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“Brownfields” and Central City Redevelopment

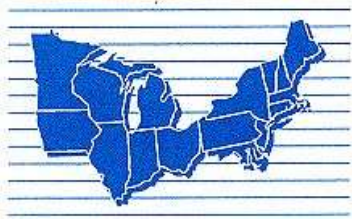
**19th Annual CDFA Conference
Building Bridges Between Finance and Economic
Development**

Financing Urban Development – Infrastructure, Infill and Rehabilitation:

Public Programs and Brownfield Financing

Charlie Bartsch

April 21, 2005



What Are Brownfields?

- The 2002 Brownfield Revitalization Act defines brownfields as *“real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance pollutant or contaminant.”*
- In practice, *“presence or potential presence”* is pervasive – these sites are everywhere in urban areas that have been previously developed

Potentially 1 million sites



Baraboo, WI



Bend, OR



Somerville, MA



New London, CT



50,000 successes and counting



Baraboo, WI



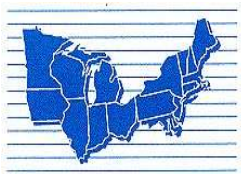
Bend, OR



Somerville, MA



New London, CT



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What Impact Does Contamination Have on Financing?

Conceptualizing and Planning the Project
Economic Analysis for Marketing the Project

Dealing with Stigma

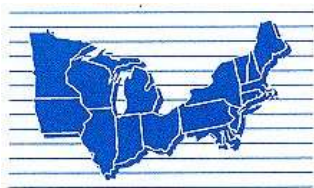
\$ for Site Assessment

Additional Underwriting/Site Development/R.O.R. Costs

**\$ for Preparing a Cleanup Plan and Taking It Through
VCP/State/Local Regulatory Agencies**

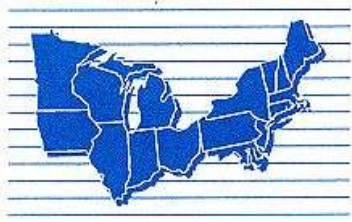
\$ for Cleanup

**“Regular” Real Estate Construction/Development Costs When
Site is “Shovel Ready”**



Public Financing Tools: What Can They Do For Brownfields?

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



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Federal Programs: The “*Laundry List*”

Federal Financial Assistance Programs That Can be Applied to Brownfield Redevelopment Activities

Loans

- EDA’s Title IX (capital for local revolving loan funds)
- HUD funds for locally determined CDBG loans and “floats”
- EPA capitalized brownfield 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

Grants

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

Grants (continued)

- DOT (various system construction and rehabilitation programs)
- DOT’s transportation and community system preservation (TCSP) pilot grants
- Army Corps of Engineers (cost-shared services)

Equity capital

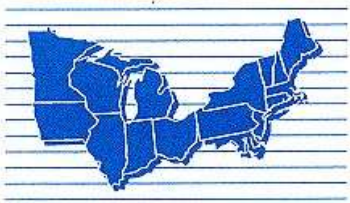
- SBA’s Small Business Investment Companies

Tax incentives and tax-exempt financing

- Targeted expensing of cleanup costs (through 12/31/03)
- Historic rehabilitation tax credits
- Low-income housing tax credits
- Industrial development bonds

Tax-advantaged zones

- HUD/USDA Empowerment Zones (various incentives)
- HUD/USDA Enterprise Communities (various incentives)



Federal Financing Programs: EPA

SITE ASSESSMENT GRANTS

- **Funds pre-cleanup environmental activities (up to \$200,000) – for example, site assessment, inventories, planning, design, and outreach**

SITE CLEANUP GRANTS

- **Funds cleanups (up to \$200,000) by cities, development agencies, non-profits, and similar entities at sites that they own**

BROWNFIELD CLEANUP REVOLVING LOAN FUND GRANTS

- **Provides capital to establish (up to \$1 million) RLFs to make low/no interest loans for cleanup; starting in fiscal 2003, recipients may use up to 40% of capitalization award for cleanup sub-grants**

