

**To:** Bob White, Director  
Redevelopment Authority of the County of Bucks  
**Date:** August 2, 2004 draft

**From:** Jane Dembner, HNTB and Charles Bartsch, Northeast Midwest Institute

**Subject: Potential State and Federal Financing Programs with Applicability to Bucks County**

**Overview**

This memo presents a wide range of potential state and federal financing programs with applicability to Bucks County and the implementation of the Waterfront Revitalization Plan. The purpose of the Waterfront study is to provide for improved access to the riverfront and to promote targeted economic development in the study area. The study area includes portions of the following municipalities: Bensalem Township, Bristol Borough, Bristol Township, Falls Township, Morrisville Borough, and Tullytown Borough.

**Federal Programs**

Bucks County officials have proven adept in using a number of federal economic development financing programs to meet their community development objectives. The following federal incentives and programs have been most commonly used in a brownfield/reuse/revitalization context.

***EPA's Brownfields Program*** provides direct grant assistance to municipalities and counties of all size, as well as to redevelopment authorities, non-profits (for cleanup only), and similar entities. Bucks County, in fact, received \$1 million in FY2004 grant funds to capitalize a revolving loan fund for cleanup purposes; by law, up to 40 percent of that amount can be used for cleanup "sub-grants." Communities can compete for:

- **Site assessment grants** to fund a variety of pre-cleanup environmental activities – for example, site assessment, inventories, characterization and prioritization, cleanup planning, design, and community outreach. Jurisdictions can get up to \$200,000 per community or site for these purposes. Petroleum contamination is now eligible.
- **Site cleanup grants**, up to \$200,000 per site, can pay for cleanups by cities, development agencies, non-profits, and similar entities at sites that they own.
- **Brownfield cleanup revolving loan fund grants** are awarded to provide up to \$1 million to establish locally administered loan funds. These RLFs can make low/no interest loans for cleanup; recipients may use up to 40 percent of their capitalization award for cleanup sub-grants.

***EPA's Clean Water State Revolving Funds***, which provide capital grants to states to use at the community level for water quality projects, can be used for loans of up to 20 years, for activities that can include brownfield mitigation to correct or prevent water quality problems – including dealing with petroleum contamination. Only a few states have started to take this approach (and Pennsylvania is not one of them), but EPA allows all states to do it. Basically, project priorities are set by the states, within broad EPA guidelines, and brownfield projects with a water connection can tap into these state funds. Specifically, brownfield cleanup to correct or prevent water quality problems can be considered eligible if it focuses on things like correction of groundwater contamination; or clean up of petroleum contamination.

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State revolving funds can cover the costs of activities like excavation and disposal of underground storage tanks; capping of wells; excavation, removal, and disposal of contaminated soil or sediments; well abandonment; or Phase I, II, or III assessments. Each state determines who may use its revolving fund resources; EPA allows communities, municipalities, individuals, citizen groups, and non-profit organizations to be loan recipients. Usually, loans are repaid through sources such as fees paid by developers, recreational fees, dedicated portions of state, country, or local government taxes; stormwater management fees, or wastewater user charges.

**HUD Community Development Block Grants (CDBG)** can be used for numerous purposes. How CDBG funds are spent is a local decision, within broad HUD guidelines that focus on helping low and moderate income people or addressing conditions of slums and blight. Coping with contamination has been defined as an eligible activity, and specifically put into law in 1997 as part of appropriations language; on July 9, 2004, HUD issued a new draft rule expanding the definition of slums and blight to include environmental contamination as a blighting influence.

CDBG has been used for a variety of project activities linked to site cleanup and reuse, such as:

- planning for redevelopment or revitalization of brownfield sites;
- site acquisition;
- environmental site assessment;
- removal or remediation of contamination from sites or structures;
- site clearance;
- related site preparation or infrastructure improvements;
- demolition and removal of buildings;
- rehabilitation of buildings; and
- construction of real estate improvements.

Communities can also lend CDBG funds to private parties under some circumstances, as well as use them as loan loss reserves or similar "backstops" to promote redevelopment activities that address one of the program's basic criteria.

**HUD's Section 108 loan guarantee program** is linked to the block grant program. Section 108 was authorized to help cities finance site clearance, property acquisition, infrastructure, rehabilitation, or related activities too large for single-year block grant funding -- typically, economic development projects needing considerable up-front cash for site preparation, often, the typical brownfield. Section 108 can support the same project activities (noted above) as CDBG. This can include things like removal of toxic contaminants as part of site preparation activities; advancing funding for construction notes; and creating revolving loan funds.

