

# Smart Growth, Smart Money:

*Federal Partnerships to Support  
Smart Business and  
Community Development Activities*



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# *What this presentation will cover...*

- Current real estate climate – *what impact on smart growth strategies for financing?*
- Intro to the federal family...what's out there to support smart growth efforts?  
*Program previews, partner resources in action*
- Examples along the way...






## *Current real estate, market issues -- What impact on smart growth 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
  - *888 banks now on FDIC’s “problem list” – 12% of total*
  - *98 banks failed in 2009, 156 in 2010, already 64 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 smart growth 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 –  
redevelopment will again make  
sense, often in a **greener**  
market context*

- Economists looking for real estate recovery starting late 2011 to mid-2012
- 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 Smart Growth*

- 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*



# *Which Federal Programs Are Most Commonly Used?*

## *HUD/community development programs*

- **CDBG** – Economic/community development, planning, support services, housing

## *EDA/economic development, infrastructure programs*

- Public works/economic adjustment/planning

## *USDA/rural development programs*

- **Business and industry** loans, loan guarantees
- **Community facilities** grants and loans
- **Business development** programs

## *DOT/transportation*

- Road/transit system enhancement, construction, improvement, cleanup

## *EPA/environmental programs*

- **Brownfields** – grants for site assessment, cleanup, RLF capitalization
- **Water RLFs** – capitalization for water quality-related projects

# *HUD Community Development Block Grants*

- Direct formula-based CDBG grants to entitlement jurisdictions
  - *Entitlement cities (50,000+ ) and urban counties (200,000+) get automatic annual grants*
- Direct formula-based grants to states for small city needs
  - *Small communities (> 50,000) compete for funds distributed by states*

# *HUD Community Development Block Grants*

## **Projects must meet one of 3 HUD objectives:**

- *Benefit low- and moderate-income persons*
- *Prevent/eliminate slums and blight*
- *Meet an urgent community need*

## **Smart growth potential:**

- Help finance all phases of infill, vacant property redevelopment/project implementation, consistent with HUD objectives

# ***CDBG Eligible Activities , With Links to Infill/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*

# ***CDBG -- Jack Evans Police Station, Dallas TX***

- 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

***Smart growth lesson:*** meeting critical public service component of community-based infill strategy



# *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 primary HUD objective (minimum use of 70% of CDBG funds)

# ***Economic Development Administration***

- **Public works** grants
    - *Finance industrial site re-development, building reuse, and infrastructure preparation*
  - **Economic dislocation** program
    - *capitalizes economic adjustment RLFs for distressed areas*
  - **Rural planning** to support revitalization, through Economic Development Districts (EDDs)
- Smart growth potential:*** can finance business-based, job promoting projects, support additional planning activities

# *EDA Eligible Activities, With Links to Infill, Redevelopment Needs*

- Revitalize, upgrade, and expand infrastructure needed to retain/attract jobs
- Attract new business and industry
- Site preparation, including demolition and removal
- Construction and rehabilitation of public and private facilities (such as industrial parks)
- Planning

# *EDA: Bates Mill – Lewiston, ME*

- Textile mill, shut down in 1993, redeveloped in stages as small business incubator
- **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 incentives in place



# *EDA – Reality check and points to consider*

- Limited funding, significant competition
- Applications accepted on a rolling basis
  - Pre-approval at regional office level
- Projects driven by job-generating potential, minimum \$/job requirements
- Unemployment key eligibility/ selection factor
- Often, a focus on smaller towns, rural areas
- Can integrate smart growth-type redevelopment activities into EDA-funded comprehensive economic development strategies

# ***USDA Rural Development Programs***

**USDA rural development funds must meet broadly defined program objectives -- 4 key programs can do this within a 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

