Fueling the Reuse Fire: Federal Interagency Partnerships for Economic Redevelopment

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October 11, 2011
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Using federal tools to meet today’s site redevelopment financing challenge

- Leveling financial playing field between greenfields and formerly used properties for redevelopment purposes, in the face of real or perceived environmental risks
- Securing capital to meet critical 1st stage, pre-development property needs, leverage follow-on financing
- Maneuvering, jump-starting projects in current challenging financial/credit climate
What this discussion will cover…

- Partnerships – *federal family players and strategies*
- Federal partner resources in action
- Emerging EPA initiatives – *interagency, sustainable development efforts*
- National examples along the way…
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...
Federal Tools Can Be Fit together, Leveraged in Various Ways to Promote Reuse

- To provide resources directly
  - Grants; forgivable/performance loans

But also to…

- Reduce lender’s risk
  - Loan guarantees; companion loans

- Reduce borrower’s costs
  - Interest-rate reductions/subsidies; due diligence assistance

- Improve the borrower’s financial situation
  - Re-payment grace periods; tax abatements and incentives; technical assistance help

- Provide comfort to lenders or investors
  - Performance data, risk management/corroboration
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 loans/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 & loan guarantees
- SBA Small Business Investment Cos.
- SBA Section 7(a) guarantees
- DOE energy facility guarantees

Tax incentives and tax-exempt financing
- Targeted expensing of cleanup costs
- Historic rehabilitation tax credits
- Low-income housing tax credits
- New Markets Tax Credits
- Industrial development bonds
- Energy efficiency construction credits
Partnerships are key to 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 and partnerships...

- 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 site redevelopment/reuse process
- Blending cash, process incentives, and cash offsets to make a project work
- Focus on creative strategies, ideas, program applications
Federal Program Activities That Support Brownfield Redevelopment

- brownfield redevelopment/revitalization planning
- site acquisition
- environmental site assessment
- site clearance, demolition, and removal of buildings
- rehabilitation of buildings
- removal or remediation of contamination
- construction of infrastructure and related improvements that enhance brownfield site value

Activities often carried out in partnerships with the private sector, or to leverage private participation
Creative new revitalization applications of old federal economic development tools….

- **EPA water RLFs** – cleanup linked to water quality, “green infrastructure” priority
- **HUD** – CDBG flexibility, planning, remediation, rehab, economic development lending
- **EDA** – public works, planning, economic dislocation grants
- **USDA** – flexible rural development/community facilities loans and grants
- **DOT** – construction/enhancement/modernization/rehab projects that build on cleanup policy re-affirmation
- **Tax incentives** – to promote low-income housing, community investment, structural rehabilitation, energy efficiency, site cleanup
**EPA Clean Water, Drinking Water State RLFs**

- Capitalized by EPA
  - $3 billion total last year
- States set RLF priorities within broad EPA guidelines
- Can finance loans up to 20 years; activities can include brownfield mitigation to correct or prevent water quality problems, including groundwater contamination
- Eligible activities include –
  - *Site assessments, disposal of USTs, excavation/ removal/disposal of contaminated soil or sediments*
- Starting in fiscal 2010 – 20% priority for green infrastructure, low-impact projects
Using clean water RLF funds to meet contamination/cleanup needs

– 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
HUD Entitlement and State/Small Cities CDBG Programs

• Cities over 50,000 people get annual formula allocations
• Each state gets an annual funding allocation from HUD to meet small cities’ (less than 50,000 population) community development needs
• CDBG funds must meet one of HUD’s 3 broadly defined program objectives:
  – addressing the needs of low- and moderate-income people (at least 51% of funds)
  – addressing slums and blight
  – meeting an urgent community need
HUD/CDBG Eligible Activities – With Links to Redevelopment Needs --

- 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 CDBG objectives and these activities
CDBG: Chevy Place – Rochester, NY

- 2.2 acre downtown auto dealership, gas station, and service garage site
- **Key concern** -- UST and other contamination deterred developers
- **Role of CDBG** – Used for site assessment, partial 1st phase cleanup (including tank removal)
- Developer funded 2nd phase of cleanup
- City $2.35 million redevelopment loan from CDBG-capitalized pool
- **Result** -- 77 new residential units; coffee house/restaurant with 20 jobs
HUD/CDBG: 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
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: Bates Mill – Lewiston, ME

- Textile mill, shut down in 1993, redeveloped in stages as small business incubator
- **EPA assessment $$
- **EDA public works** 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 abatements in place
EDA/planning -- Cimarron Center – Sand Springs, OK

- Former zinc smelter, abandoned rail spur in small Oklahoma town
- Challenge was structuring a cleanup plan that made the site economically competitive with nearby greenfield for big-box retail
- Financing included EDA planning resources, local TIF
- Leverage -- Cimarron Center, with Wal-Mart Supercenter as anchor, has created 350 new jobs, added $3.5 million in annual city sales tax revenues
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
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/modernization/rehab 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: Banner Bank – Boise, ID

- Deteriorating parking garage near expanding edge of downtown Boise
- Built 1963, partially closed in 2000; major structural concerns

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
Five 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 efficiency/renewable energy tax credits
- Brownfield cleanup expensing
Rehabilitation Tax Credits

- Taken the year renovated, income-producing building is put into service
  - *Rental housing eligible*
- 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 2010* – 951 projects, $1.12 billion in credits
- 43% provided housing – most common type of reuse
- leveraged $3.42 billion in private investment
- led to nearly 42,000 jobs
- resulted in 13,273 housing units – 5,514 affordable
Rehab tax credits: American Can Company – New Orleans, LA

