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Funding for Brownfield Projects: Creative, Timely Federal Sources for Grantees to Consider

Presented by Charlie Bartsch

- Federal tax incentives and their role in leveraging brownfield transactions… *what various types are in place?*

- Tax incentive opportunities **still** available from the stimulus… *ARRA tools that can connect to brownfield revitalization efforts*

- **Examples**…*along the way*
Federal tax incentives that can be linked to revitalization transactions – all at little or no cost to the project.

- Rehabilitation tax credits
- Low income housing tax credits
- New markets tax credits
- Energy efficient construction tax credits
- Brownfield cleanup expensing
Financial Advantages of Using Tax Incentives in Reuse/Revitalization

- Increase project’s internal rate of return
- 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 capital investment
- Not subject to competitive public grant process
Social/Community Advantages of Using Tax Incentives in Reuse/Revitalization Projects

- Credits attract different players to the redevelopment table
- Offset additional pre-development or site preparation costs of site reuse/in-fill projects
- Encourage private investment in sync with local plans that promote reuse/smart growth
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 built 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
Rehabilitation Tax Credits – caveats and “fine print”

- Rehabilitation costs must be “substantial” – i.e., exceed minimum of $5,000 or the building’s adjusted basis.

- Property must be “income-producing” – multi-family rental housing can claim the 20% credit, but not the 10% credit.

- Rehab work must conform to state historic preservation standards – which can deter integration of “green” technologies.

- Credit is recaptured on a sliding scale (20% annually) if owner disposes of the building within five years of completing renovation.
Renaissance Grand Hotel – St. Louis, MO

• Developer led public-private partnership that renovated two defunct historic landmark hotels, in addition to 23-story new construction, for significant downtown infill/reuse

• Project included the old Statler Hotel, built in 1917 -- the 1st air-conditioned hotel in the country

• Kimberly-Clark Corp provided tax equity for several million dollars in historic rehabilitation tax credits

• Credit as leverage – Financing package included tax exempt bonds, brownfield cleanup tax expensing, empowerment zone tax incentives
Old Northampton Fire Station -- Northampton, MA

- Old Northampton Fire Station, built in 1872, shut down in 1999
- 13,000 sq. ft. building redeveloped into downtown office space, café, small scale retail
- Adjoining property, used by the fire department for maintenance activities, being redeveloped into a residential and studio space
- Total project costs -- $1.6 million
- Cash flow impacts of rehab tax credits a key part of the economic viability of this project
$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 1st 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 on vacant properties, brownfields, other targeted sites
- Can be used to target investment to certain areas, such as infill or walkable locations, and also to discourage sprawl
  - States get annual population-based allocation for distribution to communities and non-profits – approx. $1.75 per capita
- Investors can get 9% annual credit for 10 years for qualified new construction/rehabilitation costs (i.e. 90% of total) for projects not financed with federal subsidy
  - Federal subsidy limits credit to 4%
- Credits can be used for new construction, rehabilitation, or acquisition and rehabilitation
Low-Income Housing Tax Credits – fine print and caveats

- New wrinkles…
  - Loss of tax incentive value on secondary market – from about 95 cents/$ to about 65 cents/$ now – impacts syndication value
  - “Green” priority for credit allocations within states

- Credits support a wide range of housing types/situations
  - Urban, suburban, rural projects
  - Housing for families, special needs tenants, SRO, elderly

$3.85 billion in credits issued in fiscal year 2008, supporting 1/3 of all new construction that year
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.
• Allston-Brighton CDC saw an opportunity to develop former Legal Seafoods fish processing plant into affordable housing
• **Low-income housing tax credits** key parts of financing incentive package needed to attract 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
New Markets Tax Credits

- Gives investors federal tax credits (39% over 7 years) for equity investments in designated Community Development Entities (CDEs), for use in low-income communities

- CDEs use their allocations to make loans or investments in “qualified businesses” and development activities –
  - Community facilities such as health or child care
  - Charter schools
  - For-profit and non-profit businesses
  - Homeownership projects

$5 billion allocated in October 2009
$24.5 billion awarded to 463 CDEs since 2001
New Markets Tax Credits – fine print and caveats

• Challenging CDE designation, application process requires significant capacity, technical expertise
  – *Time consuming and complex*
• Costly – legal, other fees
• Matchmaking a good CBO strategy – find a CDE with an allocation!
  – *Recipients must allocate credits within 5 years*
• Historically, 50% + of all allocations have supported for-profit and non-profit business development
  – *Significant capital investment in central city areas*
New Markets Tax Credits -- highlights of 2009 funding round

- $5 billion awarded to 99 allocatees in 30 states
- Allocatees anticipate making investments in 49 states – including all Region 1 states
- Planned investments include:
  - $2.1 billion (41.4%) to finance and/or support business loans
  - $2.85 billion (57%) to finance real estate projects
- All investments at preferential rates/terms
New Markets Tax Credits: Bethel Center – Chicago, IL

