Urban
Redevelopment
Authority
of Pittsburgh

PITTSBURGH DEVELOPMENT FUND
Program Guidelines

I. STATEMENT OF PURPOSE

The Pittsburgh Development Fund (PDF) is designed to provide gap funding for small- to medium-sized real estate developments and fixed-asset lending. PDF financing will provide three types of Business Development loans: 1) permanent mortgage funds for acquisition/rehabilitation and reuse of under-utilized property; 2) real estate bridge and construction loans; and 3) loans for equipment and machinery investments. PDF financing will also include equity investments through an appropriate intermediary.

II. PROGRAM FUNDING

The issuance of taxable bonds and PDF loan repayments.

III. ELIGIBILITY

Three sets of criteria will be used to determine whether an applicant is eligible for a Pittsburgh Development Fund loan: type of real estate development, type of business and general criteria.

A. Type of Real Estate Development

Passive real estate development undertaken by non-profit and for-profit developers for manufacturing, commercial, industrial, advanced technology, service and retail tenants. A company developing space for its own occupancy within the City of Pittsburgh is also an eligible use of PDF funds. Ineligible real estate developments are gaming and adult entertainment facilities.

B. Type of Businesses

Businesses located within the City of Pittsburgh which are eligible for equipment and machinery loan funds include: manufacturing, commercial, industrial, advanced technology and retail.

C. Other Eligibility Requirements

1. Loans must satisfy the conflict of interest requirements established by the State Ethics Commission.

2. The applicant must not be delinquent or in default on federal, state or local taxes or any existing private or publicly financed loan and will be required to sign as affidavit to that effect.

3. The proprietor, partner, or any director of the corporation or partnership must not have been convicted of a felony or other serious crime.

IV. ELIGIBLE ACTIVITIES

1. Machinery and equipment, including delivery, installation, and acquisition, limited to items directly related to the operation of the business.

2. Land costs, including acquisition; site preparation; and testing, site mapping, legal, and other costs related thereto.

3. Building costs, including building acquisition; construction; rehabilitation; and engineering, architectural, legal and other costs related thereto.

4. Improvements to real property including new construction and rehabilitation. Eligible interior renovation will be limited to industrial and commercial space and pro-rated common areas and mechanical systems, if the project involves any residential development.

5. Costs associated with property development (e.g., legal, architectural, engineering, etc.).

6. Equity investments/venture capital through an appropriate intermediary.

Loan proceeds may not be used for: refinancing existing debts (including leveraged buy-outs); real estate speculation; or distribution or payment to the owners, partners, shareholders, or beneficiaries of the applicant or members of their families.

V. LOAN PARAMETERS

A. Loan Size: Equipment, machinery and real estate loans, will have a minimum loan amount is $450,000. Permanent financing projects are eligible for up to thirty percent (30%) of the total project cost or $5,000,0000, whichever is less.

B. Private Sector Investment: Loans shall be made in conjunction with a private lending source.

C. Equity Requirements: Typically, each project shall contain a cash investment by the applicant of at least 10 percent of the total project cost. Applicants for real estate development funds may replace the otherwise required equity funds with additional first mortgage or other public financing sources.

D. Loan Security: All loans must be secured with lien positions on one or more of the following assets: land, buildings, and any other fixed assets. In addition, the URA may require personal guarantees from the owner(s).

E. Term: The repayment period will be determined by the use of the funds. The loan term for a permanent real estate development mortgage shall not exceed twenty (20) years or the length of the private lender's mortgage, whichever is longer. The repayment period for equipment and machinery loans shall be determined by the life of the asset but shall not exceed ten years. Repayment periods for construction and bridge loans shall not exceed three (3) years.
The need for repayment deferrals will be determined individually. Repayment deferrals may be granted based on the minimum subsidy necessary to finance the project.

F. Interest Rate: Each loan's interest rate will be individually determined based on the minimum subsidy necessary to finance the project, but will range between three percent (3%) and seventy-five percent (75%) of the current published Wall Street Journal prime interest.

G. Construction Inspection Fee: The construction inspection fee formula is as follows: one-half percent of the construction contract. If the construction inspection is provided by a private lender, no URA construction inspection fee will be due. The construction inspection fee will be eligible for financing through UDF loan funds. The Director, with the concurrence of the URA Executive Director may establish a maximum inspection fee based on the need for subsidy.

