



Economic Development and Housing Challenge Program Guide

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Chapter 1 – Program Purpose and Background

Minnesota Housing'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 development of affordable permanent rental housing that supports economic development and redevelopment activities, job creation, or job preservation within a community or region by meeting locally identified housing needs. The program serves rental households in Minnesota with incomes at or below the greater of 80 percent of state or area median income. The intent of the program, however, is to provide housing that is affordable to the local workforce based on any of the following:

- The wages of the jobs being created or retained in the local area
- The fastest growing jobs in the local area
- The jobs with the most openings in the local area
- The wages of the workforce employed by organizations making contributions under the EDHC 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 state resources
- Address the housing needs of the local workforce

Among comparable proposals, preference will be given to:

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

When appropriated by the Minnesota Legislature, Housing Infrastructure Bonds (HIB) may be used to finance the acquisition, rehabilitation, stabilization, or construction of affordable housing. If appropriated, the bond proceeds may be used, among other uses, for:

- Acquisition and rehabilitation of foreclosed or abandoned housing to be used for affordable rental housing
- The costs of new construction of rental housing on abandoned or foreclosed property where the existing structures will be demolished or removed
- Acquisition and rehabilitation of federally assisted rental housing

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- The refinancing of costs of construction, acquisition and rehabilitation, including providing funds to refund, in whole or in part, outstanding bonds previously issued by the agency or another government unit to finance or refinance such costs

The HIB proceeds for such developments may be directed by either the EDHC rules or the Housing Trust Fund rules and guide.

Chapter 2 – Eligibility Criteria

2.01 Owner/Sponsor

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

Eligible applicants for HIB proceeds loans include:

- A nonprofit, tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code
- A governmental entity (excluding the federal government)
- An Indian tribe or tribal housing corporation
- A for-profit entity

2.02 Use and Level of Funding

Eligible uses of funds:

- Acquisition, rehabilitation, or new construction of permanent rental housing with a minimum of four units
- Single family and duplex properties, with a minimum of four units, in scattered site developments within a city or county

Temporary uses such as shelters, transitional housing, or residential hotels are **not** eligible for funding under this program.

If appropriated, the HIB proceeds may be used for:

- Acquisition and rehabilitation of foreclosed or abandoned housing to be used for affordable rental housing
- The costs of new construction of rental housing on abandoned or foreclosed property where the existing structures will be demolished or removed

- Acquisition and rehabilitation of federally assisted rental housing
- The refinancing of costs of construction, acquisition and rehabilitation, including providing funds to refund, in whole or in part, outstanding bonds previously issued by the agency or another government unit to finance or refinance such costs

Level of Funding. In determining the amount of the EDHC loan, Minnesota Housing reviews cost reasonableness on a per-unit and total development cost basis. Minnesota Housing also analyzes the developmental and operational costs to determine that 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 an existing property (such as roof, heating system, or siding) is determined based on a percentage of assisted units.

- **Activity Type – Rehabilitation:** In rehabilitating 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 Minnesota Housing funds. The level of funding will be prorated based on square footage, level of amenities, and the number of assisted units compared to that of non-assisted units.
- **Activity Type – New Construction:** For new construction developments, both partially and fully assisted developments (as defined above) are eligible for funding. In rural areas, new construction is allowed within areas of commuting distance of the economic growth area. City sewer and water is required for all new construction proposals. Minnesota Housing 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 negotiated housing goals with the Metropolitan Council (in the seven-county metropolitan area), the housing and redevelopment authority studies, and independent market studies.

2.03 Design and Construction Review

Because the EDHC Program is intended to provide affordable housing over the long term (i.e., 30-40 years), Minnesota Housing 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](#) and the Minnesota Housing Multifamily [Rental Housing Design/Construction Standards](#).

2.04 Occupancy Requirements

Income Limits. State law governing the EDHC Program allows for units assisted with EDHC funds to be occupied by households with incomes, at the time of initial occupancy, up to 80 percent of the greater of [state or area median income](#), not adjusted for family size. Minnesota Housing requires income limits consistent with those specified in the owner's application, provided that they are not higher than the statutory income limits.

In addition, because the intent of this program is to provide affordable workforce housing based on the wages of jobs in the local area, Minnesota Housing will not select developments designed to be affordable to households with incomes at the 80 percent level, if the jobs being created or retained in the local area are at lower income levels.

