the _____ day of _____, 2024 by and between the City of Lake Elmo, Minnesota (the “City”), 3880 Laverne Avenue North, Lake Elmo, Minnesota 55042, a municipal corporation and political subdivision of the state of Minnesota, and the Washington County Community Development Agency (the “CDA”), 7645 Currell Boulevard, Woodbury, Minnesota 55125, a public body politic and corporate; also referred to as “Party” or “Parties.”

WHEREAS, the State of Minnesota created Local Affordable Housing Aid (“LAHA”) under Minnesota Statutes, Section 477A.35, as may be amended, which established distributions to metropolitan area counties and tier I cities located in a metropolitan county for qualifying projects as defined in Section 477A.35, subd. 4 (“Qualifying Projects”).

WHEREAS, the City desires to engage the CDA to receive the City’s LAHA funds and administer Qualifying Projects on behalf of the City.

WHEREAS, the CDA desires to serve in this role with its experience in and staffing of housing finance, preservation, and development.

NOW, THEREFORE, in consideration of the mutual covenants and promises contained in this Agreement, the sufficiency is hereby acknowledged, it is agreed by and between the Parties as follows:

1. **TERM.** This Agreement shall commence as of the date written above and shall continue until all duties are fulfilled, unless sooner terminated under the terms of the Agreement.
2. **DUTIES OF THE CDA.**
 - 2.1 Authorized to Act on Behalf of the City. The CDA shall act as the agent for the City to receive and administer LAHA funds according to state statutes, laws, and rules. The CDA shall assume all duties and obligations that would otherwise be imposed upon the City, specifically:
 - a. Spending the funds received under this Agreement on Qualifying Projects, including disbursements to the CDA, eligible individuals and subrecipients, as well as contractors, gap financing, and vendors, all after determining that the use meets all requirements of Qualifying Projects.

- b. Maintaining complete and accurate records of funds received and all disbursements.
- c. Ensuring timely expenditure of LAHA funds by December 31 in the third year following the disbursement. If funds cannot be spent on Qualifying Projects by the deadline due to factors outside of the control of the CDA, the CDA will work with the City to transfer funds to a local housing trust fund.
- d. Preparing an annual report to the Minnesota Housing Finance Agency, as required starting December 1, 2025, under Minnesota Statutes, Section 477A.35, subd. 6(b).

2.2 Compliance. The CDA shall comply with all LAHA requirements.

2.3 Identification and Use of LAHA Funds.

- a. All LAHA funds received and expended under this Agreement will be spent solely on Qualifying Projects, defined under Minnesota Statutes, Section 477A.35, subd. 4 and 5, in the city of Lake Elmo.
- b. The City will receive \$48,810.97 in LAHA funding from the State of Minnesota, of which \$48,810.97 will be transferred to the CDA under this Agreement.
- c. The City directs the CDA to use its LAHA funds as follows:
 - i. CDA's Home improvement loans \$48,810.97

3. TRANSFER OF FUNDS.

- 3.1 Transfer by the City. The City shall transfer the LAHA funds received from the State to the CDA. The Parties shall cooperate and mutually agree upon the amount, timing, and transfer of funds to the CDA.
- 3.2 CDA Retention. The CDA shall deposit and maintain the funds received under this Agreement in a separate internal account. The CDA shall maintain appropriate records of funds. The CDA shall administer and disburse all LAHA funds in accordance with this Agreement.
- 3.3 Funding Contingency. The CDA's obligations under this Agreement are specifically contingent upon the disbursement of funds by the State and the City's transfer of funds to the CDA.
- 3.4 CDA Expenses. Unless allowable as a Qualifying Project, administrative and salary expenses incurred by the CDA will be paid by the CDA's special benefit levy and/or program service fees.