H. Loan Servicing Fee: All loans are assessed an annual loan servicing fee of one-half percent (.5%) of the outstanding principal balance on the anniversary of the loan closing. The initial fee will be based on the original loan amount, will be paid at closing and can be financed.

I. Due Diligence Fee: All approved loans will carry a due diligence/origination fee of 2% which may be financed as part of the total project cost.

VI. LOAN APPLICATION PROCESSING

The URA shall establish written application processes and procedures that will facilitate the application process and will best serve the objective of the PDF. The procedures may be amended from time to time and shall be binding upon all applicants. An application fee of $1,000 per development will be charged. The application fee is non-refundable.

All loan applications shall be made using URA forms. The Borrower shall submit any information that the URA requires, including any documentation needed to establish the eligibility and credit worthiness of the Borrower, Borrower's principals and guarantors, if any, and the feasibility of the development.

A. Loan Approval and Disapproval

1. The URA may approve or disapprove loans in accordance with these guidelines.

2. The Applicant must meet URA deadlines for submission of documents at each stage of the application process. The Applicant's failure to meet the stated deadlines may result in the cancellation of the application and/or the applicant's loss of a priority position in loan processing.

3. All applications will be processed through a two-step review and approval process. Initial review will be conducted by an advisory Loan Review Committee. Final loan approval will be made by the Authority's Board of Directors.

4. Approval shall be evidenced by a written commitment to the applicant. Further action may not be taken toward closing the PDF loan until the applicant executes and returns to the URA a copy of the commitment letter. No construction activity or equipment purchases can occur prior to loan closing unless authorized by the URA prior to loan closing.

5. If a loan application is disapproved, the URA shall notify the applicant in writing. The rejection letter shall state the reason for the rejection of the loan application.

B. Withdrawal of Application

Any applicant may withdraw the loan application at any time before closing by giving written notice to the URA. The applicant shall bear any costs incurred for items including, but not limited to, credit reports, appraisals, and application fees.

C. Loan Closing

1. The loan closing will be scheduled at a time acceptable to the URA and to the Borrower.

2. The URA may charge the Borrower for the following items which may be financed:

   a. Recording fees and other charges incidental to the recordation;

   b. Required survey charges and appraisal fee, as applicable;

   c. Title examination and title insurance, as applicable;

   d. Other reasonable and customary charges or fees authorized by the URA.

3. A loan commitment fee equal to one percent (1%) of the PDF loan will be charged to the Borrower. The fee may be financed.

D. Taxes and Assessments

All taxes and assessments against the property which are due and payable shall be paid before or at closing, where applicable.

E. Assumption

Loans may be assumed only if approved by the URA prior to the assumption. The URA may charge an assumption fee. Loans that are not assumed are due on the sale of the business or property, whichever is applicable.

VII. **GENERAL CONDITIONS:**

A. The loan recipient must satisfy the public benefit requirement associated with the PDF loan through one of two means: 1) Generate 1 net new full-time or full-time equivalent job for each $30,000 of loan proceeds within 3 years of the date of disbursement of funds to the applicant. New employment is defined as first-time hires, or past employees who have not been employed by the business for at least six months, or employee promotions. 2) Retain 1 net full-time or full-time equivalent job for each $30,000 of loan proceeds for 3 years from the date of disbursement of funds to the applicant.

B. If the PDF loan is used for construction or renovation expenses, such as new construction or elimination of a blighted condition, the borrower must ensure that federal prevailing wage rates are paid where applicable.

C. Upon submitting a loan application under this program, all applicants creating new jobs will meet with representatives of the City of Pittsburgh's Employment and Training Division to develop an employment plan for the jobs to be created as a result of the URA and private investment. For a period of 5 years, for all new entry-level, permanent, non-supervisory positions, the applicant must agree to consider for employment and to interview either candidates referred by the City's Employment and Training Division or applicants secured through independent methods who satisfy eligibility requirements established by the Job Training Partnership Act (JTPA). Applicants must agree to make a "best faith" effort to fill a minimum of 50% of these positions with candidates referred by the Employment and Training Division or JTPA eligible candidates.

