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# ***MEMORANDUM***

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DATE: June 15, 2011

TO: OWOSSO CITY COUNCIL

FROM: Adam Zettel, AICP

RE: **CDBG loan packet for fiscal year 2012**

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In years past, they city operated a revolving loan fund that made use of previously acquired grant dollars from various federal grants. These loans were made available to downtown projects that involved business startups, signage, and facades, as well as other fundable projects. This program was overseen by the community development director, in conjunction with a loan committee. However, due to economic and personnel changes, this program stalled in the mid-2000s.

Current city staff have made some inquiries into this revolving loan fund and determined that there is a need for this loan program to be reinstated to assist with private economic endeavors in the downtown. To this end, the current budget for the coming fiscal year offers \$70,000 towards such loans. The money would be allocated as proposed in the attached loan program packet. This packet is a modification of the one that has been historically used by staff, with the most notable change being the addition of the eligibility of environmental investigations.

Staff recommends approval of this loan program at the city council's most early convenience so that the program can be advertised to the public and summer/fall projects can be reviewed in a timely manner.

**CDBG Loan Resolution**  
**06/15/2011**

WHEREAS, the City of Owosso previously operated a Community Development Block Grant (CDBG) revolving loan fund that was approved for programming by the State of Michigan; and

WHEREAS, the CDBG revolving loan fund assisted businesses and property owners in the downtown with historical renovations, signage, façade work, business startup costs and other programming; and

WHEREAS, the loan program was put on hold years ago because of staffing and economic issues; and

WHEREAS, the City of Owosso finds that there is a current need to assist with these former endeavors and that the funds are available to do so.

NOW, THEREFORE, BE IT RESOLVED that the City of Owosso City Council hereby reestablishes the CDBG loan program, approves the loan packet proposed by staff, and further directs the community development department to publish the proposed loan packet and carry out the program in conjunction with the loan committee for the 2012 fiscal year.

## PROGRAM MANUAL

### **DOWNTOWN OWOSSO UDAG/CDBG PROGRAM CRITERIA JULY 1, 2011 -- JUNE 30, 2011**

**Introduction.** Historically, the Owosso Downtown Development Authority (DDA) upheld that certain activities in the downtown would benefit from the establishment of a loan program that includes inducements to continue, improve, and expand those activities. The loan program is available to legal entities (for-profits businesses, individual land owners, and other corporations) for the purposes detailed below. The program uses income generated from the 1984 Comstock Center project, which has been set aside for a revolving loan fund.

Since 1994, the city council has authorized the loan program with established criteria and points of emphasis on a year-to-year basis. The activities are related to for-profit entities where the assistance is necessary and appropriate to carry out an economic development project. The members of the DDA recommend the standards for council authorization.

The emphasis on loans, with an exception for architectural review of barrier free and code compliance issues, is to have these funds available for the indefinite future. There are no more federal or state UDAG/CDBG programs active that would permit this kind of fund to become reestablished. The emphasis on loans is a strategic policy that extends the program life and directs funds to projects that have bankable qualities.

**Eligible Activities for Fund Use.** The activities listed are all eligible uses of the block grant fund within the DDA district and demonstrated as needs in the downtown's comprehensive long-term strategy. Later sections of these standards outline which activities and applications have the greatest priority and should receive first consideration for use of funds in this particular fiscal year. The activities are:

- 1) Business development loans to private, for-profit entities.
- 2) Project directed to the removal of barriers that restrict the mobility, and accessibility of persons with disabilities—principally elevators.
- 3) Loans for preservation of historic sites.
- 4) Upper story housing development loans.
- 5) Upper story access evaluation and design--forgivable loans.
- 6) Retail remodeling loans.
- 7) Acquisition of real property, which is blighted, inappropriately developed, undeveloped, or appropriate for rehabilitation or beautification of urban land.
- 8) Historic Sign Programs.
- 9) Environmental studies and investigations

All of the above are eligible allocations under the 1974 Housing and Community Development Act that maintains control over the variety of uses available for this fund.

**Priority Use of Funds.** As each fiscal year begins July 1, the director of community development will announce availability of funds for downtown development projects. All on-file applications dated from the previous fiscal year shall maintain first position for funding in the current fiscal year. All other applications must be submitted again. Each

year's fund assets shall be directed primarily to business development loans and retail remodeling loans with for-profit entities.