4. RECORDS AND REPORTS.

- 4.1 Records. The CDA shall maintain complete and accurate records of funds received and all disbursements.
- 4.2 Reports. Unless otherwise mutually agreed by the Parties, the CDA shall prepare an annual update to the City concerning progress under the Agreement.
- 4.3 Access to Records. The CDA agrees to provide the City, the designated auditors, or any of their authorized representatives access to any books, documents, papers, and records of the CDA which are directly pertinent to this Agreement for the purposes of making audits, examinations, excerpts, and transcriptions.
- 4.4 Record Retention. Pursuant to Minnesota Statutes, Section 16C.05, subd.5, Minnesota Statutes, Section 16B.98, subd. 8 and applicable requirements, the CDA shall maintain records under this Agreement for a minimum of six (6) years from the end of this Agreement.

5. INDEMNIFICATION.

- 5.1 The CDA agrees to hold harmless, indemnify, and defend the City, its officials, agents, and employees against any and all third-party claims of whatever nature, expenses (including attorneys' fees), losses, damages or lawsuits for damages that arise as a result of the willful misconduct, negligent acts, errors, and/or omissions of the CDA in the performance of this Agreement.
- 5.2 Nothing in this Agreement (including, but not limited to, indemnification or insurance provisions) shall be deemed a waiver by either Party of the limits of liability set forth in Minnesota Statutes, Section 466.04 or a waiver of any available immunities or defenses. The CDA's obligation to hold and save harmless in this Agreement shall be limited by the limitations on liability set forth in Minnesota Statutes, Section 466.04, as may be amended from time to time.
- 5.3 The CDA shall notify the City within five (5) business days of actual receipt of any of the potential claims against the CDA that may arise as a consequence of any of the work or services performed or furnished by the CDA under the terms of this Agreement.

- 6. **TERMINATION.** If the CDA materially fails to fulfill its obligations under this Agreement, the City may suspend or terminate this Agreement upon written notice to the CDA specifying the reason for termination.

7. **DATA PRIVACY.** All data collected, created, received, maintained, or disseminated, or used for any purposes in the course of the CDA's performance under this Agreement is governed by the Minnesota Government Data Practices Act, Minnesota Statutes, Chapter 13 or any other applicable state statutes and any state rules adopted to implement LAHA, as well as state statutes and federal regulations on data privacy. The CDA agrees to abide by these statutes, rules, and regulations as they may be amended.
8. **DISPUTE RESOLUTION.** In the event that a dispute arises between the Parties as to the interpretation or performance of this Agreement, then upon written request of either Party, representatives with settlement authority for each Party shall meet and confer in good faith to resolve the dispute. If the Parties are unable to resolve the dispute, they shall make every effort to settle the dispute through mediation or other alternative dispute resolution methods. If the Parties are unable to resolve the dispute through these methods, either Party may commence an action in Washington County District Court.
9. **GENERAL PROVISIONS.**
 - 9.1 Compliance with Laws. The Parties shall abide by all applicable federal, state, or local laws, statutes, ordinances, rules, and regulations now in effect or hereunder adopted pertaining to activities governed by this Agreement. The CDA shall be responsible for the performance of any contractors unless otherwise agreed in writing.
 - 9.2 Minnesota Law to Govern. This Agreement shall be governed by and construed in accordance with the substantive and procedural laws of the State of Minnesota, without giving effect to the principles of conflict of laws.
 - 9.3 Independent Contractor. The CDA is an independent contractor and nothing herein shall be construed to create the relationship of employer and employee or joint venture between the City and the CDA. The CDA shall at all times be free to exercise initiative, judgment, and discretion as to how best to provide the services pursuant to this Agreement. The CDA acknowledges and agrees that the CDA is not entitled to receive any of the benefits received by City employees and is not eligible for workers or reemployment compensation benefits.
 - 9.4 Modifications. Any alternations, variations, modifications, or waivers of the provisions of this Agreement shall only be valid when they have been reduced to writing and signed by authorized representatives of the Parties.
 - 9.5 Severability. The provisions of this Agreement shall be deemed severable. If any part of this Agreement is rendered void, invalid, or unenforceable,

such rendering shall not affect the validity or enforceability of the remainder of this Agreement unless the part or parts which are void, invalid, or otherwise unenforceable shall substantially impair the value of the entire Agreement with respect to either Party.

