

Community Resources for Brownfields Redevelopment

*Tried, True, & Unexpected Funding Sources
to Promote Site Redevelopment in Indiana*

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Passion. Expertise. Results.



What this discussion will cover...

- Range of (non-EPA) federal program tools/tax incentives that can be put together in a brownfield effort – and what they can do
- Low cost/no cost strategies with important \$\$ impacts
- Emerging local financing strategy innovations that communities are exploring that can be linked to brownfield efforts
- Examples of diverse resources in action...



Public Tools Are Being Used in a Variety of Ways to Promote Brownfield Reuse

- **To provide resources directly**
 - *Grants; forgivable loans*

But also to...

- **Reduce lender's risk**
 - *loan guarantees; companion loans*
- **Reduce borrower's costs**
 - *interest-rate reductions/subsidies; due diligence assistance*
- **Improve the borrower's financial situation**
 - *re-payment grace periods; tax abatements and incentives; technical assistance help*
- **Provide comfort to lenders or investors**
 - *performance data, risk management/corroboration*



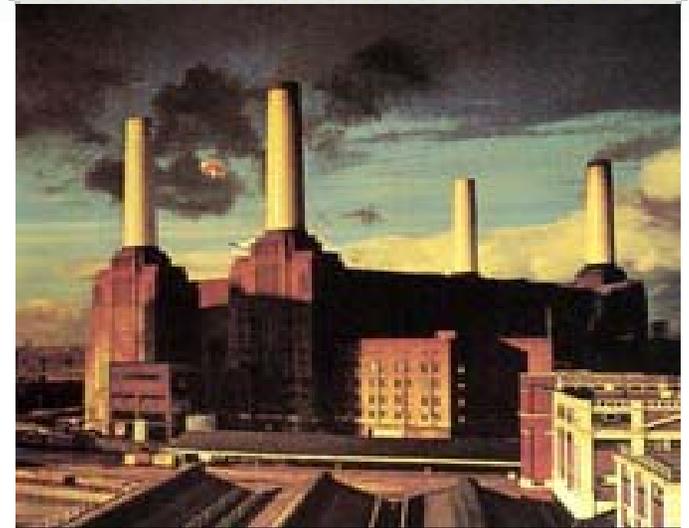
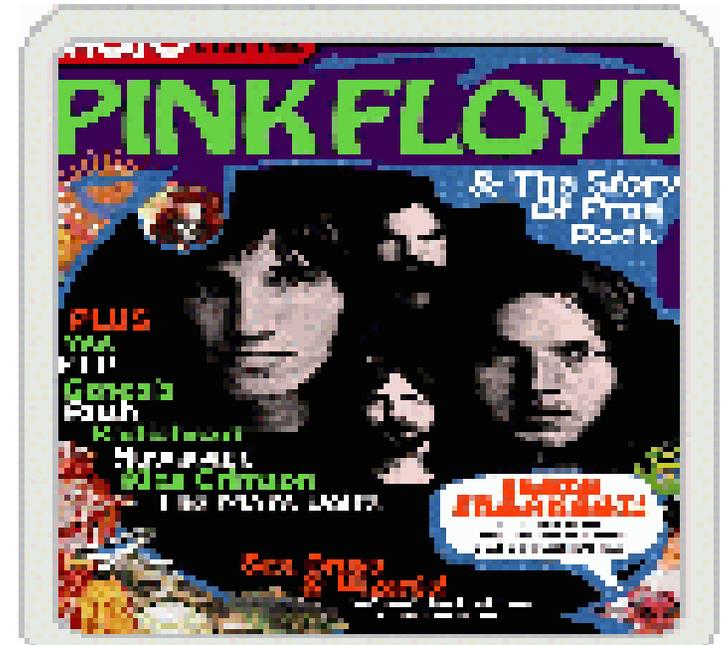
Putting it all together today: promoting brownfield reuse – the Pink Floyd strategy

**Money, it's a crime.
Share it fairly but don't take a
slice of my pie.**

It's all about leveraging and partnerships....

