

Promoting Revitalization in Pennsylvania: *Structuring Deals in Today's Challenging Economy*

Charlie Bartsch
Vice President/Senior Fellow, ICF International
Harrisburg, PA
September 16, 2009

Passion. Expertise. Results.



What this Discussion Will Cover...

- Context for public-private partnerships now – current economic climate, current project opportunities
- Recap of commonly used federal tools –
 - *Looking beyond EPA for financing help*
 - *What the stimulus can still stimulate*
- Examples of tools in action



The Current Redevelopment Climate: What Does it Mean for Brownfields?

Challenged credit markets

- Tighter underwriting, lower LTVs
 - *Write-downs/write-offs by major banks – potentially \$1 trillion in '09*
- More stringent bank due diligence policies –
 - *98% of lenders reported stricter standards since mid-2008*
- 40% of real estate investors must refinance this year –
 - *Could absorb \$160 billion in capital*
- Impacts of bank staffing churn
- “Learning curve” impacts of new entrants to market – investors, insurers



The Current Redevelopment Climate: What Does it Mean for Brownfields?

Investment and revenue issues

- Traditional redevelopment leaders taking a “time out”
 - *Fewer deals, declining transaction volumes, more caution*
 - *Chasm between what sellers will take, what buyers will pay; new “mothballing”*
- 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*
- State/local deficits -- \$131 billion in '09, \$181 billion in '10
- Decline in types of traditional infill/reuse
 - *Retail chain outlets, small business start-ups*
 - *Office/commercial retrofits/renovations*



The Current Redevelopment Climate: What Does it Mean for Brownfields?

Role 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...*

Public Tools Can Be Used in a Variety of Ways to Leverage Brownfield Transactions

- To provide resources directly
 - *Grants; forgivable 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*



Key Federal Financing Programs: The “Top 10” list

EPA

- Site assessment, cleanup, RLFs

HUD

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

EDA

- Public works/economic adjustment/ planning

DOT

- Road and highway construction and rehabilitation, transit facilities/systems construction



Key Federal Financing Programs: The “Top 10” list

USDA

- Community facilities, business/industry loans; intermediary re-lending (to local governments, for private projects), rural development grants



Tax incentives

- *Historic preservation tax credits*
- *Low income housing tax credits*
- *New markets tax credits*
- *Brownfield cleanup cost expensing*



Key Facts About the “Top 10”

CDBG

- Demolition eligible; \$\$ can be lent to private developers under some circumstances

EDA

- Cleanup planning eligible; small town/rural focus

USDA

- Easy private access to \$\$; can fund full range of necessary brownfield activities

DOT

- Funding can be used for cleanup at transportation sites integral to system development/upgrades

Rehab tax credits

- Pre-1936 non-historic buildings qualify for 10% credit

Brownfield expensing

- Most recent extension (Aug '08) made incentive retroactive to 1/1/08; amended tax return possible



Key Advantages of Using Tax Incentives in Revitalization Projects

- Increase project's internal rate of return
- 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
- Credits attract different partners to the redevelopment table
- More reliable -- not subject to competitive public grant process



Stimulus Opportunities Still Out There – Potential Brownfield Linkages

- Additional \$3.5 billion NMTC allocations for 2009
- \$1.6 billion in renewable energy/energy conservation bonds
- \$10 billion in taxable “recovery zone” bonds
- \$15 billion in tax-exempt “recovery zone facility” bonds
- Expanded IDB eligibility for “manufacturing-related” facilities (thru 2010)

Packaging brownfield transactions – the Warren Zeevon 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 development and
environmental initiatives to meet the
range of site redevelopment needs,
attract private financing for –



Using the “Top 10” to Carry Out Warren’s Mandate to Support Brownfield Redevelopment

- **brownfield redevelopment/revitalization planning**
- **site acquisition**
- **environmental site assessment**
- **removal or remediation of contamination**
- **site clearance, demolition, and debris removal**
- **rehabilitation of buildings**
- **construction of infrastructure, related improvements that enhance contaminated property value**

Visiting Nurses Assisted Living -- Somerville, MA

- Former mattress factory, vacant for 2+ years
- **EPA** brownfield funds used for site assessment
- Contaminants included barium, lead and petroleum waste
- Non-profit redeveloper cleaned the site, demolished existing structures to prepare for construction
- ***Key financing challenge***: making sure that any cost over-runs could be absorbed to bring the project to completion, to address investor concerns



Visiting Nurses Assisted Living -- Somerville, MA

- **Leverage:**
 - **CDBG** for “public” infrastructure – sidewalks, streetscaping
 - **Low income housing tax credits**; for minimum ROR
 - Attracted private capital
- **Key factor** -- \$100,000 in CDBG was used as a cost-containment reserve
- **Today** -- an assisted-living facility and health center, with 97 units for low-to-moderate income seniors



