INDUSTRIAL REVITALIZATION FUND (IRF)

Program Guidelines

Department of Housing and Community Development
600 East Main Street, Suite 300
Richmond, VA 23219
804-371-7030

VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Partners for Better Communities

INTRODUCTION

The General Assembly has allocated $2 million for Fiscal Year 2020 (FY '20) 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 2020 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 $600,000 per project. An applicant 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

While applicants should indicate whether funds are requested as a loan or a grant, DHCD reserves the right to award funding in the manner most appropriate to the project, and to recommend alternative structures as necessary.

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 a local government at the time of the application; or
- The private property is owned by a not-for-profit, tax-exempt entity.
- 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.

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 the property to a private, for-profit entity, DHCD may require repayment of a prorated grant amount**.

DHCD will issue an **IRF GRANT/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 Grant/Loans may be funded as a grant to the applicant local government (or local Development Authority), who will in turn make a loan to the for-profit entity. The following standard terms and conditions will apply to all projects unless DHCD determines that a regionally significant project requires more favorable terms. The terms of the loan must be agreed to by DHCD.
    - Interest Rate: 2.5%
    - Amortization: 10 Years
    - Environmental Review
    - DHCD will require an executed performance agreement with the developer

- If the locality is unwilling to manage the loan, or, by DHCD's determination, unable to manage the loan, the loan may be underwritten by Virginia Community Capital (VCC). In this case, VCC will require a commitment fee of 1% (50% due within 14 days of execution of IRF loan performance agreement and the remainder at IRF closing).

All projects, regardless of award structure, must be ready to execute a contract or performance agreement for the IRF funds by **January 1, 2020**.

- Agreements may be executed simultaneously to the closing of the first trust lender for primary financing or after; however, IRF grant/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 execute the contract or performance agreement within 6 months of award 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 where delays are caused by circumstances beyond the control of the developer.

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 include federal (CDBG or other), state, local, and private funds spent on activities directly related to the targeted project within the last **full** fiscal year (on or after July 1, 2018).

A locality may use documented administrative costs as up to five percent (5%) of the local match. The use of administrative costs as local match must be outlined in the application and will need to be documented through invoices or payroll records. 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 (100% match). Local match in excess of $300,000 will increase the application's score. This applicant could include up to $15,000 in documented administrative costs in their $300,000 match.*

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 such as engineering, design or architectural activities (must be specifically identified in the application);
- Investments into Machinery & Tools, taxable by the locality;
- 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 percent (5%) 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;
- Investments in Business Personal/Tangible Property (Furniture, Fixtures, and Equipment).

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.** Grant administration is **not** an eligible activity for IRF.

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. Fair market value is considered to be the lesser of the property's documented acquisition costs or appraised value. 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. 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.

It is **not the intent** of the IRF Program to fund the relocation of existing Virginia businesses into a redeveloped structure, particularly if the relocation or expansion occurs simultaneously with the closure or significant reduction of operations in another Virginia locality. If this type of project is proposed as part of a significant expansion, 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.

Eligible Properties

According to the Code of Virginia § 36-3, a "blighted property" means any individual commercial, industrial, or residential structure or improvement that endangers the public's health, safety, or welfare because the structure or improvement upon the property is dilapidated, deteriorated, or violates minimum health and safety standards, or any structure or improvement previously designated as blighted pursuant to § 36-49.1:1, under the process for determination of "spot blight."

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."

It is **not the intent** of the IRF Program to fund new construction or the development of greenfield properties, unless done in coordination with the redevelopment of an eligible vacant or deteriorated property.

Former Property Uses		
Eligible		Ineligible
• Manufacturing • Warehousing • Mining • Transportation • Power Production	• Department stores • Theaters • Hotels • Shopping Centers • School Buildings	• Solely residential • Scattered site projects • Greenfield sites

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, unless otherwise negotiated with DHCD**. IRF grant funds are available on a **reimbursement basis only**, for costs the applicant has incurred and paid for.

In the case of **GRANT/LOANS,** IRF funding will be released as a grant to the applicant local government entity (or approved Economic Development Authority), or Virginia Community Capital, at DHCD's sole discretion, who will then make a loan 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, and applicants should cite the specific documents that substantiate the goals of project. Applicants must explain what is currently being done in the community and how the IRF funds will accelerate and expand those economic restructuring and development activities. Additionally, the application should identify why the proposed project is being prioritized for IRF funds over other projects in the locality.

