

**Montgomery County Housing Initiative Fund Program
Funding Guidelines**

December 18, 2020

- A. **Amount of Funding Available:** Up to \$28.0 million from the Fiscal Year 2021 Housing Initiative Fund will be available beginning on July 1, 2020 for the production and preservation of affordable housing. The level of funding for this program is subject to appropriation and will vary each fiscal year. Funding sources include the Montgomery Housing Initiative Fund (“HIF”), and federal HOME and Community Development Block Grant (“CDBG”) funds received by Montgomery County. Although various funding sources are used, the funds are collectively referred to as the Montgomery Housing Initiative Fund Program (the “Program”).
- B. **DHCA Background:** Since 1989, the Montgomery County Department of Housing and Community Affairs (“DHCA”) has provided flexible financing, as loans, to for-profit and nonprofit affordable housing developers to acquire, construct and rehabilitate multifamily developments from the Program and other resources established under Section 25B-9 of the Montgomery County Code and its corresponding regulations.

Montgomery County’s goal of reducing the number of severely rent burdened residents requires leveraging available Program funds to preserve and produce the maximum number of housing units with long-term affordability for the most rent burdened residents. The Program has consistently been used as a flexible, innovative resource for affordable housing developments while maintaining the fiduciary responsibilities for investing funds which will eventually be repaid to the Program. The Program may be used for a variety of housing types, including housing for seniors, formerly homeless individuals, persons with disabilities, and for lower income households. DHCA’s commitment to using the Program to address the affordable housing needs of the County is as strong as ever. Some project guidelines can be adjusted if needed depending on the type of project proposed.

- C. **Application Process:**
1. Applications for Program funding will be accepted on a rolling basis.
 2. Experienced rental housing developers with multifamily rental housing projects that meet one or more of the County and DHCA’s preferred criteria to increase or preserve affordable rental housing can apply to the Program. A group with limited housing development experience is encouraged to contact DHCA for information on how to partner with experienced developers, or other options for gaining necessary housing knowledge and capacity.
 3. Applicants proposing to use Program funding must use the Program Application which can be found on the DHCA website at

<https://www.montgomerycountymd.gov/DHCA/housing/multifamily>. Applications must be submitted by email to:

DHCA – Multifamily Housing Section
DHCA.Housing@montgomerycountymd.gov

4. DHCA encourages all applicants to discuss their project proposals with DHCA staff for eligibility and feasibility prior to submission of a request. The Program provides opportunity driven funds, and applications will be accepted on an on-going, continuous basis. DHCA continues to be a partner to developers interested in undertaking affordable housing projects in Montgomery County.
5. When an application is received, DHCA staff will send an e-mail receipt to the applicant.
6. Applicants are advised that if DHCA does not require clarification or additional information concerning an application, the application may be evaluated without further discussion with the applicant. Consequently, applicants should provide complete, thorough applications with the applicant's most favorable terms. Should DHCA inform an applicant that it requires additional clarification and/or supplementary information, the applicant should submit such additional material in a timely manner.
7. Applications requesting Program funding will be reviewed by a Selection Advisory Committee (SAC) appointed by the DHCA Director. DHCA reserves the right to award Program funds in a manner that achieves the County's goals and DHCA may request adjustments to an applicant's proposed project to achieve the County's goals to serve the greater public purpose.
8. The SAC will review the applications and make a recommendation to the DHCA Director on whether a project should be considered for Program funding. The Director has the sole discretion to determine whether to use Program funds for a project. After the Director decides whether a proposed project will receive Program funding, an applicant will receive a notification about whether their proposed project will be funded.
9. The County may withdraw an appropriation of Program funding and/or determine that funding for a project will not be provided at any time prior closing.

D. Montgomery County Threshold Criteria: Projects should endeavor to meet the threshold criteria noted below and projects must be determined to be financially feasible in order to be considered for Program funding:

1. Submission of a signed, completed Program Application (which can be found on the following website: <http://www.montgomerycountymd.gov/multifamily>). For projects requesting more than \$500,000 from the Program, DHCA requires the use of the Maryland Department of Housing and Community Development 202 Application. For

projects requesting less than \$500,000 and/or with total development costs of less than \$500,000, the DHCA Small Project Application can be used, which is also found on the DHCA website at www.montgomerycountymd.gov/multifamily.

