

## **Using Tax Increment Financing for Brownfields Redevelopment – Part 2 Evans Paull**

In our first article on tax increment financing (TIF) for brownfields redevelopment we reviewed how certain states have structured brownfields incentives to work with local TIF projects. The key point from the first article is that there is a mismatch between brownfields projects and the use of the private bond market for a TIF. Brownfields projects need upfront funding for site testing, cleanup, and site preparation, but the bond market will not finance the project until vertical development is virtually 100% committed, which is usually too late for brownfields-related costs. The first article reviewed how some states address this dilemma by offering guarantees or direct loans that have favorable terms and essentially act as an alternative to bond market TIF financing. In this article we review other ways to get over this mismatch: through the use of certain federal funds; and through private equity, usually brought to the table by entities that specialize in brownfields financing.

### **Federal Programs that work with TIF**

Two federal programs - HUD 108 and EPA's Brownfields Cleanup Revolving Loan Fund (BCRLF) - have been successfully matched up with TIF financing on brownfields sites.

**HUD 108.** HUD 108 allows cities to obtain loans at favorable terms, based partly on the security provided by each City's annual CDBG allocation. HUD is able to offer flexible and favorable terms because the agency holds the security for the loan, i.e. the city's future CDBG funds. For brownfields projects that are being financed through TIF, borrowing from HUD 108 allows the funding to come into the project at a much earlier point. Flexible terms, such as interest-only payments for five years, also help communities finance upfront costs well before the TIF revenues start coming in.

At least two cities – Baltimore and Chicago – have successfully carried out brownfields projects using HUD 108 with TIF repayment.

**Chicago.** HUD 108 has been used extensively for TIF/brownfields projects in Chicago. In 1996, the city developed a strategy for addressing the increasing problem of abandoned industrial property by combining three tools: acquiring property through tax foreclosure and eminent domain; borrowing from HUD 108 (\$72 million total) to finance cleanup, site preparation, and infrastructure; and re-paying the loans through land sales and TIF proceeds.

The 37-acre California Avenue Business Park is one of the resulting redevelopment projects. \$9.1 million of the HUD 108 funds was spent to cleanup and prepare the land. The park now has two occupants and a third is committed, bringing employment to about 300 people. Full build-out is expected to generate 600 jobs.

**Baltimore.** Baltimore is using a \$13-million HUD 108 to finance the acquisition of 11 acres of land just south of M&T Bank Stadium on the Upper Middle Branch of the Patapsco River. The area will be redeveloped as “Gateway South,” a green business park. TIF and land sale proceeds will repay the HUD 108 loan. Baltimore has accepted a development proposal from Cormony Development, LLC – the plan features 800,000 square feet of new space and is projected to generate at least 1,500 jobs and \$100 million in new investment. The developer is committed to meeting a LEED Silver standard for green buildings.

**EPA – BCRLF.** EPA’s Brownfields Cleanup Revolving Loan Fund (BCRLF) is another flexible source of financing, although it can only be used for cleanup. Similar to HUD 108, BCRLF funds can come into a project at a much earlier point and with more flexible terms relative to TIF funds raised through the private bond market.

**Des Moines.** By way of example, the City of Des Moines, Iowa structured a \$1 million BCRLF loan to finance the cleanup of the former Pittsburgh-Des Moines Steel site in the Riverpoint West redevelopment area. The developer’s plans call for three industrial/flex buildings with about \$15 million in new improvement value. The city is dedicating 50 percent of the tax increment for 12 years to the cleanup. The loan is structured with no payments for three years, then, as the new buildings go on the tax roles, payments are made from the tax increments generated in that year, with the developer responsible for any shortfall.

### **Mega Brownfields Projects use Private Equity to Overcome the TIF-Brownfields Mismatch**

If your community is making big plans for redeveloping brownfields, it is probably thinking TIF with an infusion of private equity to bridge the gap and get to the point that the TIF will work. Here is the dilemma: big, high impact projects (\$500 million and up) may also have big gaps, with heavy upfront investment needed for site prep costs. TIF is probably the ONLY incentive that can be of sufficient magnitude to close the gap, but the TIF won’t help with the upfront site prep costs, and the usual governmental brownfields-related programs are insufficiently funded to address, for example, a \$20 million plus problem. That is the point where your project may need the equity investment of a national firm that specializes in brownfields financing.

Cited here are three mega-brownfields projects that are using TIF as the chief gap-closing source with private equity covering most of the brownfields/site prep costs.

