



ECONOMIC DEVELOPMENT  
AND  
HOUSING CHALLENGE  
PROGRAM

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# Introduction

## Mission Statement

Minnesota Housing finances and advances affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

## Background

The Minnesota Housing (Agency) was established by the 1971 session of the Minnesota Legislature to finance the construction and rehabilitation of housing for families of low and moderate income. In addition to providing financing for Multifamily rental units, single family mortgage loans and home improvement loans and grants, the Agency participates in and administers other programs which assist in increasing or improving affordable housing for Minnesota residents.

## Chapter 1 – Program Purpose and Background

The Agency's authority to develop the Economic Development and Housing Challenge (EDHC) Program is provided in Minnesota Statute Section 462A.33.

The purpose of the program is to provide funding to assist in the provision of affordable permanent rental housing that supports economic development and redevelopment activities or job creation or job preservation within a community or region by meeting locally identified housing needs. The program will serve rental households in Minnesota with incomes at or below the greater of 80% of state or area median income. The intent of the program, however, is to provide housing that is affordable to the local workforce based upon the:

- wages of the jobs being created or retained in the local area,
- fastest growing jobs in the local area,
- jobs with the most openings in the local area, or
- wages of the workforce employed by organizations making contributions under the Challenge program.

Fifty percent of the program funds must be used for economically viable rental housing proposals that:

- include a financial or in-kind contribution from non-state resources that reduce the need for from State resources; and
- address the housing needs of the local work force.

Among comparable proposals, preference will be given to:

- proposals that include contributions from these non-state resources for the greatest portion of the total development cost; and
- proposals with contributions from local units of government or private philanthropic, religious, or charitable organizations.

## Chapter 2 – Eligibility Criteria

### A. Owner/Sponsor

#### 1. Eligible applicants include

- A nonprofit organization, as defined in Minnesota Statutes, section 462A.03, subdivision 22;
- A city, as defined in Minnesota Statutes, section 462A.03, subdivision 21;
- A joint powers board established by two or more cities that owns or will own the housing;
- A public housing agency that owns or will own the housing;
- An Indian tribe or tribal housing corporation that owns or will own the housing;
- A natural person who owns or will own the housing;
- A private developer, as defined in Minnesota Rules, 4900.3610, subpart 17.

### B. Use and Level of Funding

#### 1. Eligible Uses of Funds

- Acquisition, rehabilitation, or new construction of permanent rental housing with a minimum of four units.
- Single family and duplex properties are allowed in scattered site developments within a city or county with a minimum of four units.
- Temporary uses such as shelters, transitional housing or residential hotels are not eligible for funding under this program.

#### 2. Level of Funding

In determining the amount of the EDHC Loan, the Agency will review cost reasonableness on a per-unit and total development cost basis. The Agency will also analyze the developmental and operational costs to determine the amount of funds provided to the development is not more than is necessary to make the development financially feasible. Funding for general improvements to existing property (such as roof, heating system, or siding) will be determined based upon a percentage of assisted units.

##### a. Activity Type – Rehabilitation

- In the rehabilitation of existing rental housing, both partially assisted (i.e., where there is a mix of income and affordability levels and only a portion of the total units meet EDHC income and affordability requirements) and fully assisted (i.e., all units in the development meet EDHC income and affordability requirements) developments are eligible for assistance. In a mixed income development, only the units that meet the income and affordability requirements of this program

will be funded with these Agency funds. The level of funding will be prorated based on square footage, level of amenities, of the assisted units compared to that of non-assisted units.

**b. Activity Type - New Construction**

- For new construction developments, both partially and fully assisted developments (as defined in paragraph 2, above) are eligible for funding.
- In rural areas, new construction will be allowed within areas of commuting distance of the economic growth area. City sewer and water is required for all new construction proposals. The Agency will review the availability of existing city sewer and water lines to the development without substantial extensions.
- For all new construction proposals, the need for construction of new rental housing units must be demonstrated by sufficient supporting documentation from the local government or other sources, such as: in the seven county metropolitan area, negotiated housing goals with Metropolitan Council, housing and redevelopment authority studies, independent market studies.

**C. Design and Construction Review**

Because EDHC Program is intended to provide affordable housing over the long term (i.e., 30-40 years), the Agency expects that the existing rental housing will be improved beyond a decent, safe and sanitary condition.

