SCDP Commercial Rehabilitation
Deferred Loan Program

Policy and Procedures Handbook

As adopted by:

Grand Rapids City Council on: 9/14/2009
And
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I. **Purpose**

The City of Grand Rapids and its economic development agent, the Grand Rapids Economic Development Authority (GREDA), will provide assistance to eligible applicants for the rehabilitation of commercial properties. The policies and procedures for distribution and eligibility are incorporated in this document.

II. **Statement of Affirmative Action**

It is the policy of the City of Grand Rapids that no individual shall be discriminated against because of race, color, religion, creed, national origin, disability, marital status, age or status with respect to public assistance.

The City of Grand Rapids shall insure that every person be given full and equal opportunities for participation in the deferred loan program undertaken by this project.

KOOTASCA Community Action, as the administrator of the Grand Rapids Commercial Rehabilitation Program, shall take necessary actions to guarantee that minority contractors and subcontractors are provided equal opportunity to perform rehabilitation work.

It shall be the responsibility of the City and KOOTASCA Community Action to encourage all contractors participating in the rehabilitation deferred loan program to carry out Affirmative Action Policies necessary to assure equal employment opportunity in all aspects of employment, regardless of race, creed, color, religion, sex, national origin, marital status, age or status with respect to public assistance.

In no case shall KOOTASCA or the City of Grand Rapids be in conflict with the State or Federal Statutes as they relate to equal opportunities for employment.

III. **Delegation of Authority**

The City of Grand Rapids has contracted with KOOTASCA Community Action for the administration of the Small Cities Development Program (SCDP). The City of Grand Rapids and KOOTASCA Community Action have been given the authority to set the guidelines for participation in the program and may amend this Handbook as it deems necessary within the regulations established by the Department of Employment and Economic Development (DEED). KOOTASCA Community Action shall be responsible for ensuring that only eligible applicants receive SCDP funds. KOOTASCA Community Action will assure that all rehabilitation repairs will meet program eligibility criteria. The City of Grand Rapids and KOOTASCA Community Action are bound by the terms agreed to by both parties for this project’s Contractual Agreement.
IV. **Review Committee**

The loan review committee will consist of a two member sub-committee of the GREDA and the Community Development Director/GREDA Executive Director. The final determination on all loan applications rests with the full membership of GREDA.

V. **Definitions**

A. **Suitable for Rehabilitation:** The property must be structurally sound and economically feasible to rehabilitate as determined by KOOTASCA's Rehabilitation Specialist.

B. **Rehabilitation Standards:** Upon completion, all properties must meet or exceed the attached construction standards.

C. **Standard:** A unit which has no defects or only slight defects which are normally corrected during the course of routine and regular maintenance.

D. **Substandard:** A unit which needs more repair than would normally be provided in the course of regular maintenance. A substandard commercial unit needs two or more major improvements such as roof replacement, furnace replacement, electrical wiring, plumbing, etc.

E. **Substandard but Suitable for Rehabilitation:** A unit which needs two or more major improvements but is economically feasible to rehabilitate. The maximum amount of SCDP funds allowed per project would be $34,500 or the pre-rehabilitation assessed value of the commercial property, whichever is less.

F. **Dilapidated:** A substandard unit with numerous serious defects. A dilapidated commercial unit fails to meet a majority of local standards and rehabilitation is neither practical, nor economically feasible. Dilapidated units will not be rehabilitated. The unit does not meet the “suitable for rehabilitation” definition.

VI. **Property Eligibility**

A. The property must be non-residential use located within the commercial target area of the City of Grand Rapids (see attached map labeled Exhibit A).

B. The property must be in compliance with applicable zoning ordinances or land use guidelines. No activities will take place within a 100 year flood plain.
C. The property must be Suitable for Rehabilitation, as defined at Section V. A., and upon completion of rehabilitation, the property must meet the attached standards for the project.

D. Each property will have a Business Tenant Survey completed.

E. The property taxes must not be delinquent.

VII. Applicant Eligibility

A. The recipient of funds under this program must have at least one third interest in one of the following types of ownership in the property to be improved:

1. A fee title; or

2. A fee title subject to a mortgage or other lien securing a debt; or

3. A mutually binding contract (contract for deed) for the purchase of the property where the borrower is rightfully in possession and the purchase price is payable in installments. The Contract for Deed must be recorded at the office of the County Recorder. The contract for deed vendor (seller) must agree to enter into the Deferred Commercial Rehabilitation Repayment Agreement and Mortgage as additional signatories not in possession.