- Abandoned warehouse transformed into new apartments, with retail, parking
- **Key concern** – cash flow to cover linked to building reuse
- **Role of rehab credits** – investor provided tax-credit equity for approximately $7.8 million in historic tax credits
- $42 million project that packaged:
  - $5 million HUD Section 108
  - $29 million LIHTC allocation
- **Result** – 268 mixed-income apartments
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 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
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 – infill or walkable locations – also to discourage sprawl
- States get annual population-based allocation for distribution to communities and non-profits
- NJ allocations from 1987-2008 -- $291 million, supporting 32,000 units
- New “green” priority for allocations within states
- Credits can be used for new construction, rehabilitation, or acquisition and rehabilitation

$3.85 billion in credits issued in 2008, supporting 1/3 of all new construction that year
Brian J. Honan Apartments – Boston, MA

- 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
• 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
Renewable Energy Tax Incentives

Renewable energy bonus depreciation deduction

- Solar electric, and other technologies, are classified as “5-year property” under IRS/MACRS system
  - 50% “bonus” depreciation provision added in 2008: half the cost of the property can be deducted in the year placed in service, balance over 4 years

On-site renewable investment 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 Incentives – fine print and caveats

• Cash option for solar incentives – **1603 grants** – ends 12/31/11
• To qualify for 1603 grants, projects must be registered and demonstrate eligibility by either:
  – *Showing that “physical work of a significant nature” has begun*
  – *Satisfying a “safe harbor” provision by verifying that more than 5% of total project cost has been*
Energy Credits: Bio-fuel Station – Eugene, OR

- ¾ acre abandoned (since 1991) gas station, with leaking UST systems, contaminated soil and 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
New Markets Tax Credits

- Gives investors federal tax credits (39% over 7 yrs) 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

$3.5 billion awarded to 99 allocatees in Feb. 2011; 28 states targeted for investment

NJ score -- $569 million to 18 allocatees
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
  - 99% targeted for real estate and business development projects in 2011 round
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
NMTCs: Tip Top apartments – Omaha, NE

- Abandoned Ford Motor factory (1916-36), center of blighted area
- **Key concern** – financing gaps stemming from rehab of brownfield into affordable housing
- **Role of NMTCs** – $12 million instrumental in attracting private capital from US Bank needed to close the $24.5 million deal
- **Result** – 96 moderately priced apartments, ground floor commercial space with 138 jobs
- Significant additional private investment in surrounding area
Brownfield Cleanup Cost Expensing Incentive

- **What it is** – deduction pegged to cleanup costs, which allows new owners to recover cleanup costs in the year incurred.
- **Uniqueness** – only federal brownfield incentive targeted to private site owners.
- **Goal** – effort by Congress to attract new owners to abandoned, contaminated brownfield sites.
- **Value** – aims to level economic playing field between greenfield and brownfield sites through favorable tax treatment of cleanup costs.
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
  - New Jersey – 11 applications submitted, all approved

- Original incentive enacted 1997; frequent lapses
  - Most recently extended until 12/31/11 (retroactive to 1/1/09)

- Petroleum sites made eligible starting 1/1/06
Brownfield Expensing Incentive – Fine print and caveats

- Sites must be **brownfields**
  - Sites on NPL, or proposed for listing, are ineligible
- Deduction may be recaptured as ordinary income when property is sold or otherwise disposed of --
  - Taxed as ordinary income rather than at capital gains rate, if taxpayer would have received an addition to basis if this deduction had not been elected
  - Lack of clarity on timeframe inhibits use

*Only 88 shopping days left!!*
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
What EPA is doing – priorities, partnerships, new initiatives

• Area-wide planning
  – 23 brownfield AWP pilots named October ‘10, to explore broader, community wide redevelopment strategies in disadvantaged areas
  – Goal is implementing improvements in brownfield-impacted areas – based on inter-agency, public-private partnerships to be strengthened, developed during the planning process

• Community Engagement Initiative
  – Action plan lays out principles, goals, and objective to help communities meaningfully participate in decisions on land cleanup, hazardous substance and waste management
  – Short-term, long-term implementation steps being developed
What EPA is doing – priorities, partnerships, new initiatives

- Promoting new/enhanced inter-agency, public-private working partnerships aimed at revitalization results
  - Defining, addressing environmental issues/concerns as part of the economic/community development continuum
  - De-mystifying environmental component of reuse process
  - Identifying common program missions – promoting financing leveraging/linkages

- Sustainable Community Building Blocks
  - EPA technical assistance to help up to 50 communities implement any of 10 sustainable development tools

- Smart Growth Implementation Assistance
  - EPA technical assistance to help up to 4 communities address smart growth challenges
Sustainability Partnership Pilots

EPA/HUD/DOT interagency partnership – providing a vision for sustainable growth – initial projects include 5 pilots to link transit and affordable housing on brownfield sites

• Fairmount Line, Boston – creating TOD village on a brownfield; EPA will support remediation planning, along with HUD and DOT efforts at housing and transit access

• Indianapolis – redeveloping former rail yard maintenance facilities into affordable housing, new commercial development, urban agriculture, integrating green infrastructure
Sustainability Partnership Pilots

- **Riverfront Crossings district, Iowa City** – creating a walkable urban neighborhood, with new housing, retail, office, public open space near proposed light rail stop

- **National City (CA)** – creating and implementing a sustainability plan and financing strategy to convert 14-acre abandoned auto mall, industrial BF into the Westside affordable housing TOD

- **La Alma/South Lincoln Park, Denver** – Housing Authority key partner in t.a. effort to integrate green design, storm water management best practices, renewable energy, green jobs strategies
Take away message on redevelopment financing trends...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 financing trends...from me

In terms of site cleanup and reuse, partnerships are the name of the game, 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, meet financing gaps, help position properties, and increase the financial attractiveness of this type of investment
For additional examples and information....

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Make sure to visit EPA’s brownfields web site:

www.epa.gov/brownfields