



Brownfields Bulletin

Breaking News

What's Happening in Brownfields

1st Quarter 2002, Issue 15

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Grant Money for Petroleum Remediation Coming Soon

Since the Indiana Brownfields Program began, a frequently asked question has been whether or not state grants are available for remediation activities. Until now, state grants were available only for assessment activities, not for remediation. That will soon change! With the recent state budget transfer of \$9 million, from the Excess Liability Trust Fund, the Petroleum Remediation Grant Incentive (PRGI) was created for remediation of petroleum contamination at brownfield sites.

The Indiana Brownfields Program has been developing guidelines for this new financial incentive to be implemented this spring. Key to the process has been the Indiana Brownfields Redevelopment Advisory Group, a bipartisan panel of state legislators, local elected officials, stakeholders, and other environmental professionals. The

Advisory Group reconvened four times at the end of 2001 primarily to provide input on the state's new incentive for brownfields redevelopment. Final guidelines for the PRGI are a direct result of the Advisory Group's participation.

Political subdivisions are encouraged to begin identifying brownfield sites with petroleum contamination issues in their respective communities that may benefit from such financial assistance. Details about the application process may be accessed on the Brownfields Program web page as they become available. Questions may be directed to Calvin Kelly of the Indiana Development Finance Authority or to Michele Oertel or Gabriele Hauer of the IDEM Brownfields Program. (See back page for contact information).

Guest Author

Maximizing Brownfield Returns on Investment:

The Importance of Taking an Area-Wide Perspective

By Dr. Peter B. Meyer, University of Louisville

Most brownfield programs overlook small sites since they involve high transaction costs and low returns. This approach virtually guarantees an inefficient use of public funds: First, larger sites are more attractive to private investors and thus need less help than smaller ones. Second, smaller sites simply have more adjacent properties per acre than larger ones, so their redevelopment could have more impact on non-brownfield property values and land uses. Finally, the vast majority of all brownfields are small, under one acre, if not one-half an acre, so failing to

address small brownfields constitutes ignoring the central redevelopment problem.

The concentration on large brownfield parcels results from a site-specific perspective that neglects the neighborhood effects of regenerating many small sites. The flawed approach derives from using private market land value impacts for brownfield project prioritizing. Price changes do not serve the public interest well since they fail to capture all the effects of land use decisions, including: *(continued on page 2)*



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(continued from front page)

➤ **Opportunity Costs**

The benefits from an alternative use of a site lost when any one land use is selected

➤ **Spillovers and Externalities**

The socio-economic value effects on, and land use impact for, adjacent properties — and the quality of life or well-being of their occupants resulting from reuse of a site

➤ **Substitution Effects**

The risk that new on-site activity has just moved from elsewhere, so that no increased economic activity overall is generated by the development

Public decision-making should be able to address these issues, but in practice local development agencies rarely can, due to factors such as:

- **Limited Staff Capacity and Knowledge**, due to small municipality size and limited budgets
- **Political Balkanization of Logical Planning Areas**, so interlocal competition may make coherent area-wide planning impossible
- **Narrowness of Vision and Perspective**, associated with elected officials having to cater to a political constituency that is smaller in area and population than are the effects of their decisions

While these conditions could be modified, any change will involve political, bureaucratic or budget costs. As a

result, brownfield project planning tends to remain site-specific, rather than area-oriented.

Objectives, Methods and Evaluative Criteria for Site-Specific Versus Area-Based Economic Development Efforts		
Objectives	Site-Specific Redevelopment	Area-Based Regeneration
General Environmental Objectives	Reduced Human Health Risks, Liabilities	Better Regional Environmental Conditions
General Economic Objectives	Tax Base Increase; Job Creation On-Site	Improved Area-Wide Attractiveness to Capital
General Community Objectives	Removal of Eyesores and Abandonment; possibly local- and home-ownership	Reduced Community Disamenities and Specific Economic Improvements
Actual Consultation on <u>Local Community Objectives</u>	Minimal; as required by law with respect to community notice and consultation	Potentially extensive; (but development agency may overlook local concerns)
Methods		
Lead Actor(s)	Private Developers	Public Agencies and Quasi-Public Authorities
Public Site Assembly, Preparation	Minimal - minimum necessary	Potentially Extensive - to achieve area change
Public Support Mechanism(s)	Direct Financial Subsidies; Site Rezonings	Complementary Investments, Planning and Zoning Changes
Evaluative Criteria		
Time Horizon	short - completion of onsite development	long - allowing for spillover effects
Policy Efficacy	sales for cleanup and reuse generated; impact on site values and tax revenues	capital inflows; new area economic activity, incomes, and property values
Policy Efficiency	minimum possible public sector expenditure	maximum leverage on public funds
Policy Effectiveness	rate at which private landowners market contaminated sites for reuse successfully	new area economic activity, household incomes; reduced area disamenities

