Reinventing Older Communities: People, Places, and Markets

From Liability to Viability: Reclaiming Abandoned Properties and Brownfields

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What this presentation will cover...

Public programs and the private investment climate for brownfields...current trends, best practices

- Finding the right financing mix – factors to consider
- Overview of brownfield financing challenges
- Key federal programs
- Highlights of emerging state and local initiatives
- "Low-cost/no cost" tools that can leverage transactions
- Success stories along the way...
Financing Challenges Facing Brownfields and Vacant Properties

Scarce targeted redevelopment financing to:

• Level financial playing field between greenfield and brownfield development
  – Accommodating factors such as -- need for environmental assessment, cleanup, or risk management; demolition or site clearance

• Cover additional costs of redevelopment at previously used sites
Financing Challenges Facing Brownfields and Vacant Properties

Scarce targeted early stage redevelopment financing
Attracting long-term private sector investment in vacant properties and brownfield sites
Figuring out the best way to provide assistance in...

• Reducing risk

• Maximizing return

...Easy in theory, difficult in practice -- especially at tough sites or in tough market locations

• Deploying redevelopment financing incentives

...This is how communities can establish the climate that invites private investment
**Brownfield Financing Challenges**

Impact of Contamination on Financing Redevelopment

- Conceptualizing and Planning the Project
- Economic Analysis for Marketing the Project

Dealing with Stigma

- $ for Site Assessment
- Additional Underwriting/Site Development/R.O.R. Costs
- $ for Preparing a Cleanup Plan and Taking It Through VCP/State/Local Regulatory Agencies
- $ for Cleanup

“Regular” Real Estate Construction/Development Costs When Site is “Shovel Ready”
Public Sector Role

How can federal, state, and local programs address “red box” concerns at brownfields and vacant properties?

- 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
- Provide resources directly
  - grants; forgivable/performance loans
The Pink Floyd concept of addressing brownfield financing challenges...

Money, it’s a crime.
Share it fairly but don’t take a slice of my pie.

Brownfields Translation – it’s all about leveraging

...making both development and environmental programs fit brownfield site needs (for assessment, clean up, demolition, preparation) while fitting program eligibility criteria and competing successfully for resources
How Can Federal Funds Be Used For Brownfield and Vacant Property Projects?

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

• Law authorizes $200 million per year for site assessment, cleanup, RLFs, and job training grants to states, tribes, local governments, and non-profit/quasi public redevelopment agencies/authorities, and $50 million to states for VCPs

• What’s available for fiscal 2006 --
  – $93 million for basic grant program
  – $50 million for states and tribes

• The Bush Administration is seeking comparable funding for FY2007
EPA: Consumers Energy Headquarters – Jackson County, MI

• **EPA assessment grant** helped Jackson prioritize brownfield sites -- 36 abandoned and underused parcels on 15 acres for Consumer Energy’s new corporate headquarters.

• Assessment info triggered other financing sources -- an $8.6-million Single Business Tax credit from the state to Consumers Energy; and a $1-million Brownfields Cleanup Revolving Loan Fund grant.

• **Leverage** -- Consumers Energy’s relocation to downtown retains 600 Jackson jobs while bringing 750 new jobs into the downtown area.
EPA: Firebarn -- St. Anthony Falls, MN

- Vacant car dealership, cab lot, and auto services/body work facilities
- Prospective new user demanded clean site
- Hennepin County Health Dept. made a $240,000 EPA BCRLF loan for soil and groundwater cleanup
- **Leverage** -- $83 million mixed-use complex built on clean site -- 78 housing units, 45,000 square feet of commercial/retail/office with tuck-under parking
Which Federal Programs Are Most Commonly Used?

HUD

- **CDBG** – Economic/community development, planning, support services, housing
  - *FY 2006 formula grants reduced $600 million over FY 2004 levels; an additional $1 billion reduction proposed for FY 2007*

- **Section 108** – Loan guarantees for site preparation and infrastructure
  - *FY 2006: $3 million to support $275 million in guarantees; 0 proposed for FY 2007*

- **BEDI** – brownfield economic development initiative
  - *$10 million for FY06; $10 million rescission for FY05; 0 for FY 2007*
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: Shaw’s Supermarket – Bangor, ME**

- Bangor acquired and cleared the 6-acre Bangor Gas Works site 25 years ago, doing a partial cleanup; cleanup was completed when the Boulos Company proposed building a 60,000 sq. ft. Shaw’s.

- Bangor used $350,000 in state/small cities CDBG and $975,000 in TIF financing for final cleanup.

- **Leverage** -- Boulos invested $7 million in the building and associated site improvements, and Shaw’s spent $1.8 million on equipment and furnishings for the supermarket.
HUD/108-BEDI: Stamping Building – Wheeling, WV

• The Wheeling Stamping Building in a designated heritage area had been abandoned and deteriorating for more than a decade

• $1-million BEDI grant and $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

• **Leverage** -- Redevelopment created 88,000 square feet of new commercial space, tenants have created 100 new jobs
Which Federal Programs Are Most Commonly Used?

