

# **USING TAX INCREMENT FINANCING FOR BROWNFIELDS REDEVELOPMENT**

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# Using Tax Increment Financing for Brownfields Redevelopment

## EXECUTIVE SUMMARY

Tax Increment Financing (TIF), once considered on the cutting edge of economic development incentives, is now a mainstream tool in most parts of the country. TIF is often the most effective incentive in closing project gaps on brownfields sites, particularly for large-scale projects that have multi-million dollar financing shortfalls. Despite many successes, TIF is an under-utilized financing mechanism for brownfields projects due to a mismatch between a brownfields project's need for upfront financing compared to the bond market's need for the "done deal." The connection between brownfields projects and TIF could have more widespread application, even reaching some weak-market and upside-down sites, if brownfields financing vehicles were specifically designed to complement TIFs. Several states have taken the lead in structuring such programs, notably Michigan, Connecticut, and Wisconsin. Other states should consider state-facilitated TIF financing as an effective and efficient means to improve their brownfields programs and obtain cleanup-redevelopment results.

States that want to expand the use of tax increment financing as a vehicle to encourage brownfields redevelopment should consider the following steps, each of which has already been established by at least one state. Starting with modest corrections to enabling legislation and progressing toward major state financial commitments, states should consider actions to:

- For states that restrict use of TIF to public infrastructure, modify TIF enabling legislation to allow site assessment, remediation, and site preparation as eligible uses of TIF funds (many states).
- Offer a simplified pay-go option geared to smaller projects (many states).
- Establish escalated benefits for brownfields and other high priority redevelopment projects. This could be:
  - Longer terms (Minnesota);
  - Exceptions to debt limitations (New Jersey and Wisconsin);
  - Counting more expenditures as eligible (Wisconsin);
  - Reducing the base by cleanup costs (Minnesota);
  - Reducing the base to zero for publicly-owned sites (Wisconsin).
- Establish a well-funded loan program with flexible terms geared to TIF - no or deferred payments for 3 years and 2% interest rates (Michigan).
- Offer a State guarantee for local TIFs that meet certain objectives (Pennsylvania and Connecticut):
- Include the option of bringing state revenues (such as sales taxes) into the mix if the project meets certain criteria (Kentucky, Mississippi).

## **BACKGROUND**

### **Growth of TIF Financing**

TIF has emerged as a dominant financing tool to close funding gaps for desirable economic and community development projects. With federal support in decline and other state and local funding options limited, localities have increasingly turned to TIFs as the only financing incentive that is both of sufficient size and within their control.

In the 1980s, California boosted the TIF phenomena when Proposition 13 forced localities to make the most out of their existing revenue sources. TIF use is now widespread, not only in major cities, but also in small towns – a recent survey in Minnesota found over 400 communities operating almost 2,000 total TIF districts. The City of Baltimore, typical of many eastern urban centers, had never undertaken a TIF project before the year 2000, but the city now has completed six such agreements and three more are on the drawing boards (four of the nine projects are brownfields projects). Massachusetts recently became the 49<sup>th</sup> state to adopt TIF enabling legislation.

While TIF can work for small projects, it is the larger projects that rely on TIF to cover large gaps – twenty to thirty years of tax increments can mean a much larger infusion of public dollars than is usually the case from cash-strapped state grant and loan programs. See Appendix 1 for a chart of large-scale brownfields projects that are using TIF as the chief gap closing mechanism.

### **How TIF Works**

The basic principle behind TIF financing is that, in order to pay for upfront costs - usually infrastructure - the locality freezes the taxes at a site's pre-development levels and then uses the expected post-development increases in taxes as a revenue stream to finance a bond or loan, which then pays for the upfront (infrastructure) costs. While there are many exceptions, some discussed below, the usual TIF approach involves going to the private bond market to convert the incremental revenue stream into upfront cash for the project.

There are, however, numerous variations on the theme. At one end of the spectrum are cities and states that use TIF only for private development gap financing and the TIF district is small and well-defined, often coinciding with the project that will be financed. At the other end of the spectrum are communities that designate large areas of the city, or even the entire city, and then use the TIF revenue much like general obligation bonds in order to fund capital projects that can't be financed through operating funds. The City of San Jose, California designated a significant portion of Silicon Valley as a TIF district in the 1980's. The district produced revenues beyond anyone's expectations and the City was able to finance a new arena and a children's museum from the TIF district.

State TIF enabling legislation varies rather widely on numerous points. As one example, many states limit the use of TIF to projects that address "blight," a criterion that is usually easy to meet for brownfields projects. There is also wide variation among the states on the issue of whether or not the tax increment revenue includes school district taxes – this can be an important factor for any project because school district taxes often comprise a significant portion of the increment.