2. Zoning and Development Approvals: For new construction projects sites must currently be zoned for the intended use, or the developer must have a feasible plan to obtain the necessary zoning. If a zoning change is required, applicant must provide:
 - a. documentation of the present status of the proposed change and the planning and zoning process;
 - b. contact information for the planning official familiar with the project and responsible for the approval process; and
 - c. a detailed schedule with projected dates for obtaining the required approvals corresponding to the project schedule in the Program Application.
3. No debarment or outstanding taxes: Any person or entity suspended or debarred from participating in County, State, or Federal procurement is not eligible to receive funding. In addition, any person or entity with an outstanding County tax bill that is not addressed by a formal repayment plan with the County is not eligible to receive funding.
4. No outstanding DHCA obligations: Persons or entities directly involved with any project, or entities having unpaid fees, loan arrearages, or other failed obligations owed to DHCA on other projects, are not eligible to receive funding.
5. Acceptable Evidence of Site Control, clearly identifying all parcels in the development, such as:
 - a. Deed to property demonstrating fee simple ownership,
 - b. Long term lease or ground lease with a lease term that is at least six months longer than the (i) proposed term of a Program loan and the (ii) proposed term of any senior loan, or
 - c. Purchase Contract with a closing date that is feasible according to the project schedule.

E. Preferred Criteria: DHCA encourages innovative approaches to projects that meet one or more of the following preference criteria:

1. Projects that include units serving households earning 50% or less of the Area Median Income. (AMI).
2. Projects that include some units dedicated to households earning less than 30% AMI, including units dedicated to serving formerly homeless households.

3. Projects that preserve housing developments that have existing affordable units, especially units with rental subsidies.
4. Projects constructing new affordable units or expanding the number of units under affordability restrictions.
5. Projects providing family size units of three or more-bedroom units (not applicable to some housing types such as senior housing or special needs housing).
6. Mixed income housing.

F. General Funding Guidelines:

1. The affordable units in projects financed with Program funds must serve households at or below 70% of AMI.
2. In most instances, affordable units in projects financed with Program funding must remain affordable for the greater of 30 years or the term of the Program Loan.
3. Program funds will be given in the form of a loan, not a grant.
4. DHCA provides flexible financing to meet public purpose objectives. Loan terms are set by the Director based on the needs of the project, and terms are negotiated based on the needs of the development. The interest rate charged is, generally, 3%; however, a different rate of interest, depending on the project's purpose and financing, can be considered. Loan repayments can amortize monthly, be deferred for a period of time, or be based on a property's annual available cash flow.
5. DHCA staff will assess the funding needs of a project based on the population served, the reasonableness of projections based on type of development, the efficient use of local funds, and leveraging of other resources.
6. An appraisal either ordered by the first mortgage lender or by DHCA will be reviewed by DHCA before a loan approval can be recommended to the DHCA Director. In some instances, the applicant can provide other information to document the value of the proposed project. The appraisal must include value of the project based on the current condition of the property and the projected value of the project, including the improvements and the land, after the project's completion, based on a project with all market rents and no rent restrictions.
7. Equity Contribution: While not a requirement, the expectation is that cash equity will be provided to the project from the applicant's owner/sponsor/parent company (excluding deferred developer fee) as a source of funds.