The fund assets will be made available on a first submitted/first qualified basis. Applicant inactivity on a loan application for any step in the process that extends beyond a 30-day time period shall cause the next application in line to be considered barring special circumstances. The loan program will be announced with the date for the first opportunity for submission. No applications will be accepted prior to that notice. Funds not allocated in any fiscal year may be added to the subsequent year's fund.

**Criteria for Eligible Activities.** Each eligible activity must meet criteria for the use of the block grant fund. The most fund-worthy projects will be coordinated with other related activities including an assembly of the multiple objectives of this program. The federal guidelines declare that project importance will be measured by the extent to which the project would provide a permanent, continuing and/or residual benefit to the community.

All loans may be subordinated to the private sources of funds that are to be secured. Debt coverage for borrower collateral is required unless waived by the Downtown Loan Committee. Applicants must pass ordinary credit criteria applied by local lenders. References to prime interest rates in the criteria mean the prime rate as published in the *Wall Street Journal*. The specific criteria for each loan type are as follows:

#### I. BUSINESS DEVELOPMENT LOANS.

The business development loan program is targeted to those downtown proposals that achieve the following levels:

- a) The project is consistent with the long-term development plan for public and private improvements in the downtown area and received documented support from financial institutions or the Small Business Resource Center within the Shiawassee Regional Chamber of Commerce.
- b) The business type is a retail outlet that expands the use of vacant space in the downtown or converts existing space to a priority retail concept listed in Exhibit A of these criteria; or
- c) The business type is an economic base service industry that exports projects or services outside of the Shiawassee County area, creates five (5) or greater new full time jobs, and uses a building zoned and planned so as to not disrupt the primary retail spaces of the downtown.

The loan conditions and terms include—

- 1) The ratio of all other private and public fund in relationship to the UDAG funds shall be at least 1:1. The ratio will be lessened to .75:1.25 for retail projects listed in Exhibit A and located on Washington Street between Comstock Street and Mason Street. The ratio also applies to buildings anywhere within the DDA with a vacancy of at least 24 months.
- 2) The maximum loan amount shall be based on available funds for the fiscal year when the project is considered for funding. The minimum loan amount is \$10,000. Loan terms shall be at a fixed rate at prime (prime is defined by local lenders for comparable loans) for a term not to exceed seven years. The rate shall be reduced to one point below the prime rate for projects listed in Exhibit A and located on Washington Street between Comstock Street and Mason

Street. The rate reduction also is available to buildings in the district with a vacancy greater than 24 months.

## II. BARRIER FREE PROJECTS.

Projects in this category are eligible if the structure is multistory and has a floor area of at least 4,000 square feet per floor. Adjoining buildings can qualify as meeting this standard by combining areas with one elevator. Barrier free access to upper story spaces and within upper story spaces can be achieved through a direct development loan provided that:

- a) The applicant owns the property.
- b) The proposed upper story use advances an interest expressed in plans and policies of the DDA;

The loan conditions and terms include—

- 1) The maximum loan for this type of improvement is \$65,000. The minimum loan shall be \$10,000.
- 2) The loan term shall be no greater than 15 years and have a fixed rate of 40% of prime but not less than 3%.

Note: Barrier free access improvements for lavatories, ramps, aisle space, doorways, and the like are eligible activities when associated with other projects listed in this manual.

## III. PRESERVATION OF HISTORIC SITES.

The preservation of historic sites is an eligible loan activity of the fund under the following provisions:

- a) The improvements are restoration-based for interior and/or exterior work according to the applicant's plan of restoration. The loan committee shall, in its sole judgment or per a recommendation from the Downtown Historic District Commission, qualify the adequacy of the restoration plan and may establish requirements for improved planning prior to authorizing a loan.
- b) The building is an historically eligible structure as defined by the Department of Interior Secretary's Standards or is a contributing structure in the Downtown Historic District Commission district.

The loan conditions and term are—

- 1) The maximum loan amount for this program may not exceed \$50,000. The minimum loan amount is \$3,000. The applicant must apply to the project costs a minimum of 25% of the UDAG loan amount to the project or invest that amount in other building improvements in the same year as the restoration project.
- 2) The loan term shall not exceed 12 years and the rate is fixed at 40% of prime but not less than 3%.

