



# Brownfields and Creative Financing - What's Working Now

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# Redevelopment Economics

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- Site Redevelopment Analysis and Financing, Tax Increment Financing
  - Baltimore
  - Rochester
  - Private developers
- Policy Analysis for Brownfields and Smart Growth (Maryland and Washington)
- Green Job Strategies (ARTEZ)
- Brownfields and Smart Growth Strategies
- Economic and Environmental Impact Analysis
  - Projects
  - Programs
- Staff director for the National Brownfields Coalition

# National Brownfields Coalition Sponsors

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# Real Estate Financing Trends

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- Greater use of governmental sources
- Brownfields particularly difficult:
  - Greater need for upfront investment vs. extreme shortage of private equity investment \$\$;
  - Lenders are skittish about risk
- Governmental grants useful for upfront costs, but loans and loan guarantees are key to vertical development.
  - Most state line-item brownfield grant-loan programs have been slashed



# Federal Resources for Brownfields Redevelopment Projects

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## **Loans**

- EPA/State Clean Water RLF's
- HUD's Section 108 loans/guarantees
- EDA revolving loan funds
- EPA capitalized revolving loan funds
- SBA's microloans, Section 504, Section 7(a) Programs
- USDA business, intermediary, development loans

## **Grants**

- EPA assessment, cleanup grants
- HUD BEDI
- HUD CDBG
- EDA public works and economic adjustment
- DOT (TIGER Grants)
- Army Corps of Engineers

## **Grants (*continued*)**

- USDA community facility, business and industry grants

## **Equity capital & loan guarantees**

- FHA 220 Loan Guarantee
- DOE energy facility guarantees
- SBA

## **Tax incentives and tax-exempt financing**

- Historic rehabilitation tax credits
- New Markets Tax Credits
- Energy Investment Credits
- Tax expensing of cleanup costs
- Low-income housing tax credits
- Industrial development bonds

# EPA Clean 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; including

- Site assessment;
- brownfield cleanup (to correct or prevent water quality problems)
- Priority for green infrastructure, low-impact projects



## CREATIVITY

- **Baltimore - Canton Crossing** used \$5 million CWSRF to fund bulkhead improvements as barrier for groundwater contamination.
- **Ohio** uses CWSRF Program Income and funds site preparation, as well as cleanup.



# HUD 108 Loans

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- Borrow up to 5 times CDBG allocation
- CDBG rules apply
  - Slums/Blight – tough
  - Low-Mod Benefit
- Security – CDBG
- Mezzanine financing advantages:
  - Low interest
  - Subsidiary position

# HUD 108 Loans

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## Creativity

- Security
- Use of funds with TIF
- Creation of RLFs for brownfields (Chicago) or business loans (Suffolk County)

## Baltimore Examples

- Montgomery Park
  - Slums and blight
  - Security vis-à-vis CDBG
- Gateway South
  - TIF







# Rehabilitation Tax Credits

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- Taken the year renovated, income-producing building is put into service
  - *Rental housing eligible*
- 20% credit for work done on historic structures, certified by state
- 10% credit for work on “non-historic” structures build before 1936; no certification required

## ***New York***

- 20% state credit if CT is at or below state median family income or IRS “Qualified Census Tract”
  - Non-Transferable

## ***New Jersey***

- Governor vetoed state tax credit



# New Markets Tax Credits

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- Location in a low-income census tract
  - Poverty rate exceeds 20 percent, or
  - Median income is below 80 percent of the median
- Eligible RE activity
  - Office, retail, industrial, hotel, community facility, and mixed-use projects
  - For-sale housing
  - New construction and rehabilitation
  - Properties owned by not-for-profits
- Twinning
  - Historic Rehabilitation Tax Credits OK;
  - not Low Income Housing Tax Credit
- But-for test
  - Few “moving parts”
- “Lining up” with a CDE application
- Tax credit investor gets a tax credit equivalent to 39% of his investment in a CDE.
- Tax credit converted to upfront equity @10 – 20% of eligible project costs.