A key concern of any potential Section 108 user -- and this was expressed in conversations with Bucks County officials -- is the fact that recipients must pledge their future block grant allocations as collateral. This often causes political issues that inhibit or prevent use of this program.

**HUD's Brownfield Economic Development Initiative (BEDI) program** was established to provide an additional financial tool for brownfield development projects. HUD conducts an annual competition for BEDI awards, with the most recent one closing on July 16, 2004. BEDI funds are required to be used in tandem with Section 108 (although Congress is considering dropping this requirement). This has proven to be a barrier in many communities who are unwilling or unable to pursue the necessary 108 linkage.

The **Economic Development Administration** provides grants to communities to support public works activities. Projects have included infrastructure and roadway improvements, mill site reuse activities, industrial building rehabs, and new business incubators in old factory buildings. EDA funding can

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cover the costs of dealing with any kind of contamination – including leaking underground tanks, asbestos, PCBs, and lead paint – which make it more flexible than many other programs. Two major EDA programs can be used to help with the redevelopment of brownfield sites:

- **EDA's Public Works and Economic Development Program** helps fund roads, water and sewer facilities, and other infrastructure enhancements that serve industry and commerce, and which may be needed for revitalization
- **EDA's Economic Adjustment Program** helps states and local governments that experience sudden and severe economic dislocation or long-term economic deterioration to put in place redevelopment strategies that will strengthen their economic base -- typically, by helping with planning and by capitalizing revolving loan funds to support new activities, including site cleanup and revitalization.

EDA is targeted to distressed areas, who must meet several criteria of distress, most pegged to unemployment rates that exceed the national average. This may be an issue in some parts of Bucks County.

The ***brownfield tax expensing incentive*** is the only federal tool directly targeted to **private owners** of contaminated sites. Taxpayers can deduct environmental cleanup costs in the year they incur them, rather than having to capitalize them over time. Costs eligible for expensing include site assessment and cleanup costs, monitoring costs, operations and maintenance costs, and state program oversight fees. Site owners need to get sign-off from their state that they do in fact have a brownfield, although this is a simple process; participation in the VCP is enough to satisfy that requirement, and there are other ways to satisfy it as well.

This incentive is currently in hiatus -- it expired on December 31, 2003, although Congress is poised to enact an extension (through the end of 2005) as part of a broader corporate tax bill currently pending.

Tax-exempt, private activity ***Industrial Development Bonds (IDBs)*** are issued by a range of cities, public agencies, development authorities, and similar entities in virtually every state. Companies and local jurisdictions favor IDBs as a source of financing since the interest they bear is not taxable, which reduces the yield that investors demand, which lowers a project's cost of capital. They are commonly used as part of an area-wide revitalization strategy. Since IDBs are targeted to manufacturing projects, they can play an important part in certain types of site reuse projects or a business retention strategy aimed at existing industrial areas. The issuing authority process allows jurisdictions to channel more affordable investment capital, if they so choose, to certain locations and for specific types of projects. IDB proceeds help private companies acquire buildings, equipment, and other components needed for an industrial project, and they have been used to help pay for cleanup as part of site development in a few cases, mostly in New York -- this is really an emerging use.

***Rehabilitation Tax Credits*** were adopted by Congress to discourage the unnecessary demolition of sound older buildings and to slow the loss or relocation of businesses from older urban areas. This incentive offers to investors a credit against their total income, which is taken for the year in which the renovated building is put into service. Rehabilitation of certified historic structures qualifies for a credit equal to 20 percent of the costs of the work; rehabilitation work on non-historic structures built before 1936 qualifies for 10 percent.

***Low-income housing tax credits (LIHTC)*** may be used as part of a project financing package if affordable housing is included as part of a community's revitalization strategy. LIHTCs are issued by each state to attract investment capital into this type of housing. They have been successfully used in Pennsylvania and other states as part of mixed-income housing developments, sometimes as infill projects

Bucks County officials could also consider other federal programs which -- while not specifically focusing on site cleanup and reuse -- have been used as part of such efforts when their mission can be made to dovetail with some part of the larger revitalization effort. These programs are briefly described below.

The *Army Corps of Engineers* has been tapped for planning and preparation funding at projects that can somehow be tied to water or water quality -- like those on river front locations. The Corps can offer technical assistance, contracting support, and help with site planning and remediation. One drawback to using the Corps -- at least to some communities -- is the agency's matching requirements.