Third, many states limit the use of TIF proceeds to “public infrastructure,” which may make remediation expenditures ineligible. This issue is further discussed below.

## **STATE-FACILITATED TAX INCREMENT FINANCING FOR BROWNFIELDS**

### **The Brownfields – TIF Mismatch**

Financing a brownfields TIF project through the private bond market can be difficult. Investors want to minimize risk and uncertainty – two factors that characterize every brownfields project. The brownfields–TIF mismatch might be further described as follows:

1. TIF bonds, in many cases, can be sold only when the “vertical development” (the buildings, as opposed to site improvements) is 100 percent assured. This means that the funds may come into the project too late to assist with the upfront brownfields-related expenditures. This timing problem is particularly difficult for local governments that are acquiring and cleaning up brownfields without a committed end user.
2. Cleanup expenditures are sometimes not eligible uses of TIF proceeds. This limitation sometimes has to do with statutory authority – many states restrict the use of TIF proceeds to public infrastructure. But even in states where this is not the case, cleanup of private property is interpreted as “private activity,” in which case the TIF bond becomes taxable, meaning the terms will be less favorable and the bond will be harder to sell.
3. The tax increments often are less than they should be for brownfields sites because the base property tax value usually does not reflect the impact of the contamination on the market value.

These are not insurmountable problems – many brownfields projects work with TIFs that only assist with the infrastructure and only provide funding when vertical development is ready to proceed. However, brownfields development could get a real boost if states designed their TIF authority and financing programs in order to facilitate the brownfields-TIF connection. A number of states have done exactly that. State-facilitated TIF for brownfields can be thought of as a three-step process:

1. Enabling legislation may need to be modified to allow brownfields and site preparation costs;
2. Enabling legislation can also be modified to escalate the benefits or improve the terms, in effect increasing the attractiveness of brownfields (or other priority redevelopment) investments;
3. Establishing new or modifying existing (non-TIF) incentives in order to help facilitate the use of TIF on brownfields sites.

### **TIF Enabling Legislation – Getting the Basics to Work for Brownfields**

First, states should consider TIF enabling legislation that goes beyond financing infrastructure and allow site assessment, remediation, and site preparation activities to be eligible uses of TIF proceeds. According to a fact sheet prepared by the Council of Development Agencies (CDA) the following states allow remediation as eligible: California, Connecticut, Idaho, Illinois, Indiana, Iowa, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey,

New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, and Wisconsin.<sup>1</sup> In 2007, Kentucky modified their enabling legislation to include environmental remediation as an eligible use of TIF proceeds.<sup>2</sup>

Second, states should allow a simplified “pay-as-you-go” (or PAYGO) option. Under PAYGO there is no borrowing to convert the revenue stream to upfront financing. Instead, the upfront expenditures are advanced by the developer (or the locality) and then, when the tax increment begins to flow, the upfront expenditures are simply reimbursed. This works particularly well for brownfields projects that have modest cleanup costs. Most states do allow a PAYGO option, so usually no legislation is required to allow this option for brownfields. A simple guide to using PAYGO in this fashion may be all that is needed.

### **Escalating Benefits for Brownfields and Other Priority Redevelopment Activities**

States should consider ways to give preference to brownfields and other priority redevelopment projects. This is where a number of states stand out.

#### ***Wisconsin’s Environmental Remediation Tax Incremental Financing (ERTIF)***

Wisconsin’s 1997 and 1999 amendments for the ERTIF program represent new twists on previous Wisconsin TIF authority, which was already one of the more permissive enabling statutes. TIF in Wisconsin had the “basics” in place: TIF could be used for a range of development costs, and PAYGO was in place. The ERTIF differs from the previous authority in several key ways:<sup>3</sup>

- Acquisition and cancellation of delinquent property taxes are included as allowable expenses (remediation and demolition are also eligible under *both* TIF authorities);
- If the site is publicly owned the base value may be calculated as zero;
- ERTIF projects are exempt from the value limitations that restrict a community’s ability to use TIF for other projects;
- ERTIF projects are exempted from the public hearing requirement;
- Asbestos remediation and underground storage tank removal are clarified as eligible environmental expenses.

Wisconsin’s ERTIF, when combined with Wisconsin’s strong liability protections for public agencies, provides a strong basis for Wisconsin localities to establish an aggressive brownfields acquisition strategy.