A general comparison of the logic and decision-criteria for the alternative approaches to brownfields program operations

Brownfield Redevelopment Strategy Choices: A Hypothetical Example	
Assume:	
<ul style="list-style-type: none"> • 3-acre publicly-owned site, with lead, solvents, petroleum • new, intense use would yield \$6 million value for the site • cleanup cost of \$3.0 million; \$2 million above profitability level for redeveloper, (with no risk premium) • surrounded by 1200-acre area with no large Open Spaces, so providing a park where none exists would raise property values, on average, more than just permitting a new private user of the site: <ul style="list-style-type: none"> ➔ new <u>private</u> use would raise surrounding area values \$10,000/acre ➔ new <u>public</u> use would raise surrounding area values \$40,000/acre • no time lags on construction and re-use between the start year of the project and the flow of new tax revenues, regardless of new use, to simplify the comparison. (This biases the numbers in favor of new businesses, because no allowance is made for start-up lags and slow growth in sales and employment that could slow new revenues) • annual reassessments, so that the new property values can be captured immediately. 	
Site-Specific Redevelopment Calculation	
➤ <u>Private Sector Re-Use</u>	(payback period 8 years)
<subsidy needed:	\$2.4 million (the \$0.4 is for developer's risk premium)
<taxes from site <u>new values</u> :	\$0.3 million/year (on \$6 million in new on-site value)
➤ <u>Public Sector Re-Use</u>	(payback period: "forever")
<subsidy needed:	\$4.0 million (the extra \$1 million for park facilities)
<taxes from use as a park:	\$0.0 million/year
Area-Based Regeneration Calculation	
➤ <u>Private Sector Re-Use</u>	(payback period: 2.67 years)
<subsidy needed:	\$2.4 million (the \$0.4 is for developer's risk premium)
<new investment, property values:	\$18 million (\$6 million on-site; \$12 million off-site)
<taxes from area-wide <u>new values</u> :	\$0.9 million/year
➤ <u>Public Sector Re-Use</u>	(payback period: 2.08 years)
<subsidy needed:	\$5.0 million (\$4 million for park, plus new street lighting)
<new private property values:	\$48 million (\$0 million on-site; \$48 million off-site)
<taxes from area-wide <u>new values</u> :	\$2.4 million/year

A simplified comparison of the returns in area-wide and site-specific calculations for two different proposed land uses

An area-wide perspective, however, can extend the reach, impact, and efficiency of a brownfield program. This approach could broaden political support for, and willingness to commit funds to, brownfield redevelopment efforts. The wider visions requires that decision-makers remember that:

- ➔ Brownfields are NOT isolated properties: they exist in an area-wide real estate market
- ➔ Good land use planning includes calculations of spillovers and cumulative effects
- ➔ Infill development can offer an alternative to sprawl — but only if new housing has market appeal
- ➔ Higher density is not necessarily bad — but it depends on accompanying public amenities
- ➔ Environmental justice may be served by promoting impoverished neighborhoods as investment areas

And finally, an area approach can broaden the funding for brownfield programs: The available level of tax increment-type financing for such projects will rise if the off-site property value gains from individual site cleanups are included in revenue yield calculations.

Evansville - Leading the Way in Southwest Indiana

(Special thanks to Carolyn Rusk for her assistance with this article)

In January 2001, the city of Evansville showed its commitment to brownfields redevelopment by joining with the Evansville Urban Enterprise Association to create a new brownfields coordinator position.