Some communities have made creative use of federal *Department of Transportation* funds, either secured directly from DOT headquarters, or funding passed through by the states. As a growing number of case studies show, transportation projects and program funding can be connected with site cleanup and reuse projects in three ways:

- the site itself may be a transportation facility in need of upgrading -- such as roads, ports, and rail yards;
- transportation system improvements that may be needed to make a site more usable and marketable -- typically, by expanding access that better connects vehicles or rail with people and sites; and
- situations where part of the transportation system can also be used as part of the pollution solution -- where roads, parking lots, and other transportation structures can be used as caps to safely limit exposure to environmental contamination and make site development costs more manageable.

Of course, transportation programs are not without their own inherent difficulties; in many places, the culture and mindset of the MPOs -- which have a key role in deciding what is funded and how the money is distributed -- has inhibited the use of these funds. In addition, the MPO process -- with its long time frames and often lengthy reviews -- does not fit well with the quicker timeframes of many site reuse or similar economic development opportunities.

The *National Park Service*, through its *Rivers and Trails Program*, supports state and local governments and community organizations in conservation efforts by providing river, trail, and greenway planning; resource assessment; and conservation workshops and consultations. Much of Rivers and Trails assistance is targeted to urban areas through four project categories that include or affect underutilized contaminated properties -- urban area projects, trails and greenway projects, rails-trails projects, and river projects -- and these resources may be used concurrently with redevelopment efforts.

### **State Programs**

Pennsylvania has put in place a variety of brownfield, economic, and community development programs that could be brought to bear in Bucks County, depending on how county officials can make the fit between their project needs and program eligibility criteria. Following is a brief listing of some of the programs that could be considered.

*Brownfield-related programs*, to directly or indirectly finance site assessment, cleanup, and preparation of previously used sites -- or attract private investment so these sites -- include:

- **Industrial Sites Reuse Program** -- provides loans and grants to municipalities and private entities for site assessment and remediation; maximum of \$200,000 for site assessment, or \$1

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million for remediation per year; all require a 25% match; loans carry a 2% rate for terms up to five years (for assessments) or 15 years (for remediation).

- **Infrastructure Development Program** — provides public and private developers with grants and loans for site remediation, clearance, and new construction, and reuse of former commercial sites for new commercial uses, up to \$1.25 million per project at 3% interest for 15 years.
- **Brownfield Inventory Grant Program** — grants up to \$50,000 to cities and development authorities to carry out brownfield inventories.
- **Underground Storage Tank Upgrade Loan Program** — offers owners of registered underground storage tanks loans of up to \$500,000 (or 75 percent of total projects costs) to cover various costs associated with tank removal, closure, or replacement
- **KeySites Initiative** — this program, for municipalities and economic development agencies, uses state-funded contractors to conduct site assessments and prepare cost estimates and remediation plans to promote reuse of abandoned industrial properties.
- **Keystone Opportunity Zones** — in newly designated KOZs, all taxes on businesses and property owners maybe forgiven for up to 12 years.

Numerous *economic and community development programs* are available through the Pennsylvania Department of Community and Economic Development. Briefly, those with particular relevance to the project possibilities in Bucks County include:

- **Opportunity Grant Program** — provides flexible economic development financing to both public, quasi-public, and private entities to preserve and expand existing industry
- **Pennsylvania Capital Access Program (PennCAP)** — guarantees loans of up to \$500,000 used for the purchase of land, buildings, equipment, as well as for working capital
- **Small Business First** — provides low-interest financing up to \$200,000 (or 50 percent of project cost) for land and building acquisition and construction and machinery and equipment upgrades or acquisition, and up to \$100,000 (or 50 percent of project cost) for working capital
- **Community Economic Development Loan Program** — provides up to \$100,000 (or 50 percent of project costs, in flexible funding to start-up and fledgling businesses bringing products or services of underserved communities
- **Pennsylvania Minority Business Development Authority** — offers low-interest financing up to \$250,000 to businesses owned and operated by minorities, for working capital, purchase and installation of equipment and machinery, building renovation, and for acquisition and construction
- **Pennsylvania Industrial Development Authority Industrial Park Loan Program** — provides low-interest loans of up to \$1.250 million (or 60 percent of project costs) directly to local Industrial Development Corporations (IDCs) to finance the acquisition and development of land earmarked for industrial use
- **Pollution Prevention Assistance Account Program** — offers for-profit businesses loans of up to \$100,000 (or 75 percent of project costs) to help implement pollution prevention or energy efficiency projects (mercantile and service-related enterprises excluded)
- **Job Creation Tax Credit Program** — a tax credit of \$1000 per new job created for firms who increase employment by 25 jobs or 20% within three years from defined "start" date