Creatively using development and environmental procedures and funding to meet the range of site redevelopment needs, attract private financing for –

Animals, 1977 – 1st ever brownfield album cover!



...Every Aspect of the Brownfield Reuse Process...

- brownfield reuse/redevelopment planning
- site acquisition
- environmental assessment
- removal or remediation of contamination
- installation of institutional controls
- site clearance, demolition, and debris removal
- rehabilitation of buildings
- construction of infrastructure, related improvements that enhance contaminated property value

Financing Programs: A Federal “Laundry List”

What’s Been Used to Help Finance Brownfield Reuse?

Loans

- EDA capital for local revolving loan funds
- HUD funds for locally determined CDBG loans and “floats”
- EPA capitalized revolving loan funds
- SBA’s microloans
- SBA’s Section 504 development company debentures
- EPA capitalized clean water revolving loan funds (priorities set/ programs run by each state)
- HUD’s Section 108 loan guarantees
- SBA’s Section 7(a) and Low-Doc programs
- USDA business, intermediary, development loans

Grants

- HUD’s Brownfield Economic Development Initiative (BEDI)
- HUD’s Community Development Block Grants (for projects locally determined)
- EPA assessment, cleanup grants
- EDA public works and economic adjustment

Grants (*continued*)

- DOT (various system construction, preservation, rehabilitation programs)
- Army Corps of Engineers (cost-shared services)
- USDA community facility, business and industry grants

Equity capital

- SBA Small Business Investment Cos.

Tax incentives and tax-exempt financing

- Targeted expensing of cleanup costs
- Historic rehabilitation tax credits
- Low-income housing tax credits
- Industrial development bonds
- Energy efficiency construction credits

Tax-advantaged zones

- HUD/USDA Empowerment Zones
- HUD/USDA Enterprise Communities



*Most commonly used
(non-EPA) federal
resources...especially in
smaller communities*

- **HUD – CDBG**
- **EDA – public works, economic dislocation**
- **DOT – enhancement, construction, system rehab/modernization**
- **USDA – rural development/community facilities loans and grants**
- **Tax code incentives – for housing, cleanup, structural rehabilitation**

HUD Supported Entitlement and State/Small Cities CDBG Programs

- Cities over 50,000 people get annual formula allocations
- Each state gets an annual funding allocation from HUD to meet small cities' (less than 50,000 population) community development needs
- CDBG funds must meet one of HUD's 3 broadly defined program objectives:
 - *addressing the needs of low- and moderate-income people (at least 51% of funds)*
 - *addressing slums and blight*
 - *meeting an urgent community need*

CDBG Eligible Activities – With Links to Brownfield Needs -- Include:

- Demolition and removal
- Rehabilitation of public and private buildings
- Planning
- Construction or reconstruction of infrastructure, neighborhood centers, recreation/public works facilities
- Can include coping with contamination as part of site preparation or infrastructure development
- Can be lent to private companies in some circumstances

For the state/small cities program –

– Each state sets its own project funding priorities, defines its own program requirements, within these objectives and activities

Indiana State/Small Cities CDBG

\$ 31.3 million in FY 2009 – making the fit to brownfields:



- **Community Focus Funds**
 - Eligible projects include – infrastructure, downtown revitalization, historic preservation, community centers
- **Micro-enterprise assistance**
 - Goal is long-term community development – *why not focus on businesses on brownfield sites?*
- **Planning**
 - Facilitate projects such as downtown revitalization and community facilities – *why not target to brownfield activities?*

CDBG: Marsh Island Carry – Old Town, ME

- Abandoned 3-acre Lily-Tulip paper plate manufacturing site on Penobscot River
 - Converted into waterfront park, 2 commercial buildings
 - Key funding included **\$400,000 state/small cities CDBG grant for infrastructure around commercial buildings**
 - Other funding included:
 - \$24,500 from the National Trails Recreation Act for trails, walkways, and river stabilization
 - \$8,000 from ME Forest Service for trees
- Leverage:** 4 new businesses, 30 jobs, \$18,000 in property tax revenues, open space



