

# Creative Financing Tools for Reuse & Redevelopment:

*Public-Private,  
Interagency Partnerships and  
the Art of the Deal*



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# *What this discussion will cover...*

- Current real estate climate – *what impact on redevelopment financing?*
- The federal family...  
*partner resources in action*
- Emerging EPA initiatives –  
*creative, practical partnership 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...***



## *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 additional defaults and foreclosures*
- Distressed lending industry impacts
  - *416 now banks on FDIC’s “problem list” – 5% of total*
  - *98 banks failed in 2009, 156 in 2010, already 23 in 2011 -- 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 – re-development will again make sense, often in a **greener** market context*

- Some foresee “infill first” as development starts to come back
  - *Prime opportunity for communities to plan for reuse, prepare, position properties*
- Growing demand for sustainable end-uses
  - *“Green” = reduced O&M = market appeal; fits well with smart growth, redevelopment strategies*
- Public sector incentives poised to play an **even more** important role as catalyst, gap funder, partnership foundation
  - *Traditional programs can be better adapted to new situations*
  - *New opportunities to be tapped*
  - *Alternative packaging strategies more important*

# *Public 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*



# *Creative Partnerships for Financing Site Revitalization: Who Can Play?*

- **Public sector**
  - Federal, state, and range of local governments
- **Quasi-public sector**
  - Development, port, housing authorities
- **Non-profits**
  - CDCs, CBOs, universities, cultural-social institutions, technical/technology centers
- **Private sector**
  - Lenders, developers, investors, transaction support partners

**Bottom line:** *before you can “level the playing field”, you’ve got to field the team...*



# *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*)**

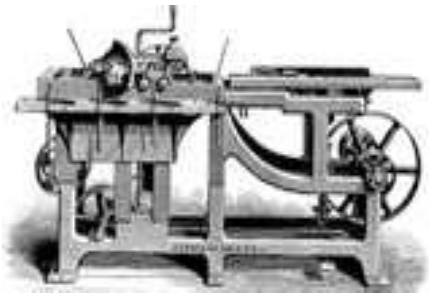
- DOT (various system construction, preservation, rehabilitation programs)
- Army Corps of Engineers (cost-shared services)
- USDA community facility, business and industry grants

### **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



## *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* – green, brownfield applications of 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, 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/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*

# *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: 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

# *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



# ***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**

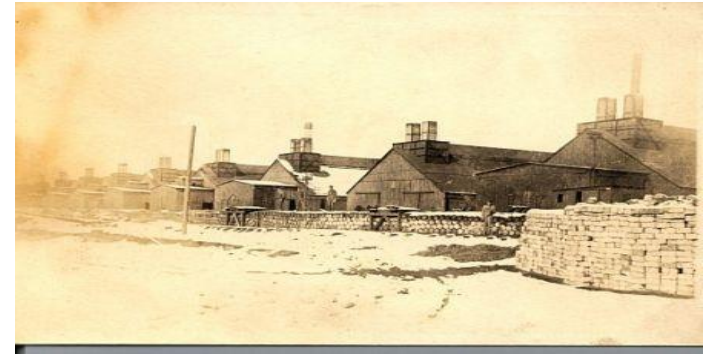
# *EDA/Public Works: Bates Mill – Lewiston, ME*