Firebarn – St. Anthony Falls, MN

- Vacant former car dealership and auto services/body work facilities
- Prospective new user demanded clean site
- Hennepin County made a \$240,000 BCRLF loan for soil/groundwater cleanup
- \$30 million mixed-use redevelopment complex built on clean site -- 78 housing units, and 45,000 square feet of commercial/retail/office space





Harley Davidson Dealership Stamford, Connecticut

- \$165,000 BCRLF loan covered cleanup (mostly soil removal) at former printing and engraving plant site, redeveloped into a new \$600,000 Harley Davidson showroom
- Site redevelopment included renovation of two turn-of-the-century buildings



COMMUNITY DEVELOPMENT BLOCK GRANTS

- **Activities locally determined; can include coping with contamination as part of financing for site preparation or infrastructure development; can be lent to private companies under some circumstances**



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How Can CDBG Funds Be Used For Brownfield Projects?

Eligible activities include:

- **planning for redevelopment or revitalization of brownfields sites**
- **site acquisition**
- **environmental site assessment**
- **site clearance**
- **demolition and removal of buildings**
- **rehabilitation of buildings**
- **removal or remediation of contamination from sites or structures**
- **construction of real estate improvements**



Visiting Nurses Assisted Living -- Somerville, MA

- Former mattress factory, vacant 2 years
- Somerville used funds from its EPA Brownfields Assessment Demonstration Pilot to complete a site assessment. Contaminants found to be present included barium, lead and petroleum waste.
- **\$100,000 in CDBG was used as a cost-containment reserve.**
- The project's redeveloper, the Visiting Nurses Association, remediated the site and demolished the existing structures to construct an assisted-living facility and health center, containing 97 units for low-to-moderate income seniors.



EXAL Corporation – Youngstown, OH



- Plant built in distressed neighborhood area, operator pledged to consider community residents in a "1st hire" agreement
- Loan leveraged \$40 million in additional investment, created 88 manufacturing jobs
- **CDBG used to pay for first year of loan, to allow EXAL to cover brownfield-related site preparation costs**
- EXAL now covers all loan costs from operations income stream

SECTION 108 LOAN GUARANTEES

- **Finances site clearance, property acquisition, infrastructure, or rehabilitation (including cleanup) activities too big for single-year block grant funding**
- *Limited to CDBG entitlement cities, states on behalf of small cities*

BROWNFIELD ECONOMIC DEVELOPMENT INITIATIVE (BEDI)

- **Established to provide additional financial assistance for brownfield development projects supported by Section 108**
- **Must be used in tandem with new Section 108**



Grove Hall Mecca – Roxbury, MA

- Seven underground storage tanks and contaminated soil removed from the site
- Property sold to a community-based developer
- Total development cost was \$13.2 million; key HUD resources included:
 - **\$3.6 million Section 108**
 - **\$3.6 million from the HUD BEDI**
- Site redeveloped as Grove Hall Mecca mall, with a supermarket, retail, food, and banking services
- Redevelopment has created more than 250 full-time jobs.



Stamping Building – Wheeling, WV

- The Wheeling Stamping Building had been abandoned and deteriorating for more than a decade
- **\$1-million BEDI grant and \$2.25 million in Section 108-guaranteed loan** used for the redevelopment of the building
- Redevelopment created 88,000 square feet of new commercial space, which houses 85-employee high-tech Global Operations Center for the international law firm of Orrick, Herrington and Sutcliffe.





Two Major EDA Programs

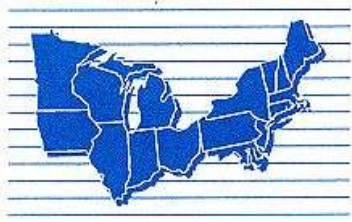
- (1) public works grants finance industrial development site and infrastructure preparation, and
- (2) economic dislocation program capitalizes RLFs for distressed areas



Bates Mill – Lewiston, ME

- Textile mill, shut down in 1993, redeveloped in stages as small business incubator
- EDA funding supported site cleanup and infrastructure upgrading activities, part of \$41 million financing package
- Today –
 - 19 tenants occupying 284,000 sq. ft
 - Less than 100 employees in 1993; today, 1,000
 - Mill generated \$160,000 in taxes in 1993; today, \$543,000 per year – even with tax incentives in place