2. High degree of blight and deterioration to be addressed.

Applicants must describe the extent of the physical deterioration and identify the negative impact the property is having in the community. DHCD is seeking to invest in projects that will address the negative impact the property has on the community's ability to attract private investment and job creation.

Applicants must demonstrate that addressing the property is a local priority, and projects that seek to repurpose a property will be given more consideration than projects that focus only 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 of blighted properties. 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**. Capacity for project implementation by the locality or developer will also be a consideration in project readiness. For applications requesting grant funding, readiness to proceed should be demonstrated by community support for the project, and the receipt of public input where appropriate. **NOTE:** Any developers, contractors, and professional services funded by an IRF grant must be procured in accordance with the **Virginia Procurement Act (VPPA).** Applicants should submit documentation to detail that procurement requirements have been met for any professional services contracted to date. Grantees will be required to submit documentation to detail that procurement requirements have been met, prior to any execution of contracts that obligate IRF funds. See the list of items that should be provided, if available, to show project readiness (Page 13).

Projects that can show the ability to close on the IRF loan or go under contract with DHCD within six months of an IRF award notification will be the most competitive for funding. DHCD reserves the right to withdraw funding should the applicant not be under contract/close the IRF loan in a reasonable amount of time. 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 to identify a tangible end-use to be completed in a reasonable amount of time, typically an 18-month timeframe. Successful projects will have executed development agreements, commitment letters from non-profit partners, operations/management agreements, leases for space, and detailed operations plans. Projects that have speculative or undetermined end uses 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 community economic impact.

Applicants must describe how the project will have a clear positive impact on the community. 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 will spark additional investment in the surrounding area. Applicants should include quantified expectations for primary impact (such as net new jobs, new businesses, and leveraged private investment) and any secondary impact (such as increased local sales, meals, or lodging tax revenue, increased export or non-export (tourism) revenues, increased daily and/or overnight visitors, and availability of commercial square footage.) In addition, applicants should describe how the project may be catalytic to the community in non-economic terms (such as access to services or resources, workforce development, and quality of life improvements). Projects that show significant community economic impact will be given higher priority; whereas projects with a public sector end-use will be lower priority. For IRF purposes, a full-time equivalent job is defined as

employment of, at a minimum, 35 hours per week. Existing employees or unpaid volunteer positions should not be included in job creation projections and will not be considered in application scoring.

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 (16.5%);
b. **Median household income of** 70 percent of the state average ($46,304); and
c. **Unemployment rate of** at least 150 percent of the state average (5.1%)

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 of the IRF Application Instruction Manual.

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.

SUBMISSION REQUIREMENTS

Applications for IRF funding must be submitted through DHCD's Centralized Application Management System (CAMS). You can access CAMS using the following link: https://dmz1.dhcd.virginia.gov/camsportal/Login.aspx

SCORING

Funds will be allocated through a competitive process that will give greater priority to projects leading to the efficient and immediate redevelopment and/or reuse of abandoned "industrial" structures. Applications will be evaluated according to a scoring system and projects will be selected for funding on the basis of the higher scores in descending order until all funds are allocated. Scoring criteria and point allocation will be as follows:

Relationship to Economic Development Strategy	15%
Readiness	30%
End Use Plans	15%
Economic Impact	25%
Distress	10%
Match	5%
TOTAL	**100%**

A strong application will be able to document that the project is **ready-to-go, but could not be finished without the injection of the IRF funds.**

PERFORMANCE AGREEMENTS & CONTRACTUAL OBLIGATIONS

Successful applicants will be **required to sign a contract/performance agreement** committing them to the economic outcomes, property use, fund use and match outlined in approved application and any pre-contract/performance agreement negotiations.

All applications, contracts and performance agreements are subject to negotiation with DHCD. All projects 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.

All approved projects will be committed to a project completion date of 18 months from contract execution/loan closing, by which all activities must be completed and drawdown requests/loan disbursements submitted to DHCD/VCC. Any project that receives funding and does not use all of its designated funds by the project completion date specified in its contract/loan award may lose the remaining fund balance.

SUBSTANTIAL PROJECT CHANGES AFTER APPLICATION SUBMITTAL

DHCD reserves the right to rescind the funding offer if substantial changes to the project scope and/or financing needs occur after application submittal. DHCD will be concerned of the impact of such on project

cash flow, project timing, need for IRF funding, intent of the IRF program, and projected outcomes as outlined in the original application. To maintain consideration for IRF funding, substantial changes to project scope and/or budget will require applicants to provide DHCD with an updated description of the project.

CONTACT

For more information on the IRF program please contact:

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