CDBG -- Small Business Incubator, Walthill, NE

- Small business incubator in Walthill (population 909)
- Renovated and modernized former 4,000 sq. ft. electric power plant site, built in 1910, abandoned 20+ years
- Financing included –
 - **\$105,000 in state small/cities CDBG**
 - \$150,000 local sources



HUD/CDBG -- Jack Evans Police Station, Dallas TX

- Small, isolated brownfield site used to meet critical public service need
- Jack Evans police station, on 3.2 acre former gas station/dry cleaner site
- **\$150,000 in CDBG** used for site preparation, including cleanup and demolition
- Construction funded with G.O. bonds



Economic Development Administration

Key EDA programs and initiatives include:

- Public works grants finance industrial development site and infrastructure preparation
- Economic dislocation program capitalizes RLFs for distressed areas
- Rural planning to support revitalization, through EDDs

Key EDA eligibility factor – high relative unemployment rate

Economic Development Administration

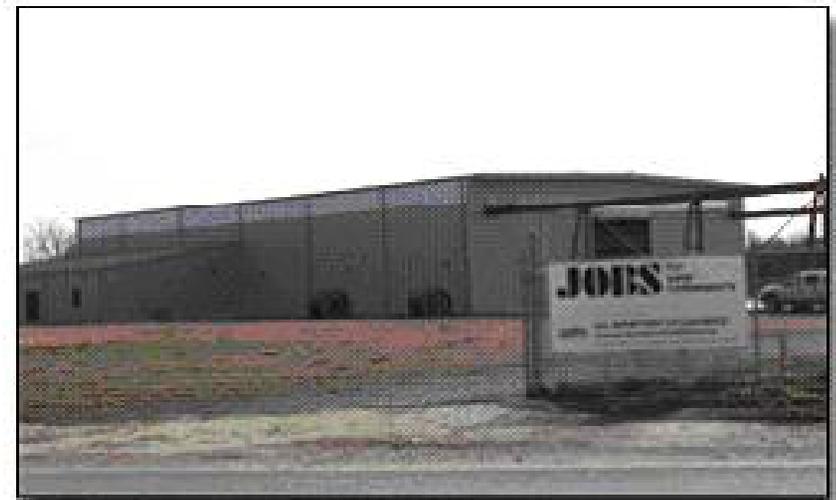
EDA typically puts 50% + of its resources into small/mid-sized towns and rural areas

EDA's brownfields track record --

- Since 2001, \$225 million invested in 210 brownfield projects
 - *\$50 million in rural areas*
 - *55% in public works*
 - *9% in planning*
 - *25% in economic adjustment*

EDA/public works -- Plainview Steel – Plainview AR

- Lumber/pressure treating facility, shut down in 1986 after quarter-century of operations; declared superfund site in 1999
- Cleaned, redeveloped as specialty steel plant
- **\$763,000 in EDA public works funding** supported site preparation, construction, infrastructure upgrading as part of \$1.1 million financing package
- **Today** – 25 new jobs, significant tax revenues for community



EDA/planning -- Cimarron Center – Sand Springs, OK

- Former zinc smelter, abandoned rail spur in small Oklahoma town
- Challenge was structuring a cleanup plan that made the site economically competitive with nearby greenfield for big-box retail
- Financing included **EDA planning resources**, local TIF
- **Leverage** -- Cimarron Center, with Wal-Mart Supercenter as anchor, has created 350 new jobs, added \$3.5 million in annual city sales tax revenues



USDA Rural Development Programs

USDA rural development funds must meet broadly defined program objectives -- 4 key programs can do this within a brownfields context:

- *Community facility loans and grants* – for a range of development and community benefit projects
- *Business and industry loans* – to public or private organizations, for activities such as industrial park site development/rehabilitation or access ways
- *Intermediary re-lending program* – intermediaries such as local governments are loaned money to re-lend to companies, in order to finance business facilities
- *Rural development grants (RBEGs/RBOGs)* – given to provide operating capital and finance emerging private business and industry

How Can USDA Rural Development Funds Be Used For Activities that Also Support Brownfield Redevelopment ?

