



74th & Ashland Roadmap to Redevelopment

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About the Roadmap to Redevelopment

The *Roadmap to Redevelopment* is a product of the [CDFA Brownfields Technical Assistance Program](#), which is funded through a grant from the U.S. Environmental Protection Agency (EPA). The program provides technical assistance to brownfields communities on redevelopment finance. For communities that require detailed, hands-on assistance for their redevelopment efforts, CDFA Brownfields Project Response Teams comprised of CDFA staff and technical assistance partners are available to conduct site visits and provide recommendations. The goal of these visits is to offer communities specific, actionable advice that can transform brownfields into economically-productive sites in accordance with the goals and plans of the community. CDFA will coordinate 36 Brownfields Project Response Teams over the life of the program.

The *Roadmap to Redevelopment's* recommendations combine the input of development finance experts, CDFA staff, and stakeholder groups gathered during the Project Response Team site visit. The recommendations presented are intended to assist the host organization with financing the redevelopment of the 74th and Ashland site.

Background & History

Background & History:

The location of the 74th and Ashland site is significant for the residents of Englewood and the surrounding area because the city has experienced severe disinvestment since the 1950s.¹ The practice of redlining and a steady decline in housing stock created problems of density and economic segregation, which led to a steady rise in crime.² The construction of expressways and urban renewal in other parts of Chicago displaced large numbers of African-Americans, many of whom eventually settled in Englewood. By the 1970s, African-Americans made up 96 percent of the population.³ Today, there is strong desire among residents and the area Alderman to see positive redevelopment activity to catalyze revitalization in the community.

The CDFA team was brought in to investigate the financial resources available to redevelop the property at the corner of 74th and Ashland Avenue in Englewood. The site contains two single story manufacturing buildings that were previously owned and operated by Blackhawk Steel Corporation. The buildings date back to the 1930's when they were used for metal manufacturing and the assembly of construction cranes. Based on conversations the CDFA team had with the Alderman's office and local stakeholders, the location of the site is critical to spurring improvement in the area should redevelopment occur.



Figure 1: Indoor bay where cranes were produced.



Figure 2: Interior view of main building, which is currently used for storage.



Figure 3: Exterior view of building

¹Encyclopedia of Chicago. (2016). History of Englewood. Retrieved from: <http://www.encyclopedia.chicagohistory.org/pages/426.html>

² WGNTV. (2013). 12 Hours in One of the Most Dangerous Neighborhoods. Retrieved from: <http://wgntv.com/2013/08/25/its-englewood-12-hours-in-one-of-chicagos-most-dangerous-neighborhoods/>

³WBEZ. (2012). Englewood Past and Present. Retrieved from: (<https://www.wbez.org/shows/wbez-blogs/englewood-past-and-present/a434694c-8793-492e-a713-5882faf4c5da>)

As of April 2016, the property is available for purchase and Motivation Property Management (MPM) is working to acquire the property. MPM was originally founded as a property management company. Currently, the organization is looking to expand its services to offer clients job readiness, job search and entrepreneurial skills. MPM's current intended use for the property is to reuse the site's existing building shell and rail infrastructure to house a railroad training facility modeled after a CSX Railroad Education and Development Institute (REDI) in Atlanta, Georgia.

The buildings at 74th & Ashland have many qualities that make them suitable for conversion to a similar training facility, including its size (over 100,000 sq. ft.), location, rail access, and a large crane that could be used in specific course training. MPM has some interest in allowing the site to serve in other training capacities and has identified potential opportunities not just with railroad companies, but also in providing facility space to some of the local community colleges as well. No environmental site assessment has been conducted. Limited structural evaluation indicates that the building is in good condition, but further assessment is needed.

Recommendations:

Part I: Setting Due Diligence Parameters

Prior to acquisition, the property at 74th & Ashland will require a level of due diligence review that frequently accompanies many former manufacturing sites. MPM should take care to avoid taking on unnecessary liability prior to fully understanding the site conditions, potential contamination, and obligations that accompany the purchase of such a property. To this end, MPM should understand the U.S. Environmental Protection Agency (EPA) rules related to becoming a Bona Fide Prospective Purchaser and work with contractors they've previously engaged to understand cleanup costs, additional infrastructure costs, and other improvements.

