2017 Industrial Revitalization Fund

Program Design

VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Partners for Better Communities

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INTRODUCTION

The General Assembly has allocated $2 million for Fiscal Year 2017 (FY ’17) to be used for the strategic redevelopment of vacant and deteriorated industrial properties across the Commonwealth. For the purposes of this program, the term “industrial” will be considered to mean any non-residential structure significant to the community due to size, location, and/or economic importance. Remnants of past economic vibrancy and local economies in transition, these structures are no longer suited for their former purpose, and in their current deteriorated condition, stand as a substantial deterrent for future economic opportunity in the surrounding area and region.

Financial barriers typically block the timely redevelopment of these structures and often they require more than local resources to attract private sector investment in order to make a deal cash flow. This is especially true in distressed areas. Therefore, the $2 million allocation is meant to leverage local and private resources to achieve market-driven redevelopment of these structures, creating a catalyst for long-term employment opportunities and on-going physical and economic revitalization. Eligible properties and structures must be vacant and deteriorated and may be redeveloped for any market-driven purpose including mixed-use, regardless of the original use. For purposes of IRF, market-driven purpose is defined as guided by market trends and consumer needs based on market research where there is an actual need to be fulfilled or a market problem to solve.

Availability of Funds

The $2 million available in FY 2017 is a one-time allocation to replenish the Virginia Derelict Structures Fund (DSF) established under 36-152 of the Code of Virginia. The Virginia Department of Housing & Community Development administers these funds under the Industrial Revitalization Fund (IRF) Program.

Award Amounts

The maximum IRF award is to $600,000 per project. A project may apply for less; however, IRF awards may not be used as a substitute for other funds the applicant has already committed to a project. IRF awards require at least a 1:1 match.

ELIGIBILITY

Eligible Applicants

Only local governments (cities, counties, or towns) and regional or local economic or industrial development authorities may submit applications for funding. A unit of local government may apply directly for funding to use on publicly owned property **OR** on behalf of a for-profit or non-profit entity for privately owned property. Localities may designate a redevelopment authority or another similar organization as an agent for project implementation and administration.

Award Funding Structures

DHCD **will issue** an IRF GRANT under the following conditions:

- The property is publicly owned;

- The privately owned property has an option agreement/contract in place for purchase by local government at the time of the application; or
- The private property is owned by a not-for-profit, tax-exempt entity.
- In cases where the local government intends to lease the property to a private, for-profit entity a market rate lease is required; **upon resale of property to private, for-profit entity, DHCD will require repayment of prorated grant amount**.

DHCD **will issue** an IRF LOAN under the following conditions:

- The property is owned by a private, for-profit entity **and** the end-use will be owned by a private for-profit business.
- Financing to complete the entire project as specified in the IRF application has been secured as evidenced by formal letters of interest, term sheets, or commitment letters.
- IRF loans are underwritten by Virginia Community Capital (VCC). The following standard terms and conditions will apply to <u>all</u> projects unless VCC and DHCD determine that a regionally significant project requires more favorable terms.
    - Interest Rate: 2.5%
    - Amortization: 10 Years
    - Commitment Fee: 1% *(50% due within 14 days of execution of IRF loan performance agreement and remainder due at IRF closing.)*
    - Environmental review
    - DHCD will require an executed performance agreement with the developer; and
- Projects must be ready to close on the IRF loan within three to six months of DHCD's project award notification.
    - Projects may close simultaneously with the first trust lender for primary financing or after; however, IRF loans **will not close before** all other sources of primary financing are closed or commitment letters with a closing date have been issued.
    - Failure to close within six months may result in the IRF funds being reprogrammed to another project. The applicant will be given the opportunity to apply again once the project is more prepared for IRF loan closing. DHCD has the discretion to offer an extension beyond six months but only under certain circumstances for delays that are not under the developer's control.

All projects regardless of award structure will be required to have a deed covenant/restriction or a lien for a period of 10-years that requires DHCD approval prior to any sale or change in end-use for the property. In the case of a sale to private sector entity and/or a change of use during the 10-year period, DHCD may require a pro-rated repayment of the IRF funds based on the number of years of the deed restriction remaining.

Match

To demonstrate project viability and the applicant's commitment, applicants are required to provide a 100 percent (1:1) local match from private or public sources. The match must either be cash or documented costs that are directly associated with the improvements to the property where IRF funds are expended. Local match may also include federal (CDBG or other), local, and private funds spent on activities directly related to the targeted project on or after July 1, 2015.

A locality may use as local match an additional five (5) percent out-of-pocket administrative costs. The use of the additional five percent of administrative costs as local match must be outlined in the application. The locality must provide a description of specific in-kind resources committed, including methods used to determine their value.

Example: *An applicant that is seeking a $300,000 IRF grant must provide a match of at least $300,000. Local match greater than 100 percent will increase the application's score.*

IRF funds may not be used as a substitute for other funds the applicant or end-user has already committed to a project. If the project proposes a for-profit, private end-use, DHCD considers an equity investment by that entity into the IRF project as an indication of long-term commitment to the project.

