Petroleum Brownfields:
How Can Communities Promote Their Reuse?

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Like any brownfield property, those contaminated with petroleum -- such as former gas stations, auto body shops, industrial facilities, even commercial and residential properties – must overcome significant barriers to reuse, notably, fear of liability, lengthy cost recovery procedures, and up-front cleanup expenses. Traditional underground stroage tank (UST) programs have focused solely on the cleanup of environmental problems, but now a new approach was taken in the Brownfield Revitalization Act, which passed Congress in early 2002. Now, within the context of its brownfield program, EPA considers UST sites more from a real estate vantage point – as opportunities for economic and community revitalization

Context for Petroleum Brownfields -- A New Look at Cleanup and Reuse

Revitalization of UST sites will have their greatest local impact when approached as an economic development issue with an environmental twist, rather than only a pollution and public health problem. If contaminated petroleum sites are viewed only as pollution problems, disconnected from community revitalization goals and economic development strategies, then reuse efforts will struggle. If, however, localities and their partners view petroleum projects as real estate deals that further community development goals, then the environmental issues can be structured into an approach that creates value, attracts investment, and gathers support.

This economic development-based approach means several things. First, proponents of UST site reuse advocates should focus more on end use, whether it be commercial/retail development, housing, a community park, mixed-use development, or even a new, modernized gas station. This end-use approach can help ensure cost-effective remedial decisions, attract investors and supporters, and provide incentives for overcoming difficult obstacles posed by contamination. This approach can also help petroleum brownfield initiatives connect with broader community revitalization strategies that have been embraced by the community.

Second, it requires government officials to understand that regulatory processes need to meet development time frames, if prospective redevelopers and investors are to be attracted to these sites.

Third, this approach suggests the need for a risk-based corrective action strategy for site cleanup. RBCA and comparable methods identify cleanup standards that ensure protection of public health and the environment, without necessarily requiring that every bit of contamination be removed – an extremely expensive disincentive to reuse. For

example, if it can be shown that the construction of a retail parking lot on top of a "hot spot" of petroleum contamination can contain the pollution and prevent it from reaching pathways to exposure to humans or nature, this remedy can replace an expensive "dig and haul" cleanup. RBCA, along with cleanup pegged to future land use and incorporation of institutional controls as part of the cleanup remedy, are common state brownfield program approaches, but the connection may or may not be made in the case of an UST situation. Great potential exists if these two recognized and accepted remediation tools are incorporated into a community based petroleum site reuse strategy that supports economic development.

Overall, petroleum brownfield revitalization success will be strengthened by the creation of strong redevelopment partnerships among localities, state agencies, and the private sector. It will be further enhanced if these efforts are supported with state and federal resources and technical assistance, and assisted by new regulatory and legal incentives.

Components of a Successful Local Petroleum Brownfields Initiative

Capacity. Local governments need to have the capacity, ability, and wherewithal to carry out an effective petroleum brownfields initiative. They are ideally situated to foster UST site activities and promote private sector investment that meets overall community revitalization goals. Locals are also in the best position to prioritize sites for cleanup and reuse. In partnership with states and federal programs and technical assistance resources, localities can build the capacity necessary to carry out petroleum brownfield efforts and build successful on-going strategies. Several key steps are a part of this capacity-building process:

- assemble sufficient resources to build program capacity and to leverage site-specific initiatives;

- target priority petroleum sites for local attention;

- recognize that because of their size and potential stigma, petroleum contaminated properties may be difficult to market within traditional private sector land use approaches, and consider public uses for these sites, such as police stations and post offices;

- develop strategies to deal with "mom and pop" sites and orphan sites, that include both financial resources for "upside down" properties and links to state voluntary cleanup programs that can provide regulatory clarification/relief for prospective new site users;

- explore creative new uses of traditional redevelopment tools, like tax forgiveness and community development financing, in petroleum brownfield situations, and link them related economic development activities like small-scale commercial development or infill housing;

- structure new partnerships and interdisciplanary approaches, especially those that involve state agencies, regional planning and economic development organizations and technical service providers, to address UST-specific barriers -- this will be especially critical in small towns and rural communities.

Resources and incentives. Typically, resources and incentives must be drawn into an effort to redevelop a petroleum brownfield property. The costs of site testing, remediation planning, and actual cleanup (not to mention increased project transaction costs related to contamination) can tip development choices towards properties that do not have to bear such costs. It often takes incentives such as grants, loans or loan guarantees, or technical assistance services to offset such expenses and make petroleum brownfield sites cost competitive with other locations. Communities must be able to offer and package various types of resources from various sources, to meet the specific financing needs of individual projects. The most recent federal incentive, up to $50 million annually for petroleum site cleanup earmarked in the Brownfields Revitalization Act of 2001, can be leveraged with a range of creative private and public financing strategies.

