What Happened to the Brownfields Tax Incentive?

Webinar
April 11, 2013
Empowering localities to revitalize their communities through the exchange of strategies, tools, and best practices for brownfields reuse.
The NALGEP Brownfield Communities Network

- More than 1500 brownfields leaders in the community, non-profit, government and private sectors
- Overcoming barriers by convening experts, preparing white papers, and educating decision makers
- Providing technical assistance and sharing lessons learned through regional workshops, webinars, and conferences

NALGEP’s 20th Anniversary Celebration at Brownfields 2013

- Thursday, May 16th at 7:30 am
- Brownfields Leadership Awards to be presented
- For more information and to register, visit NALGEP’s website at www.nalgep.org
Webinar Speakers

Ken Brown, Moderator
Executive Director of NALGEP

Daniel Walsh
Director of New York City’s Office of Environmental Remediation

Evans Paull
Executive Director of the National Brownfields Coalition

Todd Voelkerding
Director of Financial Planning and Analysis, Medpace Inc.

Mark McIntyre
General Counsel for New York City’s Office of Environmental Remediation
What is Federal IRS Section 198?

- Federal tax deduction for brownfield cleanup costs
- Established in 1997
- Reauthorized biannually by Congress
- Developers used deduction ~350 times since 1997
- Sunset December 31, 2011
- Currently no effort to reinstate
How IRS Section 198 Works

• Brownfield developer performs cleanup
• State environmental agency issues 198 brownfield certification letter for eligibility
• With letter, taxpayer can deduct entire cost of remediation in year incurred against income on federal tax return
• For $1M cleanup:
  – Tax savings of $400,000 to $520,000, depending on total income tax burden in each state.
Remediation Tax Expensing Program – Project Examples

EVANS PAULL
EXECUTIVE DIRECTOR
NATIONAL BROWNFIELDS COALITION
Coalition Brownfields Leadership Circle

Platinum

Gold

Silver

Cardno-TBE
CTC Public Benefit Corp.
Genatt Associates
Geo-Technology Associates
KU Resources, Inc.
O’Neill Properties
SCS Engineers
• 8.6 acre former plastics manufacturing facility converted into a medical complex and supportive amenities representing $80 million investment.

• Soil and groundwater contamination -- PCBs, solvents, oils, metals, and other industrial materials.

• $2.4 million in returned cash flow due to the brownfield expensing incentive.
Milwaukee, Wisconsin

- 1-acre abandoned site; PCB contamination
- Project spearheaded by development consultant
- Contractor/owner expensed more than $100,000 in cleanup costs, including expenditures on parking lot cap

Dentist office and 2 apartments
AT&T Park, San Francisco

- 13-acre former landfill and industrial warehousing property near downtown
- Tax incentive worth several million in $300 million project
- Part of the larger Rincon Point-South Beach redevelopment project, a 115-acre redevelopment northeastern waterfront.

Cleanup - the landfill contained waste from a coal gasification plant and other former waterfront industries.
West Chester, Pa.
Good Will Business Park

- Alliance Environmental moved their headquarters to 8.5 acre former pharmaceutical property and dump site in economically distressed area
- Good Will Business Park: 100,000 sq. ft. of retail, public service facilities including fire department and district court
- Tax incentives provided Alliance with nearly $800,000 in tax relief

Among the business park tenants, Good Will Fire Department
Social Purpose Project – Boston Hopes

- Boston Aging Concerns acquired 21 vacant lots – redeveloped for intergenerational housing in support of foster care;
- Federal Brownfields Expensing Tax Incentive lowered the cost of the $290,000 cleanup.
- Boston’s Hope project:
  - 41 new and affordable apartments;
  - 30 seniors, ten families and their foster children.

The City turned 21 vacant lots in Dorchester over to the developer
FORMER NuTONE MANUFACTURING SITE REDEVELOPMENT — CINCINNATI, OH

Todd Voelkerding
April 11th, 2013
Former NuTone Manufacturing Facility

- 29+ acre, dormant manufacturing facility located in Cincinnati, Ohio
- Lies within a neighborhood targeted by the City of Cincinnati for economic development (Madisonville)
- Environmental uncertainty on the part of potential buyers contributed to the site remaining dormant for several years
- Acquired in a personal venture by a local business owner in 2008 - vision of establishing a campus for his expanding company (Medpace)
Development Challenges & Risks – Medpace Campus Development

• Environmental Uncertainty
  – Extent of environmental issues and necessary clean-up costs were uncertain

• Financial & Development Risk Mitigation
  – Mitigation of this risk from a financial perspective was critical in moving forward with the development
  – Timing of development was critical to the potential anchor tenant (Medpace). Significant delays due to remediation activities would have been problematic and put development plans at risk.

