Local Brownfield Financing Tools

Structures and Strategies for Spurring Cleanup and Redevelopment

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Local governments often know best when the redevelopment of a blighted or underused brownfield site is needed to revitalize a neighborhood or spur economic development. To encourage developers to take on such sites, local governments have created a variety of financing tools that can leverage private dollars, improve the developer's financial position, reduce lender risk, or fund property improvements needed for redevelopment to proceed. These tools include the following:

> **Tax Increment Financing**: The use of anticipated increases in property taxes generated by a developm

Generally, TIF authorities must prepare a redevelopment plan that describes proposed projects, their feasibility, their costs, and a timetable for activities to complete them.

Although TIF is an ideal financing tool for brownfield projects, many jurisdictions have hesitated to use it for this purpose because it can be difficult to retire the bonds if the projected development fails to materialize or unanticipated complications arise. Some local economic development practitioners also find the complexity of many TIF programs is a practical disadvantage to using them. They can be time consuming to put in place and require high levels of technical expertise and negotiating savvy to move a project from concept to implementation—especially when there are environmental issues.

Chicago TIF

The City of Chicago uses TIF assistance, usually exceeding $1 million per project, to promote private investment in blighted sections of the city. The funds are used to build and repair roads and infrastructure, clean polluted land, and rehabilitate vacant properties, usually in conjunction with private development projects. Illinois state law requires that areas proposed for TIF designation possess numerous blighting factors, such as obsolescence, code violations, excessive vacancies, inadequate utilities, and dilapidation or deterioration. Funds are generated by growth in the Equalized Assessed Valuation (EAV) of properties in a designated district over a period of 23 years.

For example, $17 million in TIF financing was instrumental in funding a public-private partnership between the Ford Motor Company and the city of Chicago, state of Illinois, and CenterPoint Properties to create the Chicago Manufacturing Campus, North America's first automobile supplier park. Following remediation and re-engineering at a 155-acre former steel mill site, the new, 1.6-million-square-foot campus opened in 2003, ultimately creating more than 1,400 jobs with 12 companies that produce parts for Ford vehicles.

Michigan Brownfield Redevelopment Authorities

TIF is the key element in Michigan's brownfield program, built on local Brownfield Redevelopment Authorities (BRAs). To encourage brownfield redevelopment, the Brownfield Redevelopment Financing Act (1996 PA 381, as amended) allowed local units of government to establish one or more BRAs to identify and plan for brownfield reuse. In addition to adopting brownfield plans that identify potential activities to be conducted on an eligible property, BRAs provide for the use of TIF to capture property taxes to provide reimbursement for the costs of the eligible activities. The BRA also may establish a Local Site Remediation Revolving Fund from certain captured taxes to cover eligible expenses on other designated properties in the BRA's jurisdiction.

A TIF district in Wyandotte, Michigan, supported most of the cost of developing a $5.2-million golf course and park at a former chemical site on the Detroit River. These recreational amenities provided an unanticipated benefit for Wyandotte by spurring a significant increase in property values and investme

use. Usually the state must grant local governments the authority to offer tax abatement programs, and of Environmental Protection to apply to the city for a phased-out property tax exemption. The exemption decreases gradually over ten years or until the money saved from the exemption equals the cost of remediation. With so many of Newark's brownfield properties off the tax rolls because of foreclosure, NBI believed the EOZ incentive would actually increase the city's commercial and industrial tax base receipts by stimulating the return of these properties to private ownership and tax ratable status.

Special Service Areas and Taxing Districts

Cities can designate a special service area or taxing district to raise cash to finance extra services, improvements, or facilities that will benefit the targeted area. Property owners in a special service area agree to a special real estate levy or fee, with the proceeds dedicated to funding specified services or activities. Property owners may "self-impose" fees as part of a redevelopment agreement.

A project in Elizabeth, New Jersey, which converted a former landfill into the Jersey Gardens Metro Mall, led to the enactment of state legislation that allows the city to issue bonds to fund remediation and infrastructure development of municipal landfills of greater than 100 acres. The Landfill Reclamation Act allowed the assessment of a 3 percent franchise fee on goods sold at the mall, and enabled the state to issue revenue bonds—backed by the mall developer—to pay for remediation and infrastructure

Locally Capitalized and Operated Revolving Loan Funds

Well-designed revolving loan funds (RLFs) can be one of the most flexible economic direct proportion to the amount of public dollars loaned in a project. Often, a local RLF may be more accessible to a business that will create new jobs or expand its existing job base in a community.

RLFs typically are capitalized with dollars that do not have to be repaid. Through repayment of principal and interest, the fund sustains itself, covering operating expenses and making funds available for new loans to other businesses. Potential sources of RLF capital include:

- Local investment of HUD Community Development Block Grant (CDBG) and/or Section 108 resources (including program income or project repayments)
- EPA brownfield revolving loan fund capitalization grants
- EDA economic adjustment RLF capitalization program
- Foundation grants
- Impact fees assessed on new development
- Other fees or fines levied for various reasons
- General revenue allocations from states, counties, local governments, etc.
- Banks

The source of capitalization—the funds used to create the RLF—may influence some elements of its design. RLFs capitalized with CDBG funds must follow HUD's rules that require 51 percent of the full-time equivalent jobs created as a result of the project to benefit persons of low- to-moderate-income households. Funds capitalized with EDA resources must show job creation results within 18 months of project completion.