Local officials and community leaders need to remember that every developer carries out some sort of analysis of both risks and strategies when thinking about taking on an UST site , and the role that incentives might play in making the project more feasible. Remediation and related preparation costs put substantial pressure on the bottom line. Developers often have trouble putting a complete financing package together for a project on a petroleum contaminated site, especially the capital needed to pay for the early stage site assessment, to determine exactly what level of contamination needs to be addressed; to define a cleanup plan; and, finally, to carry out the actual cleanup itself. Like any brownfield, to be sucessfully reused UST sites:

- require the leveraging of critical resources for assessment, cleanup and redevelopment, from various federal, state, local and/or private sector sources;

- need access to a variety of direct and indirect funding instruments (such as grants, loans, and private insurance);

- need communities to target use of their existing tax credits, abatements, and other tax incentives (federal, state, and local) to petroleum contaminated sites, perhaps to offset cleanup costs;

- need to take a creative look at how various federal tools, such as programs

offered by HUD, SBA, EDA, and other agencies – targeted to distressed areas or capital market imperfections – can play a key role in UST site reuse; and

- need to encourage states to target their own economic and community development programs and broaden their eligibility criteria to support petroleum brownfield projects**.**

Intergovernmental partnerships. Incentives and policies are best leveraged if states and localities build on each others resources and efforts. States will be in a position to link more of their own resources to petroleum site efforts by working with localities to measure and track results, and use them to establish a solid case for why UST site reuse matters, and what benefits petroleum brownfield reuse can bring to the state's communities. Specifically, these public partnerships:

- require a partnership approach involving multiple state and local stakeholders in a collaborative process

- are enhanced by collaborative efforts (such as joint meetings) between state VCP, economic development agencies, and UST offices, to get them to work together in a mutually beneficial cleanup and reuse strategy;

- can work for greater clarity with respect to UST contamination in the context of voluntary cleanup programs by integrating, where possible, UST liability clarification with VCPs established to handle brownfield site cleanup and reuse.

Stakeholder and community involvement. Partnerships based on a solid outreach effort are vital to a successful petroleum brownfield effort because they foster communications and the building of cooperation and trust between relevant stakeholders. Depending on the specific project and its location and situation, these may include bankers, elected officials, investors, developers, private business owners, lawyers, environmental professionals, local agency staff and private practitioners in several areas (such as economic development, engineering, or technology services), insurance providers, state and federal government officials, community representatives, even the major oil companies – basically, anyone with an interest in reviving a distressed area. In addition, groups of these stakeholders – such as community development organizations, chamber of commerce, or business councils – can contribute to the process. In a petroleum brownfields context, such partnership efforts typically involve:

- forming working partnerships with, and providing outreach to, potential redevelopers and reusers of sites;

- enlightening private parties on how to overcome liability and other barriers to

successfully redevelop and market UST sites, about the economic benefits of cleaning and reusing these sites, and about the public incentives (such as VCP liability releases) and private tools (such as environmental insurance) available that can help these projects gel;

- building working relationships with major oil companies;

- promoting proactive community involvement processes for petroleum brownfield projects, based on a vision for what can and should be done, serve as the foundation from which a base of broad support can be built;

- develop and carry out understandable, credible community information and outreach, to connect broader revitalization goals with UST site reuse opportunities.

Petroleum Brownfield Success Stories

MILWAUKEE, WISCONSIN -- SHERMAN PERK

Sherman Perk, a successful independent coffee shop developed on an odd-sized, triangular shaped petroleum brownfield site, is located in the Sherman Park area, one of Milwaukee's most diverse neighborhoods. The building on the site, which was renovated into the coffee shop, was built in 1939 and operated as a gas station by two generations of the same family for 50 years, until the last family member retired and sold the property in 1989. Unfortunately, subsequent owners let the site sit vacant for the following ten years, and it slipped into tax delinquency and was boarded up.

In the mid-1990s, a local community group, Grasslyn Manor, launched the process to register gas station with the City of Milwaukee's list of Historic Properties. The building was one of the few remaining unaltered examples of a Streamlined Moderne architectural style gas station in the Midwest, a feature which the group felt could give it a unique commercial advantage. Grasslyn Manor tried to acquire the property with the intent of converting it into a coffee shop -- and even came up with the name "Sherman Perk" that would survive their efforts -- but the group was unsuccessful. But it had laid the foundation, and identified a market, for this type of revitalization.

In spring of 2000, Bob Olin, current owner of the site, developed an interest in the property primarily because of its historic value. But the site had serious problems. The city of Milwaukee had ordered the gas station building demolished because of the hazard it posed; the structure was seriously deteriorated and the site was contaminated due to fuel leakage over the years. In addition, the site also bore a significant financial burden which had discouraged any developer to come forward -- the property was nine years tax delinquent.

But Olin persevered, and in mid-May, 2000, he attended a meeting of the Sherman Park Historic Preservation Council to express his interest in reviving the idea of

developing a coffee at the site. Olin was aided in his effort by a new Wisconsin state law, in fact promoted by Milwaukee officials, designed to encourage reuse of tax delinquent, contaminated properties by linking cleanup and reuse to tax foreclosures, assigned tax liens, and a tax forgiveness process. This statute became the tool that facilitated the saving of the gas station, and the coffee shop project was the pilot case under this new law.