Montgomery Ward Distribution Center– Fort Worth, TX

- White elephant on a 45-acre site adjoining the CBD
- Historic, 800,000 square-foot building
- Damaged in March, 2000 tornado; brownfield conditions worsened
- Required a mix of public tools to prepare the property and set the stage for reuse



Old Montgomery Ward Distribution Center— Fort Worth, TX

Leverage --

- **HUD** financing tools include:
 - \$13 million Section 108 loan
 - \$2 million BEDI grant
- **Historic rehab tax credits** syndicated to raise up-front capital
- **DOT (CMAQ)** for related road and sidewalk infrastructure
- **State sources:**
 - Tax abatements, fee waivers

Today – mixed use commercial/
retail/office complex adjoining
CBD



Westside Business Park – Kansas City, MO

- 22-acre former Kansas City Terminal Railway rail yard and maintenance facility, in use from 1914 to mid-1960s
- Rail yard-type contaminants -- asbestos, lead paint, lead, arsenic
- **Surprise!** – buried rail car with petroleum
- **Challenge** -- carrying out cleanup while preserving brick buildings to serve as distinctive office complex in a distressed part of downtown



Westside Business Park – Kansas City, MO

Leverage:

- Funding sources included:
 - \$7.1 million in **CDBG**
 - \$7.1 million **HUD Section 108 loan**
 - \$100,000 **MO DOD** grant
 - \$640,000 **MO DOD** loan
 - \$4 million in **state and federal historic tax credits**
 - Environmental insurance
 - Private funding
- ***Today:*** former rail roundhouses transformed to office space, 600 new jobs



Bio-fuel Station – Eugene, OR

- Sustainable new uses for old gas stations may be their redeployment as “fueling stations of the future” for biofuels and other petroleum alternatives
- ¾ acre abandoned (since 1991) gas station, leaking UST systems, contaminated soil and ground water on and off-site
- Focus of neighborhood blight and crime



Bio-fuel Station – Eugene, OR

Leverage:

- \$1.2 million low-interest, favorable-term redevelopment loan through **Oregon Sustainable Energy Loan Program**
- \$250,000 in **state energy tax credits**
- \$200,000 **EPA** cleanup grant

Today -- former gas station is a mixed-use property that provides bio-diesel fuels

- 10 jobs, \$4,000 in property tax revenues
- state-of-the-art service station incorporates energy efficiency and renewable energy techniques, including a green roof and bioswales to contain runoff



Renaissance Grand Hotel – St. Louis, MO

- Developer led public-private partnership that renovated two defunct historic landmark hotels, in addition to 23-story new construction
- Project included the old Statler Hotel, built in 1917 -- the 1st air-conditioned hotel in the country
- Kimberly-Clark Corp provided tax equity for several million dollars in **historic rehabilitation tax credits**
- *Credits as partnership base:* leveraged tax exempt bonds, brownfield cleanup tax expensing, empowerment zone tax incentives



Potosi Brewery, Potosi, WI

- Brewery built 1852 in Potosi (pop. 700), abandoned 1972
- Asbestos, lead paint
- **\$3.3 million USDA B&I guaranteed loan** key to securing additional \$4.2 million in financing
- Transformed Potosi's main street; community involvement key
- *Today* -- Refurbished as micro-brewery, brewing museum and library, opened June 2008
- 50 new jobs, 4 new beers



Marsh Island Carry – Old Town, ME

- Abandoned 3-acre Lily-Tulip paper plate manufacturing site on Penobscot River
- Converted into waterfront park, river walk, and 2 commercial buildings
- Key funding included **\$400,000 in DOT enhancement grants**, through Maine DOT, for transportation amenities – the park and walkways
- Other funding included:
 - \$24,500 from the National Trails Recreation Act for trails, walkways, and river stabilization
 - \$8,000 from ME Forest Service for trees
- **Today** -- 4 new businesses, 30 jobs, \$18,000 in property tax revenues, open space and river access



Brian J. Honan Apartments – Boston, MA

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



Bethel Center – Chicago, IL

- Bethel New Life, a faith-based CDC, used \$1.5 million in New Markets allocation from LISC/Chicago to develop 23,000 sq.ft. Bethel Center on an abandoned site with suspected contamination
- NMTC attracted private capital from Bank One and State Farm insurance
- **Result** -- Center houses employment and day care services, 6 commercial storefronts
- Direct transit link; adjoins “E1” station
- LEED gold certified