## **Local Tools to Support Site Reuse and Revitalization**

The aforementioned federal and state initiatives can provide a good foundation for local efforts to build on and complement. In many areas, local governments have begun to explore a variety of financial incentives to offset site reuse risks and jump-start the revitalization process. In practice, many of these efforts involve placing a new revitalization/reuse “spin” on long-time, tried-and-true financial assistance tools, most of which have been used in Bucks County at one time or another.

***Tax Increment Financing (TIF).*** TIF has traditionally been used for a variety of economic revitalization efforts, usually in economically distressed or abandoned areas. TIF financing is the most commonly used form of local support for brownfields reuse.

The TIF process uses the anticipated growth in property taxes generated by a development project to finance public sector investment in it. TIFs are built on the concept that new value will be created -- an essential premise of most brownfield initiatives -- and that the future value can be used to finance part of the activities needed now to create that new value. The key to TIF is the local commitment of incremental tax resources for the payment of redevelopment costs.

TIF is regulated by the state, but controlled by the city. States provide the authority for local governments to pursue TIF financing, laying out the basic ground rules that communities must follow. Enabling legislation varies from state to state, but there are several common requirements. First, a local government or redevelopment agency establishes a TIF authority to define an appropriate redevelopment district. Local assessors then freeze property value in the designated district to establish the revenue base. This base is in effect for a specific length of time, typically 10 to 25 years. Generally, TIF authorities must prepare a redevelopment plan that lays out proposed projects, their feasibility, their costs, and a timetable for activities. TIF bonds are issued for the specific purposes of the redevelopment -- acquiring and preparing the site, upgrading utilities, streets, or parking facilities, and carrying out other necessary site improvements.

***Tax Abatements.*** Abatements are reductions or forgiveness from tax liabilities which are granted for a specific period of time. This can help property cash flow, a key concern when contamination is involved. They are most commonly given for property taxes, but they may be granted for sales, inventory, and other levies. They can take several forms:

- freezing the assessed value of land or buildings at some point in time, usually at a pre-improvement state; or
- reducing the tax rate for a certain period of time, typically, 5, 10, or 20 years; or
- exempting some types of property from taxation altogether.

Some abatement programs feature sliding scales, offering full abatements initially, when business cash needs are the greatest. Tax abatements are commonly used to stimulate investments in building improvements or new construction in areas where property taxes or other conditions discourage private investment. States must usually grant local governments the authority to offer tax abatement programs, and most allow only certain areas to participate, such as economically distressed communities or deteriorating neighborhoods.

***Locally capitalized, locally operated revolving loan funds.*** More municipalities are establishing RLFs targeted to urban redevelopment and brownfield-related projects; often, they use a wide variety of sources for capitalization – general revenue appropriations, bank contributions, fees or fines, repayments from CDBG projects, and so forth. Conceptually, they are similar to state or federal RLFs.

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**General Obligation Bonds.** Virtually all communities can issue G.O. bonds for any proper public purpose which pertains to its local government and affairs. Economic development practitioners can make a strong case that a bond pool to support site cleanup and reuse projects could create jobs and enhance the local tax base, which are appropriate public purposes. Municipalities traditionally issue G.O. bonds for acquiring land, preparing sites, and making infrastructure improvements. Typically, the rationale is that the jurisdiction's ability to repay this bond debt would be enhanced by the growth in property tax revenues as more areas are brought back to productive uses.

Finally, a growing number of municipalities are exploring new ways to promote economic and business development, on existing sites, by more explicitly packaging and promoting what they can offer. Some of the things being considered by other communities, that Buck County officials could contemplate, might include:

- earmarking water and waste water charges for infill site cleanup activities;
- earmarking some portion of local grant, loan, or loan guarantee program funds to applicants proposing site characterization or cleanup projects;
- developing a municipal "linked deposit" program targeted to borrowers intending to reuse existing sites;
- channeling some portion of loan repayments from existing jurisdiction programs to brownfield projects;
- using small amounts of public funds to "seed" a private, shared-risk financing pool devoted to targeted site redevelopment.

**Next Steps**

As part of the ultimate Waterfront Plan, we will make suggestions on which funding sources are most appropriate for the priority sites and projects outlined in the plan's recommendations.