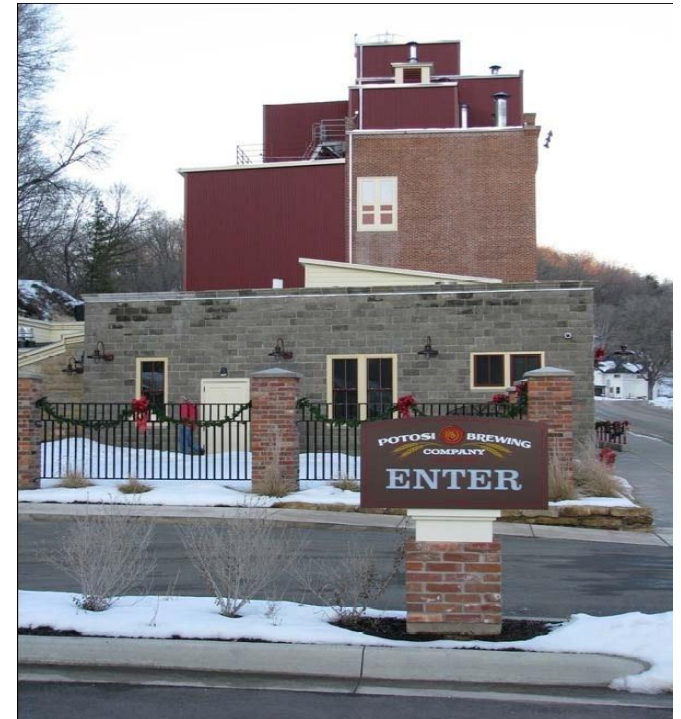
# *Rural Development Eligible Activities, with Links to BF Redevelopment Needs*

- **Planning** for redevelopment or revitalization – for businesses and community facilities
- **Site clearance/preparation**, including demolition
- **Rehabilitation/improvement of sites or structures**
- **Construction** of real estate improvements
- **Installation** of amenities to enhance development

*Smart growth potential:* could all be used to meet vacant property, brownfield cleanup and infill redevelopment needs, complementary activities to reuse effort

# ***USDA: Potosi Brewery, Potosi, WI***

- Brewery built 1852 in Potosi (pop. 700), abandoned 1972
- **\$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



# *USDA – Reality check and points to consider*

- Applications are made to state USDA offices on a rolling basis
- USDA state offices have significant influence in the project funding decisions
- Population is the key determining factor; typically, the smaller the community, the more competitive it is
- Private entities eligible for B&I assistance, non-profits for all assistance
- Full range of business, commercial, industrial, “essential” community facility projects eligible

# ***DOT Highway and Transit Programs***

- **Surface transportation** formula grants
  - *Finance roads, highways*
  - *Can also finance congestion mitigation, transportation enhancement projects (such as bicycle and pedestrian facilities, bridges)*
- **Transit construction and operations** grants
  - *Finances transit system construction and maintenance*
- **Metropolitan planning organization** formula grants
  - *Assists metro areas plan for the development and management or multimodal transportation systems*

# ***Transportation Program Activities, With Links to BF Redevelopment Needs***

- 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/Transportation Activities With Links to Smart Growth, Redevelopment Needs*

- Traffic flow improvements
- Bus and rail system modernization and rehabilitation
- Transit facility construction
- Pedestrian and bicycle programs, facilities
- Historic preservation/rehabilitation/operation of historic transportation buildings or facilities
- Preservation of abandoned rail corridors
- Planning

*Smart growth potential* – creative integration of a range of transportation/related projects into area-wide revitalization efforts

# *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



# *DOT – Reality check and points to consider*

- Communities must work thru state MPOs, local transportation agencies
- Projects are determined by states, MPOs. And need to fit with MPO plan
- Planning process takes a long time
- Can be difficult to get an alternative transportation-related use into local system
- Linked to transportation system/facility siting

# *EPA Clean Water, Drinking Water State RLFs*

- State funds capitalized by EPA each year
- States set RLF priorities within broad EPA guidelines
- Individuals and non-profits among eligible loan recipients
- Can finance loans up to 20 years; activities can include brownfield mitigation to correct or prevent water quality problems, including groundwater contamination
- Eligible activities linked to infill, reuse needs include –
  - *Site assessments, disposal of USTs, excavation/removal/disposal of contaminated soil or sediments*

# *Using clean water RLF funds to meet contamination/vacant property 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*



# *EPA/Water SRF – Reality check and points to consider*

- States set RLF project priorities, determine recipients of RLF proceeds
- 20% priority for green infrastructure, low-impact projects projects
- EPA's water office is developing strategies for GI financing which may be useful

*Four 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



# *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



# *Low-Income Housing Tax Credits*

- Can encourage capital investment in affordable housing on vacant properties, brownfields, other targeted sites
- Can be used to target investment to certain areas – infill or walkable locations – also to discourage sprawl
  - *States get annual population-based allocation for distribution to communities and non-profits*
  - *New “green” priority for allocations within states*
- Credits can be used for new construction, rehabilitation, or acquisition and rehabilitation