- 9.6 Survival of Terms. The following components of this Agreement will survive the termination or expiration of this Agreement: 4.4, 5.1, 5.2, 5.3, 6, 7, and 8.
- 9.7 Assignment. Neither Party may assign any interest in this Agreement without prior written consent of the other Party.
- 9.8 Certification and Signatures.
- a. Each Party certifies and warrants that it has the legal authority to enter into and perform under this Agreement and that its governing body has authorized the execution and acceptance of this Agreement.
 - b. Each person executing this Agreement on behalf of a Party certifies and warrants that such person is duly and validly authorized to legally execute and bind the Party to the terms of this Agreement.
 - c. The Parties agree that electronic signature to this Agreement shall be as valid as original signature of the Parties and shall be effective to bind the Parties to this Agreement.
- 9.9 Rights and Remedies. All rights and remedies available to either the City or the CDA under the terms of this Agreement or by law are cumulative and may be exercised concurrently or separately, and the exercise of any one remedy shall not be deemed an election of such remedy to the exclusion of other remedies.
- 9.10 Notices. Notices required to be provided pursuant to this Agreement shall be provided to the following named persons and address unless otherwise stated in this Agreement or in an amendment to this Agreement.
- 9.11 Liaison. To assist the Parties in the day-to-day performance of this Agreement, a liaison shall be designated by the City and the CDA. The Parties shall keep each other continually informed. At the time of the execution of this Agreement, the following persons are the designated liaisons:

For the City:

Jason Stopa, Community Development Director,
jstopa@lakeelmo.gov, (651) 747-3912

For the CDA:

Karly Schoeman, Deputy Executive Director,
karlys@washingtoncountycda.org, (651) 458-6556

IN TESTIMONY WHEREOF, the Parties hereto have caused these presents to be executed.

City of Lake Elmo, Minnesota

By: _____
Charles, Cadenhead, Mayor

Dated: _____

By: _____
Nicole Miller, City Administrator

Dated: _____

Washington County Community Development Agency

By: _____
Steven Ryan, Chair, Board of Commissioners

Dated: _____

By: _____
Melissa Taphorn, Executive Director

Dated: _____



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.



NOAH GROW Fund Policy

Effective May 21, 2024

NOAH 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 meets the requirements of a Local Housing Trust Fund in accordance with MN Statute §462C.16. In response to the growing number of unsubsidized naturally occurring affordable housing (NOAH) properties with rising rent levels and the volume of currently subsidized affordable units reaching the end of their affordability terms, the Agency has established a set-aside of the GROW Fund specifically dedicated to assist in the preservation of NOAH and expiring affordable housing units. The NOAH GROW Fund is available to provide low-cost financing for projects implemented by eligible public or private entities with the capacity to preserve and operate affordable housing developments.

Fund Purpose

The NOAH GROW Fund is available to:

- Provide low cost financing to preserve housing units with rents affordable at or below 60% of Area Median Income (AMI)
- Maintain the physical condition and value of aging rental developments
- 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 NOAH GROW Fund. Agency staff are responsible for ensuring that funds are provided only to eligible applicants and expended only for allowable costs. NOAH GROW Funds for acquisition proposals shall be administered on a programmatic basis, acknowledging the time-sensitivity involved in acquiring a property listed for sale. The Board of Commissioners delegates authority to the Executive Director to approve the award of NOAH GROW funds for acquisition up to the amount of uncommitted funds available. The Executive Director or delegated staff shall notify the Board of Commissioners of the proposed acquisition. NOAH GROW Fund awards for property renovations will be presented by Agency staff to the Board of Commissioners for an approval decision at a scheduled meeting.