## New Markets Tax Credits – Brownfields Tie-in

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- “severe distress”
  - poverty rate of 30% or median income less than 60% of area median; or
  - Non-metro counties, or
  - Meets two of 14 other characteristics, one of which is “brownfields site.”



# New Markets Tax Credits

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- **CDE's that target or have funded brownfield projects**
  - Urban Action Community Development LLC
  - Essential Community Capital, LLC
  - Brownfield Revitalization, LLC
  - Local Initiatives Support Corporation
  - Enterprise Community Loan Fund, Inc.
  - MBS Urban Initiatives CDE, LLC
  - Great Lakes Region Sustainability Funds LLC – Delta Institute, *Great Lakes region*
  - The Valued Advisor Fund, LLC
  - ShoreBank Enterprise Group, Pacific Enterprise Cascadia – *Washington and Oregon*
  - Wisconsin Brownfield and Economic Development Fund, LLC
  - Urban Revitalization & Brownfield Redevelopment Fund – *Wisconsin*
  - MassDevelopment New Markets LLC – Massachusetts

*E-mail Evans Paull for contact info*

## *Creativity - New Markets layered w/ Historic* Market Street Power Plant, New Orleans

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- \$80 million retail w/ Bass Pro
- Redevelopment Economics scoped potential incentives
  - Historic tax credits
  - New Markets Tax Credits
  - TIF
  - Brownfields



## *Creativity - New Markets layered w/ Historic Knapp's Dept. store, Lansing, MI*

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- \$36.4 million total
- \$24.5 incentives, including:
  - \$7.3 million - state and federal historic tax credits;
  - \$2 million BEDI;
  - \$5.4 million HUD 108 loan;
  - \$4.8 million - new market tax credits;
  - \$1.8 million in Brownfield Michigan business tax credits;
  - Renaissance Zone designation – property tax credits for 12 years.



- Retail
- office space
- Business incubator
- High-end apartments

# FHA Section 220 Loan Guarantee

## FHA 220 Loan Guarantee

- New construction or substantial rehabilitation of apartment properties.
- Property must be located in area of concentrated development where a coordinated plan of public and private sector investments are being made.



## Heer's Department Store, Springfield, Mo.

- Developer - \$4.4 million
- \$11 million FHA section 220 loan guarantee
- Federal and state Historic Tax Credits — \$10.1 million
- \$3 million TIF closed the gap
  - \$2 mil City loan
  - \$1 mil State loan
  - Uses 100% of property taxes and 50% of retail sales taxes



# Federal Energy Investment Tax Credit (ITC)


- ***Business Energy Investment Tax Credit (ITC).*** The Business Energy Investment Tax Credit (ITC) creates a tax credit:
  - 30% for solar, fuel cells and small wind;
  - 10% for geothermal, microturbines and CHP



## **Griffiss Industrial and Business Park, Rome, NY**

- Former Air Force Base and Superfund site
- Current district energy system – 26 mile steam piping to 70 businesses employing 6,000 people
- Now under construction - bio-mass CHP plant to also generate electricity
- CHP investment - \$30 million, \$6.2 million from treasury grant that monetizes the value of the ITC.





# Private Tools that Can Help Brownfields Financing

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- **Brownfields Equity Co** - Converting post-development tax credits into upfront cash –operates in states w/ transferable (or refundable) remediation income tax credits:
  - Missouri;
  - Massachusetts;
  - Florida;
  - New York

# Private Tools that Can Help Brownfields Financing

- **Insurance Archeology**
  - Indianapolis is using insurance archeology to recover cleanup costs:
    - Legal action to recover of \$5 million from Ertel Manufacturing (unresolved).
    - Re-use: Major Tool and Machine (engineering, fabrication and machining services company).



