Mega-Brownfields Projects use Tax Increment Financing as the Gap-closer

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Note: This is an excerpt from NEMW’s report “Using Tax Increment Financing for Brownfields Redevelopment”

If your community is making big plans for redeveloping brownfields, it is probably thinking TIF with an infusion of private equity to bridge the gap and get to the point that the TIF will work. Here is the dilemma: big, high impact projects ($500 million and up) may also have big gaps, with heavy upfront investment needed for site prep costs. TIF is probably the ONLY incentive that can be of sufficient magnitude to close the gap. However, covering the upfront cleanup and site preparation costs is problematic for TIF deals because the bond market wants a “done deal” with vertical development assured and imminent. The further dilemma for these large-scale projects is that the usual governmental brownfields-related programs are insufficiently funded to address, for example, a $20 million plus problem. That is the point where your project may need the equity investment of a national firm that specializes in brownfields financing.

Cited here are three mega-brownfields projects that are using TIF as the chief gap-closing source with private equity covering most of the upfront brownfields/site prep costs.

**Atlanta/Atlantic Station**

TIF (known in Georgia as Tax Allocation District Financing) is the key financing incentive for Atlantic Station (www.atlanticstation.com), the $4 billion redevelopment of a 138-acre steel mill in Midtown Atlanta. Jacoby Development, Inc and AIG Global Real Estate are the development partners whose vision of the formerly contaminated site includes: 6 million square feet of Class A office space; 5,000 residential units; 2 million square feet of retail and entertainment space; 1,000 hotel rooms; and 11 acres of public parks. A parking structure that will eventually have 15,000 spaces is serving as a cap on contaminated land, effectively eliminating risk exposures.

TIF is providing $167 million of the total $250 million needed for cleanup ($50 million), site prep, and infrastructure. There are two key points here. One was that TIF is the only governmental source that is of sufficient magnitude to cover a gap of that size. Second, because of the TIF-brownfields mismatch, the cleanup and site prep activities had to be funded by other sources and then reimbursed after the TIF funding comes in. A significant part of that upfront funding came from AIG Global Real Estate.

Well underway, the project is meeting expectations in terms of sales rates, leasing, and return on investment.

Atlantic Station is unique in one other facet: the access road that made the project possible faced a regulatory hurdle because of Atlanta’s status as being out of compliance for transportation-related air quality impacts. Under EPA’s Project XL, EPA allowed the access road because it was demonstrated that Atlantic Station would save significant air emissions relative to a suburban or greenfields site.
Cherokee-Denver’s Redevelopment of Gates Rubber Plant

Cherokee Investment Partners’ redevelopment of the 50-acre Gates Rubber Factory in Denver (http://www.cherokeedenver.com/) provides another illustration as to why TIF has become the incentive-of-choice for large-scale redevelopment projects. TIF financing from the City and the County totals $85 million, well beyond any conceivable grant and loan funding from state and local brownfields financing programs. The TIF is designed to pay for cleanup and site preparation, but Cherokee is directly financing $126 million for these upfront costs, which will then be reimbursed through the TIF. This structure only works because Cherokee is a “deep-pocketed” developer, specifically designed to invest upfront to get later returns.

The long-term plan calls for a total of $2.5 billion in new investment, with up to 4,000 residential units and 4 million square feet of office, retail, and entertainment space. About half of the planned development is now committed – Joseph Freed Associates has begun a $1 billion mixed use project, featuring 1,500 new mixed income residential units and 765,000 sq. ft. of commercial space.

The project is also interesting from two other points of view. One is that the redevelopment is adjacent to a new Denver light rail line that connects the site to downtown, 3 miles or 15 minutes away. The project has been cited in a number of journals as a model for transit-oriented development. Second, the project involves a high degree of commitment to meeting community needs, particularly for affordable housing, as 10% of the units are planned to be affordable. Other community benefits include: community resource space; first-source (local) hiring; jobs pegged to a prevailing wage and living wage; a commitment to working with labor organizations and schools; and investment in local school districts (see: http://www.cpeo.org/pubs/GatesMakingConnections.pdf)
Cleveland Flats - East Bank

The Flats/East Bank area is currently 30 acres of dilapidated buildings and abandoned industrial plants, with little sign of life. A plan put together by Flats East Development, LLC (principal, the Wolstein Group) envisions a vibrant new mixed use community, featuring:

- 500 residential units;
- 280,000 sq ft of retail and entertainment space;
- 200,000 sq ft of office space;
- 2,000 parking spaces;
- 2.5 acres of green/park space.

The project will also feature a riverfront promenade, marinas, parks, plazas, and an expansive market pavilion, all designed to reconnect residents to the Cuyahoga River.

$100 million in public costs (for cleanup, site preparation, and infrastructure) will leverage total project investment of $400 million. Strnisha Development Advisors packaged incentives from ten different government programs. TIF financing constitutes the largest portion of the public subsidy - $67 million. The upfront brownfields costs are being addressed by a combination of private equity ($60 million total) and governmental sources (up to $7 million). Governmental sources include $3 million from the Clean Ohio Revitalization Fund (CORF) and a $1 million County Brownfield Redevelopment Fund loan.
Sustainable Development

It is interesting to note that each of the projects cited above are models for sustainable development, as each is committed to green buildings and LEED certification. There is little data that ties together brownfields and green buildings, but our observation is that green/sustainable development is becoming the standard for large-scale urban mixed use projects, many of which are also brownfields projects. While TIF is sometimes questioned as a tool that is too often used to subsidize sprawl, in these cases the benefits extend beyond community revitalization, to energy efficiency and lowering greenhouse gases.