

# ***Financing Reuse of Contaminated Properties in a Downturned Economy – What Tools Are Available?***



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# *What the heck is Charlie doing at EPA?*

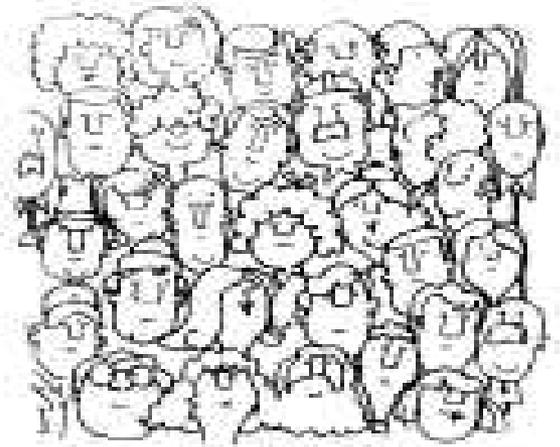
- Bringing an economic development focus to OSWER
- Reaching out to revitalization partners
  - *Inter-agency*
  - *Intra-agency*
  - *Private sector*
- Formal partnership structures
- Informal working relationships
- Helping make project implementation links to “make the fit”



***Overall vision – of EPA as a critical, initial component of the redevelopment continuum...***

# *What this discussion will cover...*

- Current real estate, market climate – *what impact on redevelopment financing?*
- The federal family...  
*partner resources in action – programs and tax incentives*
- Examples along the way...





## *Current real estate, market issues -- What impact on brownfield financing decisions?*

- Tighter underwriting -- lower LTVs, lower collateral values
- Looming commercial loan re-financings/extensions
  - *Between \$700 billion and \$1 trillion by 2013 – potential for defaults and foreclosures*
- Distressed lending industry impacts
  - *416 now banks on FDIC's "problem list" – 5% of total*
  - *98 banks failed in 2009, 100+ projected in 2010 -- mostly small regional and community banks*
- More properties now “upside down”...values dropping, while cleanup, site prep costs don't



## *Current real estate, market issues -- What impact on brownfield financing decisions?*

- Revenue, income declines undermine tax incentive value
  - *Impacts key tools of sophisticated deal-makers – TIF, tax credits/ax credit syndication*
- Decline in types of traditional infill/reuse
  - *Retail chain outlets, small business start-ups*
  - *Office/commercial retrofits/renovations*
- State/local deficits, spending pressures limit investment in smart growth/sustainable reuse projects
  - *Cumulative state deficits topping \$375 billion in '10-'11*
  - *As of July 2010, 30 states had raised taxes, 45 cut services*
  - *89% of cities project difficulty meeting financial needs in '11*



## *Long term forecast for redevelopment transactions – gradually clearing*

- Silver lining in “down time”
  - *preparing, positioning properties*
- Some foresee “infill first” as development comes back
- Public sector incentives poised to play an even more important role as catalyst, gap funder, partner foundation
  - *Traditional programs can be better adapted to new economic situation/needs*
  - *New opportunities to be tapped – emerging development roles for non-development tools*
  - *Alternative packaging strategies becoming more critical*

# *Evolving Public Sector Role*

**How can public investment/incentive programs address redevelopment concerns linked to contamination?**

Not only...

➤ **Provide resources directly**

- *grants; subgrants; forgivable loans*

But also....

➤ **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 and incentives; training credits and funding; and technical assistance help*

➤ **Provide comfort to lenders or investors**

- *loan guarantees; performance data*



*Partnerships are key to brownfield success  
– and often based on the “Warren Zeevon  
financing strategy”*

**“...I took a little risk.**

**Send lawyers, guns, and money,  
Get me out of this....”**

*It’s all about leveraging....*

- Creatively using a mix of **development and environmental** programs to meet the **full** range of site redevelopment needs, attract private financing for **every** aspect of the brownfield reuse process
- Blending cash, process incentives, and cash offsets to make a project work
- Focus on creative strategies, ideas, program applications



# *Financing Programs: A Federal “Laundry List”*

## What’s Been Linked Together for Redevelopment Projects?

### **Loans**

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

### **Grants**

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

### **Grants (*continued*)**

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

### **Equity capital**

- SBA Small Business Investment Cos.

