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Seminar**
Financing Reuse of Contaminated Properties
Sponsored by: US EPA OSWER

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Instructor:

Charlie Bartsch, US EPA OSWER (bartsch.charlie@epa.gov)

Moderator:

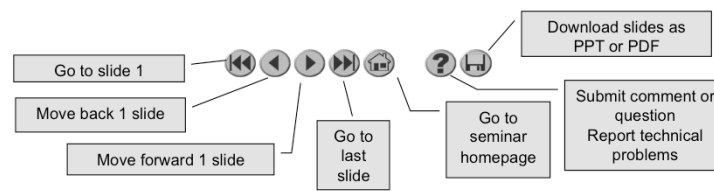
*Michele Mahoney, U.S. EPA, Office of Superfund Remediation and Technology Innovation
(mahoney.michele@epa.gov)*

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- Q&A
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With that, please move to slide 3.

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***Financing Reuse of Contaminated
Properties in a Downturned
Economy –
What Can OSWER and its
Partners Do?***

Charlie Bartsch
Senior Program Advisor for Economic Development,
OSWER
SRI Webinar
February 3, 2011

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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...

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***What that Means – Coping with Contamination
is the 1st Step in the Redevelopment Process***

Identifying and addressing contamination

- Determining end user and defining end use to decide “how clean is clean”

Meeting economic/financial challenges linked to environmental cleanup

- For site assessment, remediation, underwriting expenses, institutional controls, environmental insurance, additional site prep costs
 - *Leveling playing field between used and unused sites*
 - *Can be a show-stopper for Superfund sites*

In short -- reducing risk, maximizing return

Reuse Planning – Key to Maximizing Resource Efficiency, Enhancing Revitalization Opps.

Begin with the end in mind

- Cleanup strategy linked to end use
 - *Define advantageous placement of new uses – make cleanups work for you*
 - *ICs, emerging technologies*
- Resource/leveraging strategies
 - *Target incentives to potential uses – integrate community decision-making*
- Private sector viability/market appeal
 - *Linking new users to incentive options*
 - *“Creative marketing” can be a tough sell*

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Linking current
financial and real estate
conditions to challenges
of contaminated
properties –



*what does it mean, what
can help advance site
reuse opportunities?*

*"Fasten your seatbelts...
it's going to be a bumpy ride"*



Current Public-Private Redevelopment Climate

Dysfunctional, challenged credit markets

- Tighter underwriting, LTVs, collateral value impacts
 - *More gaps, bigger gaps for public sector to plug*
- More stringent bank due diligence policies
 - *98% of lenders reported stricter standards since mid-2008*
- 40% of real estate investors must refinance over coming year
 - *could absorb \$160 billion...more competition for capital*
- Impacts of bank staffing churn
- “Learning curve” impacts of new entrants to market – investors, insurers, bankers



Current Public-Private Redevelopment Climate

Investment and resource issues

- Traditional redevelopment leaders taking a “time out”
 - *More properties now “upside down” ...values dropping, while cleanup costs don’t*
 - *Growing gap between what sellers will take, what buyers will pay...new “mothballing”*
 - *Revenue, income declines undermine tax incentive value*
- Declining property values, state/local tax revenues -- \$4.3 billion drop in 2009
 - *Deterring use of TIF, abatements, other tools pegged to anticipated growth*
 - *Municipal bond issue rates rising, issuances dropping*



Current Public-Private Redevelopment Climate

Public revenue, local development opportunity issues

- State/local deficits, spending pressures limit their investment in reuse projects
 - *Cumulative state deficits of \$131 billion in '09, \$181 billion in '10, \$175 billion projected for '11*
 - *89% of cities reporting difficulty in meeting financial needs for '10*
- Decline in in types of traditional infill/reuse
 - *Retail chain outlets, small business start-ups*
 - *Office/commercial retrofits/renovations*



***Long term forecast for
redevelopment transactions
– gradually clearing***

Evolving role of incentives and partnerships

- Silver lining in “down time”
 - *preparing, positioning properties*
- **Public sector incentives poised to play an even more important role** as catalyst, gap funder, partnership foundation
 - *Traditional programs can be better adapted to current situation*
 - *New opportunities to be tapped*
 - *Alternative packaging strategies more important*

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Evolving Public Sector Role

How can public local investment/incentive programs address redevelopment concerns linked to contamination?

Not only...

- Provide resources directly
 - *grants; forgivable/performance loans*

But also....