Capitalization of the NOAH GROW Fund

The NOAH GROW Fund is a set-aside of the Agency's GROW fund. NOAH GROW Fund sources consist of, but are not limited to, those listed below. NOAH GROW funding awards must meet the statutory requirements of the applicable funding source(s).

- 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.

- 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.
- Fund Income: Where financially feasible, 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.

Funding Availability

NOAH 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 NOAH GROW Fund requirements and Agency priorities. The Agency typically requires a minimum of 60 days to review a full and complete renovation financing application prior to recommendation to 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.

ACQUISITION AND RENOVATION FINANCING PROPOSALS

A. Applications

Applicants proposing the acquisition and/or renovation of an affordable multifamily rental housing development (minimum of four rental units in one rental building), 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 established rental housing ownership and development entities. The Agency will prioritize proposed acquisitions/renovations by Minnesota-based parent entities with a demonstrated commitment to long-term housing affordability and well-maintained properties.
2. Application Fee: Applications must be accompanied by a fee of \$1,500. Except when an application is withdrawn by an applicant prior to review by Agency staff, application fees shall be nonrefundable.
3. Community Review: For renovation applications, Agency staff will communicate with applicable city staff to understand any building code or rental license compliance concerns that should be addressed in the renovation proposal. City staff will be given a reasonable period of time to review and submit comments. The Agency will not approve any request for funding where a community indicates that the proposed renovation is not consistent with the community’s current comprehensive plan.

B. Eligible Activities / Costs

NOAH GROW Funds can be used for the following activities for multifamily rental developments of 4 or more units:

1. Property acquisition and related fees

2. Construction costs related to the property renovation
3. Other costs directly related to the property renovation, including architectural and engineering services, environmental remediation, demolition, financing costs or required fees, temporary relocation costs during renovation, and other similar costs
4. Site improvements (i.e. streets, sewer, water, lighting, landscaping) that support the property renovation

C. Loan Limits and Terms

Loan limits are based on the number and affordability level of rental units. Contract rent levels must meet the most current HUD/MTSP Area Median Income (AMI) rent schedule for the Minneapolis/St Paul/Bloomington Metropolitan Statistical Area by bedroom size, less applicable utility allowance.

Properties with a mix of affordable and higher rent units may apply for NOAH GROW funds, but the NOAH GROW loan amount will be based on the number and affordability level of the units as defined below.

- \$25,000 per unit affordable at 60% AMI
- \$35,000 per unit affordable at 50% AMI
- \$45,000 per unit affordable at 40% AMI
- \$55,000 per unit affordable at 30% AMI

1. Financing structure: NOAH GROW funds are structured as loans secured against the property. Interest rates are provided at below market rates and vary according to market conditions. Contact Agency staff for current interest rates. A Declaration is recorded outlining the number and affordability level of units used to secure the loan. These units must remain at or below the stated affordability for a minimum of 10 years.

The Agency will consider the following financing structures:

- a. Amortizing Loan: Fully amortizing over 10-15 year term.
 - b. Interest-Only Deferred Loan: Interest-only payments with principal deferred for 15-20 year term.
 - c. Deferred Forgivable Loan: 25% of deferred principal and interest forgiven after 15 years, 25% forgiven after 20 years, 25% forgiven after 25 years, and 25% forgiven after 30 years. Principal and interest paid on loan cannot be refunded.
2. Closing fee: Greater of \$3,500 or 1% of loan amount payable to the Agency.
 3. Reservation period: To ensure NOAH GROW Funds remain available to support eligible projects, funding reservations will expire 6 months after the date of Agency Board approval unless the applicant demonstrates significant progress toward securing funding commitments and any required city approvals. Applicants may request an extension to accommodate extenuating circumstances. The Agency reserves the right to consider each request on a case-by-case basis.

D. Compliance Requirements

Recipients of NOAH GROW funding must comply with the following ongoing requirements.