ECONOMIC DEVELOPMENT ADMINISTRATION

Two major programs –

- (1) public works grants finance industrial development site and infrastructure preparation ($158 million FY 2006)
- (2) economic adjustment program capitalizes RLFs for distressed areas ($42 million)

For FY 2007 -- EDA proposed for reconfiguration into a Regional Development Account, with a $47 million increase
EDA -- Bates Mill – Lewiston, ME

- Textile mill, shut down in 1993, redeveloped in stages as small business incubator
- **EDA funding supported site cleanup and infrastructure upgrading activities, part of $41 million financing package**
- **Leverage** –
  - 19 tenants occupying 284,000 sq. ft
  - Increase in employees from 100 in 1993 to 1,000
  - Nearly triple the amount of tax revenues generated since 1993 ($543,000 last year) – even with tax incentives in place
Which Federal Programs Are Most Commonly Used?

ARMY CORPS OF ENGINEERS

- Can provide planning and technical support if you can make the brownfields/waterfront connection
  - *Technical assistance on a cost-reimbursable or matched basis*
  - *Local governments eligible recipients*
Chinatown River Front /Ping Tom Park – Chicago, IL

- 6 acre abandoned former Santa Fe rail yard, adjoining Chicago’s Chinatown
- Challenges – contamination, shoring up river bank
- **ACE project funds supported riverbank stabilization**, part of coordinated effort with state and local agencies, non-profit organizations needed to meet diverse financing needs
- **Leverage** -- Ping Tom Park is part of a 20-acre mixed use development, providing needed recreational space for adjoining Chinatown residential project, also built on former Santa Fe property
TRANSPORTATION PROGRAMS

DOT highway and transit construction programs can support brownfields 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
Riverfront redevelopment -- 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
Federal tax incentives that can be linked to brownfields and vacant properties

- Rehabilitation tax credits
- Low income housing tax credits
- Brownfield expensing
Federal tax incentives that can be linked to brownfields and vacant properties

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

- Former furniture manufacturer, abandoned in 1960s
- $35 million cleanup/conversion to mixed use
  - 242 apartments
  - 100,000 sq ft commercial (restaurant, retail, offices)
  - 450 space parking ramp
- Rehabilitation tax credits key to attracting individual equity contributions
- 90 permanent jobs created
Old Northampton Fire Station -- Northampton, MA

- Old Northampton Fire Station, built in 1872, shut down in 1999
- 13,000 sq. ft. building redeveloped into office space, 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
Federal tax incentives that can be linked to brownfields and vacant properties

LOW-INCOME HOUSING TAX CREDITS

- Can encourage capital investment in affordable housing projects on brownfield sites
  - States get a population-based allocation for distribution to communities and non-profits
Brian J. Honan Apartments – Boston, MA

- Former Legal Sea Foods corporate headquarters and fish-processing plant.
- Allston-Brighton CDC saw an opportunity to develop empty complex into affordable housing.
- Environmental assessment funding, 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, featuring green energy, pedestrian access to groceries, shops, public transportation.
BROWNFIELD 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.
  - *Expired 12/31/05*
  - *Extension and expansion pending in Congress*
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
Brownfield Financing: What Are the States Doing?

* 23 states offer tax incentives linked to property assessment and cleanup, or related site preparation

* 19 states target financial assistance programs to brownfields

* 13 states offer direct financial assistance

* 10 states have initiatives to enhance/support the brownfield financing process
State Financing – Creative New Efforts at Brownfields and Vacant Properties

Four final examples of “best practice…”

- **Clearwater, FL**
  - Loans for brownfield site tax/construction liens

- **Milwaukee, WI**
  - Tax forgiveness linked to site cleanup

- **Detroit, MI**
  - Brownfield Redevelopment Authority tools

- **South Bend, IN**
  - “Just-in-time” site assessment grants
Clearwater, FL -- Financing mechanisms to break the process log-jam

- Florida offers low-interest loans to redevelopment agencies and non-profit corporations to purchase contractor liens, tax certificates, and similar claims, to expedite reuse
Milwaukee, WI – creative tax incentives to attract private capital

- Wisconsin allows new owners, working thru VCP, to have back taxes waived to level the playing field and attract new investors
Detroit, MI -- Revamping traditional mechanisms to facilitate brownfield reuse

- Michigan brownfield redevelopment authorities, expedited title clearance, TIF and bond financing authorities
South Bend, IN – Creatively filling financing gaps

- Indiana’s “just in time” Phase II site assessment program, offering $50,000 grants to expedite projects at sites where a company or developer is “imminently interested”
Charlie’s contact information

For further information on programmatic and legislative developments as they happen……..

For additional examples and information…..

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