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Federal Financing Programs: ACE

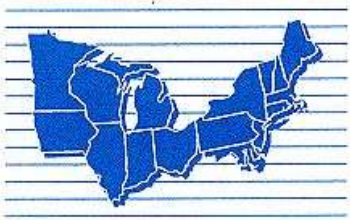
ARMY CORPS OF ENGINEERS

- **Can provide planning and technical support if you can make the brownfields/waterfront connection**

Old Mill District – Bend, OR

- Former sawmill operation (from 1922 to 1994) on 250 acre site
 - **\$250,000 in Corps** funding under the Planning Assistance for States program
 - Major challenges included defining sections of the site for cleanup, as part of phased development plan, and changing land use from industrial to mixed use. Oregon DEQ cleanup program facilitated this process, using planning information
- ✍ Currently, 15 commercial businesses now operate on the site; future plans call for expanded retail, residential units, and a sports arena.





DOT highway and transit construction programs

Can support brownfields by –

- **(1) upgrading existing facilities**
- **(2) offering transportation amenities that improve access to – and marketability of – sites**
- **(3) funding facilities and structures that serve as part of the remedial solution**



Old Montgomery Ward Distribution Center— Fort Worth, TX

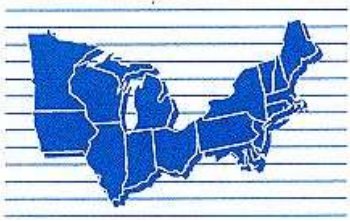
- Historic, 800,000-square-foot building on a 45-acre site
- Damaged in March, 2000 tornado
- Proposed reuse – mixed light industrial/commercial/office
- Mix of financing tools including:
 - \$13 million Section 108 loan
 - \$2 million BEDI grant
 - Historic rehab tax credits
 - State tax abatements and fee waivers
- **DOT (CMAQ) for related road and sidewalk infrastructure**



Amtrak Station – Emeryville, CA

- City and developers constructed an Amtrak station on a former Chevron tank facility
- Emeryville worked with EPA to develop site into a transit center
- **Pedestrian bridge, access road built with DOT funds**
- Spin-off:
 - Emery Station 1 (ES1), 247,000 square feet of office
 - ES3 consists of a parking structure under 100 residential units





LOW-INCOME HOUSING TAX CREDITS

- **Can encourage capital investment in affordable housing projects on brownfield sites**
 - *States get a population-based allocation for distribution to communities and non-profits*

Albina Corner – Portland, OR

- 3/4 acre Albina Corner is adjacent to a bus line and near a major light rail station
- Area is gateway to several inner-city neighborhoods, where small scale contaminants have deterred reuse.
- Site redeveloped into a mixed-use area that includes 48 units of low-income housing built over 12,000 square feet of commercial space; includes a child care center and a second floor courtyard and play lot
- **LIHTCs** one of 14 funding sources.



Circle F Senior Housing Project – Trenton, NJ

- Former industrial building converted to 70 units of senior housing
- Developed by non-profit housing organization, partnering with bank
- **LIHTCs** a key piece of financing package



BROWNFIELD EXPENSING TAX INCENTIVE

- **Write-off pegged to cleanup costs, which allows new owners to recover cleanup costs in the year incurred; only incentive targeted to private site owners.**
 - *Extension to 12/31/05 signed into law late 2004*



Inryco and Babcock & Wilcox – Milwaukee, WI





SBC Park – San Francisco, CA



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**

American Can Company – New Orleans, LA

- Developer Historic Restoration Inc. transformed this abandoned warehouse into new apartments with retail and parking space
- Total project cost -- \$42 million
- Financing included:
 - \$5-million HUD Section 108 loan,
 - \$1-million BEDI loan
 - \$1-million city economic development loan
 - \$29 million LIHTC allocation
- ***Key project component*** -- Kimberly-Clark Corporation, through its subsidiary Housing Horizons, provided tax-credit equity for approximately **\$7.8 million in historic tax credits.**