- Bethel New Life, a faith-based CDC, used $1.5 million in NMTCs from LISC/Chicago to develop 23,000 sq.ft. Bethel Center on brownfield site
- Center has employment, day care services; 6 storefront businesses
- LEED gold certified
- **Credit as leverage:** NMTCs attracted private capital from Bank One and State Farm insurance
Energy Efficiency /Alternative Energy Source Tax Credits

ENERGY POLICY ACT OF 2005 TAX CREDITS

• Commercial building deduction of up to $1.80 per sq. ft. for buildings that achieve a 50% energy savings target
  ➢ Up to 60 cents per sq. ft. for buildings meeting at least a 16\(\frac{2}{3}\) % target
  ➢ 30% credit business solar energy tax credit, from 1/1/06 thru 12/31/07
  ➢ 10% starting 1/1/08
Brownfield Cleanup Expensing
Tax Incentive

• Deduction pegged to cleanup costs, which allows new owners to recover cleanup costs in the year incurred; only incentive targeted to private site owners

• Can include:
  – Site assessment, cleanup, monitoring costs
  – Costs related to install/monitor institutional controls
  – State VCP fees and associated costs
  – Removal of demolition debris

• No long term authorization in place; most recently extended until 12/31/09 (retroactive to 1/1/08)
  – Petroleum sites made eligible in 2007 extension
Brownfield Cleanup Expensing Tax Incentive – caveats and fine print

• “Stealth incentive” – used at less than 2 dozen projects annually
• Never been used in 23 states --
  – Alabama, Alaska, Arizona, Arkansas, Colorado, Hawaii, Idaho, Iowa, Kansas, Maine, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, South Carolina, South Dakota, Utah, West Virginia, Wyoming
Brownfield Cleanup Expensing Tax Incentive – caveats and fine print

- Little understanding of what it is, what it does, how it works
  - On the part of Treasury (no regs/guidance), developers, transaction support professionals, state agencies who certify
- Process not well articulated at state level
- Authorized in “fits and starts”
  - Makes long-term, larger projects hard to plan
- Subject to recapture on transfer
  - Vague Treasury interpretation deters use
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
**Genzyme Building – Cambridge, MA**

- Century-old former Cambridge Gas & Light MGP site, vacant 20 years, major soil contamination
- $25 million in remediation costs expensed from 1999 to 2004 – estimated $2 million in cash flow savings from brownfield incentive

**Result** -- new $1.3 million sq. ft. office/retail/residential transit-oriented development: 700 new jobs; $6 million annual property tax revenues

- 12-story Genzyme Building is LEED platinum
American Recovery and Reinvestment Act

• What opportunities still exist from the stimulus?
• How can they enhance/finance local brownfield efforts?
Brownfield opportunities still exist from the stimulus

Recovery Zone Economic Development Bonding Authority

• $10 billion for taxable bond issuances by 12/31/10
• proceeds must be used in locally designated “recovery zones” – areas of high unemployment, home foreclosures, and general distress
• proceeds can finance depreciable business property; reconstruction/renovation criteria included
• available in cities, counties of 100,000+
• subsidy/benefit –
  * 45% to issuer to offset interest, or
  * federal tax credit to holder = to 45%
Brownfield opportunities still exist from the stimulus

Recovery Zone Facility Bonding Authority
• $15 billion for tax exempt issuances by 12/31/10
• proceeds must be used in locally designated “recovery zones” – areas of high unemployment, home foreclosures, and general distress
• supports business/economic development activity in distressed areas
  * reconstruction/renovation criteria specified
  * small business/retail components
Brownfield opportunities still exist

Energy efficiency tax incentives

- 30% of costs of on-site solar, fuel cell, small wind renewable systems, thru 12/31/16
  * **ARRA allows grant in lieu of credit in 2009, 2010**
- 10% for geothermal, microturbines, thru 12/31/16
  * **ARRA allows grant in lieu of credit in 2009, 2010**
- 10% credit for CHP installation, thru 12/31/16, in year it becomes operational
- energy efficient construction deductions, thru 12/31/13
  * **$1.80 sq. ft.** for buildings saving **50%** of energy costs; 60 cents for 20% savings
Opportunities still exist from the stimulus

Industrial development bonds

Expands eligible activities, for issuances thru 12/31/10 --

• To include “manufacturing-related facilities”
  * allows financing facility functionally related to manufacturing – warehousing, office space, distribution

• For capital needs of businesses that produce intangible property – “patents, copyrights, designs, formats, or similar items”
  *could benefit software, biotech, pharmaceutical, entertainment firms

• Exempts IDB benefits from AMT
But with the stimulus...you must hurry!

The train is leaving the station...