In the case of Sherman Perk, the parties to the foreclosure included the city of Milwaukee and the Wisconsin Department of Natural Resources. The city's role was to commence with the tax foreclosure and then place the property in the hands of a developer (in this case, Mr. Olin) who would do what was needed to get the property back into tax-paying status. DNR's role was to oversee the environmental remediation of the property, which it did through the state voluntary cleanup program. After five months of effort, the statute was applied and the petroleum contaminated Sherman Perk site was transferred to Mr. Olin for cleanup and redevelopment. .

As a small, community-based developer, Olin faced critical financial hurdles in getting his project underway. He worked with a variety of public agency partners to structure a package of financial incentives that made Sherman Perk a reality. The city and county of Milwaukee provided $30,000 in grants to help cover the costs of site cleanup, including removal of underground storage tanks, and the Wisconsin Department of Commerce awarded $100,000 through its brownfield revitalization program to help finance redevelopment. A key component of the "financing" proved to be the hundreds of hours of sweat equity provided by friends, and neighborhood groups, who clearly wanted this project to succeed in their community.

The grand opening of Sherman Perk took place on August 20, 2001, and the coffee shop has become a thriving neighborhood anchor. Olin recently received confirmation from the National Park Service that the restoration met standards for historic preservation, and soon the property will be listed in the National Register of Historic Landmarks. Sherman Perk has also received a Mayor's Design Award in 2002.

In 2003, Sherman Perk's owner paid the greatest tribute possible to the opportunities and process of converting an abandoned petroleum brownfield site -- he did it again! Bob Olin recently opened a second coffee shop at an old gas station site in the historic Kletzsch Park neighborhood in Glendale, Wisconsin (not surprisingly called Kletzsch Perk), and is looking for two more similar sites for additional outlets.

ROCHESTER, NEW YORK -- CHEVY PLACE

The 2.2 acre former Hallman Chevrolet automobile dealership and service garage, located in downtown Rochester, was redeveloped for primarily for residential purposes. Prior to redevelopment, the abandoned dealership property and buildings sat vacant for several years. Some $10.6 million was invested in what is now known as Chevy Place, for site preparation and construction of 77 new residential townhouses and apartments. Chevy Place also included the construction of a below-grade parking garage, and the renovation of the historically significant Hallman Chevrolet showroom as a restaurant.

From 1930 until 1990, the site was one of the largest new car dealerships in Rochester. The dealership included a large, multi-bay service and repair garage, as well as a gasoline station. The site was vacant from 1990 until the city purchased the property in 1996. The project, which ultimately would take five years from start to finish, presented several challenges to the city and the developer, Home Properties of New York. Changes in New York State Department of Environmental Conservation (NYSDEC) cleanup programs, shifting redevelopment plans, historic preservation restrictions, street reconstruction, and funding constraints posed major challenges to the project – and these were in addition to the environmental concerns at the site, which included several abandoned USTs.

Contaminants found during investigations by the city included asbestos and gasoline, lube oils, used motor oil, and hydraulic oil. Investigators also found petroleum-contaminated soils beneath the former gasoline station and repair garage. Other soil contaminants included heavy metals and semi-volatile organic compounds. In groundwater, free petroleum product was present and dissolved compounds were detected at concentrations that exceeded NYSDEC standards.

During 1997, the City completed asbestos abatement, the closure of five storage tanks, the removal of 19 in-ground hydraulic lifts, the closure of floor drains and sumps, the removal of contaminated soil associated with storage tanks, and the installation of a blasted bedrock free product/groundwater recovery and treatment system. Home Properties' plans for expanded residential use of the property required a second cleanup phase and the demolition of the service garage which eliminated historic preservation funding from the project. The second phase of remediation was performed from 1998 to 2000 under a joint agreement between Rochester and Home Properties. During that phase, 7,000 tons of contaminated soil and bedrock and 12 more underground storage tanks were removed under a NYSDEC stipulation agreement. In addition, institutional controls were installed – a soil vapor extraction and passive soil venting systems – as required by the local health department.

Like most brownfields, Chevy Place used a broad mix of financing sources to meet financing needs. Total cleanup project costs, including both phases of remediation, were approximately $750,000. Rochester financed the initial phase of the cleanup with part of its HUD Community Development Block Grant allocation. The developer funded the

second phase of the cleanup. In addition, the city assisted Home Properties with environmental costs via direct reimbursement for certain disposal costs, by providing the company with a $2.35 million dollar loan for the redevelopment project, and reducing the purchase price of the property due to the environmental cleanup costs.

Rochester's first new downtown apartment complex in 20 years was finished in spring 2000. The project resulted in the construction of 77 new residential units – and 97 percent of which were rented by July, 2000. Chevy Place's most distinguishing architectural feature is its Art Deco showroom, which remains standing due to its historic site designation. The former showroom has been renovated as a 24-hour coffee shop. The apartment complex is located on Rochester's east end cultural and theater district, near the Little Theatre, the Eastman School of Music and the Eastman Theatre, and several restaurants and museums. This project has added to the vibrancy of Rochester's east side, and has been a catalyst for additional private development in the area.