- 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

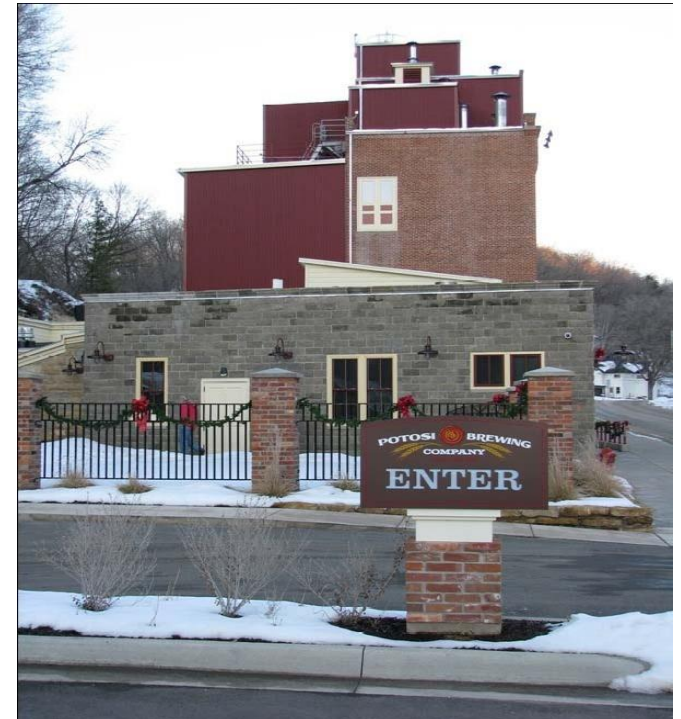
# *USDA: Charleston Place – Seaford, DE*

- 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

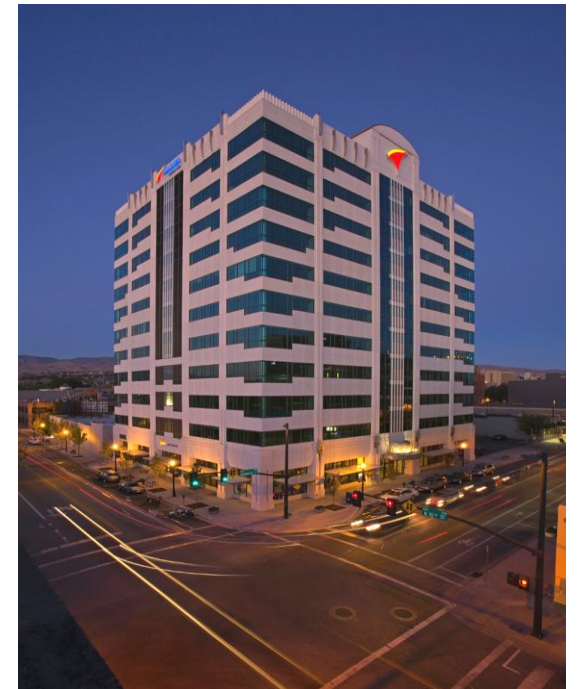


## ***Transportation \$\$ Key Leverage***

- \$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



# *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, income-producing 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 2009 – 1,044 projects, \$1.12 billion in credits***

- leveraged \$4.7 billion in private investment
- led to nearly 71,000 jobs
- resulted in 13,700 housing units – 6,700 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



# *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**



# *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*
  - *Minnesota -- \$158 million, for 32,000 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 – 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



# *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*

- 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 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*
- 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



# *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



# *What EPA is doing – priorities, partnerships, new initiatives*

- **EPA/HUD/DOT interagency partnership** – providing a vision for sustainable growth: initial projects
  - *5 sustainable communities pilots – to link transit and affordable housing efforts to brownfield sites*
  - *Clean water RLF pilots to enhance community sustainability – in New York, California, Maryland*
  - *Urban waters initiative – tri-agency effort to promote redevelopment, revitalization adjoining waterways*

# *What EPA is doing – priorities, partnerships, new initiatives*

- **Area-wide planning**
  - *23 pilots announced October 15, to explore broader, community wide redevelopment strategies*
  - *Series of inter-agency financing webinars in development*
  - *Promoting inter-agency revitalization relationships region/region, headquarters/headquarters*
- **Emerging “working” partnerships**
  - *With USDA – urban agriculture*
  - *With DOE – renewable energy/facility siting*



## ***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 additional examples and information....*

*Contact Charlie Bartsch at*

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*Make sure to visit EPA's brownfields web site:*

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

**AND**

*Attend Brownfields 2011*

*Philadelphia, April 3-5!!*