## IV. UPPER STORY RESIDENTIAL LOANS

Upper story apartment development within the downtown district would become eligible for a loan under the following criteria:

- a) The minimum square footage per apartment unit is 800 square feet for a Basic Loan and 1,200 square feet for an Inducement Loan.
- b) There would be two loans available--
  - 1. Basic Loan.
    - i) A maximum of \$12,500 per apartment of public loan funds. No minimum for private funds.
    - ii) Term is a 10-year amortization rate with a five-year balloon
    - iii) The rate is one point below prime. The Loan Committee shall be empowered to grant an extension for a second five-year term at prime plus one taking into consideration the need for a loan workout settlement and adequacy of collateral coverage.
    - iv) Air conditioning of the unit is required.
    - v) Cable/smart wiring connection in every habitable room except the bath are required.
  - 2. Inducement Loans.
    - i) A maximum of \$15,000 per apartment of public loan funds. No minimum for private funds.
    - ii) Term is a 10-year amortization rate with a five-year balloon.
    - iii) Rate is 4% fixed with an extension of the balloon allowed under the same conditions as the Basic Loan.
    - iv) Air conditioning of the unit is required.
    - v) Cable connection with high speed internet opportunity in at least one room is required.
    - iv) The apartment must have any two (2) of the following amenities:
      - Laundry hook-ups
      - Dishwasher
      - Loft style design
      - Bicycle storage in secured areas of the ground floor or basement.
      - Rooftop garden or patio—minimum of 100 square feet
      - Balcony with wrought iron railing.
      - Indoor stovetop grill
      - Hardwood floors
      - Jacuzzi bath
      - Skylight window
- c) In each application acceptance period, loan applicants with private parking alternatives will be considered prior to other applicants for apartment loans.

The applicant may propose alternatives for committee evaluation.

## V. UPPER STORY ACCESS GRANTS

Upper story access grants are intended to provide professional evaluations and plans for resolving design, accessibility and building code issues. Criteria for this grant opportunity are as follows:

- a) Buildings with less than 2500 square feet per floor would be limited to a \$2,500 grant. A sliding scale for buildings larger than 2500 square feet per floor would proceed as follows—
  - 2500-4000 sq.ft.....\$ 3,000

4000 sq.ft. and over.....\$ 5,000

The owner shall deposit \$1,000 of the grant, or 50% of the study cost whichever is less, into escrow with the city. The funds shall be refunded without interest if the study considers the development feasible, and the development is carried out within eighteen months of the completion of the study. Feasibility shall be determined by the architect/engineer in his/her sole discretion.

- b) If the cost of a complete access/code study is greater than the permitted amounts, the building owner must pay the balance of what a study would cost for that building. That information would be provided in advance of undertaking a project to allow the building owner to cancel a request for funding.
- c) Two or more buildings combined into a single access/code study concept would have the limits increased by \$1,000.
- d) The city may contract for the work with the owner's consent on the selected architect/engineer.
- e) The 2011-2012 program for all applicants would be capped at \$5,000 and shall be made available on a first qualified/first serviced basis.

#### VI. RETAIL REMODELING LOANS.

A building owner may be eligible for this loan for projects that upgrade a building condition that will modernize the structure for retail use or reverse a deteriorating condition. Examples include sign repair, mechanical and electrical systems, roof work, partitions, windows, alcoves, doors, and painting. This program is different from the business development loan that is focused on working capital and purchase of inventory and fixtures.

A loan request up to \$50,000 is allowed. An equivalent private source of money is required. The interest rate is 40% of prime but not less than 3% at a fixed rate with a maximum term of seven (7) years. For buildings in the 9-block core area with at least a 24-month vacancy, the loan rate shall be reduced to 1%.

#### VII. ACQUISITION OF PROPERTY

The loan fund shall be used for city council authorized acquisitions of property when project pro forma demonstrates a return to the revolving loan fund of at least 50% of the acquisition costs through sale of the property. Sale terms may include financing at prime- plus-one up to a ten-year term and subordination if collateral coverage is adequate as determined by the project credit analyst. Eligible properties shall include any parcel within the DDA district that advances the purposes of the plans and policies of the district. The general policy for an eligible property is that it should be blighted, inappropriately developed, undeveloped, or appropriate for rehabilitation or beautification of urban land.

#### VIII. HISTORIC SIGN PROGRAM

For buildings 50 years or older, historic sign restoration or establishment may benefit from one of two programs:

- A. For loans that involve any of the other loan features of the revolving loan program, the borrower will receive an interest credit of \$1,000 applied to the initial two years' interest of the loan repayments.

- B. For buildings that will only change the sign in conformance with the design standards, the borrower will receive a 50% rebate for the cost of the sign but not exceeding \$1,000. The source of funds will be taken from interest earnings from the existing program.