Eligible activities often can include: :

- **Planning** for redevelopment or revitalization – for businesses and community facilities (*which could include brownfield projects*)
- **Site clearance/preparation**, including demolition – *key brownfield reuse/redevelopment activities*
- **Rehabilitation/improvement of sites or structures** – *which might need to include removal or remediation of contamination as part of project*
- **Construction** of real estate improvements
- **Installation** of amenities to enhance development

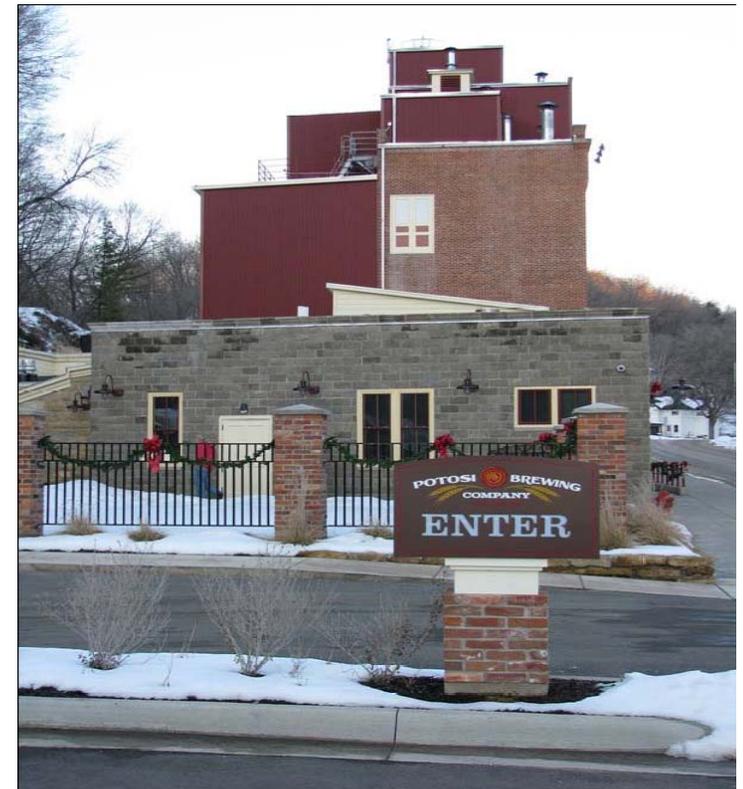
USDA: Charleston Place – Seaford, DE

- Abandoned sewing factory, built in 1920s
- Developed by non-profit Better Homes of Seaford
- **\$600,000 USDA rural development loan**, plus DE Housing Authority and private bank participation
- Ribbon cutting 1/9/06; fully occupied by March



USDA: Potosi Brewery, Potosi, WI

- Brewery built 1852 in Potosi (pop. 700), abandoned 1972
- Asbestos, lead paint, other contaminants
- **\$3.3 million B&I guaranteed loan** key to securing additional \$4.2 million in financing
- Transformed Potosi's main street; community involvement key
- **Result:** Refurbished as micro-brewery, brewing museum and library, opened June 2008
- 50 new jobs, 4 new beers



Transportation Programs

- Must work thru state MPOs, local transportation agencies
- In March 2009, DOT re-affirmed its brownfield policy
 - *Transportation funding can be used for cleanup at sites integral to transportation system development/upgrades*
- DOT highway/transit construction programs can support related revitalization by:
 - *(1) helping upgrade existing facilities*
 - *(2) offer transportation amenities that improve access to – and marketability of – sites*
 - *(3) fund facilities and structures that serve as part of the remedial solution*