# Private Tools that Can Help Brownfields Financing

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- “Double Bottom Line” investors for equity or mezzanine financing
  - California Environmental Redevelopment Fund (CERF),
  - Bay Area Smart Growth Fund,
  - Puget Sound Smart Growth Fund I,
  - HRI National Cities Fund,
  - Massachusetts Life Initiative

Lawrence Southwick  
Mill





## State-Local Brownfields Incentives that are Still Working

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- States with Bond-funded Brownfields Incentives – Ohio, PA, Cal, Wisc.
- States with remediation/redevelopment tax credit programs – Missouri, **New York**, Florida, Massachusetts, **New Jersey**
- States/localities with dedicated sources of revenue - **New Jersey**, Washington State, Minneapolis-St. Paul)
- State-Supported Tax Increment Financing - Kentucky, Missouri, Michigan, Connecticut, **New Jersey**

# Local Incentives

## TIF Basics

- Why stress TIF over other mechanisms?
  - The only incentive that can close gaps of \$50 mil+
  - Local government control;
  - Not dependent on appropriations;
  - Many variations and opportunities for creativity;
  - Depressed property values - good time to designate TIF districts.

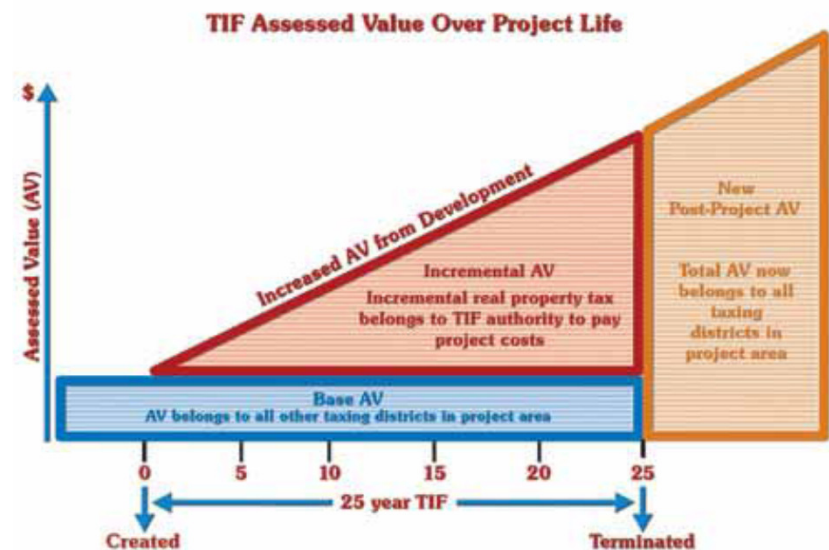


Chart source: TIERRA GRANDE –  
"ABCs of TIF" By Robert R. Eversberg  
& Paul R. Goebel

# Atlantic Station TIF

## TIF for Large-scale New Urbanist Projects

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- \$167 million of \$250 million gap
- Reimbursing \$50 million cleanup
- Expected \$4 billion investment
- AIG Global Real Estate provided upfront equity financing
- Dramatic VMT reduction



- 6 mil sq ft office
- 5,000 DU's
- 2 mil sq ft retail
- 1,000 hotel rms
- 11 acres open space



# TIF Trends – Bond Market

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## 2006

- \$5.5 billion in issuances
- Loan to value up to 90%
- Interest rates – 6 – 6½ %
- Debt coverage ratio – 1.2

## 2009

- Less than \$1 billion issuances
- Loan to value - 50-60%
- Interest rates – 8¾ %
- Debt coverage ratio – 1.5



# Alternatives to Bond Market Financing

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- Pay-as-you-go
- TIF with governmental loans and guarantees:
  - HUD 108
  - EPA Brownfields RLF
  - State loans and guarantees



# Matching TIF w/ HUD 108 and EPA RLF – Des Moines

- Des Moines Gray's Landing (Riverpoint West) TIF:
  - \$17 million HUD 108 for assembly and infrastructure
  - \$1 million EPA Brownfields Revolving Loan Fund for cleanup.
- Backstop for TIF:
  1. \$2.9 million surplus revenues from adjacent TIF district
  2. Developer guarantee
- New Markets Tax Credits

\$220 million mixed-use project

- 543 townhomes/condominiums
- 740,000 sf office/retail space
- 143,000 sf flex space



**Skillman Corridor TIF District  
Current Development Projects**

Note: Single-family homes are excluded from the TIF District, the perimeter boundary & right-of-way in residential areas are connected to insure a contiguous district.