As an important note, MPM should consider time constraints related to property assessment and project phasing. As an example, a Phase I environmental site assessment should occur no more than 180 days prior to taking title to the property. Other constraints such as a structural assessment, OSHA permits, or city, county and state permits should be considered in the timeframe of the property acquisition.

i. Pursue an Option Contract

Once a business plan has been completed and deemed financially sound, Motivation Property Management should enter into an option contract with a long term option. This would allow MPM to gain specific rights to the property for necessary assessment, such as a Phase II environmental study, which may require destructive testing on the site.

ii. Ensure Bona Fide Prospective Purchaser Compliance

The Bona Fide Prospective Purchase defense protects purchasers who have knowledge of existing contamination against liability as an owner or operator. This assumes that "appropriate care" is taken to deal with the contamination. MPM should ensure they are qualified as a Bona Fide Prospective Purchaser before moving forward with the purchase of the property and that they remain compliant with the Appropriate Care regulations.

iii. Pursue Environmental Assessments

In order to more accurately forecast the upfront project costs, an in-depth Phase I environmental assessment is needed at the 74th & Ashland site. MPM should pursue a Phase I assessment as soon as possible given the time requirement that mandates an assessment to occur no more than 180 days prior to taking title to the property to avoid potential liability.

An environmental assessment along with contractor estimates will also allow MPM to negotiate the purchase price based on the results of the report. EPA Assessment & Cleanup Grants, though highly competitive, are awarded on an annual basis and can cover up to \$200K for site assessments and cleanup. Additionally, the EPA offers Targeted Brownfield Assessment (TBA) assistance. While the TBA is not a grant program, it provides assessment services through an EPA contract in which EPA directs a contractor to conduct environmental assessment activities to address the requester's needs. MPM would be required to establish itself as a non-profit organization to be eligible for EPA assistance.

iv. Pursue Structural Building Assessment

MPM should pursue a thorough structural building assessment while the option contract is in place to determine how reliable the existing structures are to carry current and future loads. The results of the assessment should indicate whether the existing building can support a railroad training facility and better identify initial cost associated with redevelopment.

Part II: Project Feasibility Analysis

In order to understand the development and operational costs associated with locating a railway training facility at the 74th & Ashland site, the following recommendations should be pursued.

i. Develop Business/Operation Plan

A business plan will help develop and communicate the best course of action for a railway training facility at the 74th & Ashland site. A comprehensive business plan will also provide an early indicator of the project's feasibility and act as a vital tool in securing the necessary funding required to complete the project. Therefore, the business plan should highlight a strong cash flow model that examines, at a minimum, the cost of operating, the size of the market, and include an analysis of revenue streams. In doing so, MPM will be better positioned to acquire an interested lender and leverage strategic partnerships.

MPM should also establish the level of involvement the railroads will have from the onset of the project in order to better understand the funding and operational structure of the training program. It is worth investigating the amount, if any, that railroads may be willing to pay to receive the benefit of having access to this pool of candidates. Understanding which party will provide the training, how many trainers will be required, and whether MPM will purchase or lease the CSX training program, are some of the questions to consider when developing the business plan. As a course of action, MPM should select the least capital intensive training programs as those that should be implemented first in order to begin enrolling students and thus establish revenue streams.

Sizing the market to assess how many individuals will come through training will also be valuable for MPM to understand. Knowing what each individual will pay for training, how often they will pay, and whom they pay will ensure the forecasted revenue streams are more accurate. Assessing whether the training center will serve local, regional or national markets for potential trainees may be helpful, particularly when examining the benefit to local residents and job creation.

Because of the complexity of the analysis and modeling involved, MPM should hire a qualified consultant to assist in drafting a business plan. A viable business plan will be an important tool in soliciting additional political and community support for the redevelopment.

ii. Identify Potential Partnerships

MPM should work to establish strategic partnerships that may help leverage both financial and educational resources for the railroad training facility. One option would be to discuss the opportunity with the Jane Addams Resource Corporation or local colleges about their training programs and/or developing additional curriculum. Another option would be to present the railway training facility opportunity to foundations or philanthropic organizations as a value proposition partnership.