DOT: arterial road grid installation -- Moline, IL



- largely abandoned riverfront, former industrial/warehousing uses
- converted to residential and marina/mixed use complex and commercial space
- \$3.2 million in state and federal funding included **DOT funds for road grid and enhancements**

DOT: infrastructure enhancements, old Montgomery Ward distribution center— Fort Worth, TX

- Historic “white elephant” on a 45-acre site adjoining CBD
- **DOT (CMAQ) for road and sidewalk infrastructure**
- Other financing tools used
 - Historic rehab tax credits
 - State tax abatements, fee waivers
- *Today* -- DOT mixed use commercial/ retail/office complex, CBD extension



Federal tax incentives that can be linked to brownfield redevelopment – at little or no cost to the community or project....

3 with particular relevance to smaller cities and smaller sites –

- Rehabilitation tax credits
- Low income housing tax credits
- Brownfield cleanup expensing



Advantages of Using Tax Incentives in Brownfield Projects

- Increase project's internal rate of return
- Ease borrower's cash flow by freeing up cash ordinarily needed for tax payments
- Some credits can be sold for cash, or syndicated to attract additional investment
- Not subject to competitive public grant process – *you qualify, you win!*

Rehabilitation Tax Credits

- Taken the year renovated building is put into service
- 20% credit for work done on historic structures, with rehab work certified by state
- 10% credit for work on “non-historic” structures build before 1936; no certification required

In 2008 – 1,231 projects, \$1.12 billion in credits

- leveraged \$5.64 billion in private investment
- led to nearly 68,000 jobs
- resulted in 17,051 housing units – 5,200 affordable

Rehabilitation Tax Credits – caveats and “fine print”

- Rehabilitation costs must be “*substantial*” – i.e., exceed minimum of \$5,000 or the building’s adjusted basis
- Property must be “income-producing” – multi-family rental housing can claim the 20% credit, but not the 10% credit
- Rehab work must conform to state historic preservation standards – which can deter integration of “green” technologies
- Credit is recaptured on a sliding scale (20% annually) if owner disposes of the building within five years of completing renovation

Old Northampton Fire Station -- Northampton, MA

- Old Northampton Fire Station, built in 1872, shut down in 1999
- 13,000 sq. ft. building redeveloped into downtown office space, café, small scale retail
- Adjoining property, used by the fire department for maintenance activities, being redeveloped into a residential and studio space
- Total project costs -- \$1.6 million
- **Cash flow impacts of rehab tax credits a key part of the economic viability of this project**



Thames Street Landing – Bristol, RI

- \$8.3 million mixed-use redevelopment, including housing, hotel, and offices at a vacant downtown site
- 200-year history – buildings included original Bank of Bristol (1797), Taylor Store (1798) and DeWolf Warehouse (1818); industrial uses started in 1861
- Developed in phases; banks unwilling to provide follow-on financing until 1st phase generated a positive cash flow
- **Rehab tax credits key to generating positive cash flow, attracting additional private capital**
- Today, project is cornerstone for historic revitalization of Bristol waterfront



Low-Income Housing Tax Credits

- Can encourage capital investment in affordable housing/target investment to certain areas – vacant properties, brownfields, infill locations, other priority sites
 - *States get annual population-based allocation for distribution to communities and non-profits – approx. \$1.75 per capita*
- Investors can get 9% annual credit for 10 years for qualified new construction/rehabilitation costs (i.e. 90% of total) for projects not financed with federal subsidy
 - *Federal subsidy limits credit to 4%*
- Credits can be used for new construction, rehabilitation, or acquisition and rehabilitation

Low-Income Housing Tax Credits – fine print and caveats

➤ **New wrinkles...**

➤ *Loss of tax incentive value on secondary market – from about 95 cents/\$ to about 65 cents/\$ now – impacts syndication value*