### **Tax incentives and tax-exempt financing**

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

### **Tax-advantaged zones**

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

# *How Can Federal Funds Be Used For Brownfield Projects?*

*Depending on the program, eligible activities include:*

- planning for redevelopment or revitalization of brownfields sites
- site acquisition
- environmental site assessment
- site clearance/preparation, including demolition
- removal or remediation of contamination from sites or structures
- rehabilitation of buildings
- construction of real estate improvements – supporting infrastructure and amenities

# *Which Federal Programs Are Most Commonly Used?*

## *EPA/environmental programs*

- EPA brownfields – grants for site assessment, cleanup, RLF capitalization

## *HUD/community development programs*

- **CDBG** – Economic/community development, planning, support services, housing
- **Section 108** – Loan guarantees for site preparation and infrastructure

## *EDA/economic development, infrastructure*

- Public works/economic adjustment/planning

## *USDA/rural development programs*

- **Business & Industry** loans, loan guarantees
- **Community Facilities** grants and loans
- **Business development** programs

## *DOT/transportation*

- System enhancement, construction, improvement, cleanup

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

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

## **For the state/small cities program –**

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

# *HUD/CDBG: Visiting Nurses Assisted Living -- Somerville, MA*

- Former mattress factory, vacant 2 years.
- Contaminants included barium, lead and petroleum
- The project's redeveloper, the non-profit Visiting Nurses Association, remediated the site and demolished the existing structures
- VNA constructed an assisted-living facility and health center, containing 97 units for low-to-moderate income seniors.
- **Leverage -- \$100,000 in CDBG** was used as a cost-containment reserve.



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

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



# *HUD/CDBG: Paper Mill Island Park - Baldwinville, NY*

- 100 year-old paper mill, manufacturing site, long abandoned
- *EPA targeted brownfield assessment (TBA)*
- Town used **\$90,000 in small cities CDBG**, local community development funds for site preparation, park design, and some construction
- *Now...* Paper Mill Island a popular municipal amphitheater and waterfront park, with boater access



# *HUD/108: Stamping Building – Wheeling, WV*

- The Wheeling Stamping Building in a designated heritage area had been abandoned and deteriorating for more than a decade
- **\$2.25 million in Section 108-guaranteed loan** used for the redevelopment of the building
- Historic rehab tax credits cash flow used in financing pro forma linked to 108
- Redevelopment created 88,000 square feet of new commercial space, tenants have created 100 new jobs



# ***Economic Development Administration***

- Public works grants finance industrial development site and infrastructure preparation
- Economic dislocation program capitalizes RLFs for distressed areas
- Rural planning to support revitalization, through EDDs
- ***Key EDA eligibility factor – high relative unemployment rate***

**EDA's brownfields track record – since 2001, \$225 million invested in 210 projects**

# *EDA/public works: Plainview Steel*

## *– Plainview AR*

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



# *EDA: Bates Mill – Lewiston, ME*

- Textile mill, shut down in 1993, redeveloped in stages as small business incubator
- **\$750,000 in 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



