PORT HOST COMMUNITIES REVITALIZATION FUND (PHCRF)

Program Guidelines

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VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Partners for Better Communities

INTRODUCTION

The General Assembly has allocated funding to be used for the strategic removal or redevelopment of port related properties in the five (5) Port Host Communities of Front Royal, Newport News, Norfolk, Portsmouth, and Richmond. For the purposes of this program, the term "port related" will be considered to mean any non-residential structure that was built or used for a purpose related to port activities, is located near the port so as to benefit from port activities, or is located on or near a transit route (rail, waterway, or highway) that served/serves the port. These structures, in their current deteriorated condition, may not be suitable for productive use and may 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 financially feasible. Therefore, the $1 million allocation is meant to leverage local and private resources to achieve redevelopment of these structures, creating a catalyst for long-term employment opportunities and on-going physical and economic revitalization.

Eligible properties and structures must exhibit physical and/or economic blight and may be redeveloped for any market-driven purpose including mixed-use, shell building, site clearance, or residential, regardless of the original use. For purposes of the Port Host Communities Revitalization Fund (PHCRF), 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 $1 million available in FY 2020 is a new allocation to the Virginia Removal or Rehabilitation of 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 PHCRF Program. Should funding be increased or decreased in this or any subsequent fiscal year, the grants awards shall be adapted accordingly.

Award Amounts

Awards for the PHCRF will be made on a threshold basis at one grant of up to $150,000 per Port Host Community per Fiscal Year. The remaining funds, after all initial qualifying grants have been awarded, will be placed into an additional pool and will be available to be distributed to these projects based on a statement of need and distributed on a priority basis until the fund is depleted. All awards require at least a 1:1 match. With base award and potential statement of need pool funding, the maximum award per project is $1,000,000.

ELIGIBILITY

Eligible Applicants

Only local governments of the Port Host Communities (Front Royal, Newport News, Norfolk, Portsmouth, and Richmond) 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, however, the Chief Administrative Officer (CAO/COO/City Manager/Town Manager) must certify that an application has been determined to be the highest Port Related priority for that grant year.

Award Funding Structures

All PHCRF awards will be made as grants to the locality.

However, if the project property is owned or will be owned by a for-profit entity, the local government may grant the funds to the project or may lend the award to the for-profit entity and the proceeds will be returned to a revolving loan fund operated by the locality in perpetuity.

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 PHCRF loan performance agreement and the remainder at PHCRF closing).

All projects, regardless of award structure, must be ready to execute a contract or performance agreement for the PHCRF funds within six (6) months of the grant award announcement.

- Agreements may be executed simultaneously to the closing of the first trust lender for primary financing or after; however, PHCRF 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 the six (6) month period which commences upon the announcement of the PHVRF awards may result in the PHCRF funds being reprogrammed to another project. The applicant will be given the opportunity to apply again once the project is more prepared for PHCRF 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 five (5) 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 5-year period, DHCD may require a pro-rated repayment of the PCHRF 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 PHCRF 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.

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 $150,000 PHCRF grant must provide a match of at least $150,000 (100% match). This applicant could include up to $7500 in documented administrative costs in their $150,000 match.*

If the project proposes a for-profit, private end-use, DHCD considers an equity investment by that entity into the PHCRF 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 PHCRF project site;
- Construction-related soft costs related to engineering, design or architectural activities (must be specifically identified in the application). These costs may include new construction in the case of a project that includes expansion of the building/facility;
- 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);
- Improvements to municipally owned utility infrastructure, such as water and sewer lines, may be considered match, if the improvements directly and specifically increase the capacity of services to the target project building/facility so as to allow for a higher and/or more intensive use at the project site. This shall not be construed to include general utility maintenance and/or improvements that benefit the community as a whole or a large portion of the community outside of the project area.
- 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;
- 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 PHCRF 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 site remediation, **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. Fair market value is considered to be the lesser of the property's documented acquisition costs or appraised value. PHCRF 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.