Further, MPM should investigate the feasibility of establishing a consortium of the short line railroads. A consortium could fund a portion of the development and would provide economies of scale, uniformity, and standardization of the certification/training process. A consortium may also open lines of communication between MPM, the CSX Railroad Company, and the Chicago Transit Authority (CTA), which may provide a space that accommodates their input and allows transparency in the training measures taking place. These measures may also help facilitate a contract for a long-term training program with CSX and CTA.

iii. Selecting a Developer

Because of the historical lack of investment in Englewood and challenges of developing in the community, MPM should consider working with an experienced, local property developer in order to better navigate the local development process and gain local support. Additionally, a developer familiar with projects that involve the railroads could help direct the project through some of legalities and regulations that accompany rail line projects.

Part III: Financing the Cleanup and Redevelopment

Once a viable business plan has been obtained, MPM will be better situated to address the financing needs for the redevelopment. At the time of the CDFA site visit, MPM had not yet determined what ownership structure (non-profit or for-profit) was desired for the site. The following table lists financing tools that may be applicable to the redevelopment. The usefulness of each resource will be determined by the ownership structure and amount of the financing gap.

Potential Financing Mechanism	Ownership Structure	Funding Source
Tax Increment Financing	Nonprofit or For-profit	Local
Enterprise Zone 6	Nonprofit or For-profit	Local
IL Brownfield Redevelopment RLF	Nonprofit or For-profit	State
IL Angel Investment Tax Credit Program	Varies	State
IL Small Business Job Creation Tax Credit	Nonprofit or For-profit	State
US EPA TBA	Nonprofit	State
NMTC	Nonprofit or For-profit	Federal
SBA 504 Loan	For profit	Federal
Insurance Cost Recovery	Nonprofit or For-profit	Private
Philanthropy	Nonprofit	Private
Private Activity Bonds	Nonprofit or For Profit	Private

i. Tax Increment Financing (TIF)

The 74th & Ashland property is located in an existing Tax Increment Financing District. Tax Increment Financing is used for gap financing, which means MPM will require additional funding sources to be identified first/simultaneously. In Illinois, TIF can be used for reimbursing acquisition, cleanup, building rehab, and infrastructure costs, as well as certain costs of job training. It's important to note that reimbursed funds are considered taxable income if you are a for-profit business. However, the city has historically been willing to consider reimbursing a greater percentage of project costs (up to 5-10 percent more) if the project sponsor is a non-profit. Local support from the Alderman for the use of TIF for this project will necessitate a development plan that details the scope, scale and design of the project. In order to access the public dollars that flow from these sources it will be important to detail the public benefit that the project will generate.

ii. Enterprise Zone 6 Tax Credits

The 74th & Ashland property is located in an existing Enterprise Zone, which offers state and local tax incentives, regulatory relief and improved governmental services to companies expanding or relocating within depressed areas. This program allows qualified companies to receive an exemption from several state and local utility and commerce taxes such as purchases on property used or consumed in the manufacturing process.

iii. Illinois Brownfield Redevelopment Loan Program

For sites that have already been assessed for contamination, the Illinois Brownfields Redevelopment Loan Program offers low interest rate loans to local governments and private parties to help support their efforts to clean up brownfields sites. These cleanups take place under the Illinois EPA's

voluntary Site Remediation Program. The maximum loan amount is \$500,000 and will pay for limited investigation, remediation, and demolition costs at brownfields sites.

iv. Illinois Angel Investment Tax Credit Program

The Illinois Angel Investment Credit Program attracts and encourages investment dollars into early-stage, innovative companies throughout Illinois. The Program is allocated \$10M in tax credits annually, from 2011 through 2016. Tax credits are awarded on a first-come, first-served basis. For 2016, there are \$5,181,907.14 (updated as of 5/24/16)⁴ in remaining credits. Since the credit applies principally to businesses engaged in innovation, MPM should explore curriculum and classes for the training facility that may meet this requirement, such as pursuing railway simulation technology as a method for trainee education.

v. Small Business Jobs Creation Tax Credit

The Illinois Small Business Job Creation Tax Credit gives small business owners an additional way to grow their business by providing a \$2500 per job tax credit. Businesses must create one or more new, full-time positions that meet the eligibility requirements in order to register to receive the tax credit. This program is set to expire June 2016. While MPM is unlikely to have established new jobs by that time, they should still continue to stay informed should the program be renewed.