- 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*



Financing Programs: A Federal “Laundry List”

What’s Been Used for Site Preparation, Redevelopment Activities

Loans

- EDA’s Title IX (capital for local revolving loan funds)
- HUD funds for locally determined CDBG loans and “floats”
- EPA capitalized brownfield 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 loan guarantees
- SBA’s Section 7(a) and Low-Doc programs

Grants

- HUD’s Brownfield Economic Development Initiative (BEDI)
- HUD’s Community Development Block Grants (for projects locally determined)
- EPA assessment pilot grants
- EDA Title I (public works) and Title IX (economic adjustment)

Grants (*continued*)

- DOT (various system construction and rehabilitation programs)
- DOT’s transportation and community system preservation (TCSP) pilot grants
- Army Corps of Engineers (cost-shared services)

Equity capital

- SBA’s Small Business Investment Companies

Tax incentives and tax-exempt financing

- Targeted expensing of cleanup costs (through 12/31/11)
- Historic rehabilitation tax credits
- Low-income housing tax credits
- Industrial development bonds

Tax-advantaged zones

- HUD/USDA Empowerment Zones (various incentives)
- HUD/USDA Enterprise Communities (various incentives)

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How Can Public Funds Be Used For Redevelopment/Reuse Projects?

Eligible activities include:

- **planning for redevelopment or revitalization**
- **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/environmental programs

- EPA brownfields – grants for site assessment, cleanup, RLF capitalization

HUD/community development programs

- **CDBG** – Economic/community development, planning, support services, housing
- **Section 108** – Loan guarantees for site preparation and infrastructure

EDA/economic development, infrastructure

- Public works/economic adjustment/planning

USDA/rural development programs

- Business development loans, loan guarantees
- Community facilities grants and loans

DOT/transportation

- System enhancement, construction, improvement, cleanup

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CDBG Eligible Activities – With Links to Brownfield Needs -- Include:

- 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 these objectives and activities

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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

CDBG – Reality check and points to consider

- Projects are locally determined
- Considerable local competition exists for funds
- Many long-time, repeat local recipients
- Low-mod benefit is project

Economic Development Administration

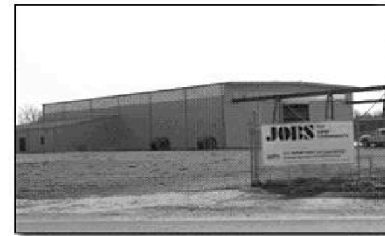
Key EDA programs and initiatives include:

- 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

EDA traditionally puts 50% + of its resources in small/mid-sized towns and rural areas

EDA/public works -- Plainview Steel – Plainview AR

- Lumber/pressure treating facility, shut down in 1986 after quarter-century of operations; declared Superfund site in 1999
- Cleaned, redeveloped as specialty steel plant
- **\$763,000 in EDA public works funding** supported site preparation, construction, infrastructure upgrading as part of \$1.1 million financing package
- **Today** – 25 new jobs, significant tax revenues for community



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EDA – Reality check and points to consider

- Limited funding, significant competition
- Pre-approval at regional level
- Projects driven by job-generating potential
- Unemployment key selection factor

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 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*

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DOT: Amtrak station and environs -- Emeryville, CA

- City and developers constructed an Amtrak station on a parcel that was once a Chevron tank facility
- Surrounding development -- Emery Station 1 (ES1), 247,000 square feet of office; ES3 consists of a parking structure under 100 residential units
- Downtown expanded as TOD, and the city worked with EPA to develop site into a transit center
- Pedestrian bridge was built with DOT funds, access roads within the project being used as ICs



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DOT – Reality check and points to consider

- Projects are determined by states, MPOs
- Planning process takes a long-time
- Typically difficult to get an alternative use into the system

Three tax incentive types that can be linked to contaminated property transactions – all at little or no cost to the project....

- Rehabilitation tax credits
- Low income housing tax credits
- Energy efficiency tax credits



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 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 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

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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



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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*
 - *“Green” priority for credit allocations within states*
- 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 – Allston, MA

- Allston-Brighton CDC saw an opportunity to develop former fish processing plant into affordable housing
- **Low-income housing tax credits** key parts of financing incentive package needed to attract \$21 million in capital, convince funders that the project would work
- **Result** – affordable units in a sustainable development: green energy, pedestrian access to groceries, shops, transit



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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

- $\frac{3}{4}$ acre abandoned (since 1991) gas station, with leaking UST systems, contaminated soil and ground water on and off-site

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 renewable energy including a green bioswales to contain runoff



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Tax incentives – Reality check and points to consider

- Linkages not clear to private developers
- Information incomplete or inaccurate



***Take away message on site reuse
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 site reuse...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 follow-up questions.....
For additional examples and information....*

Contact Charlie Bartsch at

Bartsch.charlie@epa.gov

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