Eligible Match:

- Acquisition costs - include current property appraisal as documentation of value or documentation of purchase price (HUD-1 Settlement statement, bill of sale or deed), whichever is less.
- Documented costs **directly** associated with **physical activities** on the IRF project site
- Construction-related soft costs related to engineering, design or architectural activities (must be specifically identified in the application)
- Public notices, permit or dumping fees and inspections costs (or waivers of such) directly related to physical activities (must be specifically identified in the application)
- No more than five (5) percent of local match will be accepted as in-kind or cash for out-of-pocket administrative costs

Ineligible Match:

- State or local taxes
- Site remediation
- Interest or principal payments on current debt on the property

Eligible Use of Funds

The IRF program is flexibly designed so that funds can be used for a wide variety of revitalization and redevelopment activities such as **acquisition, rehabilitation, or repair** (including securing and stabilizing for subsequent reuse) of specific structures, as well as **demolition, removal,** and other **physical activities.**

In the case of acquisition, DHCD will limit its financial participation to the property's fair market value and the associated legal costs of acquisition. IRF funds may also be used for the legal costs associated with demolition. However, funds may not be used **solely** for acquisition or demolition unless it can be demonstrated that the locality has committed other redevelopment funds to the property, and there is a market-based redevelopment plan outlining reuse options, target markets/niches, and a property marketing strategy including the entity responsible for implementation. In addition, action must be taken by the locality to improve the property's readiness for redevelopment. Generally, demolition should be used only in circumstances where the size or location of a building precludes any significant redevelopment potential or in cases where there is an imminent safety threat.

Site remediation is **not** an eligible activity for IRF. Virginia's Department of Environmental Quality offers several programs to assist with remediation and environmental assessment including the Voluntary Remediation & Brownfields/Land Renewal Programs. Visit http://www.deq.virginia.gov for more information. Grant administration is **not** an eligible activity for IRF.

It is **not the intent** of the IRF Program to fund the relocation or move existing businesses into a redeveloped structure with no additional job creation or additional economic benefit. If this type of project is proposed, the applicant must demonstrate that it is clearly part of the community or region's economic development strategy and how business relocation has a quantifiable impact on that strategy.

It is **not the intent** of the IRF Program to fund any economic development project in which a business relocates or expands its operations in one Virginia locality and simultaneously closes its operations or substantially reduces the number of its employees in one or more other Virginia localities.

Eligible Properties

The program is targeted toward (functionally) **vacant and deteriorated** properties whose poor condition creates a notion of physical and economic blight in the surrounding area, and often is a deterrent to surrounding development. Projects may consist of multiple properties provided they are adjacent and/or adjoining and are related in either their negative impact (e.g., three adjacent severely deteriorated downtown buildings that create a negative impact on the remainder of the block) or end use (e.g., rehabilitation of an abandoned warehouse into a shell building with purchase of adjacent property for parking.)

Eligible properties and structures may be redeveloped for any market-driven purpose including mixed-use, regardless of the original use. For purposes of IRF, mixed use is defined as "a building incorporating residential uses in which a minimum of 30 percent of the useable floor space will be devoted to commercial, office, or industrial use or in which 30 percent of the projected project revenue is derived from the commercial space."

Former Use:	
Eligible	**Ineligible**
• Manufacturing • Warehousing • Mining • Transportation • Power production • Department stores • Theaters • Hotels • Shopping centers	• Solely residential • Scattered site projects

FUND ACCESS

In the case of **GRANTS,** a contract between DHCD and the grantee outlining end products, conditions, fund disbursement and termination must be executed **before any funds are disbursed**. Funds may only be used for **expenses incurred after the signing of the contract**. IRF grant funds are available on a **reimbursement basis only**. Funds may be drawn down to **reimburse costs** the applicant has incurred and paid for.

In the case of **LOANS,** IRF funding will be released through VCC to the private developer pro-rata with other funders or once other sources are expended. This will be determined in discussion with developers upon DHCD's award notification.

Funding Priorities

The ultimate intent of the IRF program is to fund **shovel-ready** projects that will act as a catalyst to spark additional private investment and job creation in distressed areas that have been targeted for economic development and community revitalization as part of a larger economic restructuring or economic development strategy. Based on that intent, DHCD has established the following funding priorities:

1. **Clear relationship to a local or regional economic development strategy**
   Applicants must identify the economic development strategy that the proposed project will support. This strategy should be an element of an existing redevelopment, blight removal, or economic development plan. Applicants must explain what is currently being done in the area and how the IRF funds will supplement and expand this ongoing economic development and restructuring process. In other words, how does this IRF project enhance the economic restructuring and development activities of the community and region? Additionally, the locality should identify why, at this time, the proposed project is being prioritized for IRF funds over other projects in the locality. Applicants should cite specific economic development documents and/or comprehensive plans that have been developed that support the goals of project.