Several Wisconsin brownfields-TIF projects are reviewed in the Wisconsin Brownfields Study Group’s 2006 “Wisconsin Brownfields Initiative, Report to the Legislature.”<sup>4</sup>

#### ***New Jersey – Exceptions to Debt Limitations***

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<sup>1</sup>See:

[http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/9cab5f1e5dfa4d038625714d00572650/\\$FILE/TIF%20for%20brownfields.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/9cab5f1e5dfa4d038625714d00572650/$FILE/TIF%20for%20brownfields.pdf)

<sup>2</sup> See: <http://www.lrc.ky.gov/record/07RS/HB549.htm>

<sup>3</sup> See: <http://www.dor.state.wi.us/pubs/slf/tif/ercomp.pdf>

<sup>4</sup> See: <http://www.dnr.state.wi.us/org/aw/rr/cleanup/2006legreport.pdf>

In 2002 New Jersey updated their TIF statute, giving a distinct advantage to state designated “Redevelopment Areas,” by allowing Redevelopment Area TIF districts to create debt that is not subject to the same debt limitations as other local bond issuances. CDFA explains the reform as follows:

*In 2002, New Jersey adopted the Redevelopment Area Bond Financing Law and the companion Revenue Allocation District Financing Act. The bond financing law enhances the existing municipal power to issue bonds for redevelopment, which requires the municipality to assume obligation to its gross debt. The new law allows municipalities to issue tax-exempt bonds that are excluded from gross debt. There are three alternative revenue streams that can secure the bonds: (1) payments-in-lieu-of-taxes (PILOT) under a tax abatement agreement; (2) special assessments on property benefiting from the improvements provided; or (3) both. They must be applied to designated redevelopment areas.*<sup>5</sup>

### ***Minnesota’s Hazardous Substance Subdistricts***

Hazardous Substance Sub-districts permit the frozen tax value - or “base” value - in a subdistrict to be written-down by the cost of cleanup, thus increasing the increment and potentially bringing greater subsidy levels into a deal. This increased increment creates an interesting option for sites where development may be years off. A tax increment can be generated without any vertical development – the increment is the difference between the adjusted base (adjusted for cleanup costs) and the previous base. A 2005 report cited 30 Minnesota TIF Districts that are using the Hazardous Substance Subdistrict authority.<sup>6</sup>

Minnesota provides another way to give preference to priority redevelopment activities: they vary the term of the TIF from 8 to 25 years with the 25-year terms reserved for projects that are addressing blight or producing low and moderate income housing.<sup>7</sup>

## **State Financing Mechanisms that Complement Local TIF funds**

### ***Michigan - Brownfield Redevelopment Authorities***

TIF is the key element in Michigan’s brownfield program. To encourage brownfield redevelopment, the Brownfield Redevelopment Financing Act (1996 PA 381, as amended) allows local units of government to establish a TIF district and capture the property tax increments to provide reimbursement for the costs of the eligible cleanup and site preparation activities. Local Brownfields Redevelopment Authorities (BRAs, the entities that govern the TIF plans) also may establish a Local Site Remediation Revolving Fund from surplus captured taxes in order to cover cleanup and site preparation at other designated properties in the BRA’s jurisdiction.<sup>8</sup>

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<sup>5</sup> See:

[http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/9cab5f1e5dfa4d038625714d00572650/\\$FILE/TIF%20for%20brownfields.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/9cab5f1e5dfa4d038625714d00572650/$FILE/TIF%20for%20brownfields.pdf)

<sup>6</sup> See:

[http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/3282fdb2169a51708625713f007a86e8/\\$FILE/Minn%20esota%20TIF%20Statute.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/3282fdb2169a51708625713f007a86e8/$FILE/Minn%20esota%20TIF%20Statute.pdf)

<sup>7</sup> See: <http://www.house.leg.state.mn.us/hrd/issinfo/sstif.htm#Q7>

<sup>8</sup> See: [http://www.michigan.gov/deq/0,1607,7-135-3311\\_4110\\_23246---,00.html](http://www.michigan.gov/deq/0,1607,7-135-3311_4110_23246---,00.html)



Michigan's TIF-Complementary Financing Programs. Recognizing the mismatch between how the bond market works and how brownfields projects work, Michigan created three alternative financing vehicles, including Brownfields Redevelopment Grants (BRG) and two loan programs - Brownfields Redevelopment Loans (BRL - for cleanup) and Revitalization Revolving Loans (RRL - for demolition and site preparation). The two loan programs are designed to work with TIFs, as they feature flexible repayment terms, such as no payments due for the first five years and 2-percent interest rates. These terms are an ideal match with front-loaded, long-lead-time brownfields projects. Notably, the RRL funds demolition and site preparation because Michigan recognized that brownfields projects often involve financing gaps that are due to a whole set of site conditions, not just cleanup.<sup>9</sup>

The developer also may apply for a Single Business Tax (SBT) Brownfield Redevelopment Credit, which boosts the state's participation in a project. This credit can total 12 percent of any innocent party's development (not cleanup) costs, up to \$1 million.