Carolyn Rusk was hired as the city's first coordinator, whose offices are located within the city's Department of Metropolitan Development (the economic development arm of the city).

For Evansville's Brownfield Initiative, Ms. Rusk has begun the task of developing a database of Evansville brownfield sites that identifies locations, past uses, tax status, types of contaminants and other relevant information. The initiative also includes the development of a brownfields resource center.

An emphasis has been placed on working jointly with other agencies, organizations and private businesses for brownfield redevelopment within the community. The partnerships that the city of Evansville aims to create also extend to its relationships with state agencies; the city has worked with IDEM, the Indiana Development Finance Authority (IDFA) and Indiana Department of Commerce (IDOC) to further enhance its objectives, which have resulted in the following:

- Indiana Brownfields Site Assessment Grants were awarded to Evansville in 1998 for gas station and dry cleaning properties on Lincoln Avenue and in

2000 and 2001 for the General Waste salvage yard site.

- An IDOC Enterprise Zone brownfield grant was awarded in 2001 for site assessment of the Swanson-Nunn property.



A former Lincoln Avenue gas station is now a retail shop.

- IDEM Brownfields Program Site Status Letters were issued for three other privately held properties located in Evansville.

The two most creative projects to date, however, are unique to Indiana. First is the initiative's formation of a brownfields corporation. According to Ms. Rusk, this corporation will be a not-for-profit organization whose primary objective will be to act when local government cannot or chooses not to act on a brownfield site, such as when timing or confidentiality are

critical to a project. Although the corporation will operate separately from the city, it will share the common goal of brownfields redevelopment. The corporation may acquire brownfield sites; conduct assessments; remediate, hold, and lease property. With the corporation holding title and subsequently leasing remediated property to private entities, a new level of liability protection for private parties can be achieved. Ms. Rusk conducted a national research effort to locate a similar model on which to base the corporation; after finding nothing to

fit that role, Evansville created its own program, developing a corporation that may be a model for others. Ms. Rusk states, "This corporation will be only one tool available to us to access as needed."

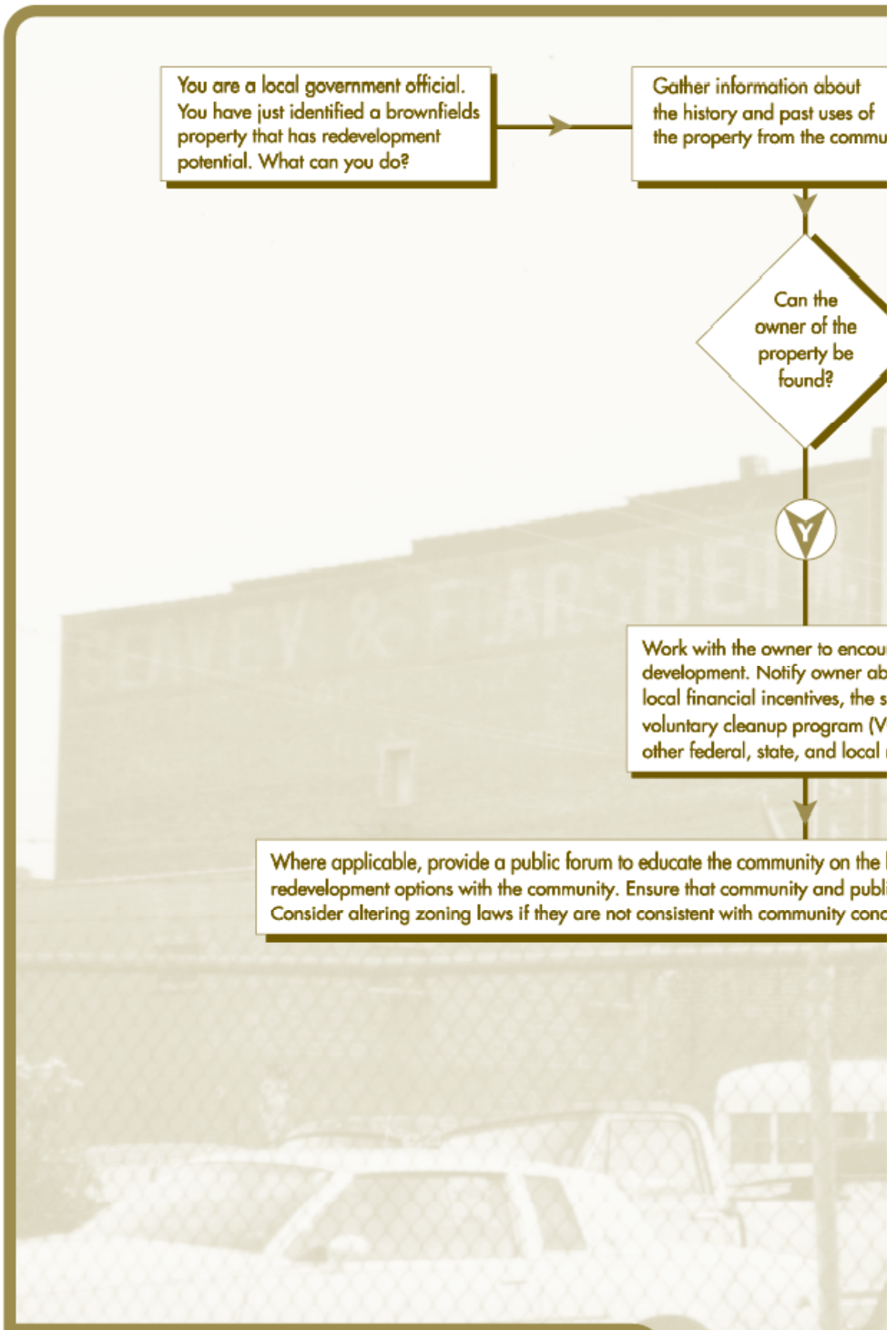
Second was a brownfield forum held on October 25, 2001. Evansville