While site remediation is an eligible activity for PHCRF, Virginia's Department of Environmental Quality offers several programs to assist with remediation and environmental assessment including the Voluntary Remediation

& Brownfields/Land Renewal Programs. Port Host Communities should exhaust these resources first before applying PHCRF funds to fill any gaps. Visit http://www.deq.virginia.gov for more information. Grant administration is **not** an eligible activity for PHCRF.

It is **not the intent** of the PHCRF 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/underutilized 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 commercial, industrial, retail, mixed-use, shell building, site clearance, or residential, regardless of the original use.

It is **not the intent** of the PHCRF Program to fund new construction, scattered site projects or the development of greenfield properties.

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**. PHCRF grant funds are available on a **reimbursement basis only**, for **costs** the applicant has incurred and paid for. Documentation of matching funds must be submitted with each remittance before any funds are disbursed.

In the case of **GRANT/LOANS,** PHCRF funding will be released as a grant to the applicant local government entity (or approved 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 PHCRF program is to fund **shovel-ready** projects that will act as a catalyst to spark additional private investment and job creation in Port Host Communities, especially in 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 PHCRF funds will accelerate and expand those economic restructuring and development activities. Additionally, the application should identify why the proposed project is being prioritized for PHCRF 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 and/or the ability of the existing structure to be put to productive use. 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. Higher priority should 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 PHCRF 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 PHCRF funds. See the list of items that should be provided, if available, to show project readiness

Projects that can show the ability to close on the PHCRF loan or go under contract with DHCD within six months of an PHCRF award notification are preferred. DHCD reserves the right to withdraw funding should the applicant not be under contract/close the PHCRF 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 that have not been approved by DHCD.

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, or to demonstrate that the cleared pad site or shell building is necessary for future economic or community activity. Successful projects should have executed development agreements, commitment letters from non-profit partners, operations/management agreements, leases for space, and detailed operations plans when possible. Projects that have speculative or undetermined end uses will be considered. 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 PHCRF project will be a catalyst to larger economic revitalization efforts in the locality and region and may 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). For PHCRF purposes, a full-time equivalent job is defined as employment of at 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 unless these positions are being made available to a lower income neighborhood through the rehabilitation of a derelict structure.

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 are strongly encouraged to consider 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. **PHCRF loans** may be included in the Enterprise Zone Real Property Investment Grant schedule of Qualified Real Property investments, while **PHCRF grants** must be excluded.
- Location in a designated **Opportunity Zone**, 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 Chief Administrative Officer 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.

STATEMENT OF NEED FUNDING

All Port Host Communities may apply for additional funds of between $50,000 and $850,000 for their prioritized project. The amount of additional funding should be based on the funding gap for the individual project. DHCD reserves the right to reduce or pro-rate the amount awarded, based on an internal funding analysis and/or demand for the limited funds.

Application for Statement of Need Funding shall be made at the time of application for the PHCRF by answering additional questions in the CAMS application. The Statement of Need awards must be matched on at least a 1:1 basis.

SUBMISSION REQUIREMENTS

Applications for PHCRF 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

AWARDS

PHCRF awards will be allocated through a threshold process that will ensure that each project funded serves the public interest and will remove blight while spurring additional private investment. Localities should give greater priority to projects leading to the efficient and immediate redevelopment and/or reuse of abandoned "industrial" structures. Applications will be awarded funding based on the thorough demonstration of following criteria:

Relationship to Economic Development Strategy
Readiness
End Use Plans
Economic Impact
Elimination of Blight
Minimum $1:$1 Match

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 PHCRF 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 5 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 5-year period, DHCD may require a pro-rated repayment of the PHCRF funds based on the number of

years of the deed restriction remaining. DHCD will not unreasonably withhold approval for project changes and changes in property ownership.

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 PHCRF funding, intent of the PHCRF program, and projected outcomes as outlined in the original application. To maintain consideration for PHCRF funding, substantial changes to project scope and/or budget will require applicants to provide DHCD with an updated description of the project. DHCD will not unreasonably withhold approval of projects that will meet the established criteria above.

CONTACT

For more information on the PHCRF program please contact:

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