# ***USDA Rural Development Programs***

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

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

# *USDA program links to brownfield needs*

## *Eligible activities often can include:*

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

# *USDA: Charleston Place – Seaford, DE*

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



# ***USDA: Potosi Brewery, Potosi, WI***

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



# *Transportation Programs*

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

# ***DOT: arterial road grid installation -- Moline, IL***



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

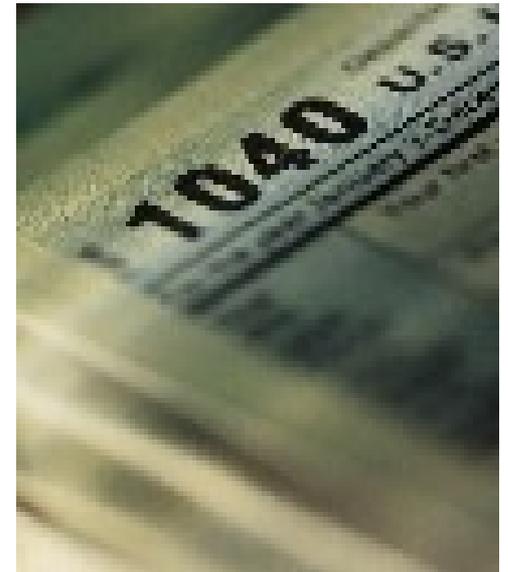
# *DOT: Amtrak station and environs -- Emeryville, CA*

- City and developers constructed an Amtrak station on a parcel that was once a Chevron tank facility
- Surrounding development -- Emery Station 1 (ES1), 247,000 square feet of office; ES3 consists of a parking structure under 100 residential units
- Downtown expanded as TOD, and the city worked with EPA to develop site into a transit center
- Pedestrian bridge was built with DOT funds, access roads within the project being used as ICs



*Four tax incentive types that can be linked to brownfield property transactions – all at little or no cost to the project....*

- Rehabilitation tax credits
- Low income housing tax credits
- Energy efficiency tax credits
- Brownfield cleanup cost expensing



# *Advantages of Using Tax Incentives in Brownfield Projects*

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

# *Rehabilitation Tax Credits*

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

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

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

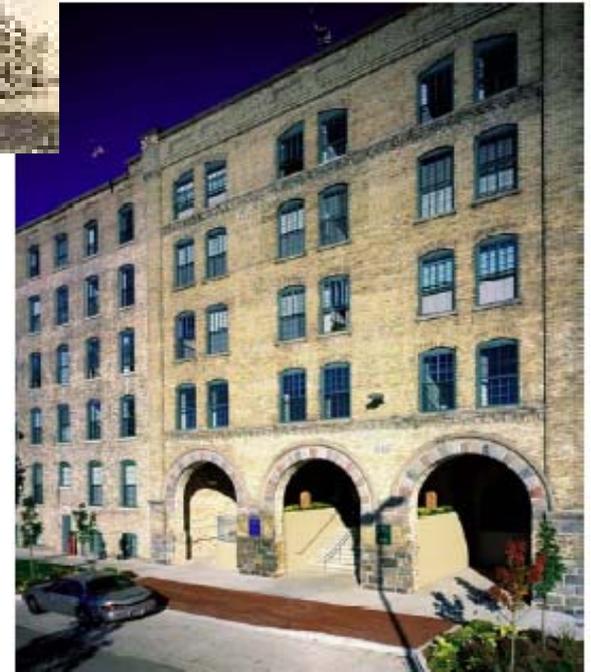
# *Thames Street Landing – Bristol, RI*

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



# *Berkey and Gay Building -- Grand Rapids, MI*

- Former downtown furniture maker, abandoned in 1960s
- \$41 million cleanup/ conversion to mixed use
  - 242 apartments/condos
  - 100,000 sq ft commercial (restaurant, retail, offices)
  - 450 space parking ramp
- **Rehabilitation tax credits key to attracting individual equity contributions**
- 900 permanent jobs created



# *Low-Income Housing Tax Credits*

- Can encourage capital investment in affordable housing/target investment to certain areas – vacant properties, infill locations, other priority sites
  - *States get annual population-based allocation for distribution to communities and non-profits – approx. \$1.75 per capita*
  - *Ohio -- \$379 million, for 81,000 units (1987-2008)*
- Credits can be used for new construction, rehabilitation, or acquisition and rehabilitation
- Credits support a wide range of housing types/situations
  - *Families, special needs tenants, elderly*

***\$3.85 billion in credits issued nationally in FY 2008, supporting 1/3 of all new construction***

# *Brian J. Honan Apartments – Allston, MA*

- Allston-Brighton CDC saw an opportunity to develop former fish processing plant into affordable housing
- **Low-income housing tax credits** key parts of financing incentive package needed to attract \$21 million in capital, convince funders that the project would work
- **Result** – affordable units in a sustainable development: green energy, pedestrian access to groceries, shops, transit