For acquisition and rehabilitation projects, the borrower must contact each household prior to mortgage commitment and have them disclose their income on a tenant income verification form. Minnesota Housing reviews the forms to verify the number of assisted units. As assisted units become vacant, they must continue to be leased to income qualifying households. New households must also disclose their income on a tenant income verification form.

If there are other funding sources for the project, there may be additional income requirements.

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

- Property owners must 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.

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 remain in place for a minimum of 15 years.

Monitoring. The income and occupancy requirements are monitored by Minnesota Housing for the length of the 30-year loan.

- Household incomes for all assisted units are reviewed for compliance by Minnesota Housing through the review and analysis of tenant income verification forms.
- As assisted units become vacant, incomes of new households occupying those units are reported to and verified by Minnesota Housing on an annual basis. Households only

need to qualify at the time of initial occupancy and do not need to be re-certified thereafter.

2.05 Rent Requirements

Maximum Gross Rents. State law governing the EDHC Program requires units assisted with EDHC funds to be “affordable to the local workforce.” This means that the rents must be affordable based on the wages of jobs being created or retained in the local area. Minnesota Housing requires rent limits consistent with those specified in the owner’s application, provided that they are not higher than the statutory rent limit.

Monitoring. Rent requirements are monitored by Minnesota Housing for the length of the loan.

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

Minnesota Housing underwriting parameters for all developments include an analysis of financial feasibility and development costs, and a review of management, marketability, and architectural requirements. Please refer to Minnesota Housing's [Multifamily Underwriting Standards](#).

3.01 Mortgage Interest Rate and Term

Minnesota Housing provides funds in the form of a loan. If another funding source greater than the Minnesota Housing funding amount requires Minnesota Housing funds in the form of a grant, the developer must provide documentation of this requirement.

Loans are generally provided in the form of a 0 percent, 30-year loan with principal due and payable at the end of the 30-year term. However, Minnesota Housing may at its sole discretion require 20 percent of cash flow in excess of \$50,000 to be repaid annually. 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. The loan term may be adjusted based on requirements and conditions of other funding sources related to the length of the term. For HIB loans, at Minnesota Housing's sole discretion, the loan documents may also provide that the loan is to be forgiven at the end of the loan term.

Loans are full recourse; however, Minnesota Housing allows non-recourse debt to single asset entities.

If funds are provided in the form of a grant, the term is 30 years. The term may be adjusted based on requirements and conditions of other funding sources related to length of the term. The grant will be completely forgiven at the end of the 30-year term, unless conditions of the grant agreement are not met. If this happens, the EDHC funds must be repaid in full to Minnesota Housing.

3.02 Transfers of Ownership/Prepayment

Transfers of Ownership. The mortgage loan or grant may be assumed contingent on:

- Minnesota Housing's review and approval of the proposed ownership entity
- Assumption of all contractual obligations with Minnesota Housing
- Payment of a fee equal to the greater of 1/2 of 1 percent of the outstanding mortgage amount or \$1,500, which is an amount equal to the approximate administrative costs incurred by Minnesota Housing in processing the sale or assumption

Prepayment. The mortgage may be prepaid in full at any time; however, rent and income restrictions remain in place for a minimum of 15 years. Minnesota Housing charges a prepayment fee equal to the greater of 1/2 of 1 percent of the outstanding mortgage amount

or \$1,500, which is an amount equal to the approximate administrative costs incurred by Minnesota Housing in processing the prepayment.

3.03 Return on Equity

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

3.04 Management and Operation

Management and Operating Budget. The budget submitted in the application is reviewed and compared to budgets of comparable Agency financed developments. Agency comparables are used in the underwriting of the loan and are used to project long-term operating costs that will protect the owner's long-term investment.

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

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.

Marketing. The owner or agent should demonstrate that they have established networks and linkages necessary for residents to maintain housing stability.

3.05 Monitoring and Reporting Requirements

Minnesota Housing actively monitors each development it finances. This includes monitoring of tenant incomes, rents, affirmative action and equal opportunity requirements, and year-end operating reports. All referenced forms can be found on Minnesota Housing's website.

For HIB loans, monitoring activities are at Minnesota Housing's discretion and may include verification of tenant incomes, rents, affirmative action and equal opportunity requirements, financial reports, HMIS data, and financial summary, compilation, or audit information. In addition, developments financed by Minnesota Housing are subject to periodic management reviews and physical inspections.