With Michigan's BRG grant program, its two TIF-oriented loan programs, and the SBT tax credit, Michigan has an impressive arsenal to close financing gaps on brownfields projects. However, all but the SBT are now endangered as funding through the Clean Michigan Initiative has been exhausted and renewal is uncertain.

Michigan – Results. There are 261 BRAs in Michigan. The state's brownfields incentives have provided \$120.7 million for 296 projects statewide since program inception in 1998. Although there is no comprehensive accounting of impacts, a typical example might be the City of Grand Haven, which is using BRA TIF financing for three projects:

- *Grand Landing:* The project is a \$70-million residential/mixed use redevelopment of a former tannery. A \$2-million cleanup has been financed through a \$1-million state grant and a \$1-million state loan to be paid back through BRA TIF;
- *Challenge Shop:* This \$11-million redevelopment for industrial/commercial/office use includes \$3.9 million in remediation/site preparation that the developer will recoup through the BRA TIF.
- *City-owned property at Jackson Street and Beacon Boulevard:* Plans call for a mixed-use development, projected at \$50 million in new private investment. The city is utilizing BRA tax capture to finance \$10.4 million in site/infrastructure work.

Brownfields Redevelopment Authorities and Land Banks. Michigan encourages land banks to use the BRA mechanism to help finance redevelopment of tax delinquent and other vacant city-owned properties. State law expanded the definition of a brownfields site to include any site owned by a land bank. This change enables communities to employ the BRA TIF mechanism to finance needed improvements to make land bank properties marketable. By involving multiple (even several hundred) properties in a single TIF, stronger properties can cross-collateralize weaker ones. This mechanism has been highly successful in Lansing (Ingham County Land Bank Authority)<sup>10</sup> and Flint (Genesee County Land Bank Authority)<sup>11</sup>.

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<sup>9</sup> See: [http://www.michigan.gov/deq/0,1607,7-135-3311\\_4110\\_29262---,00.html](http://www.michigan.gov/deq/0,1607,7-135-3311_4110_29262---,00.html)

<sup>10</sup> See: <http://www.inghamlandbank.org/>

<sup>11</sup> See: <http://www.thelandbank.org/>

Note that several Michigan projects are also cited in the CDFA TIF Best Practice Guide.<sup>12</sup>

### ***Connecticut's Brownfields Redevelopment Authority (CBRA)***

CBRA offers financing for brownfields remediation through its parent organization, the Connecticut Development Authority (CDA). CBRA deals are three-party transactions between CBRA, the developer, and the municipality, through the following steps:

1. The municipality pledges a portion of future incremental tax revenues towards the cost of the remediation of a specified site;
2. CBRA converts the city's pledge of future incremental revenues into an upfront cash grant to the developer;
3. The pledged tax revenues re-pay the CBRA grant over a period of years. CBRA takes the risk for non-performance, in effect guaranteeing repayment.

The grant proceeds can be used for any expense directly related to the remediation (including lead paint and asbestosis removal), as well as demolition, and the project can be located anywhere in Connecticut. Municipal authorities must agree with CBRA as to the allocation of incremental tax revenues. The allocation is the key factor in determining the amount of the grant.<sup>13</sup>

CBRA is essentially taking the place of the bond market, but offering a guarantee, as well as generally better terms, in the interest of getting both the developer and the municipality comfortable with participation.

A typical site might involve: an improvement that will generate \$100,000 in new annual taxes; an agreement by the city to devote 50 percent of the incremental taxes for 10 years to the TIF; the delivery by CBRA of \$500,000 (minus fees) to the developer for the cleanup costs; the city repays CBRA over time from the incremental tax revenues. CBRA accepts the risk that the project will not perform.

CBRA is currently listing four completed and four pending projects.<sup>14</sup>

### ***Pennsylvania's Tax Increment Financing Guarantee Program***

Pennsylvania's guarantee program is designed to assist local TIFs that qualify under a strict definition of blight removal. The state's guarantee, up to \$5 million per project, can serve as an important credit enhancement that can make the difference between a feasible and an infeasible project. TIF proceeds may be used for infrastructure and environmental remediation costs. The state gives priority to brownfields sites as one of several program criteria. The program is funded to provide \$100 million total in guarantees.<sup>15</sup>

One example of an assisted project is the Butler West End Revitalization TIF District, which is projected to create 1,300 jobs, partly at the Trinity Brownfield Phase III revitalization project.<sup>16</sup>

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<sup>12</sup> Council of Community Development Finance Agencies, Tax increment Finance Best Practice Reference Guide, 2007.