# *Mifflin Mills – Lebanon, PA*

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



# *Energy Efficiency/ Renewable Energy Tax Incentives*

## *Business energy tax incentives*

- Energy efficient construction deductions, thru 12/31/13
  - \* **\$1.80/sq. ft.** deduction for commercial building construction saving **50%** of energy costs
  - \* 60 cents/sq. ft. for 20% savings

## *On-site renewable tax incentives*

- **30%** of costs of on-site solar, fuel cell, small wind renewable systems, thru 12/31/16
- **10%** for geothermal heat pumps, microturbines, thru 12/31/16
- **10%** credit for CHP installation, thru 12/31/16, in year it becomes operational

# *Energy Credits: Bio-fuel Station – Eugene, OR*

**OR**

- ¾ acre abandoned gas station, with leaking USTs; contaminated soil, ground water on and off-site
- *EPA site assessment \$\$*

## *Energy Incentives Leveraged*

- \$1.2 million low-interest, redevelopment Oregon Sustainable Energy program loan
- \$250,000 state energy tax credits



## *Results -- mixed-use bio-diesel fueling station*

- 15 jobs; \$4,000 in property taxes
- incorporates state-of-the art E2/P2/renewable energy techniques, including a green roof, bioswales to contain runoff



# *Brownfield Cleanup Cost Expensing Incentive*

- Deduction pegged to cleanup costs, allows new owners to recover cleanup costs in the year incurred
- Only federal brownfield incentive targeted to private site owners
- Original incentive enacted 1997, expired 12/31/03; extended in December until 12/31/11 (retroactive to 1/1/09)



# *Brownfield Cleanup Expensing Tax Incentive*

- Expensible costs can include:
  - *Site assessment, cleanup, monitoring costs*
  - *Costs related to install/monitor institutional controls*
  - *State VCP fees and associated costs*
  - *Removal of demolition debris*
- From 2004-2007: 170 applications submitted in 29 states
  - *Treasury estimate pre-enactment – 10,000 sites annually*
- Original incentive enacted 1997, expired 12/31/03; most recently extended until 12/31/11 (retroactive to 1/1/09)
- Petroleum sites made eligible starting 1/1/06

# *Brownfield Expensing Incentive*

## ***Why has it gotten so little use?***

- Uncertainties/ambiguities/lack of knowledge
- Expired, on again/off again authority causes uncertainty, makes planning difficult
- Lack of information, bad information among development, accounting, and legal communities
- Impacts/uncertainties of recapture
- Not structured as/perceived as/marketed as a deal making incentive

# *Alliance Environmental/Goodwill Fire Department – West Chester, PA*

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



# *T.R. Thickston Glass Company, Bloomington, IN*

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





# *Administration strategies to meet “green,” sustainability objectives*



- LIHTC allocation priority for energy efficiency
- Brownfield area-wide approaches
- “Green infrastructure” priority in water RLFs
- HUD’s new housing policy re: reused sites
- DOE initiatives
  - *solar and wind “brightfields”*
  - *renewable energy loan guarantees*