B. No person who is (1) an employee, agent consultant, officer or elected or appointed official of the City of Grand Rapids or KOOTASCA Community Action who exercises or has exercised a function or responsibility with respect to assisted rehabilitation activities or (2) is in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from the activity or have an interest in any contract, subcontract or agreement with respect thereto or the proceed thereunder, either for themselves, their immediate family, or those with whom they have business ties, during their tenure and for one (1) year thereafter. DEED may authorize exceptions to this policy on a case by case basis. If a conflict arises with a KOOTASCA Community Action employee or board member, that person shall not be involved in any manner with the project.
VIII. **Data Privacy**

Information on program applicants is private data which will be administered in accordance with the Minnesota Government Data Practices Act. Information or documentation shall be determined to be necessary if it is required for purposes of determining or auditing a properties eligibility to receive a deferred loan, for verifying relating information or for monitoring compliance with equal opportunity requirements. The use or disclosure of information obtained from a property owner or from another source pursuant to this release and consent is limited to purposes directly connected with the administration of this project under which the property owner is receiving assistance. Income, asset and other financial data received by KOOTASCA Community Action in its applicant’s verification process is considered Private Data and is subject to Privacy of Information Provisions, pursuant to State Statutes. HUD, the State of Minnesota and DEED will have access to these records when necessary.

IX. **Financial Assistance**

A. The financing plan for commercial properties will be 66% SCDP 10 year Deferred Loan and 34% bank loan or private financing. A separate program, the GREDA Commercial Building Improvement Loan Program, may be used to finance the minimum 34% of total project cost (Please refer to the adopted guidelines and application for that program for further information) in addition to other commercial available lending sources. SCDP Deferred loans must be repaid as required if the building is sold in less than 10 years. SCDP Deferred loans are forgiven 10% per year with the loans completely forgiven on the first day of the eleventh year from the date of closing.

B. The maximum amount of SCDP funds available per project will be $34,500.

C. The Deferred Loan will have a recorded mortgage and a lien placed against the property for the term of the loan. Truth in lending policies will be adhered to.

D. Deferred Loans will be secured with a Repayment Agreement with the following terms and conditions:

1. A Deferred Loan will be forgiven on the first day of the eleventh year after loan execution.

2. If the property is sold, title transferred or is no longer the residence of the applicant before the end of the tenth year, the required amount of loan funds must be repaid to the City of Grand Rapids.
E. To the greatest extent possible, all sources of possible financing will be coordinated. Before loaning SCDP funds, KOOTASCA Community Action will evaluate each applicant for eligibility for such programs as MHFA, USDA Rural Development, local lending institutions, etc. KOOTASCA Community Action will assist eligible applicants in applying for funds including, but not limited to, preparing application forms and required materials.

X. **Eligible Work Items**

A. Rehabilitation loans may only be used to:

1. Address Building Code Violations, address exterior building improvements and to remove health, safety or other deficiencies and to bring the structure into compliance with the property rehabilitation standards used by KOOTASCA Community Action. For example, roofing, siding, plumbing, water supply, waste systems or wiring may be eligible for repair; or

2. Improve the property by increasing the structure’s energy efficiency through, for example, upgrading insulation, windows and doors; or

3. Modify or rehabilitate the commercial unit to make it accessible for a handicapped or disabled individuals. Accessibility Improvements include such improvements as: structural, exterior, bathroom or other improvements to commercial buildings which are necessary to enable a handicapped person to function independently in a commercial setting.

B. All work or construction completed with DEED funds must be in compliance with applicable building codes and standards. Funds may be denied to building owners with properties which cannot be feasibly brought up to the Program Standards. KOOTASCA Community Action shall conduct a site and structure survey of those work items which are eligible with respect to KOOTASCA guidelines. Upon determination of those items which are eligible costs, KOOTASCA Community Action shall prepare specifications and, along with the building owner, evaluate contractor bids.

