

***Statement of Charles Bartsch
Senior Policy Analyst for Economic Development/Brownfields
Northeast-Midwest Institute***

***on
Using HUD's BEDI Program to Enhance
Brownfield Financing Opportunities***

***before the
U.S. House of Representatives
Financial Services Committee
Subcommittee on Housing and Community Opportunity***

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Madame Chairman and members of the Housing and Community Opportunity Subcommittee, thank you for the opportunity to testify about federal program financing issues that affect the productive reuse of older, often contaminated industrial and commercial sites. I am Charles Bartsch, senior economic development policy analyst at the Northeast-Midwest Institute, and a specialist in brownfield issues. Since 1991, the Institute — working closely with the bi-partisan Northeast-Midwest Congressional Coalition, currently co-chaired by Reps. Jack Quinn and Marty Meehan — has examined the relationship between environmental contamination and economic development. A key part of that effort has been identifying ways in which existing federal financing programs could be more creatively and usefully linked with the resource needs of brownfield sites.

The Institute has analyzed site reuse activities in nearly 100 jurisdictions — large cities like Pittsburgh, Chicago, Los Angeles, and Cleveland; mid-sized cities like Buffalo, Kansas City, Worcester, and Bridgeport; and small towns like Ocanto, Wisconsin, Glen Cove, New York, and Wyandotte, Michigan. Our research has indicated that, while the problems surrounding reuse of contaminated sites are crucial ones in the nation's traditional industrial centers, they are by no means confined to such communities. The issue of brownfields is widespread, having surfaced in every state across the country. To address it, communities need practical public-sector tools and approaches that are easy to access and easy to use. This need is especially critical for small cities and towns with little staff capacity and resources of their own.

This hearing is especially timely. Just two months ago, on January 11, President Bush signed the Brownfield Revitalization and Environmental Restoration Act into law. That act sets

the stage for new public-private partnerships that can resolve thorny liability issues that impede site reuse, and also clarifies the state-federal relationship regarding cleanup finality. These are solid steps forward. But brownfield challenges remain. Now, Congressional efforts must shift to focus on the most significant remaining barrier to brownfield redevelopment – financing.

The biggest hurdle that cities, communities, and the private sector face when trying to acquire and redevelop contaminated property is the lack of capital to carry out essential early-stage activities – site assessment, remediation planning, and the actual cleanup itself. Private financiers, on their own, are often not willing or able to provide the funding needed to take a brownfield property through the full redevelopment cycle. Moreover, the issue of brownfields has given rise to concerns about project risk and collateral value, complicating the traditional view of creditworthiness, and increasing transaction costs for these sites. There is a clear and critical role for HUD to play in helping to make the investments that can fill the brownfields capital gap and improve the market conditions for these properties. The Brownfield Economic Development Initiative (BEDI) program was put in place to respond to this redevelopment challenge.

What does BEDI do, and what has it achieved? BEDI funds are used to help local governments and private parties take on brownfield sites. HUD emphasizes that these resources are to be used “to finance projects and activities that will provide near-term results and demonstrable economic benefits, such as job creation and increases in the local tax base.”

BEDI is the most flexible federal resource available to communities for brownfield purposes. Unlike EPA’s grant programs, BEDI funds can be used for the full range of redevelopment activities – from cleanup to construction. BEDI funds can address petroleum and all other types of contaminants that are still problematic for EPA, even with the new brownfield law.

Even though the program is relatively new, making its first awards in 1998, BEDI is already tallying some important results:

- **Cooper-Grant neighborhood project in Camden, New Jersey** will use \$520,000 in BEDI funds, and \$2.88 million in Section 108 loan funds, to clean and redevelop a brownfield site into 24 units of market-rate housing, establish a small community park, and make other infrastructure improvements to the area. BEDI resources are being targeted for site cleanup.
- **Conshocken Borough project in Montgomery County, Pennsylvania**, is using \$2 million in BEDI funds for environmental remediation of industrial property along the Schuylkill River. A companion \$3 million Section 108 loan will help transform the site into a 570,000-square foot e-commerce office building and 500,000-square foot residential complex.
- **The Crossroads project in Syracuse, New York** is using an \$875,000 BEDI award to address environmental remediation and economic development activities that will create jobs for low- and moderate-income individuals. A companion \$2.19 million

Section 108 loan guarantee was also awarded to redevelop the Winkleman Site, within the Crossroads Commercial and Industrial Park. This is expected to result in the introduction of 20 new businesses and 200 new jobs to the area.

- **Colorado Project in Lorain, Ohio** used a \$500,000 BEDI grant to expand the Colorado Industrial Park. A companion \$4.5 million Section 108 loan guarantee will provide a business loan to the Lorain Port Authority for additional site improvements, and to create a recreational area along the Black River.

Clearly, BEDI has been a vital component of brownfield revitalization strategies in those cities that were able to access the program and its resources.

What are the key issues surrounding BEDI brownfield sites, and how could BEDI be even more effective? These successes notwithstanding, HUD has not seen the level of grant application activity that one would expect, given the tremendous need – more than half a million brownfield sites nationally, many stymied by the lack of affordable financing. Clearly, the existing BEDI program has features which discourage its use, and these must be addressed.