➤ *“Green” priority for credit allocations within states*

➤ Credits support a wide range of housing types/situations

➤ *Urban, suburban, rural projects*

➤ *Housing for families, special needs tenants, elderly*

*\$3.85 billion in credits issued in fiscal year 2008,
supporting 1/3 of all new construction that year*

*Indiana has received \$159 million from 1987-2005,
supporting 33,300 units*

Brian J. Honan Apartments – Allston, MA

- Allston-Brighton CDC saw an opportunity to develop former Legal Seafoods fish processing plant into affordable housing
- **Low-income housing tax credits** key parts of financing incentive package needed to attract capital, convince funders that the project would work
- **Result** – affordable units in a sustainable development: green energy, pedestrian access to groceries, shops, transit



Mifflin Mills – Lebanon, PA

- PA's first affordable “rent-to-own” townhouse community
- Former vacant, blighted city block near downtown
- Energy efficient construction, designed to blend into existing residential neighborhood
- 20 units, completed Nov. 2009
- **\$1.5 million in low-income housing tax credits** key part of financing package needed to attract investors to rent-to-own project structure



Brownfield Cleanup Expensing Tax Incentive

- **Deduction pegged to cleanup costs, which allows new owners to recover cleanup costs in the year incurred; only incentive targeted to private site owners**
- **Can include:**
 - *Site assessment, cleanup, monitoring costs*
 - *Costs related to install/monitor institutional controls*
 - *State VCP fees and associated costs*
 - *Removal of demolition debris*
- **No long term authorization in place; most recently extended until 12/31/09 (retroactive to 1/1/08)**
 - *Petroleum sites made eligible in 2007 extension*

Brownfield Cleanup Expensing Tax Incentive – caveats and fine print

- “Stealth incentive” – less than 2 dozen projects annually
- Little understanding of what it is, what it does, how it works
 - *On the part of Treasury (no regs/guidance), developers, transaction support professionals, state agencies who certify*
- Process not well articulated at state level
- Authorized in “fits and starts”
 - *Makes long-term, larger projects hard to plan*
- Subject to recapture on transfer
 - *Vague Treasury interpretation deters use*

Alliance Environmental/Goodwill Fire Department – West Chester, PA

- 8.5 acre former pharmaceutical property and dump site in economically distressed area
- Cleaned and redeveloped by Alliance Environmental
- Now, location of Good Will Business Park: 100,000 sq. ft. of retail, public service facilities including fire department and district court
- Incentive provided Alliance with nearly \$800,000 in tax relief



T.R. Thickston Glass Company, Bloomington, IN

- Former recycling center with foundry waste
- Project spearheaded by environmental consulting firm familiar with tax incentive
- **Incentive saved about \$80,000 in tax liability,** used to support cash flow until redevelopment occurred
- **Result** -- Site leased by T.R. Thickston Glass Company; created 3 jobs



“Low-Cost/No-Cost” Brownfield Redevelopment Tools

Tools that enhance redevelopment financing
– *with little or no additional cash outlay*

- **Institutional controls**
 - Can reduce site preparation, cleanup costs
- **Innovative remedial technologies**
 - Can lead to big reductions in cleanup costs
- **Cost saving technical assistance and project support**
 - Can save time, money, other development costs

California Speedway – Fontana, CA

Institutional controls

- Speedway on a portion of 23-acre former Kaiser Steel Mill site (from 1942 to 1983) in rural CA
- Raceway and interior facilities used as an environmental cap, saving nearly \$500,000 in cleanup costs, reducing redevelopment time
- In 2008, Speedway generated \$12.5 million in economic activity, \$2.5 million in new tax revenues, 1200 new jobs.