**Program Eligibility and Limits.**

- A. An eligible tenant or building owner in the nine-block core area may apply. Buildings over 50 years old in the balance of the downtown are eligible.
- B. In any one year, if funds are not committed to the historic buildings by April 30 of that fiscal year, all other buildings may apply for the credit or loan enhancement.
- C. In any one year there is a \$6,000 cap of funding eligibility. Funds will be distributed on a first qualified, first served basis.
- D. An eligible building must be in legal compliance with city codes and ordinances.

**Program Standards.**

- A. The DDA shall adopt the sign standards at the beginning of the program year. The standards are to become established in deference to available reference materials from the US Department of Interior Main Street program and/or other recognized authorities of sign design. All signs must also conform to standards of the Downtown Historic District Commission (HDC).
- B. An applicant is qualified through a letter of intent to request the rebate and subsequent action to acquire final approval no less than six weeks after submission of the letter of intent.
- C. The downtown loan committee shall find conformance with the sign standards and notify the applicant of that acceptance.
- D. The rebate will be paid to the sign owner within two weeks of installation.

**IX. ENVIRONMENTAL STUDIES AND INVESTIGATIONS.**

The investigation and documentation of contaminants for sites is an eligible loan activity of the fund under the following provisions:

- a) The applicant owns the property.
- b) The proposed use advances an interest expressed in plans and policies of the DDA;
- c) The building or site has an existing brownfield plan, is documented to be contaminated, or is otherwise demonstrated to the committee to be known or strongly suspected of being contaminated.

The loan conditions and term are—

- 1) The maximum loan amount for this program may not exceed \$10,000. The minimum loan amount is \$2,000.
- 2) The loan term shall not exceed seven (7) years and the rate is fixed at 6%.
- 3) The property owner/developer shall acquire the services of an accredited environmental site investigation firm qualified to conduct business in the State of Michigan. The costs of the Phase I and Phase II site investigation shall meet the costs generally imposed for that professional service.

- 4) To be eligible for reimbursement, the property owner shall provide copies of invoices and the results of the environmental site investigation(s) to the City of Owosso.
- 5) To protect property owner liability, the site investigations shall be current and completed in the time frame required under the laws of the State of Michigan.
- 6) If the project is not undertaken within 18 months of the disbursements for the environmental site investigations, the loan committee will retain the exclusive right to require the loan and accumulated interest to be paid in full.
- 7) The loan committee may require tax increment collateral support for the loan through an applicable brownfield plan and/or, the loan committee may impose other forms of collateral with the property owner which at a minimum shall include a promissory note.

**Criteria for Project Selection.** The city council of the City of Owosso is ultimately responsible for the disposition of the funds; however, the fund is restricted to the permitted uses listed in the 1974 Housing and Community Development Act. The council may seek advisory recommendations from the DDA and/or the HDC for the structure of the loan program.

The city council is responsible for the adoption of this program manual. The city council shall approve a project review committee (loan committee) appointed by the mayor. The committee shall consist of two individuals that are representative of two different downtown lending institutions, as well as the mayor or the mayor's appointee from the city council, and the Community Development Director or his/her designee.

The committee shall make decisions on loan and grant applications on the basis of the manual's loan criteria. Loan workouts for delinquent loans shall be accomplished through the bank lenders on the committee and be based on private lending practices. Any exceptions to the criteria must be approved by the city council. City staff from the building department shall act as the intake office for project proposals and manage the loan portfolios. Each year, prior to the adoption of the program manual, the city council shall receive a report on the loan program with details of project character, extent and payment performance of the loans (if available).

**Loan Proceeds and Administrative Fees.** With exception to administrative fees described below, all loan proceeds shall be reapplied to the block grant fund for use in future projects that comply with this program manual.

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## EXHIBIT A

### QUALIFYING RETAIL STORES FOR THE 2011-2012 PROGRAM YEAR

The following stores are qualified retail concepts for consideration of an interest rate bonus loan in the 2011-2012 program year:

Department Store	Fresh Produce Store
Supermarket (over 6,000 sq.ft.)	Junior Department Store
Women's Ready-to-Wear	Maternity/Uniforms
Women's Specialty	Family Shoes
Athletic Footwear/Clothing	Bookstores (full line/new)
Records/Videos/Tapes	Musical Instruments/Sheet Music
Children's/Infant Wear	Bakeries—breads and bagels emphasis
Home Improvement/Accessories	Computer Store – 60% sales floor area
Gifts	

Also included is replacement/retention of any existing retail line that is subject to recent or future ownership changes or closing.