2. **High degree of blight and deterioration to be addressed.**
   Applicants must describe the extent of the deterioration and identify the negative impact the property is having in the community. DHCD is seeking to invest in properties that will address their negative impact on the community's ability to attract private investment and job creation to areas beyond the specific location of the property. Applicants must demonstrate that addressing the property is a local priority, and projects that seek to repurpose the property will be given more consideration over projects that focus on demolition/site clearance. Higher priority will be given to projects involving blight abatement and elimination, than those proposing blight prevention.

3. **Project readiness.**
   DHCD will give higher priority to shovel-ready projects that will lead to the efficient and **immediate** redevelopment/re-use of blighted properties. In the case of private developers, projects that can demonstrate "readiness to proceed" will be given the greatest consideration. Readiness to proceed is demonstrated by having finalized plans and **primary financing** in place (formal letters of interest, term sheets or letters of commitment) for an identified **end-use/user**. Projects that can show the ability to close on the IRF loan or under contract with DHCD within six months of an IRF award notification will be the most competitive for funding. Capacity for project implementation by the locality or developer will also be a consideration in project readiness. See the list of items that should be provided, if available, to show project readiness (Page 12).

   DHCD reserves the right to withdraw funding should the applicant not be under contract/close the IRF loan in a reasonable amount of time (typically six months). DHCD also reserves the right to withdraw funding if there are substantial or significant changes to the development team, scope of work or community economic benefit.

4. **Project with a clear end use.**
   Successful applicants will be able identify a tangible end-use to be completed in a reasonable amount of time, typically an 18 month timeframe. In order to demonstration clear end use, projects that include

end-use commitment documentation such as executed development agreements, commitment letters from non-profit partners, operations/management agreements, leases for space or detailed operations plans will be given higher consideration. Projects that have a speculative or undetermined end use will be considered a lower priority. If the application proposes a non-profit end use, the applicant or end user must demonstrate long-term sustainability by providing a 10 year operating pro forma and other documentation of financial solvency.

5. **End use will have a clear and significant economic impact.**
   Applicants must describe how the project will have a clear positive economic impact on the area. Applicants must demonstrate how the completion of the IRF project will be a catalyst to larger economic revitalization efforts in the locality and region and spark additional investment in the area. A project should include quantified expectations for primary impact (for example, number of net new jobs or new businesses created because of the project) and any secondary impact (such as increased local sales tax revenue, leveraged private investment, increased export or non-export (tourism) revenues, or increased daily or overnight visitors.) Projects that show significant economic impact will be given higher priority; whereas projects with a public sector end-use will be lower priority. For purposes of IRF, full-time equivalent job is defined as employment of at minimum 35 hours per week. In your primary economic impact projections, do not include existing employees or unpaid volunteer positions.

6. **High Economic Distress in project locality.**
   Extra consideration will be given to projects located in communities that are experiencing higher degrees of distress. However, it is not intended to compensate for poorly conceived projects that do not score well on the other funding priorities. Distress will be based on three measures below, using data from the U.S. Census Bureau and the Virginia Employment Commission. Scoring will be weighted based on the number of distress measures the locality is experiencing.

   a. **Poverty rate** of at least 150 percent of the state average (16.95%);
   b. **Median household income of** 70 percent of the state average ($43,922); and
   c. **Unemployment rate of** at least 150 percent of the state average (7.8%)

   See Appendix A for pre-calculated scores for all cities and counties. Towns may use the distress score of the county, or they may calculate their own based on the town's Census tracts, whichever method provides the higher distress score. Guidance on where to find the necessary data is provided on page 16.

Other Considerations

DHCD encourages localities to apply for projects that will have a strong significance to the broader community and region, in areas of ongoing or identified redevelopment/revitalization. Applicants will receive **bonus points** for projects that meet the following characteristics:

- Part of a significant **regional focus**. This includes projects located in an area covered by a revenue sharing agreement or projects cited in a formal regional economic development plan.
- Eligibility for local real property tax abatements (§58.1-3221) or other **local incentives** to encourage investment.
- Location in an **Enterprise Zone** and ability to qualify for the state and local incentives. **IRF loans** may be included in the Enterprise Zone Real Property Investment Grant schedule of Qualified Real

Property investments, while **IRF grants** must be excluded.
- Location in a designated **Virginia Main Street** community, a local, state or federal **historic district**, a **redevelopment or blight removal district**, a **Technology Zone**; or other similar district.
- Location in a current **CDBG project area.**
- Committed project leverage exceeds 1:1 match.

Prioritization

A locality may only submit one application per funding round; therefore localities must identify and authorize the project that will have the most meaningful impact on local community revitalization and economic development efforts. As such, a resolution from the local governing body authorizing the request for funding is an application requirement. If the locality is applying on behalf of a non-profit or private for-profit, the resolution should indicate the specific match amount and identify the entity that will be responsible for providing the matching funds.

For more information, on this program or submission, please contact:

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