FEDERAL RESERVE BANK OF SAN FRANCISCO

Community Investments Vol. 8, Issue 4 Greenlining Western Brownfields

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The subject of brownfields is one of the hottest topics of the 1996 environmental and urban redevelopment policy arena. So hot, in fact, that the Clinton administration made brownfields a top environmental priority by announcing a proposed $2 billion tax incentive for developers who clean up and redevelop brownfield sites around the nation. The President has pledged his continued support for the Environmental Protection Agency's (EPA) "Brownfield Economic Redevelopment Initiative" and recently reiterated his commitment to redevelop brownfields during a campaign stop on his way to the Democratic Convention in Chicago. The recent attention from Washington, DC is a tremendous victory for those who have followed the brownfield debate over the years, but there is still a long way to go towards implementation.

For the purposes of this article, let's start by answering a basic question: What exactly are brownfields? To some degree, they are just what they sound like -- *brown fields* -- usually former industrial sites that are now abandoned, blighted and underutilized tracts of land. Many of these sites are located in the old, eastern cities of the United States, although the West has its share of these sites as well. The distinguishing characteristic of brownfields, however, *is the real or perceived concern about environmental contamination on the site.* The number of brownfield sites in the United States has yet to be confirmed, but the Department of Housing and Urban Development (HUD) estimates there are between 200,000 and 500,000 brownfields nationwide. In California alone, that number is estimated to be between 10,000 and 50,000 sites.

Knowingly or not, we've all seen brownfield sites. The most common are old, deserted factories, plants, gas stations and vacant lots located predominantly in our inner cities, often in the backyards of low income families. Due to the rash of base closings, military bases were also recently added to the brownfields category. Regardless of what a site used to be, the complicated legal and financial aspects of environmental cleanups render many communities -- especially those in low income census tracts -- unable to marshall the resources or technical capacity to redevelop their local brownfields.

The EPA is working on a number of actions to restore contaminated property, including collaboration with the joint Federal agencies on recent revisions to the Community Reinvestment Act (CRA) regulations. For the first time since its enactment in 1977, lenders may receive CRA credit for loans originated for the purpose of brownfield assessment, cleanup, and/or redevelopment-- as long as the effort is part of a larger plan to revitalize the low-or moderate-income community in which the brownfield is located. In addition, a shortage of available land has refocused urban revitalization efforts, and many redevelopment agencies are now actively engaged in assessing the economic viability of local brownfields.

Let us be clear about one important fact. While it is true that brownfields need to be cleaned up, they are not toxic waste dumps, and they pose no serious public health risks to their surrounding communities. Under current federal and state environmental laws, however, owners of contaminated property are liable for its cleanup even if they did not contribute to the actual contamination. This liability scheme to "make the polluter pay" was designed to spare the taxpayer from absorbing cleanup costs. But the scheme may have backfired.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), also known as Superfund, caused many investors, developers, lenders and prospective buyers to shy away from brownfield redevelopment in the fear that they would be held responsible for all the cleanup costs involved in the redevelopment. This has only perpetuated the existence of brownfields instead of improving the quality of urban life.

Brownfield Redevelopment: A Win-Win Situation

The importance of redeveloping brownfields can best be summarized by EPA Administrator Carol Browner's comment last June during an announcement of fifty pilot projects across the nation:

"Everyone wins," she said. "Brownfield projects bring together community leaders, investors, lenders, developers, and citizens to work together and develop their own plans to turn economically abandoned areas into environmentally safe, economically attractive areas."

This collaborative process is what makes brownfield redevelopment unique among traditional economic development initiatives. Working together to revitalize urban sites creates renewed excitement and energy in otherwise stagnant, long forgotten areas.

An example of this renewed energy is the recent transformation of an old rendering plant site in Pittsburgh, Pennsylvania. For years, the old, dilapidated plant sat on valuable real estate adjacent to downtown Pittsburgh. Because the Mayor's Office of Economic Development adopted a policy of urban re-use, it decided to partner with the Urban Redevelopment Authority, several developers and local financial institutions to literally recreate the forty-two acre site. Washington's Landing, as it is now called, offers a myriad of benefits to local residents including new housing, recreation facilities, parks and commercial space. Best of all, the businesses there employ over five hundred local residents.