1. Resident Eligibility:
 - a. All existing tenants at the time of application for NOAH GROW funds are considered eligible residents. Existing tenants in good standing with their current lease may not be displaced as a result of receiving NOAH GROW funds.
 - b. New tenant household income must not exceed 70% of Area Median Income, adjusted for household size, as reported on the most recent required Federal tax return for all adult household members. Adult household members not required to file Federal income tax returns may provide alternative documentation of income (such as their most recent Social Security statement, etc.)
 - c. Households receiving rental assistance vouchers are deemed eligible residents without providing further income documentation.
 - d. A rent roll shall be provided at the time of application and annually to demonstrate resident and rent limit eligibility, with supporting income documentation for new lease-ups.
2. Rent Eligibility: Units designated as affordable for the purpose of securing the NOAH GROW funds must continue to provide rent levels at or below their designated affordability level, in accordance with the Fund application and Declaration.
3. Annual Rent Increase Limits for Existing Residents: Where the designated HUD/MTSP rent level by bedroom size for a NOAH GROW unit would allow for an annual increase greater than 6%, annual contract rent increases for existing residents cannot exceed 6%. NOAH GROW Units are not required to charge the maximum rent allowed and are encouraged to charge lower rents where financially feasible. Rents for units receiving rental assistance are not subject to this annual rent increase limit, as long as the rent level for the rent-assisted units remains under the applicable rental assistance payment standard.

Where total actual operating expenses have been significantly higher than projected, the Fund recipient may submit a request to the CDA for an annual rent higher than allowed under this paragraph. This request shall be submitted at least 90 days prior to the proposed implementation date of such annual rent increase and shall be subject to CDA review and approval in its sole discretion. Without prior CDA approval, all rent increases shall be subject to the limitations stated above for existing residents.

4. Acceptance of Rental Vouchers: NOAH GROW Fund recipients will be required to participate in the Section 8 Housing Choice Voucher and other applicable rental voucher programs for the duration of the affordability period. Participation means that recipients will not exclude qualified households who are receiving tenant-based rental assistance through the Section 8 Housing Choice Voucher and other applicable rental voucher programs.

E. General Application Requirements

1. **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 ownership/development team and the property management team are appropriate to the size and complexity of the project. Applicants and the proposed property management firm must not have unresolved Fair Housing complaints or a documented history of Fair Housing violations. Applicants or affiliated entities that are disbarred from funding from U.S. Department of Housing and Urban Development or the Minnesota Housing Finance Agency are not eligible for NOAH GROW Funds.
2. **Site Control:** For renovation applications, applicants must provide, at the time the application is submitted, evidence of site control acceptable to the Agency.
3. **Relocation Plan:** For renovation applications, applicants must show that a temporary relocation plan has been developed to ensure that comparable units within the community are available and the budget is adequate to cover any temporary relocation costs. Any applications proposing to permanently relocate existing tenants in good standing with their current lease requirements will not be accepted.
4. **Design Requirements:** Design of the project must comply with all applicable zoning, building and energy codes, accessibility codes, and other local, state, and federal requirements applicable due to the source of funding. 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.

F. Financial 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 acquisition and renovation costs, including any related costs;
 - b. Required fees and financing costs;
 - c. Reasonableness and sustainability of maintenance and operating costs;
 - d. Level of Operating and Replacement reserves;
 - e. Necessity of funds based on total costs and any other proposed financing.
2. Development team capacity and experience
3. Level and duration of affordability
4. Underwriting analysis to support sustainable development operation, including debt coverage ratio and cash flow analysis. Underwriting analysis will follow the current underwriting guidelines from Minnesota Housing with exceptions approved by the Agency on a case by case basis. The final NOAH GROW loan amount will be limited to what is financially necessary as determined by the Agency's underwriting analysis.
5. Readiness to proceed

6. Leverage of outside dollars (e.g. private, nonprofit)
7. Prioritization of Funds: When evaluating competing applications that meet the funding review priorities identified above, 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.