Downtown retail, Williamsport, PA

Innovative cleanup technologies

- former airplane engine factory, abandoned nearly 50 years, with groundwater contamination that proved too costly to treat by conventional means
- state and local governments worked with developer to identify **innovative cleanup technology – molasses injection** -- that would work within standards of VCP
- *Now...* retail complex and parking facility



Victor Building – Camden, NJ

Cost saving t.a. and project support

- Abandoned former RCA Victor Building on Camden's waterfront, with pervasive PCBs
- Site intended for residential re-use; challenge was keeping \$7 million cleanup manageable
- NJDEP provided t.a. to developer – on remedial and monitoring applications, ICs, entombment of residual PCBs – **strategies that allowed cleanup and redevelopment to go forward concurrently**, with big cost savings
- *Now...* \$60 million private investment in 341 units, 1st market rate housing built in Camden in 40 years, landmark “Nipper Tower” saved



Common Local Financing Tools

Putting a Brownfields “Spin” on the Local Tried-and-True – Making them Work for Site Cleanup and Reuse

- Tax increment financing/TIF-style financing
- Tax abatements
- Tax forgiveness
- Special service areas or taxing districts
- Revolving loan funds (RLFs)
- Property transfers

Local Initiatives

TAX INCREMENT FINANCING

- Uses the anticipated growth in property taxes generated by a development to finance it; most common local financing tool supporting brownfield cleanup and reuse

Johnson Street Quarry – Minneapolis, MN



- Johnson Street Quarry was a blighted, under-utilized property
- A local developer wanted to build a 420,000-sq. ft shopping mall
- After extensive community involvement, as well as strong public/private cooperation, several major national retailers located in the retail center, including Target, Pet Smart, and Rainbow Foods
- **TIF was key to financing site preparation**
- Redevelopment of this property has spurred redevelopment in the surrounding area, created over 2,000 new jobs (much above original estimates) and increased property and sales tax revenues in excess of \$3 million a year.



Local Initiatives

TAX ABATEMENTS

- Reductions or forgiveness from tax liabilities, granted for a specific period of time (typically 5, 10, or 20 years); helps project cash flow

Everett Ave. Urban Renewal District – Chelsea, MA

- Blighted 10-acre outdoor storage yard for junk cars and equipment.
- Developer purchased 2 acres for \$1.2 million to construct a \$17 million, 180-room, full-service hotel
- **10-year property tax abatement key incentive**, used to offset site cleanup and preparation costs
- Hotel now employs 100 workers, generates approximately \$400,000 in sales and income tax revenue annually – *even with the abatement in place.*



Local Initiatives

TAX FORGIVENESS

- Authorizes local governments to forgive back taxes on delinquent properties
- In a brownfield context, these new tax forgiveness programs typically:
 - Are linked to new owners or prospective purchasers
 - Require agreement to clean up and reuse site
 - Require purchaser to enter state VCP

Sherman Perk -- Milwaukee, WI

- Abandoned gas station, closed since 1989
- Issues of financing/addressing cost of petroleum contamination; 9 years tax delinquency
- Financing included **state forgiveness of back taxes linked to VCP participation, rehabilitation tax credits**
- Result -- reuse of historically significant building as successful neighborhood retail anchor



