

— PENNSYLVANIA. BUILT TO ADVANCE. —

Building Pennsylvania

Program Guidelines

April 2015

ARCHIVED

Commonwealth of Pennsylvania
Tom Wolf, Governor

Department of Community & Economic Development



newPA.com

Table of Contents

Section I	General	1
A.	Introduction	1
B.	Eligible Applicants	1
C.	Eligible Projects for Investment by Fund Managers	1
D.	Type of Financing Available	3
Section II	The Application Process	4
A.	Request for Proposal	4
B.	Approval Process	5
C.	Contract Terms	5
D.	Post Approval Process	6
E.	Reporting Requirements	7
Appendix I	Supplemental Information	8

ARCHIVED

Section I – General

A. Introduction

The Commonwealth Financing Authority (CFA), through the Building Pennsylvania Program, shall provide loans to fund managers for investment in real estate projects within this commonwealth. These guidelines outline the nature and focus of the CFA Building Pennsylvania Program, as well as the applicable process and procedure in the administration of this program.

Studies and experience have shown that many real estate projects within the commonwealth are unable to obtain “gap” or mezzanine financing in order for worthwhile projects to become reality. The commonwealth’s traditional bricks and mortar, infrastructure, and site preparation financing programs lack the flexibility to fill this financing void. Additionally, many Pennsylvania communities are struggling to attract adequate real estate investment to meet the needs of a fast changing economy. The CFA Building Pennsylvania Program has been created to meet the needs of those projects, targeting its investment to projects of highest impact like those in low income communities, those that revitalize our central business districts or redevelop our brownfields, and those that create facilities for our future high growth industries. These projects will create jobs while stimulating economic growth and increase the vitality of our communities.

The Building Pennsylvania Program is a Commonwealth of Pennsylvania initiative intended to address these financing needs. By providing \$150M in loans to real estate fund managers, another \$150M of private capital will be leveraged, creating a total pool of \$300M which will be available to finance high impact real estate projects within the commonwealth. Focused on industrial, commercial and multi-use projects, the program will support the acquisition, development, redevelopment, and revitalization of communities. In addition, in order to focus capital investments in traditionally underserved areas, the commonwealth has earmarked 50% of the funds to be made available for those real estate projects located in areas other than cities of the first and second class. All loans are made pursuant to the statutory authority of the Commonwealth Financing Authority.

B. Eligible Applicants

1. Applications will be accepted from “fund managers” which for the purposes of this program is defined as an organization which has as its primary purpose the managing of capital for real estate investments.

C. Eligible Projects for Investment by Fund Managers

1. Industrial, commercial and multi-use real estate projects located in this commonwealth which will be acquired and developed, or redeveloped or revitalized:
 - a. An “industrial” project is defined as a project that will produce single tenant, multi-tenant or small business incubator facilities to house activities related to advanced materials, agriculture and food processing, alternative energy, business support centers, construction, life sciences, manufacturing, national or regional headquarters, research and development, and technology.
 - b. A “commercial” project is defined as real estate that will house for-profit businesses that provide goods or services to individuals or businesses. Eligible commercial projects must do one of the following:
 - 1.) When fully occupied, provide at least twenty (20) full time positions
 - 2.) House at least two for-profit businesses.