Sherman Perk -- Milwaukee, WI

Before



After



Tank Removal





109th Congress – Early brownfield activity

Legislative Proposals – introduced or in the works

- **Modification/extension of brownfield expensing incentive**
 - **Extend to petroleum sites; eliminate recapture disincentives**
- **Tweak existing federal e.d. programs**
 - **BEDI de-coupling (HR 280)**
 - **Formalize an EDA brownfield program (HR 336)**



109th Congress – Early brownfield activity

Legislative Proposals – introduced or in the works (cont.)

- **Cleanup tax credit allocations and PRP relief**
 - Former Turner bill (50% tax credit) about to become current Turner bill
- **Other brownfield tax concepts starting to bubble up**
 - Cleanup tax credits without PRP relief
 - Expanded rehab tax credits
 - Brownfield IRA

Emerging Legislative Proposals – Evolution, Revolution

- **But the future of many of these federal brownfield partners is uncertain....**
- **Program changes being considered will affect brownfield reuse partnerships are carried out**



The President's "Strengthening America's Communities" Initiative

- **President Bush is seeking the most sweeping reorganization of federal economic and community development programs in 30 years, along with substantial cuts in program funding.**
- ***"Strengthening America's Communities Initiative"* -- would consolidate 18 existing programs from five Cabinet departments into a single program, administered by Commerce Department**
- **Combined program resources would drop from \$5.665 billion in FY05 to \$3.71 billion in FY06**

"Strengthening America's Communities" Initiative -- What Would be Consolidated

- **CDBG and five other HUD programs**
 - *brownfields, rural housing and economic development, Empowerment Zones/Enterprise Communities, Section 108 loan guarantees, NCDI, and CDBG set-asides and earmarks)*
 - **\$4.513 billion in FY 2005 funding**
- **all of EDA's existing development programs**
 - **\$255.4 million in FY 2005 funding**
- **Treasury's Community Development Financial Institutions (CDFI)**
- **four USDA rural development programs**
 - *Rural Business Enterprise, Rural Business Opportunity, Economic Impact Grants, and rural Empowerment Zones/Enterprise Communities*
 - **\$75.9 million in FY 2005 funding.**

Goals of the President's "Strengthening America's Communities" Initiative

- **creating 40 new "opportunity zones"**
- **revitalizing brownfields**
- **introducing tax incentives to stimulate development of single family housing in low-income areas**
- **establishing new education and job training programs.**

Economic Development Programs at a Crossroads

Key Programs: What Do We Have, What Can We Anticipate?

FY 05 Appropriation Approved by Congress

FY06 Bush Proposal

*Programs targeted to brownfields **

• Brownfield assessment/cleanup/ RLF/training grants (EPA)	\$87.5 million	\$120.5 million
• Brownfield funding for states (EPA)	50.0 million	60.0 million
• Brownfield Economic Development Initiative HUD/BEDI)	24.0 million	zero

** EPA programs not included in SACI*

Economic Development Programs at a Crossroads

Key Programs: What Do We Have, What Can We Anticipate?

FY 05 Appropriation Approved by Congress **FY06 Bush Proposal**

Related economic development programs

• Section 108 loan guarantees: level supported by appropriations	275.0 million	zero
• Community development block grants	4.117 billion	zero
• CDBG set-asides	301.6 million	zero
• EDA public works grants	167.0 million	zero
• EDA economic adjustment grants	45.0 million	zero
• Empowerment zones/enterprise communities	22.3 million	zero
• Community Development Financial Institutions (CDFI)	55.1 million	zero
• Rural development programs	63.5 million	zero
• Strengthening America's Communities Program (proposed)	-----	3.71 billion



Web Site

www.nemw.org/brownfields.htm

- *Federal Legislative Proposals to Promote Brownfield Cleanup and Redevelopment* - what's happening in Congress
- *State of the States*
- *Guide to Federal Brownfield Programs*
- **Financing options for brownfield cleanup and redevelopment**
- **Case studies**