D. All projects must comply with the Authority's requirements for a Minority and Woman-owned Business Enterprise (MWBE) Plan. The MWBE Plan will document the applicant's strategy to purchase materials and services from minority and woman-owned businesses. Each MWBE Plan must be approved prior to loan closing.

Projects may have to submit and comply with a Section 3 Plan. The Section 3 Plan will document the general contractor's strategy to employ local residents.
A loan recipient who fails to meet the requirements specified above will result in an assessment by the Authority of liquidated damages in the amount of the capitalized value of the interest subsidy provided.

E. Any use of loan funds must comply with Federal, State and local regulations concerning historic properties and environmental review, as applicable.

F. Loan Repayment

1. For permanent financing developments, after the expiration of the deferral period, the loan will be amortized. A monthly payment will be charged which will be applied to accrued interest and principal in that order.

2. For construction financing, the loan will be repaid at the end of the term of the loan.

G. Late Charges

Late charges, as permitted by law, will be charged on delinquent loans.

H. Loan Delinquency and Default

1. Loans shall be deemed delinquent if payment is not received within 15 days of the payment due date. Delinquent loans will be subject to late charges.

2. Loans shall be deemed to be in default to the extent that:

   a. Any payment required by the documents evidencing the loan is 30 days delinquent.

   b. There is a default in any other term or condition of the loan documents evidencing the loan.

c. Any representation made in any document submitted to the URA in connection with the loan is determined to have been false or misleading in any material respect when made or anytime thereafter.

3. In the event of any default by the borrower, the URA may, after giving the required notice to the borrower:

a. Recast the loan at an interest rate not to exceed prime plus two percentage points.

b. Accelerate the loan to maturity.

c. Foreclose on the loan.

I. Loan Disbursement

1. All proceeds from the URA loan will be escrowed at the URA. All Borrower's equity to the extent possible will be escrowed at the participating lending institution. All funds for the development will be governed by a disbursement agreement among all participating lenders and the Borrower.

2. The disbursement of development funds will occur as follows:

a. Borrower's cash equity will be disbursed first or in accordance with the equity provider's pay-in schedule.

b. Borrower's conventional loan financing may be released prior to the disbursement of the URA loan proceeds, after the disbursement of URA loan proceeds, or on a pro-rata basis with the URA loan proceeds.

VIII. **REAL ESTATE LOAN CONDITIONS:**

A. All proceeds shall be disbursed in accordance with a URA approved draw schedule. The draw schedule shall be based upon completion of specified work items or a percentage of construction completed. To disburse funds for non-construction costs, invoices and/or copies of canceled checks must be submitted to document the costs and must be approved by the URA. Borrower's profit and overhead will be released in proportion to the percentage of construction completed, in accordance with the equity provider's pay-in schedule, or in accordance with a schedule to be agreed upon by all lenders that participate in the development and the Borrower.

Loan funds will not be disbursed if there is a default on any term or condition of the loan documents.

B. Refinancing

Refinancing of existing debt on a property during the PDF loan term is not permitted without the prior written consent of the URA. In general, a Borrower will not be able to increase the amount of conventional or other debt in a superior lien position to the PDF loan.

C. Change of Ownership

Borrower may not sell, lease, assign, transfer, or dispose any or all of the property financed with proceeds of the PDF loan during the term of the PDF loan without the prior written consent of the URA.

D. Insurance

1. The Borrower shall maintain hazard and liability insurance at the Borrower's expense in an amount not less than the sum of the PDF loan and any other prior and subordinate indebtedness secured by the property. During the project construction period, the Borrower shall maintain a builder's risk insurance policy in an amount acceptable to the URA.

2. For properties located in a floodplain, the Borrower must maintain special flood insurance in an amount not less than the total indebtedness secured by the property.

3. All required insurance policies shall:

   a. Be written by a company authorized to transact business in the Commonwealth of Pennsylvania.

   b. Be written by a company which is reputable and financially sound as determined by the URA.

   c. Be in force at the time of loan closing.

   d. Name the URA as a loss payee in a standard mortgagee clause attached to or printed in the policy.

   e. Contain terms and coverage satisfactory to the URA.

E. Title Insurance

The Borrower shall provide a policy issued by a title insurance company acceptable to the URA for an amount equal to the maximum principal amount of the PDF loan. The title insurance policy must name the URA as a mortgagee and must provide evidence that the title to the property on the date of closing is vested in the Borrower and is free and clear of all liens and encumbrances, except to taxes not yet due and payable. Approved prior mortgages and any other items that are required by or specifically determined to be acceptable by the URA may be included.