C. Rehabilitation Deferred Loans must be used to finance improvements that can normally be completed within 90 to 120 days from the date of the issuance of the Proceed to Work Order. However, KOOTASCA Community Action, at its discretion, may grant an extension if it serves the purpose of the program.

D. Certain costs required by law or regulation shall be eligible costs with respect to the program. These costs include permits and other similar costs.
XI. **Ineligible Activities**

A. Rehabilitation Deferred Loans (except for necessary replacement undertaken in connection with eligible improvements) may **not** be used to finance:

1. Activities such as interior renovations and improvements to sales areas and commercial spaces.
2. Landscaping (except to conduct water away from the dwelling); or
3. Work begun or completed before the date of the Proceed to Work Order.

B. Additions to structures and finishing of basements are not eligible. However, the building owner may utilize match financing to undertake such improvements.

C. Rehabilitation Deferred Loans shall not be used for refinancing an existing mortgage or debt.

D. No Deferred Loans shall be paid to program participants for any improvements made under this program who have sold their commercial property prior to execution of the Completion Certificate.

E. Misrepresentations - Any material misrepresentation on the part of the applicant, revealed through the application process or otherwise may result in a determination of ineligibility. The applicant shall be notified in writing of such determination by KOOTASCA Community Action and shall be given the opportunity to request an informal review of the matter.

XII. **Rehabilitation Procedures**

A. **Program Marketing:** The GREDA and KOOTASCA Community Action will communicate the availability of this program by a direct mailed notice to the owners of all property within the target area identified in Exhibit A, as listed within the Itasca County tax records. The mailed notice will describe the program, sources of additional information and a defined period within applications will be accepted.

Upon expiration of the application period, the GREDA will determine if an extension of the application period and additional marketing of the program is necessary, based upon: the number of applications received, the eligible nature of the proposed activities described within the applications received, and the total amount of program funds applied for.
B. **Project Selection:** Due to the limited availability of the SCDP Commercial Rehabilitation funds, the GREDA has established a set of criteria to be applied as a means of ranking and selecting projects, to be funded under this program. A two-member sub-committee of GREDA will be assigned to evaluate all applications for eligible activities.

The sub-committee will assess the applications, deemed to meet the minimum eligibility requirements, based upon the following factors, which are not necessarily listed in order of importance:

1. The proposed projects total value/addition to the tax base – with higher value projects scoring higher.
2. The extent the proposed project addresses program objectives – with projects involving visible exterior improvements that address conditions which contribute to slum and blighting scoring higher.
3. The proposed projects level of compliance with City Ordinances and consistency with the objectives stated within the Comprehensive Plan and other reference plans such as the Downtown Redevelopment Master Plan – with projects found to be compliant with applicable ordinances and addressing specific plan objectives scoring higher.
4. The credit worthiness of the applicant and the feasibility of the project as measured by:
   a. An as needed confidential evaluation of the applicant’s net worth, business plan, letters of commitment from other funding sources, cash flow and income projections
5. The level of job creation tied to the project in terms of number of additional jobs created, if any, and their average wages. Although additional job creation is not mandatory, those projects that create additional employment opportunity will receive higher scoring in this area.

C. All applicants will receive a copy of the Lead Based Paint Warning.

D. If the commercial building owner is found eligible and the project is selected for rehabilitation assistance, the owner is notified of the decision and a property inspection is arranged.

E. Notification to Ineligible Building Owners - GREDA will give an applicant prompt written notice of a decision denying assistance to the applicant. The notice shall also state that the applicant may request an informal review of the decision and shall describe how to obtain the informal review.

F. A Rehabilitation Specialist inspects the property to locate Code, energy and other deficiencies. The building owner is also invited to provide input with regard to their building improvement needs. The building owner is made fully aware that he/she is not obligated to accept the proposed work. All proposed work must be an eligible item in accordance with this policy.
G. Following the inspection, the Rehabilitation Specialist prepares a cost estimate of the proposed improvements which are discussed with the building owner. The cost estimates will be used to determine the legitimacy of the bids submitted for the project. A detailed work write up is then prepared which outlines the proposed work and materials to be used. This document is given to the building owner who is responsible for obtaining the necessary bids or selecting contractors for KOOTASCA Community Action to contact.