Assisted units must be leased to qualified households who must disclose their annual household income at initial occupancy on an "Initial Occupancy Statement by Tenant" form

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(other, more detailed income certification forms may be acceptable). This form is used to ensure households are qualified to occupy an assisted unit. Owners must also request (but cannot require) that qualified households complete a Tenant Demographic Profile form, which provides additional information for program evaluation. Occupancy information on all units must be reported annually in the form and manner requested by Minnesota Housing.

Additionally, each adult member of a household occupying an assisted unit must sign and date a Minnesota Government Data Practices Act Disclosure Statement. This statement informs the tenant that their annual household income and other information will be reported to Minnesota Housing and may be reviewed by other governmental agencies. This is required for the administration and management of state or federal programs that provide housing for low- and moderate-income families.

Chapter 4 – Contract Compliance and Equal Opportunity

4.01 Policy

It is the policy of Minnesota Housing to practice affirmative action to provide equal opportunity in all of our projects, programs, and other endeavors. Minnesota Housing'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 Minnesota Housing employees and Minnesota Housing's external partners.

4.02 Purpose

The purpose of this policy is to make Minnesota Housing'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.

4.03 Goals

Our goal is to ensure minority and female contractors and subcontractors equal access to business opportunities on Minnesota Housing financed projects and to encourage the presence of minorities and women at all levels, including on the staffs of the program participants having contractual agreements with Minnesota Housing. Minnesota Housing's goal is to ensure that the workforces on the projects and programs we finance reflect demographically the area in which they are located. These goals will apply for the length of the contract or the life of the mortgage. Minnesota Housing, 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.

4.04 Requirements

Minnesota Housing is required to comply with all applicable local, state, and federal laws. These requirements are passed on to everyone that Minnesota Housing does business with, either by contractual agreement or as a Minnesota Housing policy.

4.05 Sanctions

Minnesota Housing 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 its affirmative action policies or fails to meet its/his/her contractual equal opportunity obligations.

4.06 Equal Opportunity Laws/Rules

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

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- 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 – Fair Housing Policy

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

Minnesota Housing's fair housing policy incorporates the requirements of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendment Act of 1988, as well as the Minnesota Human Rights Act. Housing providers are expected to comply with the applicable statutes, regulations, and related policy guidance. Housing providers should ensure that admissions, occupancy, marketing and operating procedures comply with non-discrimination requirements.

In part, the Fair Housing Act and the Minnesota Human Rights Act make it unlawful to, because of protected class status:

- discriminate in the selection/acceptance of applicants in the rental of housing units;
- discriminate in terms, conditions or privileges of the rental of a dwelling unit or services or facilities;
- engage in any conduct relating to the provision of housing that otherwise make unavailable or denies the rental of a dwelling unit;
- make, print or publish (or cause to make, print or publish) notices, statements or advertisements that indicate preferences or limitations based on protected class status;
- represent a dwelling is not available when it is in fact available;
- deny access to, or membership or participation in, associations or other services organizations or facilities relating to the business of renting a dwelling or discriminate in the terms or conditions of membership or participation; or
- engage in harassment or quid pro quo negotiations related to the rental of a dwelling unit.

Minnesota Housing has a commitment to affirmatively further fair housing for individuals with disabilities by promoting the accessibility requirements set out in the Fair Housing Act, which establish design and construction mandates for covered multifamily dwellings and requires housing providers to make reasonable accommodations and to allow persons with disabilities to make reasonable modifications.

Applicants will be required to submit an Affirmative Fair Housing Marketing Plan at the time of application, to update the plan regularly and to use affirmative fair housing marketing practices in soliciting renters, determining eligibility and concluding all transactions.

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As a condition of funding through Minnesota Housing, housing providers are not permitted to refuse to lease a unit to, or discriminate against, a prospective resident solely because the prospective resident has a Housing Choice Voucher or other form of tenant-based rental assistance.

Chapter 6 – Allocation of Funds

This funding is available on a statewide basis and is made available through Minnesota Housing’s annual Multifamily Consolidated RFP, which consolidates and coordinates multiple programs into a single RFP. Minnesota Housing reviews all proposals submitted and attempts to make the best and most appropriate funding choices for each development selected.

Chapter 7 – Program Contact

Contact Kayla Schuchman, Program Manager, at 651.296.3705, or the Housing Development Officer identified in your selection letter, for questions concerning this program.