<sup>13</sup> See: <http://www.ctbrownfields.com/Content/Grants.asp>

<sup>14</sup> See: [http://www.ctbrownfields.com/images/customer-files/2007\\_CBRA.pdf](http://www.ctbrownfields.com/images/customer-files/2007_CBRA.pdf)

<sup>15</sup> See: <http://www.newpa.com/programDetail.aspx?id=45>

<sup>16</sup> See: <http://www.state.pa.us/papower/cwp/view.asp?A=11&Q=456403&pp=0&papowerNav=1317161>

### ***Kentucky and Mississippi - Bringing State Tax Revenues to a Deal***

Most TIF projects work with local property taxes as the revenue stream, but for some projects that is not enough to cover a financing gap. If the state places a high priority on a particular public objective (job creation in distressed areas, for example) it can structure the TIF statute to offer an option of bringing certain state revenues into the mix if the project meets those criteria.

Kentucky's 2007 modification of the TIF statute potentially brings a host of state revenues (state real property taxes, sales taxes, individual and corporate income taxes, and limited liability entity taxes) into the mix if the project: 1) meets three of seven findings related to economic distress and blight; 2) exceeds \$20 million investment; and, 3) involves mixing uses with no more than 20 percent retail.<sup>17</sup>

Mississippi designed a TIF vehicle to facilitate a single project: a 540-acre former-chemical plant on the Mississippi River in Vicksburg, Mississippi. Under an agreement adopted under special legislation by the Mississippi state legislature, all state taxes (sales, income, and franchise taxes) will be rebated to the developer for up to ten years with a ceiling of 2½ times the cleanup costs. With this financing in place, Silvertip Properties (the developer) is proceeding with an \$8 million cleanup, which is paving the way for a planned resort and casino. ([See this article for more information](#))

Other states that have the capacity to bring state taxes, usually sales taxes, into the mix include Missouri, Illinois, and Indiana.

### **Ideal State Incentives to Assist Brownfields Projects**

If a state tasked the author with recommending an ideal state program to encourage brownfields redevelopment, the author would recommend a program designed to work with local TIFs. The program would steal liberally from each of the state programs listed above. Consideration should be given to state actions which would:

- For states that restrict use of TIF to public infrastructure, modify TIF enabling legislation to allow site assessment, remediation, and site preparation as eligible uses of TIF funds (many states).
- Offer a simplified pay-go option geared to smaller projects (many states).
- Establish escalated benefits for brownfields and other high priority redevelopment projects. This could be:
  - Longer terms (Minnesota);
  - Exceptions to debt limitations (New Jersey and Wisconsin);
  - Counting more expenditures as eligible (Wisconsin),
  - Reducing the base by cleanup costs (Minnesota)
  - Reducing the base to zero for publicly-owned sites (Wisconsin).
- Establish a well-funded loan program with flexible terms geared to TIF - no or deferred payments for 3 years and 2% interest rates (Michigan).

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<sup>17</sup> See: [http://www.klc.org/UserFiles/KLCD-07-MayJune-web\(3\).pdf](http://www.klc.org/UserFiles/KLCD-07-MayJune-web(3).pdf)

- Offer a State guarantee for local TIFs that meet certain objectives (Pennsylvania and Connecticut):
- Include the option of bringing state revenues (such as sales taxes) into the mix if the project meets certain criteria (Kentucky, Mississippi).

This may seem like a heavy state commitment, but the quid pro quo could be that the state curtails direct-to-developer grants and non-TIF loans. From the state's point of view, gearing brownfields incentives to TIF has numerous advantages over the more common practice of doling out of direct grants and loans:

1. ***More money into deals*** - TIF financing, with a potential to capture taxes for as long as 30 years, can put more dollars into a deal than is typical of cash-strapped loan and grant programs. The result is that more sites and tougher sites can be redeveloped.
2. ***The perfect marriage of state and local commitment*** - State funds can be viewed as leveraging local funds, as well as private investment. The state's investment goes further – is more productive - under this arrangement.
3. ***Greater use of loans and guarantees/less use of grants*** - State funds can be mostly (or even exclusively) loans and guarantees rather than grants. Once a loan program is capitalized it will revolve and self-generate.
4. ***Greater efficiency in use of limited funds*** – The state-supported TIF framework has automatic controls because localities are going to scrutinize a deal that involves foregoing taxes for many years. Lacking the TIF element, state loan and grant programs may encourage inefficiencies because local advocates will try to maximize state investment.
5. ***More proactive action by local government*** - The availability of state TIF-linked loan funds under favorable terms allows local governments to proactively acquire, cleanup, and redevelop mothballed and other difficult sites that have failed to attract private investment.