• State & Local Government Support, Federal Tax Incentives Critical to Making Development Happen
  – Clean Ohio Revitalization Fund (CORF) Grant ($3 Million)
  – Section 198(a) Deduction (Estimated $875,000 tax benefit)
    • Estimated based on assumed $3 Million in qualifying Section 198(a) costs x 35% tax rate
    • Only roughly $2.5 Million of the qualifying expenses were incurred prior to expiration of Section 198(a). Had it not been for this tax deduction, the timing and value of the tax benefit associated with this cost would have been uncertain.
  – Infrastructure / Road Development Grant ($300 Thousand)
  – Job Creation Tax Incentives Granted to Anchor Tennant
Development Progress – Current Status

- Medpace is the anchor tenant
  - Global headquarters of a Clinical Research Organization (CRO) employing 1,200 primarily in the US, Europe & Asia
  - Roughly 750 employees on-site in Cincinnati, occupying three buildings totaling ~330 thousand square feet of office and laboratory space
  - A meaningful number of new jobs have been added since the campus relocation, with further growth in new jobs expected in the future
  - Local payroll tax base expansion
  - Partnering with the community for further economic development in the area
  - Roughly $50 Million in investment on the site to date
Goal of Section 198 Committee

• Persuade Congress to reinstate IRS Section 198
• Two Part Plan to Prepare Outreach Effort:
  – Establish compelling support documents
  – Enlist brownfield practitioners to educate Congress in key states
• Implement outreach plan to:
  – Restore IRS Section 198 in year-end tax extender bill
  – Garner Congressional support in tax committees
    • House Ways and Means Committee
    • Senate Finance Committee
Key States: Criteria

• Congressional delegates lead governing committees
• Congressional delegates participate on governing committees
• Influential environmental leaders in Congress
• Other factors
Key States

- Florida-Nelson
- Illinois - Roskam
- Michigan-Camp/ Stabenow/Levin
- New York- Schumer
- Ohio- Portman
- Pennsylvania-Toomey
- California-5 reps
- Montana- Baucus
- Utah – Hatch
- Texas-Cornyn
- Wisconsin- Ryan
- Wyoming- Enzi
Task 1 for Preparation: Prepare Congressional Outreach Package

• Identify approximately 4-6 sites that have used IRS Sect. 198 in each critical state
• Contact developers and solicit site metrics
  – Development square footage and use
  – Job creation
  – Cleanup costs
  – Development costs
• Build state-specific outreach documents
  – Send to Mark McIntyre, NYC Mayor’s Office
Sample Outreach Package
456 Grand Street, Brooklyn

New Development Plan
Triangle Court, LLC is building a 63,000 square foot, six-story mixed use residential and commercial development with valet parking below ground. The ground floor will include 8,000 square feet of retail space split between five store fronts including a diner, a pharmacy and other small businesses. The remaining floors of the building will be developed into 50 rental apartments.

Property Remediation in the NYC Voluntary Cleanup Program
Triangle Court, LLC enrolled this 18,250 square foot property in the NYC Voluntary Cleanup Program (VCP) in March 2011. The property is located in the Williamsburg section of Brooklyn. Historically, the property was occupied by commercial and residential buildings as far back as 1905, theaters during much of the 1900’s, and gas station from 1978 to 2007. Prior to enrollment in the NYC VCP, the site was an unpaved vacant lot.

The remediation of this site was completed in March 2012 and achieved unrestricted use cleanup objectives, meaning that the property is now safe for any use with no restrictions.

Facts and Figures

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<thead>
<tr>
<th>Years Vacant Before Cleanup: 4</th>
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<tr>
<td>Development Costs: $2,000,000</td>
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<tr>
<td>Construction Jobs: 150</td>
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<tr>
<td>Permanent Jobs: 102</td>
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<tr>
<td>Estimated Federal Tax Benefit: $105,000</td>
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<tr>
<td>Projected 30-year Revenue - New York State: $2,813,466</td>
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<td>Projected 30-year Revenue - New York City: $4,679,269</td>
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Task 2 for Preparation: Enlist Brownfield Leaders to Educate Congress

• Identify prospective IRS Section 198 outreach team
  – Reside or do business in key states
  – Existing relationships and access to delegation
  – Strong interest in reauthorization of Section 198

• Develop a roster to cover outreach efforts in each key state
What We Need from You

• Do you know developers of sites that used IRS Section 198 in key states?
  – Can you secure basic data on project(s)?

• Do you know someone else who knows developers of sites that used IRS Section 198?
  – Can you acquire basic data on project(s)?

• Can you educate a key congressional delegate in a key state?

• Do you know someone else who is well suited to inform a key Congressional delegate?
  – Can you bring them on board?
What We Need from You

Basic data we need for Section 198 recipients:

– Site location
– End use for the property
– Development square footage
– Development cost
– Remediation cost
– Photograph of completed development
– Duration of prior vacancy
Role of Atlanta EPA Conference

• Want to fully utilize May 15-17 EPA Conference in Atlanta
• Build support in key states
• Can you help us identify key people in brownfield industry who will be in Atlanta?
  – Potential outreach partners
  – Developers of Section 198 brownfield projects
  – We have a list of projects that have used Section 198
• Can you help introduce us so we can establish meetings?
To Submit Site Information

Please contact:

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