For more information, refer to the Consolidated Request for Proposal Guide available at <http://www.mnhousing.gov/resources/apply/multifamily/index.aspx>

and the Multifamily Design Standards at <http://www.mnhousing.gov/housing/architects/multifamily/index.aspx>

**D. Occupancy Requirements**

**1. Income Limits**

Units assisted with EDHC funds must be occupied by households with incomes at the time of initial occupancy that do not exceed 80% of the greater of state or area median income, not adjusted by family size. For more information, go to: [http://www.mnhousing.gov/resources/apply/multifamily/MHFA\\_004714.aspx](http://www.mnhousing.gov/resources/apply/multifamily/MHFA_004714.aspx)

The intent of this program, however, is to provide affordable workforce housing based upon the wages of jobs in the local area. The incomes of households occupying assisted units may very well be less than the maximum income limit defined above. The Agency will not select developments designed to be affordable to households with incomes at the 80% level, if the jobs being created or retained in the local area are at lower income levels.

For acquisition and/or rehabilitation, the borrower will be required to contact each household prior to mortgage commitment and have them disclose their income on a tenant income verification form. The Agency will review the income verifications to verify the number of assisted units.

As assisted units become vacant, they must continue to be leased to income qualifying households. New households shall also disclose their income on a tenant income verification form.

In some instances there may be additional income requirements due to other funding sources.

## **2. Economic Integration**

- Integration of economically diverse households is encouraged. The housing shall be marketed for general occupancy and families.

Property owners shall not refuse to rent to a household solely on the basis of the household's Section 8 or other tenant based rental assistance.

In existing rental properties, there may be a mixture of qualifying and non-qualifying household incomes. These developments are eligible; however, the level of funding will be prorated as specified in Section III.B.2.a.

There are no income limits for non-assisted units in a mixed income development, unless dictated by another source of funding.

## **3. Minimum Term**

The income and occupancy conditions for the assisted units are in effect for the life of the 30-year loan. If the loan is prepaid, the income and occupancy conditions will remain in place for a minimum of 15 years.

## **4. Monitoring**

The income and occupancy requirements will be monitored by the Agency for the length of the 30-year loan.

Household incomes for all assisted units will be reviewed for compliance by the Agency through the review and analysis of tenant income verification forms.

As assisted units become vacant, incomes of new households occupying those units will be verified and analyzed and reported to the Agency on an annual basis. Households need only qualify at the time of initial occupancy and do not need to be re-certified thereafter.

## **E. Rent Requirements**

### **1. Maximum Gross Rents**

Units assisted with EDHC funds must be “affordable to the local workforce.” This means that households occupying the housing pay 30 percent or less of their monthly income for housing costs (gross rent), and that such costs are affordable based on wages of the jobs being created or retained in the local area, as specified in the application for funding.

### **2. Monitoring**

Rent requirements will be monitored by the Agency for the length of the loan.

### **3. Utility Allowances**

Tenant-paid utility allowances are included in gross rent. Generally acceptable utility allowances are those provided by public housing authorities on a Section 8 utility allowance schedule.

## Chapter 3 – General Deferred Loan Characteristics

Agency underwriting parameters for all developments will include analysis of financial feasibility, development costs, and review of management, marketability, and architectural requirements. If there is no amortized debt, the Agency will assume the first mortgage position. Where first mortgage financing is being provided, additional requirements will be based upon the level of assistance requested.

### A. Mortgage Interest Rate and Term

The Agency will provide funds in the form of a loan unless the developer provides documentation that confirms requirements imposed by another funding source greater than the amount of funding provided by the Agency that the Agency funds must be provided in the form of a grant.

First mortgage or subordinated loans will be provided in the form of a 0%, 30 year loan with principal due and payable at the end of the 30-year term. The interest rate may be adjusted in order to allow these funds to be utilized with other sources of funding, such as Housing Tax Credits. In this instance, the interest and principal will be due and payable at the end of the 30-year term. The loan term may be adjusted based on requirements and conditions of other funding sources related to the length of the term or the existence of a leasehold mortgage.

Loans will be full recourse; however, the Agency will allow non-recourse debt to single asset entities.

