Report from the Consultation on Brownfields Subsidies

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On March 14, 2007 twenty-five people from diverse constituencies met in Washington, DC for the first Consultation on Brownfields Subsidies. The overall question facing the participants was, **"How can we generate the best possible public returns to provision of subsidies for investments in brownfield redevelopment?"**

Participants in the Consultation, hosted by the Urban Land Institute, heard presentations from local government officials from Louisville, Kentucky and Indianapolis, Indiana. Both described their efforts to target development to blighted geographic areas within their jurisdictions. Then an official from brownfield-redeveloper Cherokee Denver and a community organizer described the planned Gates Rubber site development, just south of downtown Denver.

The following is not a consensus report of the meeting. No consensus was pursued, just an exchange of experience and informed opinion. The organizers offer here a selective summary of **some of** the diverse ideas discussed. These ideas and the first exchange will be used by the organizers to pursue funding for a broader, recurring forum that will develop common ground across the various stakeholder groups engaged in brownfields activity on the subsidies issue.

In general, there are two types of subsidies: those that are designed to influence **where** development occurs and those that influence **how** development occurs on specific property. In some instances cases, the two co-exist.

WHERE—Louisville and Indianapolis: Attracting Development Capital

The Louisville and Indianapolis representatives described their cities' efforts to attract investment to their brownfield sites and depressed areas. As municipal office holders, the challenge they face is that of promoting development, particularly job-creating development and housing, within their boundaries. They use subsidies to combat the advantages—particularly the absence of environmental limitations—of surrounding greenfields (property which has not been developed in the past). They proceed on the assumption that development in the designated areas is good for the community. Both presenters noted that promoting that development in most cases is so difficult that the issue of shaping it further to promote community interests becomes very difficult to add into the mix.

Both Indianapolis and Louisville nominally have neighborhood organizations that are recognized—and in some instances funded—by their municipal governments. However, their role in the redevelopment process varies significantly. This variation is at least partially a function of the financial resources available to support their brownfield-related efforts.

Indianapolis took advantage of the presence of an active LISC (Local Initiative Support Corporation) office, and provides $10,000 redevelopment seed grants to neighborhood groups out of their Community Development Block Grant funds from the U.S. Department of Housing and Urban Development, with LISC generally providing the required one-to-one match. As a result, neighborhoods can get $20,000 for preliminary planning, Phase I site assessments, and the like. This has enabled many neighborhoods to take lead roles in planning their own regeneration, and the very availability of funds has heightened local organizations' interest and involvement in redevelopment. The city reports that it has enjoyed the most success in brownfield redevelopment when it pursued multiple site assessments and remediations within a defined neighborhood, and could combine the projects in a concerted effort. Those efforts, depending on their character, could be beneficiaries of additional city subsidies, financed by state economic development and brownfield regeneration funds. Off-site impacts are addressed by both the city and the neighborhoods, and they are relevant to prioritizing applications for state and federal assistance. However, they do not play an obvious role in subsidy decision-making.

In Louisville, the principal city concern has been with providing shovel-ready sites, putting brownfields on a par with greenfields, to attract new jobs and investment. With no state monies specifically allotted for brownfields, the city relies primarily on traditional state and local economic development incentives to attract investment to older industrial areas. With such incentives, neighborhood involvement is minimal. In 2000-2001, the city partnered with the Initiative for a Competitive Inner City (ICIC) to involve private, public, and nonprofit groups in the West Louisville Competitive Assessment and Strategy Project, an inner city economic development initiative. The city, along with Greater Louisville Inc., the local Chamber of Commerce, uses the menu of business incentives to implement the initiative. The West Louisville Economic Alliance Advisory Committee, a Mayor-appointed community advisory group, helps to identify business attraction priorities and identifies target areas for redevelopment to support these activities. However, the funds necessary to assess, clean up, and assemble properties to create "shovel ready" sites remain elusive. The largest target area, the Park Hill corridor, is the subject of a three-year community involvement initiative to develop a redevelopment strategy that will reposition the corridor to further attract investment. The issue of the level and type of subsidy needed remains an open question, given some city successes: As an example, Jones Soda recently created a state-of-the-art lab for drink flavorings, relocating from a suburban site to a vacant 1890's building most recently used for customizing buses,.

Discussion noted that, if the goal of such subsidies is simply to get sites developed, then one important tool for ensuring that they are effective is to make clear, from the start, that site users who depart prematurely—that is, who take the money and run—will face clawbacks. One participant pointed out that Ohio's industrial development tax abatements, not specific to brownfields alone, include a condition: If a company leaves before a period twice the duration of the tax abatement, it has to pay back 100% and interest. It was also noted that twenty different states have clawbacks in place for other economic development efforts. See http://www.goodjobsfirst.org/pdf/clawbacks_chart.pdf.

HOW—Cherokee-Gates: Providing for the Community

The Cherokee plan for its 80 acres of the former Gates Rubber manufacturing complex is clearly an example of a government (in this case the City and County of Denver) using public funds to influence what will be developed, and how. The property was already desirable for development, however, because Denver's regional transportation plan was already in place. Denver has built a light rail system, and the property surrounding the now-operating station at Gates was designated for intensive redevelopment.

The Denver case study was particularly illuminating because detailed descriptions from two perspectives, developer and community activist, sculpted a three-dimensional image of the project. In the hope of public funding, Cherokee agreed to a series of conditions requested by a broad coalition of 55 community groups, the Campaign for Responsible Development. In return, the community backed, and Cherokee received $85 million in tax-increment financing and $41 million in other bonding authority. Cherokee's plan is to build as much as 7 million square feet of office space and 4,000 housing units.