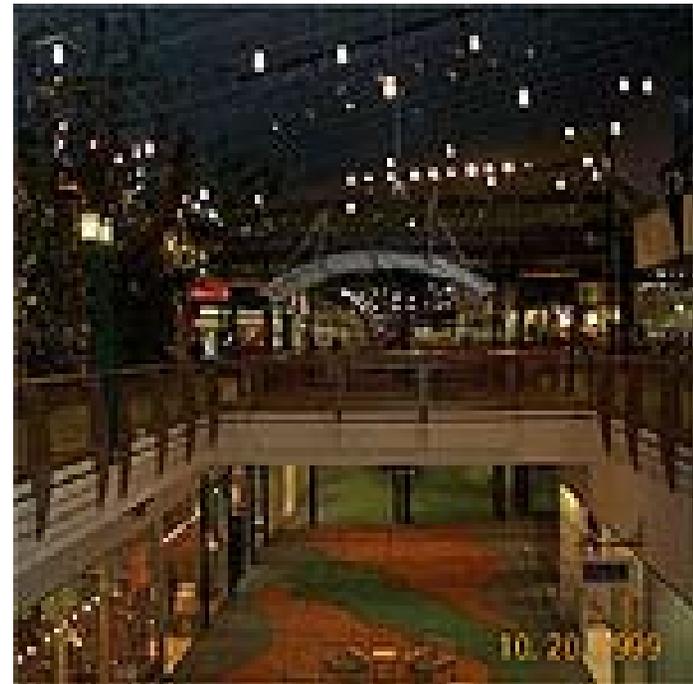
Local Initiatives

SPECIAL SERVICE AREAS OR TAXING DISTRICTS

- Cities can use a “special service area” designation to raise cash for activities, facilities, or bond servicing needed by the target area.
- Property owners agree to the special levy or fee, based on its use in their area to finance maintenance or improvements.
- Property owners may “self-impose” fees as part of a redevelopment agreement.

Jersey Gardens Metro Mall – Elizabeth, NJ

- 166-acre former garbage dump, across the street from Ikea Center – Elizabeth’s first big brownfield success
- \$320 million investment – 1.5 million square feet of retail space, resulting in 5,200 jobs and \$4.2 million annual tax revenue increase
- **Bonds being paid off through franchise fees levied within a “landfill reclamation district”** established for this project, paid by mall tenants as part of their rent



Local Initiatives

LOCALLY CAPITALIZED REVOLVING LOAN FUNDS (RLFs)

- A growing number of communities are establishing their own RLFs targeted to redevelopment and brownfield-related projects; similar to state or federal RLFs, but they write the rules.
- They use a wide variety of sources for capitalization – general revenue appropriations, bank contributions, philanthropic donations, fees or fines, repayments from CDBG projects, etc.

Waterfront Development – New Bedford, MA

- **Locally capitalized RLF used to pay for Phase I site assessments** at sites served with environmental tax lien
- Capitalization sources include local contributions, proceeds from property sales as liens are redeemed



Local Initiatives

PROPERTY TRANSFERS

- Site is transferred to new owner or user for a nominal fee, typically \$1, in exchange for an agreement to clean up and reuse the property

Mills of Carthage – Cincinnati, OH



- Abandoned industrial property was transferred to new owner for \$1, in exchange for an agreement to take site through Ohio VCP, clean it up, and reuse it
- First new housing in Carthage neighborhood in 40 years
- Completely sold out



So, to wrap-up....when it comes to brownfield reuse --

Any community, even the smallest rural crossroads, will face brownfield issues that may impede local development efforts.

- ***The question will be -- how can they identify and leverage \$\$\$ to achieve brownfield success?***
- ***Can they do it?***

*Yes, they
can !!!*



Bob does brownfields!!

Yes, they can!! Rosalia, WA – Locally driven public-private partnerships can stimulate innovative site financing in small communities

- 1923 vintage Texaco gas station, in downtown Rosalia, WA (pop. 600)
- Abandoned 21 years; UST issues
- Site as focus of “heritage tourism” main street revitalization strategy
- Converted to “gateway” retail, craft/farmers market, visitor center for nearby Steptoe Nat’l Battlefield, national forest

Public financing sources include:

- \$33,000 USTfields pilot grant
- \$54,000 WA Dept of Ecology grant
- \$45,000 Whitman County “community development ’08” grant



Yes, they can!! Rosalia, WA – Locally driven public-private partnerships can stimulate innovative site financing in small communities

Partner donations include:

- Development grant sharing from surrounding counties
- Rosalia Lions Club
- Rosalia “Gifted Grannies”
- Retired Texaco Executives Assn.
- Pro bono legal, remedial services
- Utility incentive rates
- Community sweat equity
- First-ever partnership with a state Dept. of Corrections





Charlie's contact
information

For further information.....

For additional examples and information....

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