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Brownfield Options Abound

Government incentives exist for redeveloping environmentally challenged properties

REDEVELOPING ENVIRONMENTALLY challenged properties known as brownfields often leads to financing hurdles. Although these properties have many challenges, however, they also can offer large returns on investment for developers and lenders.

Further, successful reuse of these properties can increase not only the property's value but also that of the surrounding area by increasing the local tax base, providing jobs, encouraging additional infill redevelopment and more.

Mortgage brokers seeking funding for brownfields can help their developer clients understand the need for a financial strategy that addresses these properties' environmental challenges and aging infrastructure. Developers and investors willing to take the chance on these properties feel this need acutely — and increasingly, so do federal, state and municipal governments.

Numerous government-incentive programs specifically encourage and leverage private-sector investment in brownfields (see sidebar). Developers should consider these incentives an important part of the overall financial strategy for these properties' cleanup and redevelopment. These assistance programs can help developers bridge the gaps that can occur in financing and may provide the needed capital to facilitate redevelopment. They also can reduce a lender's risk, reduce a borrower's cost or improve a borrower's current financial situation.

Loan and grant programs at the federal and state levels provide financial assistance for planning-related activities, infrastructure upgrade and construction, and environmental cleanup. Sometimes, they can be used with other federal, state and municipal tax-incentive programs, such as new-market tax credits, historic-rehabilitation tax credits,

Federal Incentive Programs

- **U.S. Department of Housing and Urban Development Community Development Block Grant Program:** sctsm.in/CDBG
- **U.S. Economic Development Administration Investment Programs:** sctsm.in/USEDA
- **U.S. Environmental Protection Agency Brownfields Programs:** sctsm.in/EPAbrown
- **U.S. Small Business Administration:** sba.gov
- **U.S. Department of Transportation:** www.dot.gov
- **Army Corps of Engineers:** usace.army.mil

low-income-housing tax credits and industrial-development bonds.

In addition, developers often can use tax-advantage zones such as U.S. Department of Urban Development's and U.S. Department of Agriculture's Empowerment Zones and Enterprise Communities (see www.hud.gov/cr or www.rurdev.usda.gov/rbs/ezec for more information), as well as state- and municipal-designated economic-development zones. These and other programs also aim to clean up or redevelop environmentally challenged properties.

Developers also can take advantage of the Brownfields Tax Incentive, which was part of the Taxpayer Relief Act of 1997 and that expires this coming Dec. 31. It lets developers deduct expenses associated with the cleanup of a contaminated property in the year that they occurred, rather than amortizing them over a period of time. Developers can take this credit as an expense, and it reduces their taxable income.

There also are some additional financial incentives offered as part of the American Recovery and Reinvestment Act of 2009, enacted this past February. Although the act focuses more on providing incentives for developing or implementing green

technologies, it also provides additional funding to the U.S. Environmental Protection Agency for the assessment and cleanup of contaminated properties under the Comprehensive Environmental Response, Compensation and Liability Act, aka Superfund.

Because many communities lack the funding necessary to identify, assess and evaluate these properties, they might not be able to inform developers adequately. These additional funds, awarded as competitive grants, allow communities to do just that.

The goal of all the various federal, state and municipal financial-assistance and incentive programs is to encourage the private sector to invest capital in projects that create jobs and, in turn, stimulate these community-revitalization efforts. Developers can leverage these to get the needed capital to move their environmentally challenged projects to fruition. ●

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