Industrial Revitalization Fund (IRF)

2023 PROGRAM DESIGN

FY2023 IRF GRANT GUIDELINES

INTRODUCTION

A base budget of $1.5 million for Fiscal Year 2023 (FY ’23) is available for the strategic redevelopment of vacant and deteriorated industrial properties across the Commonwealth through Industrial Revitalization Fund (IRF) grants. The General Assembly will finalize the total funding available in the spring of 2022. In addition, $22.5 million is available for FY ‘23 and an additional $22.5 million for FY ’24 through American Rescue Plan Act (ARPA) funding.

For the purposes of this program, the term “industrial” is considered to mean any non-residential structure significant to the community due to size, location, and/or economic importance. These structures are no longer suited for their former purpose in their current deteriorated condition, and are a substantial deterrent for future economic opportunity in the surrounding area and region.

Localities frequently do not possess the resources needed to attract adequate private investment for timely redevelopment of these structures. This is especially true in distressed areas. Therefore, **IRF awards are meant to leverage local and private resources to achieve market-driven redevelopment of these structures, creating a catalyst for long-term employment opportunities and ongoing physical and economic revitalization. Eligible properties and structures must be vacant and deteriorated and may be redeveloped for any eligible market-driven purpose regardless of the original use.**

Availability of Funds

The funding available in FY ‘23 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 (DCHD) administers these funds under the Industrial Revitalization Fund (IRF) Program.

In addition, DHCD has $22.5 million available for projects eligible under the enhanced criteria described below through ARPA funding.

Award Amounts

The award amount varies based on the funding source. **For projects funded through the General IRF state funds, the maximum award is up to $1,000,000 per project**; however, an applicant may apply for less. IRF awards may not be used as a substitute for other funds the applicant has already committed to a project. IRF state fund awards require at least a 1 to 1 match of IRF dollars.

For projects funded through the ARPA allocation, the maximum award is up to $5,000,000. For these projects, no minimum match will be required for grant requests up to $1,000,000; however, match may be advantageous in showing a project's readiness and support, and should be documented in the application if available. Projects requesting between $1,000,001 and $5,000,000 require a 1 to 1 match of requested IRF dollars.

ELIGIBILITY

In order to be eligible for award funding either through the General Fund or ARPA appropriations, projects must meet the requirements described below.

Applicants will indicate on their application which funding source they would like to be considered for. Projects seeking state General Fund IRF funding must meet the traditional eligibility requirements set forth by the IRF program, described in further detail in later sections. Projects seeking IRF ARPA funding must, in addition to being within traditional IRF guidelines, also address a harm caused by COVID-19 pandemic, or a harm resulting from or exacerbated by the economic disruption caused by the COVID-19 pandemic. Applicants should 1) identify the need created or exacerbated by the pandemic and 2) how their project seeks to remedy that need.

Furthermore, these applicants must also attest to how their project will support individuals, communities, or industries that faced disproportionate public health or economic impacts from the COVID-19 pandemic. For purposes of the application, applicants should take a broad view when defining "disproportionately impacted" individuals, communities, or industries. Considerations could include the racial, ethnic, socioeconomic, geographic and/or other characteristics related with the individual, community, or industry associated with the project.[1] Additionally, an applicant should specify if the project is located within a "Qualified Census Tract," which will automatically designate them as serving a disproportionately impacted group. Applicants are encouraged to consult the Final Rule and the associated FAQ (particularly questions 2.17 and 2.18) for additional guidance. The Final Rule includes advice on describing disproportionate impacts (pages 43-45 of the PDF).

DHCD staff reserves the right to make final determinations on the most appropriate source of funding for projects. If an application is not eligible for ARPA funding, the application will be considered for eligibility under regular IRF. Similarly, applications deemed ineligible for General Fund IRF will be considered for eligibility under ARPA IRF funds.

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[1] For example, a project with an intended end use in the hospitality and/or tourism industry can claim eligibility by stating that their industry faced disproportionate impacts due to the COVID 19 pandemic. Alternatively, a project located in a low-income or primarily minority neighborhood, which faced disproportionate public health and economic harms caused by the pandemic, can claim eligibility by stating their location in that community. This is a non-exhaustive list, and applicants are encouraged to consider the wide array of impacts of the pandemic in their attestation and to take the broadest definition when considering their application.