If funds are provided in the form of a grant, the term shall be 30 years, except that the term may be adjusted based on requirements and conditions of other funding sources related to length of the term or the existence of a leasehold mortgage. The grant will be completely forgiven at the end of the 30-year term, unless conditions of the grant agreement are not met; in that case, the Challenge funds must be repaid in full to the Agency.

### B. Transfers of Ownership/Prepayment

#### 1. Transfers of Ownership

The mortgage loan or grant may be assumed contingent upon:

- a. Agency review and approval of the proposed ownership entity;
- b. Assumption of all contractual obligations with the Agency; and
- c. Payment of a fee equal to the greater of  $\frac{1}{2}$  of 1% of the outstanding mortgage amount or \$1,500; which is an amount equal to the approximate administrative costs incurred by the agency in processing the sale or assumption.

## **2. Prepayment**

The mortgage may be prepaid in full at any time, however, rent and income restrictions will remain in place for a minimum of 15 years. The Agency will charge a prepayment fee equal to the greater of ½ of 1 percent of the outstanding mortgage amount or \$1,500, which is an amount equal to the approximate administrative costs incurred by the agency in processing the prepayment.

## **C. Return on Equity**

Agency statutes currently allow a maximum return of 15% based on actual developer equity for development of units on which the Agency has a mortgage. For the EDHC program, the limitation on return will apply to loans or grants if the loans or grants made by the Agency, from all sources, are equal to or greater than 50% of the total costs, as determined by the Agency. If loans or grants made by the Agency, from all sources, are less than 50% of the total costs, there will be no limit on return.

## **D. Management and Operation**

### **1. Management and Operating Budget**

The budget submitted in the application will be reviewed and compared to budgets of comparable Agency financed developments. Agency comparables will be used in the underwriting of the loan and used to project long-term operating costs that will protect the long-term investment being made by the owner. Agency-approved benchmarks are published in the Consolidated Request for Proposal available at:  
<http://www.mnhousing.gov/resources/apply/multifamily/index.aspx>

The Agency reserves the right to reject or adjust the operating and maintenance figures based upon the information supplied, specific development type, circumstances and/or significant changes to the economics of the development's current market place.

### **2. Utilization of Units**

All units must be rented to family sizes appropriate to the unit size with a ratio of at least one person per bedroom. If, during the course of tenancy, a family size changes, a household may submit a written request to the management agent to transfer to another unit or be placed on a waiting list for such transfer. In the event of a decrease in family size, the household may be required to move into the next available suitably sized smaller unit.

### **3. Marketing**

Owner/Agent shall demonstrate that they have established networks and linkages necessary for residents to maintain housing stability.

## **E. Monitoring and Reporting Requirements**

The Agency actively monitors each development it finances. This includes monitoring of tenant incomes, rents, affirmative action and equal opportunity requirements, and year-end operating reports. The following forms can be found on the Agency web site for the most current version to use.

As Assisted Units become vacant, they must be leased to qualified households who must disclose their income at initial occupancy on an "Initial Occupancy Statement by Tenant" form, as provided by the Agency. This form will be used to ensure that tenants are qualified to occupy the Assisted Unit. In addition, this form will assist in completion of annual reporting of demographic data as requested by the Agency through a "Characteristics of Tenant Households" form for program evaluation.

Additionally, a Data Practices Act Disclosure Statement will be required for each household that occupies an Assisted Unit. This information is necessary for the administration and management of State or Federal programs that provide housing for low and moderate-income families.

## Chapter 4 – Contract Compliance Plan

### A. Policy

It is the policy of the Minnesota Housing to take affirmative action to provide equal opportunity in all of our projects, programs, and other endeavors. The Agency's goal is to achieve a client and recipient mix that is representative of the people who live in our state and our communities, so that all employment and contractual benefits that develop as a result of our programs will be shared by all Minnesotans. This policy applies to all Agency employees and everyone with whom we do business.

### B. Purpose

The purpose of this Plan is to make the Agency's commitment to act affirmatively to achieve equal opportunity in all facets of its operation, clear to both internal staff and outside parties with whom we do business.