## **FEDERAL PROGRAMS THAT WORK WITH TIF**

While selected state programs have demonstrated creative approaches to making the TIF-brownfields connection, at least two federal programs - HUD 108 and EPA's Brownfields Cleanup Revolving Loan Fund (BCRLF) - have also 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.

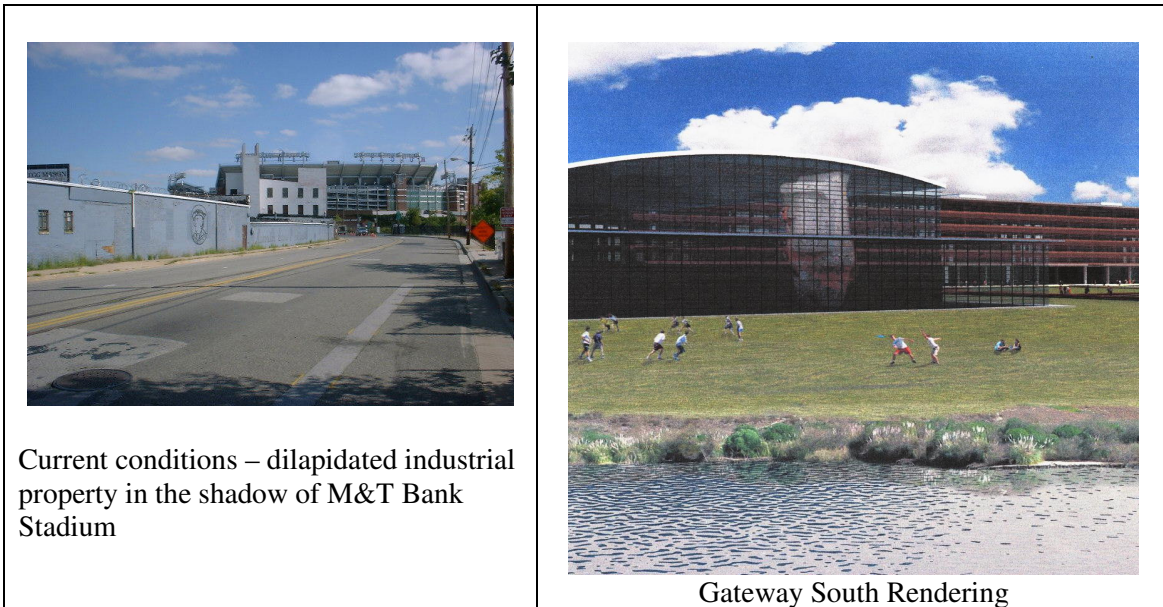
### **Chicago<sup>18</sup>**

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, responding to the City’s request in the RFP, committed to meeting a LEED Silver standard for green buildings. Baltimore has established an objective of redeveloping the Middle Branch as a “green corridor.” For more detail on Gateway South and the green corridor, go to <http://www.nemw.org/Gateway%20South%20-%20creative%20local%20financing%20spurs%20sustainable%20development.doc>

### **EPA – BCRLF**

<sup>18</sup> Source: Chicago Department of the Environment

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 TIF AND PRIVATE EQUITY**

While many small-scale brownfields projects can benefit from TIF, it is large-scale community-altering projects that simply cannot happen without TIF. If a \$500 million project has a five percent gap, that is \$25 million which is well beyond the reach of typical loan and grant programs. TIF is the "difference-maker" for many large scale redevelopment projects because of the greater magnitude of funds that can be brought to the table – see appendix 1 for a chart of some of these projects.

However, even with TIF, there is the timing problem referred to earlier – TIF funds usually come in when vertical development is assured, leaving upfront costs to some other mechanism. Using the previous example, if that \$25 million gap is required upfront (and governmental sources are the proverbial "drop in the bucket"), that is the point where the developer may opt for an infusion of private equity to bridge the gap and get to the point that the TIF will work. There are a number of national firms that specialize in providing equity investment for just these types of projects.