Mayor Russell Lloyd, state representatives, Ms. Rusk and other city representatives, as well as IDEM officials, shared their perspectives on brownfields redevelopment with the 90-plus participants. The forum was an opportunity for the public to learn more about brownfields redevelopment, ask questions and provide input on the city's initiative.

For more information on the city's initiative, contact Carolyn Rusk at (812) 436-7823 or at crusk@evansvillegov.org.

How to Move Forward With a Brownfields Property in Your Community

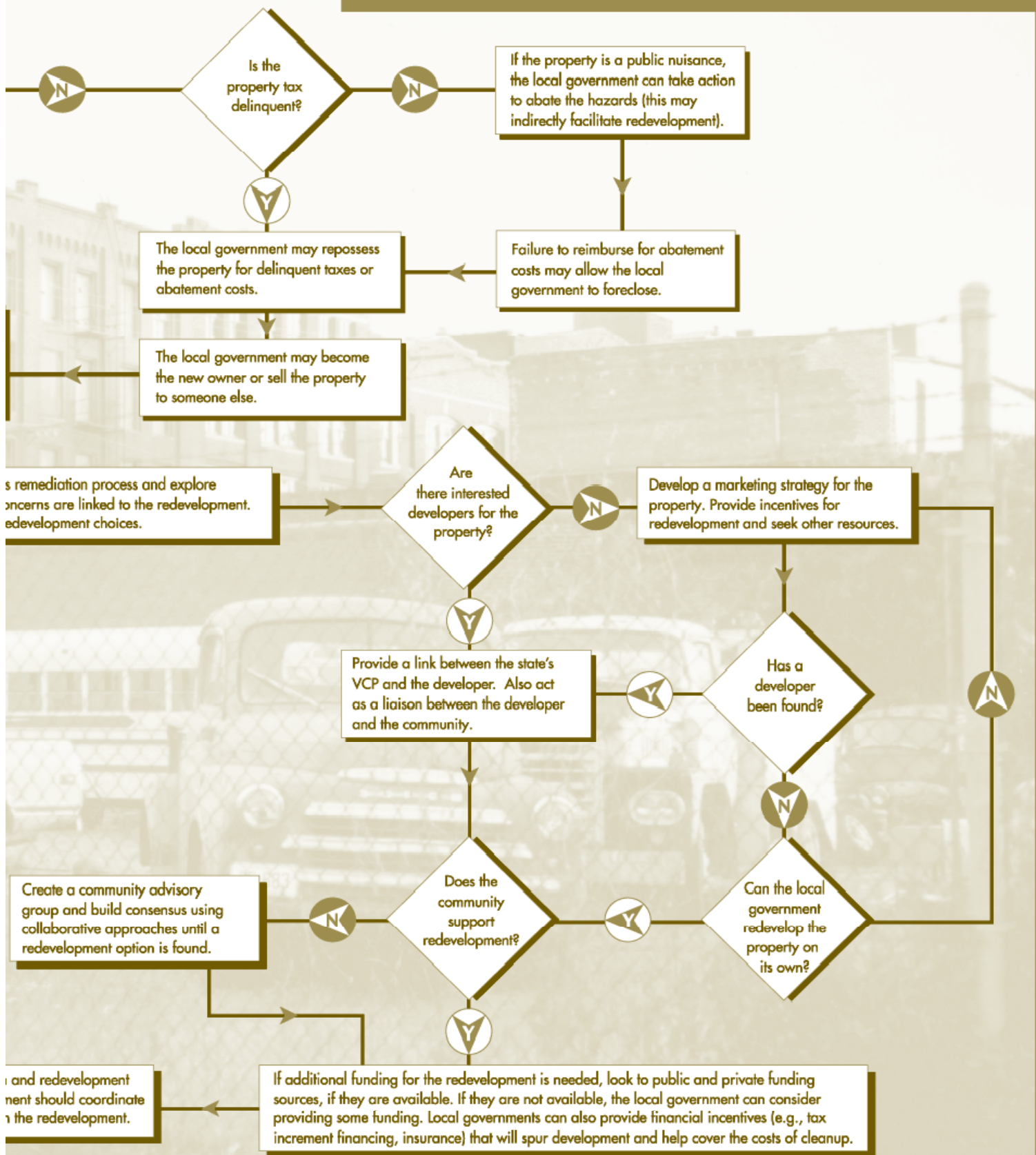
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Funded by the
U.S. Environmental Protection Agency
Office of Solid Waste Emergency Response

Local Government Decision Tree For Brownfields Development



Pay For Performance: A New Concept In Cleanup Agreements

Imagine a professional sports player being paid a fixed salary--not too difficult to do. However, this player would not receive a full salary until certain goals, agreed to by both parties, were achieved by that player. That may leave some superstars without the superstar salaries. But the team owners would benefit by only paying for what they're getting, and it would create the incentive for players to strive to accomplish more. This approach can also be applied to the development of cleanup agreements.

Environmental cleanup contracts are generally made using time-and-materials (T&M) agreements, in which the contractor is paid for time and materials used regardless of whether this reduces contamination. But now, one of many interesting trends in cleanups being reviewed by the National Governors Association is the concept of "Pay for Performance" (PFP) instead of "Pay for Service." PFP cleanup contracts pay out a total fixed price incrementally, so that the contractor gets paid fixed amounts as contamination-reductions reach pre-set milestone levels. The faster the cleanup succeeds, the more the contractor can profit. In this way, PFP is intended to reward and encourage actual pollution reductions.

According to the Environmental Protection Agency's (EPA) "Interactive Briefing on Pay for Performance Cleanups," which can be viewed online at <http://www.epa.gov/>

[swerust1/pfp/brief1/prp1-2.htm](http://www.epa.gov/swerust1/pfp/brief1/prp1-2.htm), there are three basic elements of a PFP cleanup agreement. Those

elements are 1) a maximum fixed price, 2) contamination-reduction payment criteria, and 3) a payment schedule that apportions payments. To date, PFP has been primarily used in cleanup projects concerning underground storage tanks, but the potential exists for use in many other areas of cleanup.

