

**Leveraging Private Investment Capital  
for  
Brownfields Cleanup and Redevelopment**



**Prepared by**

**USC Center for Economic Development  
School of Policy, Planning, and Development  
University of Southern California**

**March 2003**

## **Leveraging Private Investment Capital for Brownfields Cleanup and Redevelopment**

Brownfields redevelopment is recognized nationwide as critical to the economic revitalization of both urban and rural communities. The benefits (both public and private) in redeveloping brownfield sites include bringing jobs back to underutilized sites, increased revenues from property taxes, new business opportunities in untapped markets, continued economic growth while reducing the effects of urban sprawl, and access to land with well-developed infrastructure. In addition, there is an increase in the environmental and community standing and an improved quality of life that accompanies these benefits.

The federal government, recognizing the need to return brownfield sites to productive use, has developed a number of funding programs directed at brownfield site assessment and remediation. Because these are public funds, they can only be used for the public good. Identifying uses for “market-failure”<sup>1</sup> brownfield sites that fulfill public needs is one method of redeveloping them. Public funds are then used to close the gap between costs and revenues. The following case study is a hypothetical one, designed to demonstrate how a number of funding mechanisms can be used to redevelop brownfield sites within a public/private partnership.

### Public/Private Brownfields Redevelopment Case Study: Funding the Public Benefit

A major task of redeveloping Brownfield sites is procuring funding assistance from available organizations. There are two federal agencies that provide direct funding for brownfields redevelopment, the U.S. Environmental Protection Agency and the U.S. Department of Housing and Urban Development. To access these sources of funding one must have an experienced grant writer on the team because these funds are available via a competitive process. Both grants require public input into the project development and/or application process. It pays to begin the process of including residents, businesses, and relevant stakeholders early. It will strengthen your application.

---

<sup>1</sup> “Market-failure” is used to refer to brownfield sites where the cost of remediation (cleanup) exceeds the value of new development resulting in no action by the “market” to redevelop the property.

The Environmental Protection Agency's Brownfields program was authorized as a distinct program in 2002. Several changes were made to the program making it more effective and the funding was roughly doubled.

In President George W. Bush's FY03 Budget there was a \$25 million increase in funding to assist with funding urban redevelopment and brownfield cleanup through the Department of Housing and Urban Development. This was to increase the total annual funding for these projects to \$300 Million. HUD acknowledges that one of the major roadblocks to urban redevelopment is the lack of necessary funding. This additional funding was to be available through Community Development Block Grants (CDBG) which are grants awarded directly to the city or region. They can then be distributed to non-entitlement communities. These funds are to be used for development activities associated with Brownfields. The goal of these grants is to benefit low- and moderate-income persons so they can only be used on projects located in qualified areas.

In addition, Section 108 loan guarantees, Brownfield Economic Development Initiative (BEDI) grants, Economic Development Initiative (EDI) grants and municipal bonds are other sources of funding. These funding sources are not available to private applicants, but can be levied by the city, region or state and then redirected to private organizations, both non-profit and for-profit.

#### *Public Uses for "Market-Failure" Brownfield Sites*

As an economic development practitioner, the focus is on attracting and retaining jobs. How can a public project jumpstart private investment that provides jobs? Here are some examples:

- An abandoned strip mall is redeveloped into a post office. The strip mall across the street hires more workers as the influx of postal workers increases the customer base of the eateries, dry cleaners, video store, card store, etc.
- A waterway is restored and a public space is created with flowing water connected to the adjacent river. The surrounding office space becomes more desirable and the vacancy rate decreases. New developments are planned to take advantage of this new amenity.

- A park is built on a former landfill site with connections to a network of bike paths along the local river system. This in turn, attracts a company to relocate into the community because they feel it will reduce employee turnover.
- An old store with a parking lot on main street is converted into a plaza with some small retail space, a café, and a public bathroom. The project creates an outdoor gathering place that initiates a revitalization of the area. Property owners reinvest in their buildings, more pedestrians wander the area and new commercial businesses move in to enjoy the scene or to capitalize on the retail potential.
- An old parking lot is converted into a parking garage to increase the capacity for visitors to the commercial main street. Businesses begin moving into the area because parking becomes more convenient.

#### *Gap Financing through Layered Funding*

The role of gap financing is to provide the financing needed for a redevelopment project after the equity and the first loan. For the site which is lingering on the sidelines of redevelopment, the first task is to envision a use which can serve as a catalyst. Is it a public building, a public space, a park or is it an industrial park, retail development, or commercial building? The next step is to quantify the costs.

The first unknown is the extent of contamination and the cost of remediation. This information is obtained through the environmental site assessment. Depending on the history of the site, this might be accomplished with City general funds, CDBG funds or it may require the leverage provided by an U.S. EPA Brownfields grant. Once the cost of remediation is more clearly defined, a pro forma is prepared to determine if currently anticipated costs exceed revenues or visa versa.

Assuming costs exceed revenues, grant or low cost loan funding must be obtained to balance the equation. The step following assessment is remediation. Both U.S. EPA and HUD offer funding for remediation, which can close the gap. Another source of grant funding for a project is EDA. Their funds can be used for construction of infrastructure on the project. Their funding is tied to the number jobs that will be produced, so won't be used to develop the park or public space.

Park projects can access state funding through bond initiatives in California such as Proposition 40. There are also nonprofit foundations like the Trust for Public Land that will help fund some types of park projects.

Bonds can also be used to provide lower cost financing for a project thereby lowering the overall cost of the project. A Mello-Roos district could be set up to build a parking structure for the shared use of several office buildings that are underutilized and need additional parking to become competitive. The owners of the office buildings would be assessed an annual tax to pay the Mello-Roos bond fees.

For site-specific projects, several cities have access to industrial development bonds. These can be used for industrial redevelopment projects that involve remediation and redevelopment for the relocation or expansion of a business. If the business in question is an expanding recycling business relocating into the Recycling Market Development Zone (RMDZ), they may be able to access the state's RMDZ loan program.

### *Conclusion*

The Public/Private partnership needed to redevelop brownfields is for the public sector to provide access to gap financing for projects that will provide a public benefit while the developer provides the development projects needed by the community. The developer can provide a significant public service by specializing in bringing needed developments to infill brownfield sites. The economy is strengthened while at the same time the health of the nearby residents is protected.