Like Washington's Landing in Pittsburgh, the majority of brownfields in inner cities are prime opportunities for economic development, ripe with potential for redevelopment and subsequent job creation. But job creation cannot be addressed or realized until these sites are cleaned up and evaluated for re-use. According to the EPA, the idea behind the fifty pilot projects, each of which receives up to $200,000, is that cities retain both input and ongoing involvement in the economic development projects financially leveraged through the program. In this way, community involvement is crucial to planning discussions.

Brownfield Issues for Lenders

Liability is the most critical issue for lenders involved in funding brownfield projects, and this has proved to be a major stumbling-block towards brownfield development. While it is understandable that lenders are reluctant to invest under strict liability rules, even when the EPA issues a "no further action" letter, developers still have a hard time attracting lending institutions to their brownfield projects. The reason? Financial institutions are concerned that they may be held liable for the site, through financing a developer or owner, especially if the loan goes into default forcing foreclosure on the project.[1]

The EPA had to clarify liability and clean-up issues in order to tackle this significant obstacle. One result was the revision of CRA regulations to allow banks to meet their CRA obligations by making community development loans to help finance the clean-up and subsequent redevelopment of brownfield sites. Region 9 of the EPA, which includes the west coast states, has had numerous requests from attorneys seeking relief for prospective purchasers from liabilities associated with land that may be contaminated. Some of these laws will have to be relaxed, without compromising public health standards, before lenders will invest. The new CRA regulations which give credit for loans on brownfields are a solid first step.

Enter the Greenlining Institute

Over the past 20 years, the Greenlining Coalition, a multi-ethnic group of community, business, and economic development organizations has banded together to advocate for the concerns of low-income, minority, and disabled communities. In 1992, the Coalition formally created a nonprofit organization, The Greenlining Institute, to add a professional research and implementation capacity to its work and to give it a stronger, more proactive dimension. One of the greatest achievements of the Institute was the establishment of CRA agreements with several banks, most notably Wells Fargo Bank and Union Bank, which resulted in over $77 billion dollars in long term community investment commitments.

Through a generous grant from the James Irvine Foundation, The Greenlining Institute will promote major corporate and community support for implementing a statewide plan to recycle and develop California's inner city brownfields. The Institute's goals are two-fold: first, to encourage banks, insurance companies, and other financial institutions to include the financing of brownfield projects in their community development lending programs; second, to ensure that low-income and minority communities are informed about brownfields issues and are active partners in redevelopment planning discussions. Sanwa Bank California, Manufacturers Bank, and Wells Fargo Bank have already shown favorable interest. State Farm Insurance Company is also interested in learning more about the role that insurance companies might play. The Institute will facilitate discussions among lending institutions, developers, and community leaders to consider the project possibilities.

Low-income communities are at the heart of the brownfield issue. These are the communities that will be affected whether brownfields are redeveloped or not. Successful redevelopment translates into hundreds of jobs in inner cities, and because of this, The Greenlining Institute will launch statewide community education forums to raise awareness and familiarize community leaders with brownfields issues.

The commitment to redevelop brownfields is an important step towards real economic development. Success in this endeavor will be evident when we see the creation of well-paying jobs in the inner city; the limitation of "urban sprawl" in undeveloped suburban areas; the increase in stability of low-income minority communities; and the continuation of environmental awareness among inner city residents. Equally important, the active participation by community leaders in planning brownfield redevelopment truly empowers their inner city communities. Developing brownfields is indeed a sound policy that realizes the true potential of collaborative work.

[1]*Under the "Asset Conservation, Lender Liability and Deposit Insurance Act of 1996," Congress amended existing CERCLA legislation to limit the liability of lenders and fiduciaries so long as they are not part of the management of the property. For more information ora copy of the legislative language, please contact the EPA's Superfund hotline at 1-800-424-9346 or on the internet at http://www.epa.gov/brownfields/*

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