

# 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 1<sup>st</sup> 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/corroboratorion*



# *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...*



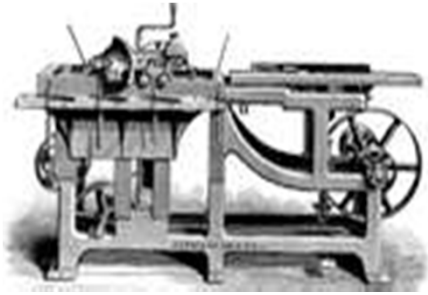
- Creatively using a mix of **development** and environmental programs to meet the **full** range of site redevelopment needs, attract private financing for every aspect of the site redevelopment/reuse process
- Blending cash, process incentives, and cash offsets to make a project work
- Focus on creative 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 1<sup>st</sup> phase cleanup (including tank removal)
- Developer funded 2<sup>nd</sup> 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

# *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



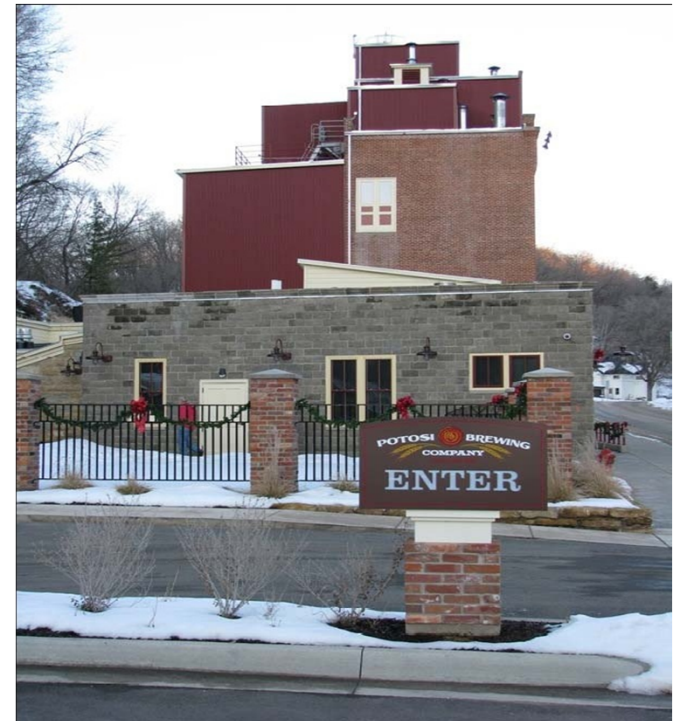
# *USDA: Charleston Place – Seaford, DE*

- 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/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 build 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 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



# *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



## *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





# *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*
- 



Boston



## ***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*

Denver site





## ***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](http://www.epa.gov/brownfields)**