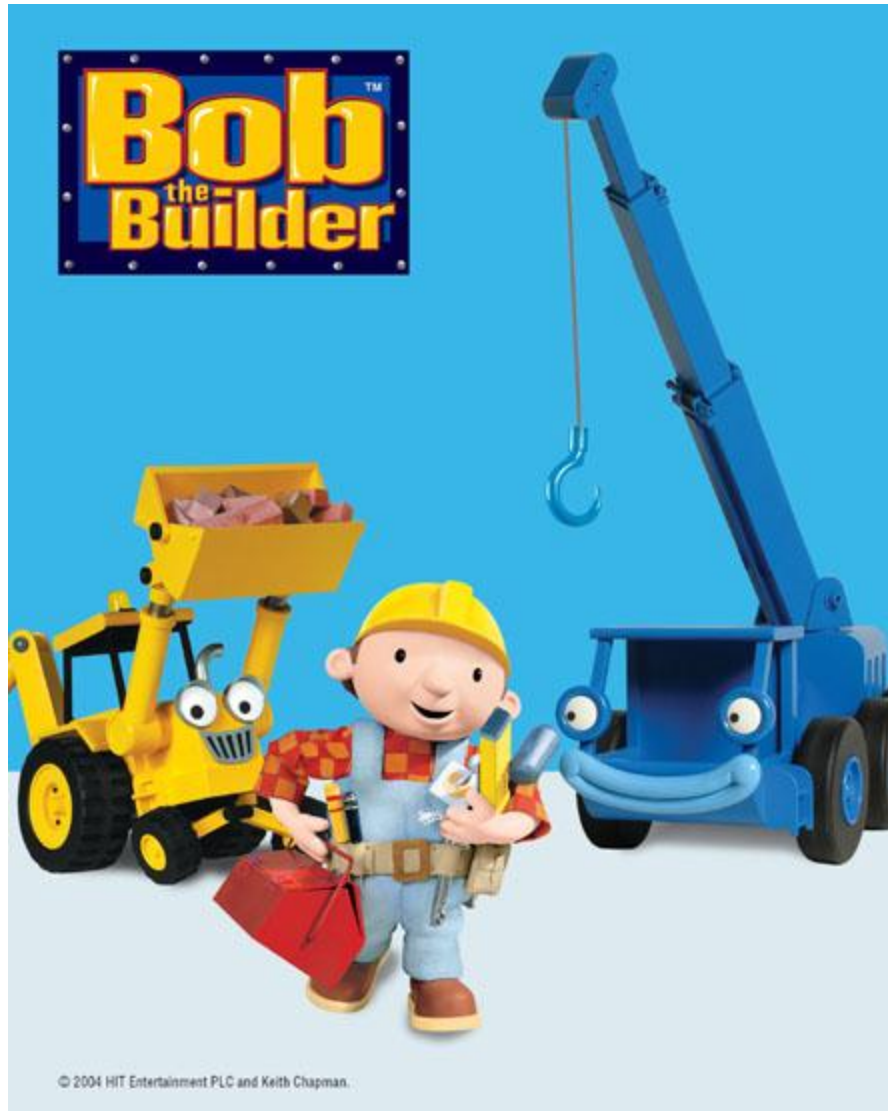


So, to wrap-up....when it comes to financing brownfield reuse --

Any city or town – even the smallest rural crossroads – faces brownfield financing issues that may impede local redevelopment efforts.

- ***The question will be: how can any community – even the smallest rural crossroads – identify and leverage \$\$\$, and build partnerships, to achieve brownfield success?***
- ***Can they do it?***

*Yes, they
can !!!*



Bob does brownfields!!

Yes, they can!! Rosalia, WA –

Locally driven public-private partnerships can stimulate innovative site financing in small communities

- 1923 vintage Texaco gas station, in downtown Rosalia, WA (pop. 600)
- Abandoned 21 years; UST issues
- Site as focus of “heritage tourism” main street revitalization strategy
- Converted to “gateway” retail, craft/farmers market, visitor center for nearby Steptoe Nat’l Battlefield, national forest

Public financing sources include:

- \$33,000 USTfields pilot grant
- \$54,000 WA Dept of Ecology grant
- \$45,000 Whitman County “community development ’08” grant



Yes, they can!! Rosalia, WA –

Locally driven public-private partnerships can stimulate innovative site financing in small communities

Partner donations include:

- Development grant sharing from surrounding counties
- Rosalia Lions Club
- Rosalia “Gifted Grannies”
- Retired Texaco Executives Assn.
- Pro bono legal, remedial services
- Utility incentive rates
- Community sweat equity
- First-ever partnership with a state Dept. of Corrections

2005 Phoenix award winner





Thank
you!

If you have questions...
If you need additional information....

Charlie Bartsch
cbartsch@icfi.com

(202) 862-1134