Policy Amendments

This policy may be amended from time to time by the Executive Director of the Agency to address administrative updates or to reflect the requirements of funding sources or applicable regulations. Substantive policy amendments shall be approved by the Agency Board.

Reporting

Per MN Statute §462C.16, Subd. 5, the Agency shall report annually to Washington County on GROW Fund activities, including activities under the NOAH GROW Fund set-aside.



First-Generation Homebuyer Grant Policy

Effective May 21, 2024

First-Generation Homebuyer Grant Overview

The Washington County Community Development Agency (the "Agency") is committed to supporting affordable homeownership and reducing the homeownership disparity gap within Washington County. The Agency's First-Generation Homebuyer Grant is available to provide additional resources to first generation homeowners within Washington County to support their entry into sustainable homeownership. First generation homeowners do not have the benefit of generational wealth that can be created and passed down through homeownership. They also do not have the benefit of sustained exposure to the rights and responsibilities of homeownership. The First-Generation Homebuyer Grant provides additional support for these new homebuyers, both financially and educationally.

Grant Purpose

The First-Generation Homebuyer Grant is available to:

- Support affordable homeownership for first generation homebuyers in Washington County.
- Reduce the homeownership disparity gap within Washington County.
- Provide education on the homebuying process, as well as the rights and responsibilities of homeownership.
- 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 Agency's Homebuyer Grant. Agency staff are responsible for ensuring that funds are provided only to eligible applicants and expended only for allowable costs. Applications for First-Generation Homebuyer Grants shall be reviewed and approved by designated Agency staff in accordance with this policy.

Capitalization of First-Generation Homebuyer Grant Program

First-Generation Homebuyer Grant sources consist of, but are not limited to, those listed below. Grant awards must meet the statutory requirements of the applicable funding source(s).

- 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 may appropriate funds through the Agency's special benefit levy when approved by the Agency Board of Commissioners.
- Match Funding: From time to time, the First-Generation Homebuyer Grant program may receive additional funds from outside sources, including public, private, or philanthropic funds. Moneys received from other sources will be deposited into the First-Generation Homebuyer Grant program and used to award grants.

Funding Availability

First-Generation Homebuyer Grant 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 the First-Generation Homebuyer Grant requirements.

A. Eligible Recipients

Recipients meeting the following criteria shall be eligible for a First-Generation Homebuyer Grant:

1. The applicant is a first-generation homebuyer household approved for an established mortgage program designated for first-generation homebuyers.
2. The applicant household is purchasing their home in Washington County, Minnesota.
3. All individuals named on the mortgage or note for the home purchase have attended a HomeStretch Workshop provided by the Washington County Community Development Agency, unless a waiver for attendance through another provider has been approved in the sole discretion of the Agency.
4. All individuals named on the mortgage or note for the home purchase have completed homebuyer advising through the Agency, unless a waiver for completion through another provider has been approved in the sole discretion of the Agency.
5. To promote sustainable homeownership, the debt to income ratio for the applicant household is no greater than 43%, as demonstrated by the final underwriting and transmittal summary or other documentation acceptable to the Agency.

B. Grant Amounts and Terms

First-Generation Homebuyer Grants of \$5,000 are available to each eligible applicant household. Partial grant funds may be awarded if insufficient funds are available for a full grant award.

Grants shall be structured as a gift awarded to the applicant household with a gift letter provided for closing. First-Generation Homebuyer Grant funds shall be provided directly to the title company administering the mortgage closing for the applicant household unless an alternative disbursement method has been approved by the Agency in its sole discretion.

Policy Amendments

This policy may be amended from time to time by the Executive Director of the Agency to address administrative updates or to reflect the requirements of funding sources or applicable regulations. Substantive policy amendments shall be approved by the Agency Board.

Reporting

The Agency shall report annually to Washington County on First-Generation Homebuyer Grant awards funded with State and Local Affordable Housing Aid.