8. For projects proposing to use Low Income Housing Tax Credits, preference will be given to projects with at least 50% of the developer's fee deferred and paid from the project's cash flow, provided sufficient cash-flow is available and subject to the requirements of senior lenders. Physical Needs Assessment: If other lenders or investors have not required a Physical Needs Assessment, DHCA staff, at its own discretion, may hire a third-party firm, at the expense of the borrower, to provide a Physical Needs Assessment to verify that the planned rehabilitation scope of work is sufficient for the project.
9. The County may require projects receiving Program funding to set aside units for very low-income residents. Favorable consideration will be given to projects setting aside a larger percentage of units for households earning 30% to 50% of the AMI.
10. When a project is put up for sale, it must meet the requirements of the County's right of first refusal laws under Chapters 11A, 11C and 53A of the County Code (collectively, the "ROFR Law"). In addition, loan documents for Program funds will require a right of first refusal for the benefit of the County even if the ROFR Law is revoked.
11. Other requirements may be established as deemed necessary by the Director to protect the interests of the County.

G. Eligible applicants:

1. Applicants must be experienced in the development of affordable housing. Applicants should demonstrate their experience and have a clear capacity for the undertaking the projects they are proposing. An applicant's experience should include experience in constructing or developing the type of project being proposed by the applicant, including, among other things, the number of units, the scale and type of construction/rehabilitation and the proposed financing structure of the project. The applicant must provide documentation demonstrating that the development team has the capacity to carry out the proposed project by providing information on the applicant's previous, completed projects, the applicant's years in service, and the applicant's work on similar projects.
2. Partnerships or joint ventures among experienced developers and community-based organizations are acceptable as a way for applicants to demonstrate the required affordable housing experience. A group with limited housing development experience is encouraged to contact DHCA for information on how to partner with experienced developers, or other options for gaining necessary housing knowledge and capacity.

H. Eligible activities: Program funds are available for the purposes of the development, preservation, or purchase of affordable housing in Montgomery County.

1. Funds may only be used for capital purposes such as new construction, acquisition, and acquisition/rehabilitation. Limited funding for pre-development costs may be considered in unique situations.

2. For new construction projects, DHCA will seek an agreement with the senior lender and other financial partners in the disbursement of funds during construction and rehabilitation process and schedule. While a pari-passu disbursement schedule is desired, DHCA will work with the financial partners to achieve a mutually agreeable disbursement schedule. DHCA construction/rehabilitation disbursements will require the approval of the DHCA construction manager/inspector and other lender approved inspections. DHCA will require normal releases of liens and current title bring-downs as part of the construction/rehabilitation payment approval process.

I. Financial Feasibility: Projects will be underwritten to determine financial feasibility. The applicant must demonstrate that Program funds are necessary for the project. In determining the necessity of Program funding, a number of factors will be considered, including but not limited to the following:

1. A pro-forma analysis of the project's projected financial performance over the first 20 years of the proposed Program loan, including rental income (within affordability guidelines), expenses, and deposits to reserves.
2. The project's ability to support any must-pay debt.
3. Debt coverage with a Debt Service Coverage (DSC) of 1.0 and the loan to value ratio generally should not exceed 100%, based on valuation using the projected value of the property based on market rents without restrictions. DHCA will evaluate exceptions based on feasibility of the project's ability to manage the debt, and the security of the debt.
4. The terms and conditions of any senior debt (if applicable).
5. Leveraging of other resources to the County funds, targeting a 3:1 leverage ratio.
6. The repayment of the County debt.
7. A review of the applicant's last three years of independently audited financials.

J. Loan Structure:

1. Program funds are provided as non-recourse, secured loans. Loan terms can be flexible to meet the needs of the proposed project.
2. The rate of the applicant's repayment of the principal and interest on the Program funds provided to a project will be determined by the underwriting process.
3. It is anticipated that the County investment is part of a broader financing plan that may include additional public or private debt or tax credits; ideally, the funds are being used to leverage additional sources of financing.

4. Loans are subject to annual monitoring fees.

K. Readiness to Proceed:

1. The project should be in the process of securing other financing including a clear timeline for acquiring additional sources of funding necessary to complete the project.
2. Preference will be given to projects that can demonstrate closing within 12 months of receiving commitment for Program funding, or in the case of applicants applying for tax credits, 12 months from the award of tax credits.

For further information, please contact Lawrence Cager, Multifamily Housing Manager, at DHCA.housing@montgomerycountymd.gov