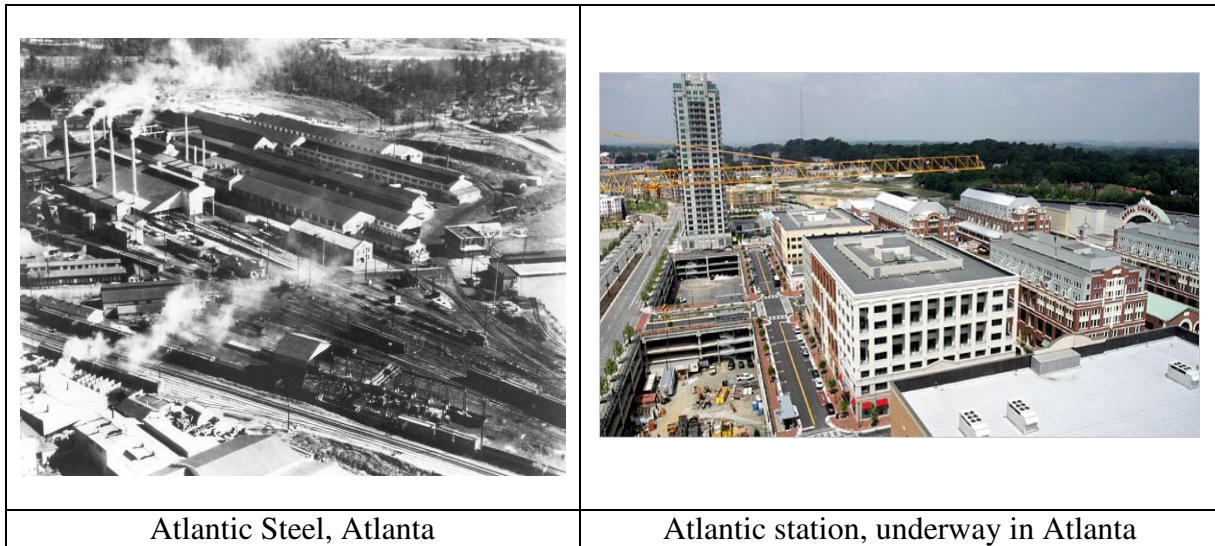
Cited here are three mega-brownfields projects that are using TIF as the chief gap-closing source with private equity covering most of the brownfields/site prep costs.

### ***Atlanta/Atlantic Station***

TIF (known in Georgia as Tax Allocation District Financing) is the key financing incentive for Atlantic Station ([www.atlanticstation.com](http://www.atlanticstation.com)), 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. A parking structure that will eventually have 15,000 spaces is serving as a cap on contaminated land, effectively eliminating risk exposures.

TIF is providing \$167 million of the total \$250 million needed for cleanup (\$50 million), site prep, and infrastructure. 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 comes 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.

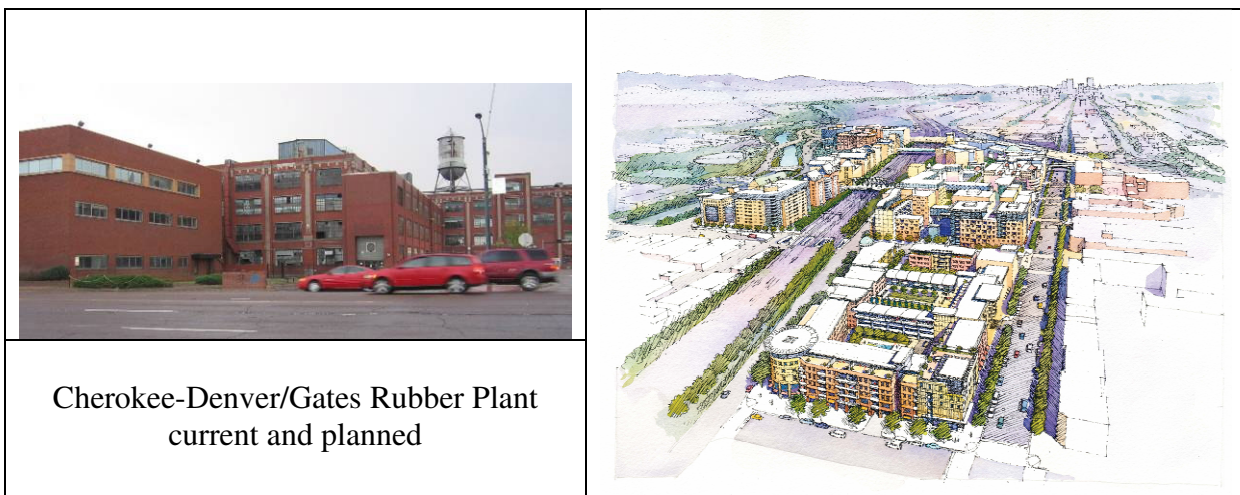
***Cherokee-Denver’s Redevelopment of Gates Rubber Plant***