**Atlanta/Atlantic Station.** TIF (known in Georgia as Tax Allocation District Financing) is the key financing incentive for Atlantic Station, the \$4 billion redevelopment of a 138-acre steel mill in Midtown Atlanta. Jacoby Development, Inc and AIG Global Real Estate . are the development partners whose vision of the formerly contaminated site includes: 6 million square feet of Class A office space; 5,000 residential units; 2 million square feet of retail and entertainment space; 1,000 hotel rooms; and 11 acres of public parks.

TIF is providing \$167 million of the total \$250 million needed for cleanup (\$50 million), site prep, and infrastructure. A parking structure that will eventually have 15,000 spaces is serving as a cap on contaminated land, effectively eliminating risk exposures. There are two key points here. One was that TIF is the only governmental source that is of sufficient magnitude to cover a gap of that size. Second, because of the TIF-brownfields mismatch, the cleanup and site prep activities had to be funded by other sources and then reimbursed after the TIF funding came in. A significant part of that upfront funding came from AIG Global Real Estate.

Well underway, the project is meeting expectations in terms of sales rates, leasing, and return on investment.

Atlantic Station is unique in one other facet: the access road that made the project possible faced a regulatory hurdle because of Atlanta's status as being out of compliance for transportation-related air quality impacts. Under EPA's Project XL, EPA allowed the access road because it was demonstrated that Atlantic Station would save significant air emissions relative to a suburban or greenfields site.

***Cherokee-Denver's Redevelopment of Gates Rubber Plant.*** Cherokee Investment Partners' redevelopment of the 50-acre Gates Rubber Factory in Denver provides another illustration as to why TIF has become the incentive-of-choice for large-scale redevelopment projects. TIF financing from the City and the County totals \$85 million, well beyond any conceivable grant and loan funding from state and local brownfields financing programs. The TIF is designed to pay for cleanup and site preparation, but Cherokee is directly financing \$126 million for these upfront costs, which will then be reimbursed through the TIF. This structure only works because Cherokee is a "deep-pocketed" developer, specifically designed by to invest upfront to get later returns.

The long-term plan calls for a total of \$2.5 billion in new investment, with up to 4,000 residential units and 4 million square feet of office, retail, and entertainment space. About half of the planned development is now committed – Joseph Freed Associates has begun a \$1 billion mixed use project, featuring 1,500 new mixed income residential units and 765,000 sq. ft. of commercial space. .

The project is also interesting from two other points of view. One is that the redevelopment is adjacent to a new Denver light rail line that connects the site to downtown, 3 miles or 15 minutes away. The project has been cited in a number of journals as a model for transit-oriented development. Second, the project involves a high degree of commitment to meeting community needs, particularly for affordable housing, as 10% of the units are planned to be affordable. Other community benefits include: community resource space; first-source (local) hiring; jobs pegged to a prevailing wage and living wage; a commitment to working with labor organizations and schools; investment in local school districts (see: <http://www.cpeo.org/pubs/GatesMakingConnections.pdf>)

**Cleveland Flats - East Bank.** The Flats/East Bank area is currently 30 acres of dilapidated buildings and abandoned industrial plants, with little sign of life. A plan put together by Flats East Development, LLC (principal, the Wolstein Group) envisions a vibrant new mixed use community, featuring:

- 500 residential units;
- 280,000 sq ft of retail and entertainment space;
- 200,000 sq ft of office space;
- 2,000 parking spaces;
- 2.5 acres of green/park space.

The project will also feature a riverfront promenade, marinas, parks, plazas, and an expansive market pavilion, all designed to reconnect residents to the Cuyahoga River.

\$100 million in public costs (for cleanup, site preparation, and infrastructure) will leverage total project investment of \$400 million. Strnisha Development Advisors packaged incentives from ten different government programs. TIF financing constitutes the largest portion of the public subsidy - \$67 million. The upfront brownfields costs are being addressed by a combination of private equity (\$60 million total) and governmental sources (up to \$7 million). Governmental sources include \$3 million from the Clean Ohio Revitalization Fund (CORF) and a \$1 million County Brownfield Redevelopment Fund loan.

**Sustainable Development.** It is interesting to note that each of the projects cited above are models for sustainable development, as each is committed to green buildings and LEED certification. There is little data that ties together brownfields and green buildings, but our observation is that green/sustainable development is becoming the standard for large-scale urban mixed use projects, many of which are also brownfields projects. While TIF is sometimes questioned as a tool that is too often used to subsidize sprawl, in these cases the benefits extend beyond community revitalization, to energy efficiency and lowering greenhouse gases.

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