H. If the building was constructed prior to 1950 KOOTASCA Community Action is required by federal regulations to provide for historical review and clearance to the Minnesota State Historical Society. This includes but is not limited to photographic and written documentation being sent to the Historical Society. If the structure is significant, the Historical Society may require certain improvements which are consistent with the Secretary of the Interior’s Standards for Historic Renovations and Rehabilitation.

I. A minimum of two bids will be sent out per job, the bids will have copies of the appropriate wage decisions attached. Contracts will be awarded to the contractor selected by the building owner, although if the building owner chooses a bid which is higher than the low, the building owner must make up the difference with resources other than SCDP funding. If only one bid is submitted it will be compared to the estimate for the project to determine that the bid was reasonable. The current wage decisions will also become part of the contract documents.

J. It is required that all participating contractors be insured to meet the limits prescribed by KOOTASCA Community Action and to be licensed and/or bonded as required by state and/or local ordinances. Contractors are also required to conform to the Davis Bacon Act which states that workers are to receive no less than the prevailing wage for similar work in the locality, the Contract Work Hours and Safety Standards Act which states that workers are to receive overtime compensation at a rate of 1½ times their regular wage after they have worked 40 hours in one week and to the Copeland “Anti-kickback” Act which states workers are to be paid once per week. Contractors are also required to maintain payroll records and submit weekly payrolls and statements of compliance to the contracting agency.

K. Once the contractor is selected, the Agreement Between Contractor and Property Owner is signed by contractor and building owner and outlines the contractual conditions that each party is required to follow. A Proceed to Work Order is then issued to the contractor by the Rehabilitation Specialist. The loan documents are signed, the mortgage is recorded and a lien is placed against the property for the term of the loan.

L. All change orders to the contract must be in writing, using KOOTASCA’s Change Order/Amendment Form and must be authorized by the building owner and the Rehabilitation Specialist.
M. All construction work performed under contract shall be in compliance with an approved warranty covering workmanship and materials, as noted in the Agreement Between Contractor and Property Owner.

N. If the contractor becomes involved in a situation where the work cannot be completed within the time frame specified in the Agreement Between Contractor and Property Owner or the relationship between the contractor and the building owner deteriorate to the point where the job cannot be completed by the original contractor a change order to complete the remainder of the work using a new contractor may be considered by the building owner and the review committee.

O. During construction, the Rehabilitation Specialist monitors the work. The building owner notifies KOOTASCA Community Action promptly if defects or other problems arise. When all work is completed, the property and work is inspected and a Completion Certificate is executed between the building owner, contractor and rehabilitation specialist. A lien waiver for the amount to be paid is required prior to contractor payments.

P. After a passing final inspection, KOOTASCA Community Action will submit the signed Completion Certificate and Invoice to the Office of the City Administrator of Grand Rapids for disbursement of program funds to contractor(s).

XIII. Appeals and General Complaints

A. Each person making application for financial assistance under the program shall have the right to appeal any determination of GREDA staff to the Community Development Director of the City of Grand Rapids. Requests for general complaints should be made within a 30-day period and addressed to: Grand Rapids Economic Development Authority, 420 N. Pokegama Ave., Grand Rapids, MN 55744. General complaints that do not warrant a hearing shall be in writing and be addressed to Grand Rapids Economic Development Authority at the previously mentioned address. A written response to the complaint will be issued within 30 days.

XIV. Disposition of Program Income

A. Program income will normally accrue from repayment of deferred loans resulting from property owner not maintaining ownership to the maturity date as prescribed in the Deferred Loan Repayment Agreement and Mortgage. Program income will be used for further commercial rehabilitation. Rehabilitation funded by program income will be in accordance with the provisions of this procedural handbook.
B. Rehabilitation authorized after expiration of the administrative services contract between the City of Grand Rapids and KOOTASCA Community Action will be administered by either; (1) extending the term of the current contract if agreed by both parties; (2) entering into a new administrative services contract between the City of Grand Rapids and KOOTASCA Community Action, or; (3) entering into a new administrative services contract between the City of Grand Rapids and another administering entity.

XV. Amendments

These policies and procedures may be amended or changed at any time by the City Council of Grand Rapids except where a signed agreement precludes a change.