- c. A “multi-use” project is defined as real estate located in a developed part of a municipality that will combine primarily first floor commercial space with upper floor residential space in the same building.
 - d. No investments may be made by a fund manager into real estate projects which are primarily residential or recreational.
2. Fund managers will invest Building PA proceeds in projects that are consistent with or identified as a priority investment in a local or regional comprehensive or economic development plan. Additionally, each project must demonstrate at least one of the following principles:
- a. The project is located within the municipal boundaries of a borough, cities of the second class A or third class, or a township that has a median household income below the state average. Areas that have experienced a recent major plant closing or have a historic decline in retail and commercial businesses are also eligible with prior approval of the CFA.
 - b. The project supports a state designated Main St., Elm St. or Enterprise Zone plan or is part of a local revitalization effort within the central business district of a municipality.
 - c. The project is revitalizing a blighted area or makes use of a brownfield or mine scarred property.
 - d. The project will create a multi-tenant building for industrial (as defined above) uses. Of particular interest are small business incubators located within state designated Keystone Innovation Zones.
 - e. The project is located within an area of a community suffering from a historic decline of population or property values, or will provide needed services (ex: grocery store) to an adjacent declining area.
 - f. The project demonstrates community support through the leveraging of local public resources and/or partnerships between the private and public sector. Projects are also eligible if they are located within a state designated Community Action Team community or Brownfield Action Team site, a Keystone Opportunity Zone, KOEZ, Keystone Innovation Zone, Act 47 municipality or federally designated Enterprise Zone or Enterprise Community.
 - g. The project will increase resources for competitive and emerging industries in Pennsylvania such as:
 - 1.) Life Sciences
 - 2.) High Technology
 - 3.) Advanced Manufacturing and Materials
 - 4.) Business Services
3. The fund manager will raise and invest in real estate projects located in this commonwealth at least \$1 of non-public equity for every \$1 of loan funds received from the CFA. Non-public equity must consist of at least ten percent (10%) cash from the developer or investor. Non-public cash equity used in the land acquisition or engineering design can be counted toward the equity if the investment occurred not longer than one year prior to application submittal. The CFA may waive the cash equity requirement if the board determines the requirement would be detrimental to the viability of a project in a smaller or rural community.
4. There must be a financial return mechanism to the CFA. The rate of return need not be high or substantial in every transaction approved but the goal of the CFA is to achieve an adequate rate of return while stimulating economic development within the commonwealth.
5. At least 50% of the funds made available for the program must be utilized for projects located in areas other than cities of the first or second class.

D. Type of Financing Available

1. The actual method of financing to be offered by the CFA Building PA Program is through a loan product to either the general partnership of the fund manager, to the management company of the fund manager, or to a separate entity established and under the control of the fund manager.
2. Building PA loan funds are to be used as "take out" financing, however under certain circumstances Building PA funds can be used for construction financing:
 - a. When 1st mortgage lender agrees to share a 1st lien with the CFA.
3. The CFA has established the following general loan terms for projects submitted for consideration:
 - a. The term of the loan should have an amortization schedule of no more than 25 years, with a balloon payment at 10 years.
 - b. The project shall be secured by collateral behind no more than 70% of total project financing, which will be assigned to the CFA.
 - c. The interest rate for the loan will be fixed at the time of approval of the loan. Interest rates are subject to change based on market conditions. The current interest rate is posted on www.newPA.com/find-and-apply-for-funding/commonwealth-financing-authority.
 - d. The project must include \$1 of non-public equity for every \$1 of BPA funds. A minimum of ten percent (10%) must be cash equity from the developer or investor. Non-public cash equity used in the land acquisition or engineering design can be counted toward the equity if the investment occurred not longer than one year prior to application submittal. The CFA may waive the cash equity requirement if the board determines the requirement would be detrimental to the viability of a project in a smaller or rural community.
 - e. Personal guarantees will be required from the borrower unless the borrower is a non-profit organization. In cases where a non-profit organization is the borrower, the borrower must show significant financial assets in relation to the project costs.
4. Loan commitments to fund managers will range between \$1MM and \$30MM.

The CFA understands that there are situations in which projects will not be able to meet these loan terms and be successful. In these situations, the CFA has agreed to consider projects that fall outside the above mentioned parameters if the fund manager can demonstrate the need for revised financing structure through additional documentation.