<u>Eligible Applicants</u>

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.

<u>Award Funding Structures</u>

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 also reserves the right to award funding to applicants through either the General Fund or ARPA appropriation as appropriate based on the details of the project and funding availability. For both loans and grants, the expectation is that 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.

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.

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.
- 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: Up to 20 Years (negotiated on a project-by-project basis)
    - Environmental Review
    - DHCD will require an executed performance agreement with the developer

All projects, regardless of award structure, **must be ready to execute a contract or performance agreement for their awarded funds by January 1, 2023.**

- 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 awarded 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 a private sector entity and/or a change of use during the 10-year period, DHCD may require a prorated repayment of the funds based on the number of years of the deed restriction remaining.

<u>Match</u>

To demonstrate project viability and the applicant's commitment, applicants receiving funding from the General Fund appropriation 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, ARPA, 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, 2021).

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.*

ARPA 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.

For the ARPA IRF funding, 100 percent (1:1) local match is required for applications for awards exceeding $1,000,000. Award funds from the ARPA IRF planning grant round may not be counted as match. For projects funded through the ARPA allocation, no minimum match will be required for grant requests of $1,000,000 or less; however, match may be advantageous in showing a project's readiness and support, and should be documented if available in the application.

<u>Eligible Match:</u>

- 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.

<u>Ineligible Match:</u>

- 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).

<u>Eligible Use of Funds</u>

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 <u>imminent</u> 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.

<u>Eligible Properties</u>

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 usable 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**. 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), 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 the 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. Readiness scores will be reviewed first by DHCD and a minimum score will be required to be considered for funding. 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.*

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. This includes both the economic impact of the construction process and the end use. Applicants

should demonstrate a commitment to ensuring IRF projects seek outreach opportunities for local developers and subcontractors and SWAM certified businesses to participate in the development. Projects should also demonstrate significant private investment when the end user is a private business. 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. The Industrial Revitalization Fund (IRF) distress index comprises three factors: unemployment, fiscal stress, and poverty. From these statistics, individual distressed scores are computed. Finally, the three component scores are averaged together to form a composite score. The composite score is then broken down into four categories based on standard deviations from the average score.

> Unemployment
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> Unemployment adversely affects the disposable income of families, erodes purchasing power, diminishes employee morale, and reduces the economy's output. The unemployment index score depends on localities' unemployment rates. The unemployment rate also reflects the local economic conditions as well as localities' ability to generate revenue to provide critical services to its citizens. A higher unemployment rate means less economic activity and reduced revenue sources for the local government.
>
> Fiscal Stress
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> The ability for a locality to provide services to their citizens depends on their capability to generate revenue from their own sources. A lack of revenue-generating capacity will lead to either a shrinking budget or a gap between revenues and expenditures, which is considered fiscal stress. The fiscal stress index comprises three factors: revenue capacity per capita, revenue effort, and median household income. From these statistics, individual stress scores are computed. Finally, the three component stress scores are averaged together to form a composite.

Poverty

Poverty can negatively affect economic growth by affecting the accumulation of human capital and rates of crime and social unrest. Human capital--that is, the education, work experience, training, and health of the workforce--is considered one of the fundamental drivers of economic growth. Also, areas with higher poverty rates experience, on average, slower per capita income growth rates than low-poverty areas. See Appendix D in the Industrial Revitalization Fund Application Instruction Manual 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 a calculator provided by DHCD, upon request.

7. 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 one or more of 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, an **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.
- Commitment to including **SWAM certified** contractors/sub-contractors through solicitation during the bidding and procurement process.

Prioritization

A locality may submit up to two applications per funding round that total no more than $5,000,000; therefore, localities must identify and authorize the projects 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. A project which encompasses multiple adjacent properties, even if there are various owners, is eligible for consideration if the locality includes all in one application.

SUBMISSION REQUIREMENTS

Applications for IRF funding must be submitted through DHCD's Centralized Application Management System (CAMS) and will be due on August 19, 2022. 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: 10%
- Readiness: 30%
- End Use Plans: 15%
- Economic Impact: 25%
- Distress: 15%
- Other Considerations: 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 the 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 a private sector entity and/or a change of use during the 10-year period, DHCD may require a prorated 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 submission. 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 INFORMATION

For more information on the IRF program, please contact:

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