vi. U.S. EPA Targeted Brownfield Assessment (TBA)

EPA's TBA program is designed to help minimize the uncertainties of contamination often associated with brownfields—especially for those entities without EPA Brownfields Assessment grants. The TBA program is not a grant program, but a service provided through an EPA contract in which EPA directs a contractor to conduct environmental assessment activities to address the requester's needs. Unlike grants, EPA does not provide funding directly to the entity requesting the services.⁵

As an important note, MPM would be required to establish itself as a non-profit organization to be eligible for this form of assistance. Funding and assistance through the EPA can be highly competitive. Our team strongly recommends MPM work with a consultant to prepare the required documentation when seeking any funds or assistance through the EPA.

vii. New Markets Tax Credit (NMTC)

The 74th & Ashland site is located in a NMTC eligible census tract, which means it is eligible to receive these tax credits. Additionally, the site qualifies as a "severely distressed" area indicating the project will be looked on favorably in the ranking system. Given the location, MPM should work to establish relationships with Community Development Entities (CDEs) that receive tax credit allocations in order to attract future investors for the training program. However, these discussions

⁴ Illinois Angel Investment Credit Program. (2016). Retrieved from:

<http://www.illinois.gov/dceo/ExpandRelocate/Incentives/taxassistance/Pages/AngelInvestment.aspx>

⁵ U.S. EPA TBA Fact Sheet. (2015). Retrieved from: https://www.epa.gov/sites/production/files/2015-09/documents/tba_0403.pdf

cannot advance very far without understanding the balance of the plan of finance, since NMTCs are typically the last layer of financing to commit to projects.

viii. Small Business Administration (SBA) 504 Loan

The SBA 504 Loan is a real estate and equipment loan for small businesses. It is available to for-profit companies whose net worth is less than \$15M and average net income less than \$5M after taxes for the preceding two years. The SBA only provides loans when the individual and business do not have the financial strength to support the loan. Both business and personal resources will be taken into account when applying for a SBA 504 Loan. MPM should partner with a Certified Development Company (CDC), which can work with a certified SBA lender to provide the necessary long-term, fixed-rate financing for renovations of the 74th & Ashland buildings or purchase the long-term machinery required for the railway training facility.

ix. Insurance Cost Recovery from Former Site Owners

For sites polluted prior to the 1980s, insurance policies may cover the costs of environmental remediation. Given the 74th & Ashland property has a well-documented line of ownership, an opportunity exists to explore insurance cost recovery as a means to fund the cleanup and remediation costs associated with the property. MPM should explore whether any of the previous property owners may have held a comprehensive general liability insurance policy. Once contamination is discovered by a new property owner, a claim may be filed against the insurance policy of the polluting businesses, which may still be liable for the cleanup and remediation costs.

x. 501 (c)(3) Private Activity Bonds (PABs)

Provided that MPM becomes a non-profit organization, the project could qualify for Private Activity Bonds. PABs provide a source of low interest permanent financing and are exempt from federal and state income taxation. The use of PABs, however, are subject to requirements that limit profit uses on the property. Once a business plan has been established, MPM should examine their options for long term financing and determine which profit model fits the project best.

Additional Resources

As the Motivation Property Management works through the recommendations in this plan, the following resources may provide useful information.

CDFA Online Resource Database |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordsearch.html>

Types of Brownfields Grant Funding (Environmental Protection Agency) |

<http://www.epa.gov/brownfields/types-brownfields-grant-funding#tab-1>

CDFA Brownfields Financing Toolkit |

[http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/\\$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf)

CDFA Tax Increment Finance Resource Center |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=tifrc.html>

SBA 504 Loan Program |

<https://www.sba.gov/offices/headquarters/ofa/resources/4049>

Illinois Brownfield Redevelopment Loan Fund Program |

<http://www.epa.illinois.gov/topics/cleanup-programs/brownfields/index>

Illinois Angel Investment Tax Credit Program |

<http://www.illinois.gov/dceo/ExpandRelocate/Incentives/taxassistance/Pages/AngelInvestment.aspx>

Illinois Small Business Job Creation Tax Credit Program |

<https://jobstaxcredit.illinois.gov/Default.aspx>

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