Cherokee agreed to provide more units of affordable housing—rental as well as ownership—than generally required by the city of Denver. It agreed to clean the site's contamination to residential standards, and to cooperate with the Voluntary Clean-Up Advisory Board. It agreed to prevailing (union-level) construction wages for infrastructure development, and it agreed to first source (local) hiring for its other direct (public facilities) hiring—at a “living wage.” It promised to make payments to the local school system, in lieu of taxes, after build-out, and it even agreed to a novel profit-sharing plan. If, as the result of the city-backed development, it makes more money than originally expected, it will pay a share back to the city—on a continuing basis. It's notable, however, that with one exception—a promise not to bring in a big-box retail stores—Cherokee did not directly make promises to the grassroots coalition. Though it met with the coalition for three years, in the final analysis it dealt directly with the city. Therefore, activists call the outcome a Community Benefits Package, not a Community Benefits Agreement.

Denver's largest transit-oriented development, the Gates site, is designed to serve the people who live in its surrounding neighborhoods. Given the limited legal powers of the grassroots coalition, however, it could not enter into direct contracts with Cherokee and thus guarantee local residents. Only the city had that power, and it also had broader objectives in dealing with Cherokee. There is never a guarantee that an economically successful development will not lead to gentrification or local community displacement. In the Gates Rubber site case, the provision of subsidized housing and good, local jobs are viable strategies for *resisting* displacement.

Rate of Return

Some of the Consultation participants questioned whether conditions on subsidies would kill otherwise viable deals. That is, in proverbial terms, they would kill the goose that laid the golden egg.

But the Cherokee representative, as well as others, explained that developers are looking for a target rate of return. Costly conditions can be overcome with comparable subsidies. Furthermore, intangible benefits may also make otherwise costly demands acceptable. These benefits may include certainty in decision-making, speedier proposal review and permitting, corporate goodwill, and the opening of opportunities for future projects. Members of the community coalition in Denver are prepared to endorse Cherokee projects elsewhere in the area based upon their experience, thus providing another valuable benefit to offset costs associated with the Community Benefits Package.

Public dollars need to be held to a similar standard to that of private dollars. That is, rather than automatically offer subsidies to any brownfields project, state and local economic development organizations need to weigh the rates of return to their expenditures. While long-term growth in tax revenue is relatively easy to project, it's harder to quantify other benefits, such as the availability of affordable housing or safe, walkable streets and plazas. Even net new job creation is hard to measure, since job gains created at one site in a community may be offset by job losses elsewhere. Clearly local government would benefit from tools that allow them to assess the benefits, perhaps by calculating what it would cost to achieve the same objectives through direct expenditure.

Public Involvement

Participants agreed that early, often, and continuing community—that is, grassroots neighborhood's, not just local officials'—involvement is essential if brownfields projects are to target community needs. While some suggested the subsidies could be made contingent upon private developers providing and sustaining forums for public participation, in many cases it is necessary to involve the public even before negotiations on a subsidy package begin.

In some ways, Denver's Campaign for Responsible Development offered an ideal form of public-developer interaction. With a grant from Making Connections Denver, community groups with a variety of missions unified behind a consensus platform. The city, regulators, and Cherokee didn't need to meet with a variety of community groups and figure out who was who. The Campaign provided one-stop "shopping." They didn't have to renegotiate the package as new interest groups discovered the potential "gold mine" associated with the redevelopment.

The Gates-Cherokee Community Benefits Package offers one promising answer to the question posed by organizers of the March 14 meeting. It is a replicable model, but as some of the participants pointed out, it might not work for smaller projects, due to the effort level required for negotiations, or in weaker real estate markets, in which attainment of needed rates of return are more difficult. On the other hand, several small projects in the same area could be grouped into a neighborhood-wide benefits package. In any case, most communities will need financial or technical support, if not from foundations, from government agencies, to take a constructive seat at the brownfields table early enough to harmonize the interests of government agencies, private parties, and affected communities.

Next Steps

The Consultation was considered by the participants as a good first step toward more effective utilization of public sector resources for brownfield redevelopment. No specific plans for next steps were promulgated but many prospects and considerations were raised.

First, participants considered the objectives of further consultations. Possibilities that they raised included:

- the derivation of standards or principles for guiding assessment of subsidy options, including consideration of whether the measures should be municipal or regional impacts;
- the creation of tools for state and local economic development officials to use in those assessments, including both legislative language governing subsidy allocation and identification of data needs and how they could be met
- identification of the relationship between constraints on greenfield development and subsidies for brownfield regeneration
- determination of “appropriate” community involvement levels, mechanisms, and means of assuring longer-term neighborhood benefits from redevelopment

Next, participants briefly considered parties to invite to the discussion as well as possible sources of funding to support their travel and other expenses. As a result, Consultation organizers plans to make a stronger effort to involve more representatives from local and state governments and their national associations, as well as more representatives of community organizations.

They also proposed inviting responsible parties (polluters). They have a stake because more cost-effective redevelopment that provides benefits to both the public and new investors might actually lower the costs the prior owners bear as responsible parties. Thus, they might be interested in supporting further consultations.

Participants also plan to seek funding from foundations, especially from organizations that normally support community regeneration efforts.

In summary, the diverse group of brownfields stakeholders who attended the first Consultation on Brownfields Subsidies found the discussion both valuable and tantalizing. Future meetings may generate common concepts that will strengthen the contribution that brownfields redevelopment projects make to communities across the United States.