Section II – The Application Process

A. Request for Proposal

1. The CFA Board shall issue one or more requests for proposals in accordance with 62 PA.C.S. 518 (relating to competitive selection procedures for certain service) for fund managers. Each request for proposals shall include all of the following:
 - a. A statement that the service being requested is the investment in real estate projects located in this commonwealth which will be acquired and developed, redeveloped or revitalized.
 - b. A request to supply the following information:
 - 1.) The fund manager's name, address and FEIN.
 - 2.) The resumes of the individuals responsible for the investment decisions of the fund manager.
 - 3.) The fund manager's history of investments in real estate projects, including the number of previous investments, any relevant rates of return and capital raised. Additionally, the fund manager's history of developing real estate projects and making investments in this commonwealth must be outlined. It is recommended that fund managers without extensive experience partner with fund managers with a history of successful real estate development projects in the commonwealth or other states.
 - 4.) A description of the proposed strategy by the fund manager to invest in real estate projects located in this commonwealth that encompass one or more of the principles specified in Section 1, part C, # 2. The description should include specific information regarding the communities, parts of communities or region of the state in which investments will be made as well as the type of projects to be constructed i.e. industrial, commercial or multi-use.
 - 5.) The fund managers understanding of the geography, economic climate, market conditions, and absorption rate in the area of the commonwealth where proposed investments will be made. Also, provide evidence of a need for economic development in the proposed investment area.
 - 6.) A statement by the fund manager of the amount of the loan being requested and amount of match pledged.
 - 7.) A list of potential projects or examples of potential projects.
 - 8.) The proposed timeframe for investment of Building PA funds.
 - 9.) Any other information required by the board.
2. Managers selected through the RFP process will be subject to full due diligence by the CFA.

Correspondence responding to an RFP should be sent to:

PA Department of Community and Economic Development
Commonwealth Financing Authority – Building PA Program
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
(717) 787-6245

B. Approval Process

1. The CFA board shall review the proposals and determine the fund manager or managers best qualified to provide the services described in the request for proposals. If the board determines that no fund manager is qualified, the board may re-issue requests for proposals.
2. After a fund manager is selected through the RFP process, full due diligence will be performed. Assuming satisfactory outcomes, the candidates will be brought to the board for final approval.
3. Applications for financing may be rejected or deferred for any one or more of the following reasons:
 - a. A fund manager's failure or refusal to provide pertinent information regarding the fund manager and/or its proposed projects which is deemed essential to adequately perform a due diligence review.
 - b. The proposed financial return to the CFA is non-existent or negligible, or a return cannot be readily defined and/or calculated.
 - c. The anticipated economic development return to the region or the commonwealth is non-existent or negligible, or the level of proposed return is not commensurate with the amount of CFA financing being requested.
 - d. The fund manager's inability to demonstrate the financial or technical capacity to successfully implement an investment strategy as outlined in Section I, Part C.
 - e. The fund manager presents an unsatisfactory record of previous investment returns or insufficient current financial stability.
 - f. There are insufficient funds available to the CFA to make an investment in the fund.

C. Contract Terms

1. The board shall select for contract negotiation one or more fund managers who are determined to be the best qualified to provide the services described in the request for proposals. The authority may enter into contracts with one or more fund managers. The contracts shall include all of the following provisions:
 - a. The terms of repayment of the principal and payment of interest and other return to the authority.
 - b. That the fund manager will raise and invest in real estate projects located in this commonwealth at least \$1 of non-public equity for every \$1 of loan funds received by the fund manager.
 - c. That the fund manager will exercise the standard of care in its responsibilities set forth below:
 - 1.) A fund manager awarded a contract under this section shall exercise that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of funds, considering the probable income to be derived therefrom as well as the probable safety of their capital.
 - d. That the fund manager will provide the board with its annual audited financial statements for the duration of the loan. Financial statements shall be prepared in accordance with generally accepted accounting principles.
 - e. That the fund manager will invest in industrial, commercial and multiuse real estate projects located in this commonwealth which will be acquired and developed, or redeveloped or revitalized and are deemed appropriate by the CFA.
 - f. Any other provisions required by the CFA board.
 - g. A 1% loan commitment fee will be charged to the fund manager for each project undertaken.

D. Post Approval Process

1. Subsequent to the approval of a real estate fund investment by the CFA Board, staff will work with the fund manager to close and disburse the investment in accordance with the approved terms.
2. No investment will be closed until the following have been satisfactorily resolved:
 - a. The applicant must certify that it shall not discriminate against any employee or against any applicant for employment because of race, religion, color, handicap, national origin, age or sex.
 - b. The Commonwealth Financing Authority is strongly committed to establishing, maintaining and ensuring that equitable contracting practices are utilized in construction activities. Contractors may not discriminate against Minority Business Enterprises (MBEs), Woman Business Enterprises (WBEs), Veteran Business Enterprises (VBEs) or Service-Disabled Veteran Business Enterprises (SDVBEs) (together referred to as Small Diverse Businesses) in their solicitation and utilization of subcontractors, manufacturers or suppliers.