### C. Goals

Our goal is to ensure minority and female contractors and subcontractors equal access to business opportunities on Agency financed projects and to encourage the presence of minorities and women at all levels, on the staffs of the program participants having contractual agreements with the Agency. The Agency's goal is to ensure that the workforces on the projects and programs we finance reflect demographically the area in which they are located. Our goal is to ensure equal business opportunity to minority and female contractors and subcontractors on the projects we finance and equal employment opportunity in the workforces of the firms with whom we sign contractual agreements, in which a contractor commits to meet the Agency's employment and business goals. These goals will apply for the length of the contract or the life of the mortgage. The Agency, at its discretion, may set numerical or percentage goals dependent on the location and size of a given project. Current goals will be determined by staff based on the location of the project.

### D. Requirements

The Agency is required to comply with all applicable state, federal and local laws. These requirements are passed on to everyone we do business with, either by contractual agreement or as an Agency policy.

### E. Sanctions

The Agency has the contractual authority to demand full payment of any loan or grant, stop proceeding with any project at any stage, and cease to do business with any entity or individual that fails to follow our affirmative action policies or fails to meet its/his/her contractual equal opportunity obligations.

## **F. Equal Opportunity Laws/Rules**

The operations of the Agency are regulated by the following Equal Opportunity Laws/Rules:

- Executive Order 11246 (Affirmative Action Requirements, Federal and federally derived Contracts)
- Executive Order 11625 (Minority Business Enterprises)
- The Civil Rights Act of 1964 (Title VII)
- Equal Employment Act of 1972
- The Americans with Disability Act of 1990
- Section 504 of the Rehabilitation Act of 1973 as amended
- Minnesota Human Rights Act (Section 363.073)
- Fair Housing Amendments Act of 1988

## Chapter 5 – Agency Fair Housing Policy

It is the policy of the Agency to affirmatively further fair housing in all its programs so that individuals of similar income levels have equal access to Agency programs, regardless of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, family status, or sexual orientation.

The Agency's fair housing policy incorporates the affirmative fair housing marketing practices addressed in Title VIII of the Civil Rights Act of 1968 as amended by the Fair Housing Amendment Act of 1988, which state that it is unlawful to discriminate in the sale, rental, and financing of housing based on race, color, religion, sex, handicap, familial status or national origin; as well as the fair housing protections provided by the Minnesota Human Rights Act, which adds creed, marital status, status with regard to public housing, and sexual orientation.

In part, regarding rental housing issues, Title VIII and the Human Rights Act makes it unlawful to: (i) discriminate in the selection/acceptance of applicants in rental of housing units; ii) discriminate in terms, conditions or privileges of rental of a dwelling unit; (iii) engage in any conduct relating to the provision of housing which otherwise make unavailable or denies rental of a dwelling unit; (iv) make or publish (or have anyone else make or publish) advertisements that indicate preferences or limitations based on race, etc.; (v) tell a person that because of race, etc., a dwelling unit is not available when it is; and (vi) deny access to, or membership or participation in, associations or other services organization or facility relating to the business of renting a dwelling or discriminate in the terms or conditions or membership or participation.

The Agency has a commitment to affirmatively further fair housing for members of the disabled communities by promoting the accessibility requirements set out in the Fair Housing Amendment Act of 1988, which establish design and construction mandates; and provide for the residents' right to make reasonable accommodations, under certain conditions (applicable to covered multifamily dwellings: buildings consisting of 4 or more units if such buildings have one or more elevators; and ground floor dwelling units in other buildings consisting of 4 or more dwelling units).

All Agency programs require owners to market affirmatively, using specific steps geared to the particular program. These steps include:

1. Outreach to all groups protected by the Civil Rights Act of 1968, amended in 1988, and those protected by the Minnesota Human Rights Act;
2. Affirmative marketing strategy that reaches protected groups;
3. Self-analysis to make sure all steps are non-discriminatory; and
4. Upon request by the Agency, the submission of reports and documents that confirm the owner's fair housing efforts.

Participants will be expected to use affirmative fair housing marketing practices in soliciting renters, determining eligibility, and concluding all transactions.

## Chapter 6 – Allocation of Funds

This funding is available on a statewide basis and is made available through the Agency's annual Multifamily Consolidated RFP that provides a means of one-stop shopping by consolidating and coordinating multiple programs into one RFP. The Agency will review all proposals submitted, and will attempt to make the best and most appropriate funding choices for each development selected.

## Chapter 7 – Program Contact

Contact Julie Ann Monson, Program Manager at (651) 297-3123, or the Housing Development Officer identified in your selection letter for questions concerning this program.