The most critical issue, and one that HR 2941 addresses, is the required linkage of BEDI and Section 108. HR 2941 would de-couple these programs – a significant change with great potential benefit. Under current law, BEDI grants can not be awarded unless communities also apply for and receive a companion Section 108 loan guarantee. This adds complexity and time demands to projects, key disincentives for small and mid-sized cities that do not have large staffs able to prepare and push dual applications. It also discourages small projects because the effort and costs of structuring and securing a Section 108 loan guarantee reduce its usefulness.

Furthermore, this linkage requirement has proven difficult for many entitlement cities and counties to meet. Even if they have not reached their legal limit on Section 108 guarantees (namely, five times the amount of their annual entitlement grant), economic and political constraints effectively prohibit communities' use of the Section 108 program for brownfields – making needed BEDI resources inaccessible:

- Bond rating agencies view Section 108 loans as municipal debt, and debt levels are a touchy issue in most places; moreover, some cities have debt caps which are defined by statute or financial rules, discouraging use of Section 108.
- Communities that use Section 108 proceeds for local loan funds or infrastructure development often rely on CDBG as a backstop to pay down their Section 108 debt, and many simply do not have the ability to add more of that debt without jeopardizing basic programs and services that CDBG supports.
- In many places, mayors and city councils find it politically impossible to pledge future CDBG grants as collateral for these projects, even with HUD's outstanding record of application review and underwriting.

- In many places, local officials are not clear on the connection between CDBG and brownfields in terms of basic block grant program eligibility and compliance with low- and moderate-income benefit requirements – and they do not want to risk a HUD program audit finding by trying.

In addition, small cities face nearly insurmountable obstacles to accessing BEDI resources – first and foremost because of the required connection to Section 108. Since by law they do not get their own CDBG entitlement grants, they can offer nothing on their own to meet the required Section 108 collateral pledge. And while, in theory, they can work through their states or urban counties, in practice those entities are resistant (or even hostile) to such efforts, nervous about pledging their own entitlements, and concerned about the impact on their own flexibility to meet community development needs. To date, only a handful of small cities has been able to make the Section 108/brownfield connection – even as the need for brownfield financing resources grows.

Although a couple of states, notably Connecticut and Washington, have made an effort to work with their small cities to make this connection, the national track record is dismal. Decoupling BEDI from Section 108 would have a tremendous impact; last year, I participated in more than a dozen brownfield workshops in small towns, and this financing concern was raised in virtually every one.

In addition, HR 2941 would enhance HUD’s brownfield efforts in other important ways. The bill’s clarification that CDBG funds may be used for brownfield purposes will prove helpful to those in communities where doubts have been raised as to its applicability. This will provide jurisdictions and their communities with more flexibility in addressing various aspects of brownfield reuse.

In terms of BEDI selection criteria, the bill notes that the “Secretary shall establish criteria” for awarding grants. I would like to emphasize that BEDI’s existing criteria – need, soundness of approach, leverage, capacity of the administering organization, and coordination of the proposed project with community development objectives – have served the BEDI program well to date. They are strong, help to effectively target funds, and require applicants to offer needed information about the financial feasibility of the project and its intended benefits. These should not be changed.

In addition, HR 2941 specifically authorizes appropriations for BEDI, a key step forward for this program because it will reiterate Congress’ support for this important initiative. I would like to emphasize, though, that the resources dedicated for the BEDI initiative should not be taken from the larger CDBG program; since BEDI was first funded, it has been defined as a separate budget line item. I would urge the Subcommittee to maintain this distinction. Demands for CDBG resources are compelling in virtually every community, and resources are tight as more cities and counties qualify for entitlement status. At the same time, Congress needs to make sure – however program funding is structured – that BEDI can retain its ability to be used as a match for other public resources. For example, EPA’s cleanup grants authorized in the new brownfield statute will require a 20 percent match, and BEDI would be an excellent source for communities to use.

Finally, I urge this Subcommittee to keep a close eye on the changing demand for BEDI resources that will stem from the important program changes that HR 2941 will make. I expect that a more flexible, more widely accessible BEDI program will intensify interest in this program.

To close, the ideas put forth in HR 2941 are shared by many others in Congress. On the House side, Reps. Jack Quinn, Marty Meehan, James McGovern, and John McHugh have introduced HR 2064, which also would address the de-coupling issue. And on the Senate side, Sens. Levin and Jeffords have introduced S 1078, with a similar objective. The support for this type of change to BEDI, to make it more responsive to evolving brownfield needs and conditions, is significant and bipartisan.

Site assessment and cleanup require financial resources that many public agencies and private firms lack and find difficult to secure. And without financing, brownfield reuse projects can not go forward, further undermining efforts to revive distressed, older industrial areas. The combined efforts of the public and private sectors will be needed to move properties into the realm of economic viability, and ultimately bring prosperity back to them. Therefore, Members of this Subcommittee are to be commended for their willingness to consider and promote different approaches to the complex issue of brownfield finance.

Thank you for the opportunity to speak, and I look forward to your questions.