# Financing **Green!!** But What Does it Mean? (for brownfields)

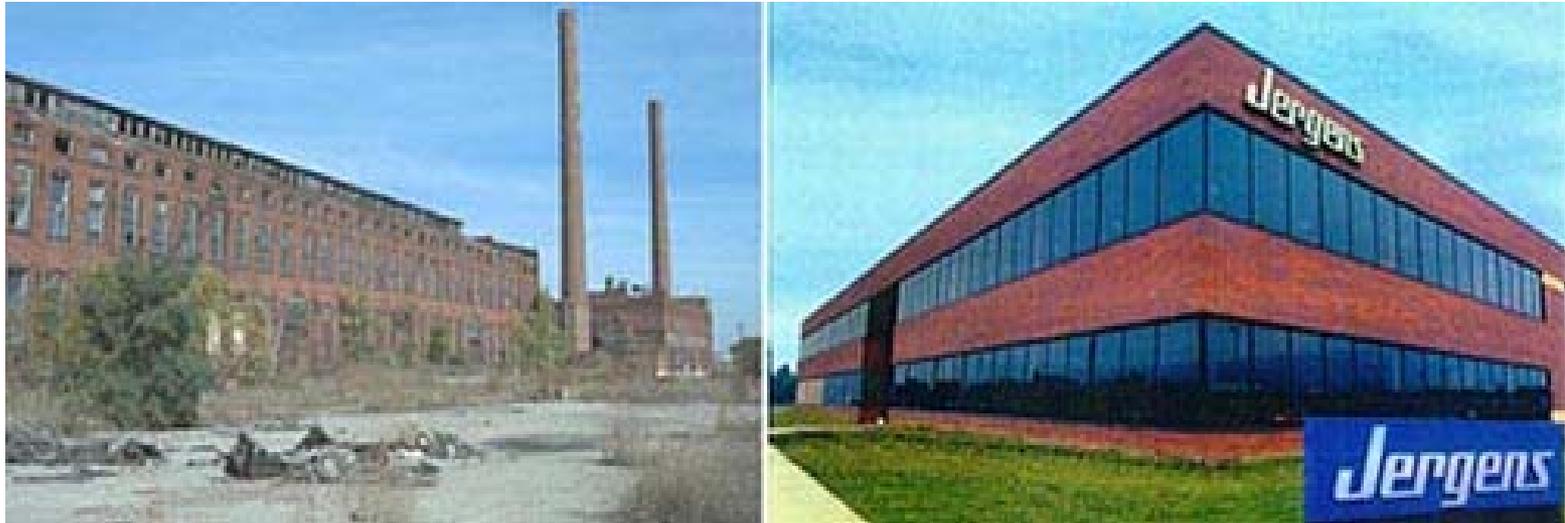
## *Models for the “next wave”*

- Clean water
  - *Cleveland*
- Transportation
  - *Boise (Idaho)*
- Community development
  - *Chicago*



# *Clean water RLF: Cleveland*

- **Ohio has included brownfield cleanup as one of its state clean water RLF priorities, when contaminated properties affect water quality**
- *Grant Realty used \$1.6 million in RLF loan proceeds to finance cleanup of a 20-acre industrial site adjoining the Cuyahoga River – Cleveland*



# ***Transportation: Banner Bank – Boise, ID***

- Deteriorating parking garage near expanding edge of downtown Boise

## ***Transportation \$\$ Key Leverage***

- \$324,000 in highway district funds
- \$100,000 from Idaho Power to offset up-front energy efficiency costs

## ***Results***

- \$25 million private investment, \$370,000 annual tax revenues, 650 new downtown jobs
- Significant environmental benefits
  - 92% construction waste recycled
  - LEED platinum certified
  - All rainwater, graywater reused
  - 65% energy efficiency achieved
  - 95% reuse efficiency



# *Community Development: Chicago Cultural Center*

- Chicago used **\$1.3 million in CDBG funds** to replace existing roof of 1897 Chicago Cultural Center (former main public library) with a green roof
- Integrated new support system into historic building
- Supplemented by 18 solar panels
- Irrigation system recycles rainwater



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## ***Take away message on brownfield financing...from Stevie Nicks***

*Don't stop, thinking about tomorrow.  
Don't stop, it'll soon be here. Yesterday's  
gone, yesterday's gone...*

## ***Take away message on brownfields...from me***

In terms of site cleanup and reuse, “green” is rapidly becoming the “new brown” for both remediation and redevelopment

- **Many public tools and strategies can support this trend** –tax incentives can complement a range of traditional federal (and state) programs, help position properties, and increase the financial attractiveness of brownfield investment

*For follow-up questions.....*

*For additional examples and information....*

*Contact Charlie Bartsch at*

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