F. Appraisals

The URA may require an appraisal of each property showing the value of the property as-is and after construction. All appraisals shall be performed by appraisers acceptable to the URA and shall be in an approved format.

G. Construction Standards

All properties to be constructed or rehabilitated under the PDF must comply will all applicable health and building codes of the County of Allegheny and the City of Pittsburgh.

H. Contractor Requirements

All building contractors shall:

1. Meet all licensing requirements necessary to perform the construction.

2. Be of good reputation, financially sound, and fully qualified to perform the required work outlined in the specifications as evidenced by previous professional construction experience.

3. Provide insurance coverage in forms and amounts required by the URA.

4. Perform all work covered by the URA approved plans and specifications in conformance with the contract, construction documents, and all applicable laws, codes, and URA construction standards, and in a competent, workmanlike manner at least equal to the standards of the industry.

5. Comply with all applicable laws, ordinances, and regulations relating to the protection and safety of persons and property.

6. Comply with all applicable laws pertaining to the removal of hazardous materials.

7. Furnish all labor, materials, and equipment and obtain all licenses, permits, and privileges required to construct or rehabilitate the property in accordance with the construction documents.

8. Not assign the contract without the prior written consent of the Borrower and the approval of the URA.

9. Agree to complete construction according to the specifications of the approved construction documents within the specified completion date.

10. Agree not to commence any construction activities prior to the closing of the PDF loan without the prior written consent of the Borrower and the URA.

11. Indemnify and hold the URA harmless from all liability and loss due to injury or death of any person or damage to any property which may occur or be alleged to occur during performance of the contract as a direct or indirect result of any act or omission, whether intentional, negligent, or otherwise, by the contractor, subcontractors or their agents and employees. The contractor shall defend all suits and claims involving the above at his or her sole cost and expense.

12. Execute a No-lien Agreement with the Borrower.

I. <u>Identity of Interest</u>

Borrowers may act as general contractors provided that they meet the provisions of Section VIII. H. of these guidelines and only with the prior written approval of the URA. All Borrowers acting as the general contractor must provide cost certification in a form acceptable to the URA within 60 days after the date of the final construction stage payment.

J. <u>Construction Payment Procedures</u>

1. <u>Draw Schedule</u>

Progress payments shall be made in accordance with a draw schedule approved by the URA.

2. <u>Payment Eligibility</u>

Payments for construction shall be made on the basis of work completed. Payments may be made for materials delivered to the site with prior approval from the URA provided that:

a. Adequate anti-theft insurance coverage is in place;

b. The storage area is located on the project site or in a location agreed to by all parties, and the area is secured;

c. An invoice from the supplier is submitted; and

d. An inventory of the materials is submitted and verified.

3. <u>Progress Payments</u>

a. Progress payments shall be made either in the name of the Borrower or in the name of both the Borrower and the general contractor unless the URA agrees to an alternative arrangement. Progress payments require on-site verification by the URA or its designated agent. If a request for payment is refused in part or in whole, the URA shall notify the borrower. The determination by the URA of the percentage of work completed shall be final.

b. Payment for 10 percent of the work determined to be in place will be withheld from each stage payment until the final payment is disbursed. Once 50 percent of the work is verified to be complete and in place, the retainage amount may be reduced with the approval of the Borrower, architect, other providers of development funding, and the URA and other participating lenders.

c. Progress payment requests shall be presented on standard AIA documents. The AIA request document shall be signed by the borrower, architect and general contractor or construction manager. All soft cost requests shall be submitted with construction draw requests.

4. Final Payment

The final payment shall be disbursed as follows:

a. The Borrower shall submit a final request for payment to the URA.

b. Upon final inspection and approval, the final payment will be processed.

c. The Borrower must submit proof that the Bureau of Building Inspection, the Allegheny County Department of Health, and all other appropriate agencies have approved the work performed.

d. The Borrower must submit a Release of Liens for the general contractor and all subcontractors.

e. If, in the opinion of the URA, the contractor has satisfied the contract and the Borrower refuses to request or release the final payment, the URA may require the Borrower to explain in writing within 10 days why the URA should not make direct payment to the contractor. The URA shall refer the case to the governing body responsible for arbitrating construction disputes.