**Legend:**

- Existing DART Station
- Future Station
- DART Blue Line
- TIF Perimeter Boundary
- Properties & right-of-way inside TIF

**City of Dallas**  
Office of Economic Development  
October 2009

# Area TIF – Dallas, Skillman District – Pay-as-you-go

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Lake Highlands Town  
Center/TOD project

- Objective: transform area to urban/TOD/ mixed use center
- Pay-as-you-go
- \$850,000 annual revenues from:
  - 8 development projects w/ no TIF subsidy
  - Property value growth
  - Includes negotiated school revenues

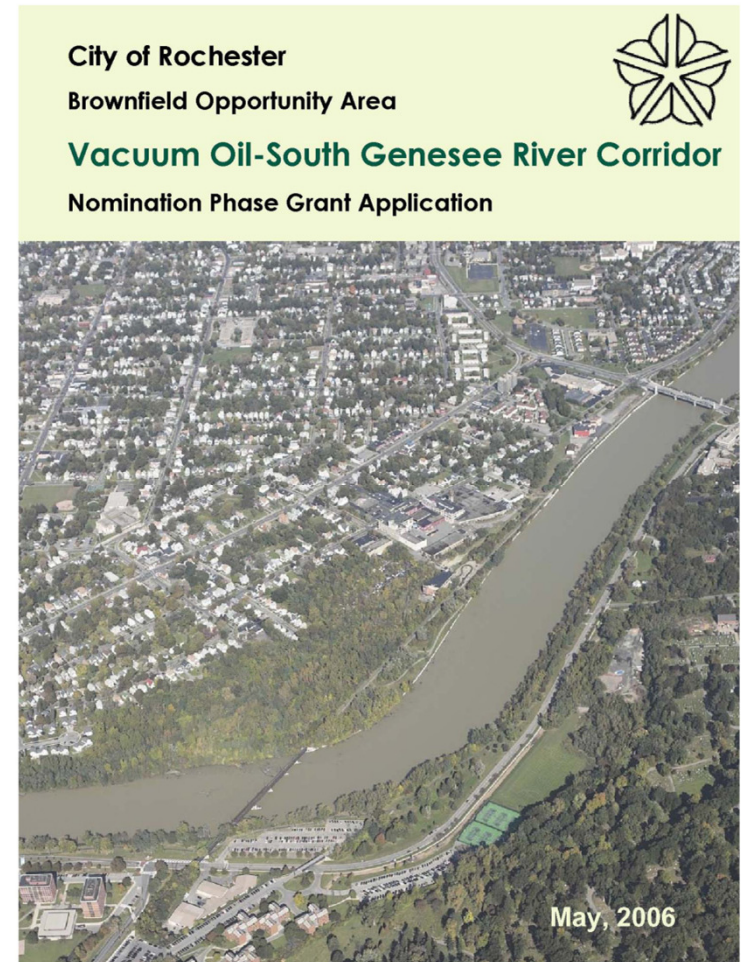


# TIF in NY State

## Rochester – Vacuum Oil

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- 58 acre riverfront site
- Needs cleanup and infrastructure
- Residential mixed use project
- Examined NY TIF enabling legislation
  - Eligible activities include remediation, clearance, and site prep
  - Does not allow creation of special assessment districts to back TIF
  - Does not allow school district revenues to be included



# New Jersey 2009 Law Revamped TIF Program

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- Broadened geographic eligibility
- Created possible capture of 15 state and local taxes
- Economic Redevelopment and Growth Grant Program
  - State grant program to convert pledged revenues into upfront cash
  - Requires finding of positive fiscal impacts



Sommerville – reviving  
downtown shopping area



## Contact Info

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