The CFA will require that any borrower include in the solicitations for bids and requests for proposal, language encouraging bidders and offerors to utilize and give consideration to contractors offering to utilize small, diverse businesses in the selection and award of contracts.
 - c. The applicant and its principals must be current in payment of all state and local taxes unless they have entered into a workout agreement satisfactory to the respective taxing authority and are in full compliance with the terms thereof.
3. Prior to the disbursement of Building PA funds, the fund manager will submit to the CFA board a Electronic Single Application for Assistance and detailed information (see Appendix I) about a proposed real estate project in which program funds will be invested. If the CFA determines the proposed project is not consistent with the investment strategy submitted by the fund manager, the CFA may deny the use of program funds for the project.
4. Following disbursement of funds, staff will monitor the activities of the financing recipient to insure that the conditions of the CFA investment are being observed and met. Staff will promptly advise the CFA Board of any substantive failure in performance by the applicant and any failure or delay in making any required payment. The CFA Board shall have full authority to engage in any and all activities required in order to protect and preserve its investments, including but not limited to appropriate legal action when required, and the Board may empower staff to initiate action in this regard.
5. The applicant shall maintain full and accurate records with respect to the fund and the fund management, and shall ensure adequate control over the records of all related parties to the fund. Staff shall have access to such records and be able to inspect all project work and all relevant records at reasonable times and places. Upon request, the applicant must furnish all data, reports, contracts, documents and other information relevant to the project, as may be requested in the investment documents.
6. If a fund manager investment is approved, and it is subsequently determined that the application contained material misrepresentations, or funds were used for ineligible activities or activities not permitted under the terms of the approved financing or financing documents, the applicant will be in default and the CFA Board will demand immediate repayment of any and all funds advanced in connection with the fund. In addition, the matter may be referred to the appropriate authorities for criminal investigation.

E. Reporting Requirements

1. Audited annual financials are required.
2. The project's impact on citizens, businesses, the number of jobs created, number of mixed use projects, locations, and the amount of matching non-state investment leveraged by the project are required to be reported within thirty days after the one year anniversary of the completion of an individual project.

ARCHIVED

Appendix I – Supplemental Information

In addition to completing the DCED Electronic Single Application for Assistance, please include 6 copies of the following items:

- Exhibit 1:** Provide a narrative for the proposed project which discusses all of the following: the specific location of the building and site and the square footage of each; current and future owners of the building and site; the intended use of the building i.e. commercial, mixed use, industrial; business(es) locating to the site; the estimated start and end dates of construction; current project status; the potential employment opportunities to be realized as a result of the project; the marketability of the proposed project; how the proposed project advances the goals of the fund manager’s Building PA strategy as approved by the CFA; public benefits of the project.
- Exhibit 2:** A statement as to the estimated cost of the project. The estimate must be prepared by an engineer or other qualified professional and should be accompanied where appropriate by copies of the signed bids/quotations or contractor estimates.
- Exhibit 3:** Funding commitment letters from all other project funding sources including equity commitments. Letters should include the term, rate, and collateral conditions, and must be signed and dated on Company/Bank letterhead.
- Exhibit 4:** A picture of the site, a site plan, and map showing the location of the building and other improvements.
- Exhibit 5:** An annual projected cash flow analysis which includes all expenses and revenues covering the period of time from project commencement through lease-up/build-out or the full repayment of the loan, whichever occurs later. Also include expense and revenue assumptions, and annual debt service coverage.
- Exhibit 6:** A statement as to the amount of the Building PA loan requested and a description of the proposed repayment terms.
- Exhibit 7:** The collateral that will be offered to the CFA as security for the Building PA loan. Provide an appraisal prepared by either a Member, Appraisers Institute (MAI) formerly Institute of Real Estate Appraisers (MAI) or a PA State Certified Appraiser, completed in such a way that it provides the appraised value of the site “As-completed” which includes all information on competing sites, economic trends of the market area, absorption rates, etc.. **The appraisal must be no more than six months old.**