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JULY • 2023

Solutions for Repositioning Properties for Brownfield Redevelopment

Brownfield Redevelopment Series: Part 2

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Repositioning brownfield and urban properties for redevelopment involves addressing environmental contamination, promoting economic viability, revitalizing neighborhoods, engaging communities, and filling financing gaps. The process varies by state and even municipality, but in general it requires a public-private partnership (PPP) between the municipality, state, agency, private developer, and community stakeholders to balance multiple goals and objectives. In those cases, be prepared for a longer pre-approval process of public engagement, education and outreach, and to be prepared to describe how your project fits into the larger redevelopment agenda.

Assuming you have a good handle on your construction costs and financing options, and you have completed your environmental due diligence to the extent that you can estimate remedy costs, the process of finding solutions to brownfield and urban redevelopment challenges can begin. This process should not be limited to environmental challenges, but should include an assessment of all of the redevelopment challenges including, but not limited to, demolition, site preparation, urban stormwater management, infrastructure improvements, increased construction costs, increased operating costs, and tax issues. As such it often requires an extended project team, recognizing that urban and brownfield redevelopment is a contact sport.

This article focuses on financial solutions to these challenges. The basic financial tool box includes tax increment financing, tax credits, tax abatements, grants, and loans. But there are also other options, including on the debt and equity side. Many of these other options require a long time to secure or are only available on a specific schedule. Therefore, given the typical real estate development timeline, we tend to focus on the short turn-around, locally understood, options. However, when doing your initial evaluation it is best to consider all options, since you never know unless you ask.

If you have environmental challenges, the first step following assessment is to complete an environmental remediation options analysis. This desktop review evaluates the cost and timing of the most reasonable options for removal, treatment, or engineering controls. The objective is not only to find the least cost alternative, but to determine the impact on construction schedules and identify incentive opportunities to off-set these extraordinary costs. This analysis is dependent on the site plan because cost-effective environmental solutions are specific to the intended future use and building location/ conditions. But what may not be obvious, is that it is also dependent on the financing sources since some funding requires agency approval and therefore extended time lines and often additional assessment or documentation cost.

Be aware, therefore, that changing the site plan or capital stack can require a new analysis with a different outcome and set of applicable incentives. Equally important for planning purposes is that if you do the analysis too early you may need to redo it, but if you do the analysis too late you may not have sufficient time to obtain the incentives or implement the solution. Since redoing the analysis is the lesser of the two evils, we recommend conducting a preliminary analysis immediately following your environmental due diligence and before you close on the property in order to identify the big issues and options, and then doing the final analysis when you have a firm site plan.

For non-environmental challenges, the desktop analysis is a little shorter because you will likely already know your increased costs based on the project location and design. For these challenges, the issue is identifying and qualifying for applicable incentives or alternative sources of debt and equity. Many of the incentive programs that are considered 'environmental' include eligible costs for non-environmental challenges such as demolition and infrastructure, but there are also incentive programs specifically designed to fill financing gaps caused by increased construction or site development costs. All of these programs are specific to your end use and location, and the first hurdle is often a demonstration of financial need. Since an analysis of non-environmental costs is based on the same cost assumptions, and may conflict on what is eligible, this analysis should be conducted in conjunction with the environmental analysis.

Once you have identified the challenges, costs, and incentive options, the next step is determining eligibility and obtaining approval for the identified options. To successfully obtain incentives you will need an integrated PPP approach, working closely with the municipality, state government, and local community groups. A transformational or catalytic project, in a targeted redevelopment area, with clear economic benefit to the community, that has financial need due to implementing a remedy to mitigate extraordinary environmental impacts, is the easiest scenario for obtaining approvals. But most projects do not hit all these high notes, so for most projects all of the identified potential incentives may not be available, or the final incentive amount may be smaller than anticipated. Understanding eligibility and how the PPP process affects approvals will provide a realistic estimate of available incentives.

Eligibility criteria are specific to the incentive being requested, and are defined in the applicable legislation. In general the property must be eligible, must be developed by an eligible investor, who creates an eligible project that incurs eligible costs after approval, and who can complete the project within the defined time, investment, or job creation goals. But probably more important than eligibility criteria for obtaining approvals are threshold criteria. Threshold criteria are those approval requirements implemented by the municipality, state, or agency that administers the incentive in order to meet their mission objectives, or achieve their desired outcomes. These can include limitations on eligible costs, or the duration or amount of incentive, or cost sharing. But they may also include changes to use, modifications to design, inclusion of attainable housing, or community recommendations and requests. Identifying these eligibility and threshold criteria early will help you focus on the most applicable incentives, and will improve your chances of approval.

But don't forget community outreach. Obtaining approval from local economic development groups, community organizations and neighbors before submitting applications for incentives will strengthen your request and provide insight into third-party policies and objectives that are important to the success of your project.

The final step in obtaining incentives is preparing the plans and applications. Each of the incentives have different application processes and durations, which are implemented in addition to the normal site plan and design approval processes. Depending on the municipality, the timing of incentive applications may be impacted by those normal approval processes, some requiring it be done before, and some requiring it be done simultaneously. In most cases, incentive approvals require four to ten months, depending on the number of incentives requested, and whether they are limited to municipal support or require state or agency approvals.

Each state is different, but as an example, in Michigan, the most common scenario is to layer incentives. This includes: submitting a Brownfield Plan and 381 Work Plan to the municipality, EGLE (the state environmental agency) and/or MEDC (the state economic development agency) in order to obtain tax increment financing; submitting a tax abatement zone and certificate application to the municipality; submitting a grant or loan application to EGLE and/or MEDC; and monetizing some of the incentives using local or state revolving funds, or a private investor.

This process is generally iterative, requiring multiple revisions as site plans, capital stack, approvals, threshold requirements, agency approvals, and timelines intersect and collide. As such, we recommend that you plan your assessment and incentive programs early and often. For more information, please contact ASTI Environmental at 810-225-2800.

Check out Part 1 in our Brownfield Redevelopment Series, "Issues with Repositioning Properties for Brownfield Redevelopment" at www.asti-env.com/techbits for more information on the unanticipated costs for assessment, remediation, infrastructure demolition, unstable soils, and multiple approvals when repurposing a property.

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