Cherokee Investment Partners’ redevelopment of the 50-acre Gates Rubber Factory in Denver (<http://www.cherokeedenver.com/>) 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 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; and investment in local school districts (see: <http://www.cpeo.org/pubs/GatesMakingConnections.pdf>)



***Cleveland Flats - East Bank***

The Flats East Bank project area is approximately 30 acres of dilapidated buildings, underutilized parking lots, and empty streets with little sign of life. A plan put together by Flats East Development LLC (principals, The Wolstein Group and Fairmount Properties) envisions a vibrant new mixed use community, featuring:

- 500 residential units;
- 280,000 sq ft of retail and entertainment space;
- 400,000 sq ft of office space;
- 2,000 parking spaces;
- 2.5 acres of green/park space.

The project will also feature a riverfront promenade, 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 \$300 million in private investment, for a total project cost of \$400 million. The project's financing includes over ten different government sources. The largest portion of the public financing, approximately \$52 million, will be generated through the sale of parking and TIF bonds. The upfront brownfields costs are being addressed by a combination of private equity (\$60 million



total) and governmental sources. Governmental sources include \$3 million from the Clean Ohio Revitalization Fund (CORF) and a \$4 million County Brownfield Redevelopment Fund loan.

Currently, demolition and infrastructure design are underway. Remediation and site preparation will commence in 2008, with vertical development to follow in 2009.

	
<p>Cleveland Flats – current condition.</p>	<p>Cleveland Flats Rendering</p>

***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.

## Conclusions

These sustainable development tie-ins serve to underscore the vast potential benefits of the TIF-brownfields connection. For perspective, TIF brought to the table more financial resources for ONE PROJECT (\$187 million/Atlantic Station) than the entire EPA budget for site testing and cleanup (\$89 million). In most areas of the country TIF is the most powerful tool in the economic development tool shed. TIF can work for brownfields projects, but it could be far more effective if states designed their brownfields incentives to work with TIF.

**Appendix 1. Community-Altering Brownfields Projects Financed Primarily with Tax Increment Financing**

<b>Project name</b>	<b>Developer</b>	<b>TIF amt/ project amount</b>	<b>Website</b>
Atlantic Station	AIG Global real Estate	\$167 million/ \$4 billion	<a href="http://www.atlanticstation.com">www.atlanticstation.com</a>
Cherokee Denver Gates Rubber	Cherokee	\$85 million/ \$2.5 billion	<a href="http://www.cherokeedenver.com/">http://www.cherokeedenver.com/</a>
Cleveland Flats East Bank	Wolstein Group and Fairmount Properties	\$50 million/ \$400 million	<a href="http://development.cuyahogacounty.us/en-US/SYN/8505/PageTemplate.aspx">http://development.cuyahogacounty.us/en-US/SYN/8505/PageTemplate.aspx</a>
704 properties in Flint Michigan	Genesee Valley Land Bank Authority	\$20.6 million	<a href="http://www.thelandbank.org/">http://www.thelandbank.org/</a>
Portland South Waterfront	Gerding-Edlin	\$131 million/ \$3 billion	<a href="http://www.southwaterfront.com/">http://www.southwaterfront.com/</a>
Inner Harbor West, Westport, Baltimore	Turner Development Group	\$90 million (proposed)/ \$1.4 billion	<a href="http://www.turnerdevelopment.com/westport.html">http://www.turnerdevelopment.com/westport.html</a>
Harbor Point, Baltimore	Streuver Brothers, Eccles and Rouse	\$163 million (proposed)/ \$1.5 billion	<a href="http://www.sber.com/baltimore/harbor_point.php">http://www.sber.com/baltimore/harbor_point.php</a>
LTV Steel, Pittsburgh	South Side Local Development Corp	\$25 million/ \$250 million	<a href="http://www.ce.cmu.edu/Brownfields/NSF/sites/ltv/INFO.HTM">http://www.ce.cmu.edu/Brownfields/NSF/sites/ltv/INFO.HTM</a> See Article
Bridgeport Landing/Steel Point, Bridgeport, CN	Bridgeport Landing Development LLC,	\$190 million/ \$1.5 billion	<a href="http://www.steelpointharbor.com/">http://www.steelpointharbor.com/</a>
Yonkers	Struever-Fedelco-Cappelli	\$159 million/ \$3 billion	<a href="http://www.sfcyonkers.com/">http://www.sfcyonkers.com/</a>