*\$3.85 billion in credits issued in 2008, supporting 1/3 of all new construction that year*

# *Brian J. Honan Apartments – Boston, MA*

- Local 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 capital, convince funders that the project would work
- **Result** – affordable units in a sustainable development: green energy, pedestrian access to groceries, shops, transit



# *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, other issues

## *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*

***\$3.5 billion awarded to 99 allocatees in February 2011 – 47 states targeted for investment***

# *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



# *Tax incentives – Reality check and points to consider*

- Linkages to smart growth/infill/vacant properties often not clear to private developers, tax incentive users/buyers
- Information incomplete or inaccurate
- State allocation priorities may not dovetail with smart growth priority situations
- Specific incentive issues related to:
  - *Recapture or carryforward*
  - *Certifications*
  - *Expiration*

# *For additional information -- key federal resource documents*

## **Available on the EPA website:**

- *Brownfield Federal Programs Guide* (2011 edition)
  - Reviews, with “brownfield connections,” programs offered by 15 agencies, plus tax incentives
- *Leveraging the partnership: DOT, HUD, and EPA Programs for Sustainable Communities*
  - Highlights more than 2 dozen transportation, housing/community development, and environmental programs that can be targeted to a range of projects

*Any questions?*

*Contact Christopher Forinash at  
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*For further information on specific programs, contact  
Charlie Bartsch  
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**Also visit [epa.gov/brownfields](http://epa.gov/brownfields) and [epa.gov/smartgrowth](http://epa.gov/smartgrowth)  
and the new [sustainablecommunities.gov](http://sustainablecommunities.gov)**

*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!!*

# *CDBG: Paper Mill Island Park -*

- 100 year-old paper mill, *Baldwinville, NY*  
manufacturing site, long abandoned
- 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

*Smart growth lesson:* linking state CDBG infrastructure/recreational space priorities to site reclamation



# *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

*Smart growth lesson:* gives developer flexibility in applying his own resources to meet infill, cleanup needs

# *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



# *USDA: Charleston Place – Seaford, DE*

- Abandoned in-town 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



# ***DOT: Banner Bank – Boise, ID***

- Deteriorating parking garage near expanding edge of downtown Boise
- Built 1963, partially closed in 2000; major structural concerns

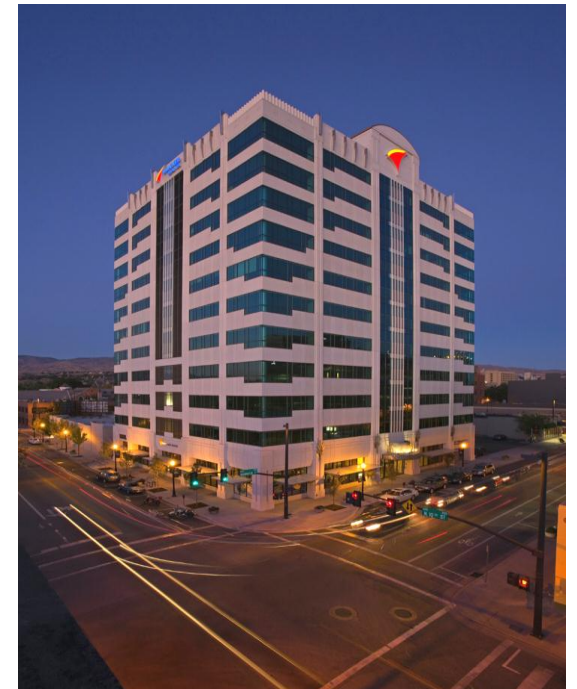


## ***Transportation \$\$ Key Leverage***

- \$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



# *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**



# *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



# *New Markets Tax Credits -- highlights of 2010/11 funding round*

- \$3.5 billion awarded to 99 allocatees in 28 states
  - *Allocatees anticipate making investments in 47 states*
- Planned investments include:
  - *\$1.67 billion (48%) to finance and/or support business loans*
  - *\$1.8 billion (51%) to finance real estate projects*
- All investments at preferential rates/terms

# *NMTCs – fine print and caveats*

- Challenging CDE designation, application process requires significant capacity, technical expertise
  - *Time consuming, costly, and complex*
- 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 real estate and business development – 98% in 2009 round
  - *Significant capital investment in central city areas*
  - *Nearly all investments at preferential rates/terms*