Many states, including Florida, South Carolina and Utah, have fully implemented PFP programs, and several other states across the country now utilize the PFP format in some capacity. However, PFP does not have to be applied only to state-lead projects. It can also be an option for private party contracts between a

site owner and a privately-hired cleanup contractor. One drawback of PFP programs is that initial cleanup contract rates may be higher because a price is negotiated up front for the entire cleanup. A concern of cleanup contractors is that they may suffer some financial hardship due to the challenge of meeting

the initial costs of installing and setting up a cleanup system. However, as discussed on the aforementioned EPA web page, PFP agreements can include assurances that one or two payments will be provided early in the project when the cleanup system is proven to be installed and fully operational. A PFP agreement can reward effective, efficient cleanup contractors and technologies since a contractor stands to profit more when cleanup is achieved faster.

More information on PFP programs may be found at <http://www.epa.gov/swerust1/pfp/index.htm>.

PFP Cleanups	Time and Materials Cleanups
Cleanup contractor gets paid each time a contamination-reduction milestone is reached.	Cleanup contractor gets paid for time and materials used during billing period.
Cleanup price is certain: a firm, fixed price is set for the cleanup in advance.	Cleanup price is uncertain: estimated price of cleanup often rises significantly due to change orders.
Contractor gets fiscal rewards (more profit) for cleaning up faster, at lower internal cost.	Contractor gets fiscal rewards (more cash flow) for working longer, incurring more internal costs.

Score Card
Brownfields Program

57



Comfort and Site Status letters issued*

104



Grants awarded

36

Assessments completed



15



Loans approved

*Site Status Letters have been developed to replace No Further Action Letters formerly issued by IDEM's Brownfields Program.

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Indianapolis, IN 46206-6015

In Brief

Indiana Brownfields Site Assessment Grant Awards

In September and October 2001, 10 communities were awarded Indiana Brownfields Site Assessment Grants available through the Environmental Remediation Revolving Loan Fund (ERRLF). The Indiana Development Finance Authority (IDFA), Indiana Department of Commerce (IDOC) and IDEM staff reviewed a total of 13 grant applications received for the August 3, 2001 round of grants. The decision to award funding was a cooperative effort by these three state agencies. The total amount requested was \$471,000. A total of \$277,365 was awarded in grants for the following communities for site assessment activities, several of which cover multiple sites.

Following is a list of those communities with their respective grant award amounts:

POLITICAL SUBDIVISION	AMOUNT AWARDED
City of Tell City	\$13,985
City of Greenwood	\$19,656
Town of Winona Lake	\$42,000
City of Washington	\$19,010
Town of Holton	\$5,000
City of Indianapolis	\$16,525
City of Bloomington	\$48,496
City of Evansville	\$50,000
City of Elkhart	\$42,000
City of Muncie	\$20,693

Q: Where can I find information on financial and technical resources that are available beyond what IDEM and the Indiana Development Finance Authority provide?

A: The appendices in the *Indiana Brownfields Redevelopment Resource Guide* are a compilation of many potential resources for a brownfields project. These resources include grant, loan, and assessment programs available through the various Interagency Brownfields Task Force member agencies. An updated version of the Resource Guide became available in March 2001 and can be obtained free of charge. A hard copy can be requested by contacting Tracy Concannon, of the Brownfields Program, or it can be downloaded from the Brownfields Program web page. Also, on the Brownfields Program web page is a link to funding available from state and federal agencies and private organizations for the various stages of brownfields redevelopment.



Brownfields Bulletin is published quarterly by the Indiana Department of Environmental Management to inform local government officials, business representatives and interest groups about brownfields redevelopment initiatives and success stories from within and beyond the state. A brownfield site is an industrial or commercial property that is abandoned, inactive or underutilized due to actual or perceived environmental contamination. IDEM's overall mission is to make Indiana a cleaner, healthier place to live. IDEM's brownfields initiative helps communities remove barriers for sustainable growth.

Comments and ideas are welcome; e-mail Sandy Bardes of the IDEM Brownfields Program. For address changes or to be added or deleted from the mailing list, call (800) 451-6027, press 0 and ask for ext. 2-4402, or call (317) 232-4402 or e-mail dchester@dem.state.in.us.

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IDEM's toll-free number: (800) 451-6027, press 0 and ask for a person by name or number, or dial direct.

Who Can Help

Technical and educational assistance

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