A key part of RLF design is the determination of program eligibility. Depending on their objectives, RLFs may target certain types of businesses, such as manufacturing or retail companies; focus on companies operating in certain geographical areas, such as enterprise zones or brownfields; or assist companies at a specific development stage, such as start-ups. Programs also define specific uses for loan proceeds—typically including both working capital and fixed-asset financing that can both be useful in brownfield projects. Fund guidelines also may specifically cover certain related brownfield activities, such as site preparation and cleanup.

Empower Baltimore Management Corporation

Baltimore, Maryland, operates the highly successful Empower Baltimore Management Corporation (EBMC) Brownfield Loan Fund, an RLF are targeted specifically to brownfields. Initially funded in November 1997 with $2.5 million in federal empowerment zone funds, the fund has since made 7 loans totaling nearly $2.4 million. EBMC's board of directors completed the corporation's work by 2003, but a number of its strategic components have continued.

The EBMC fund provided loans to help redevelop 230 acres of vacant brownfield sites in the Baltimore empowerment zone, extending over 6.8 square miles. Applicants had to submit a completed application, a Phase I and Phase II environmental audit, corporate tax returns for the past two years, and other information that may be requested by the Fund Manager during the loan underwriting process. Recipients could use loans to purchase real estate, equipment, and an existing business; fund property improvements (interior/exterior); resolve environmental issues; refinance an existing loan; or provide working capital. The program offered a greater chance of approval than traditional lenders provide; competitive interest rates; and loans that could be subordinated to other funding sources or a creative mix of debt and equity.

Loan-assisted brownfield projects have created 233 jobs. Already, $475,000 has been repaid and is available for new project uses. This includes $340,000 from the Lancaster Square mixed-use office and residential project in the city's Fells Point neighborhood, which also used the savings from historic tax credits to help retire the debt. The loan paid for cleanup and removal of several underground tanks at the site.

General Obligation Bonds

Virtually every community can issue general obligation (GO) bonds for what one city attorney called "any proper public purpose which pertains to its local government and affairs." Cities traditionally issue GO bonds for acquiring land, preparing sites, and making infrastructure improvements—all key elements in a brownfield redevelopment strategy. Conversely, economic development practitioners can make a strong case that a bond pool to support brownfield cleanup and reuse projects serve the appropriate public purposes of creating jobs and enhancing the local tax base. In fact, brownfield redevelopment can enhance a city's ability to repay bond debt by increasing property tax revenues when brownfields are returned to productive use.

Generally, local governments can increase support for brownfield reuse projects by recognizing site assessment and remediation as eligible activities under their existing economic development financing programs, working with community groups willing to take on such projects, or offering more flexible terms and conditions to applicants seeking help for brownfield-related activities.

Bridgeport, Connecticut, financed part of its $21-million Harbor Yard minor league baseball stadium with GO bonds, and is using its share of gate and concession receipts to help pay them off. These bonds helped transform the abandoned and heavily contaminated Jenkins Valve brownfield site into a catalyst for urban revitalization.

Chicago, Illinois, launched its Brownfields Pilot in the mid-1990s with an investment of $2 million in general obligation bonds to redevelop five brownfield properties. The pilot came in nearly $1 million under budget and retained almost 1,000 jobs while creating 239 more. The result was an estimated $337,000 in annual tax revenues. Following this success, the program focused on using bond revenues for TIF financing.

Elizabeth, New Jersey, issued G.O. bonds to jump start what would become a $320 million investment—the Jersey Gardens Metro Mall at a 166-acre former garbage dump, a vast wasteland on the New Jersey Turnpike just outside of New York City. The project was the inspiration for the state's Landfill Reclamation Act, which allows landfills of greater than 100 acres to benefit from a tax increment financing mechanism by which proceeds from a franchise fee accruing from the final development are used to pay off the bonds needed for remediation and construction of the infrastructure at the site. Today, the 1.5-million-square-foot mall employs 5,200 people, mostly area residents. It generates $4.2 million in annual tax revenues for a hard-pressed city, from an area that essentially generated nothing before city officials took the initial financing risk.

The Village of Greenport, New York, used $1.2 million in GO bonds to help purchase a 3.2-acre brownfield site contaminated with petroleum and nine underground storage tanks. Combined with a variety of state, federal, and private funds, the investment helped create Mitchell Park, a cornerstone of Greenport’s waterfront revitalization program. The village acquired the site from a bank that had foreclosed on the property, opening the door to environmental assessment and cleanup under the state=s Environmental Restoration Projects Program. Following an international design competition, Greenport developed a harbor walk, a glass pavilion for a carousel, and a marina basin with bulkhead improvements to connect the harbor walk and the park pier.