5. Retainage

If the Borrower or the URA is given notice that subcontractors, materialmen, or suppliers have not been paid for the work completed or for materials supplied to the development, the URA shall retain amounts sufficient to satisfy the claims until sufficient evidence of satisfaction and release by the subcontractors, materialmen, or suppliers is presented. The contractor shall promptly pay or bond any liens established.

6. Changes

Changes in the scope of work covered by the contract must be made prior to the implementation of the changes and only by written change order signed by the Borrower, contractor, and architect and approved by the URA. Changes that result in cost increases will be approved only if the Borrower escrows funds in the amount of the increase with the URA or an approved financial institution unless the increase is offset through budget adjustments or the URA approves a loan increase.

7. Closeout Procedures

After the final payment is made for either construction or related soft costs, the URA shall reconcile all receipts and disbursements and adjust the project budget accordingly. Any funds remaining in the URA loan account shall be applied to the principal balance of the loan or be placed in an escrow account for the benefit of the development as determined at the discretion of the URA. Within 60 days of the final construction payment, the Borrower must provide cost certification in the form of a report prepared by an independent Certified Public Accountant. If the report evidences that an amount less than the amount of the PDF loan proceeds that were disbursed were needed to complete the development, the Borrower will be asked to repay to the URA the portion of the PDF loan that was not needed.

IX. STANDARD APPLICATION EVALUATION CRITERIA

A. Business Evaluation

The historical performance of the business, if applicable, and the proposed owners will be evaluated to assess the ability to repay the loan. Specifically, this evaluation will include:

1. Financial Performance of the Business: If applicable, this involves an evaluation of prior years' financial performance, including an examination of income statements, balance sheets, tax returns, and cash flow statements.

2. Financial Performance of the Owners: This involves an evaluation of the personal tax returns of the prior three years, a personal financial statement, and a credit bureau check.

3. Market Performance: This involves an evaluation of the relevant local and national markets and a demonstration of the expectation for a strong potential market for the product or service.

4. Management Ability: This involves an evaluation of the experience and skills of the proprietor, partners, or directors. This includes general business experience as well as specialized experience in the particular industry.

B. Project Criteria

The merits of the proposed uses of the funds will also be assessed to determine the ability to repay the loan. Specifically, this evaluation will include:

1. Projected Sales and Revenues: This involves an assessment of the validity and risk of the sales and revenue projections.

2. Projected Financial Statements: A thorough credit analysis will be performed using both historical and projected financial statements.

3. Value of the Assets and Collateral: Appraisals, when appropriate, will be required to assist URA in evaluating the ability to secure the loan.

4. Changes in Market Strategy and/or Management Strategy: A complete business plan will be required. Any proposed significant changes in the business plan, market strategy, or management team will be reviewed.

X. **COMPETITIVE CRITERIA - PUBLIC BENEFITS**

Because there are insufficient funds to approve all eligible applications that meet the standard criteria, loan applications will be evaluated based on additional criteria measuring public benefits.

A. The degree to which the feasibility of the project depends on the PDF loan. The applicant may be required to provide a written rejection by a private lender. The URA reserves the right to reject an application based on the corporate or personal net worth of the applicant.

B. The nature of jobs created and/or retained per URA dollar invested.

C. The percentage of jobs going to low- to moderate-income persons and the quality of those jobs in terms of skill levels, salary, stability, etc.

D. The total number of jobs created.

E. The percentage of sales or receipts generated outside of Pittsburgh.

F. Projected tax revenues to the City.

G. Impact on the neighborhood and quality of life.

XI. **WAIVER OF PROVISIONS**

The Board of Directors of the URA may waive certain provisions of these guidelines based on a determination of the private and public benefits of the project.

XII. **NOTIFICATION**

URA will notify the appropriate community-based organization of applications received from businesses in their neighborhoods. URA reserves the right to announce all loan commitments publicly.

The Urban Redevelopment Authority of Pittsburgh does not discriminate on the basis of age; race; sex; religion; national origin; physical handicap, including impaired vision or hearing; or political or union affiliation. No person, solely on the basis of any of the above factors, shall be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination under the loan and grant programs operated by the Business Development Center of the Urban Redevelopment Authority of Pittsburgh.

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