

State Money Could Boost Bay Area Brownfields

DEVELOPMENT

Grants, loans could keep site cleanups alive despite credit crunch

BY COLLEEN FLANNERY
CREJ Staff Writer

A new state grant and loan program could give a much-needed boost to certain Bay Area redevelopment sites, just as tightened credit markets begin to chill some developers' will to take on site cleanup risk.

Projects proposed for brownfield sites can stall during a credit crunch, as developers seek easier sites that may pose less of a challenge, according to Evan Reeves, the Center for Creative Land Recycling's research and policy director.

Financing troubles only add to the existing legal, regulatory and design restrictions already inherent at contaminated sites, Reeves said.

"If a developer sees his pool of credit shrinking, he feels less like taking the risk," he said.

California's Pollution Control Financing Authority members decided Dec. 18 to make \$60 million available in loans and grants to help clean up contaminated sites across the state. Cities and other "strategic partners" in brownfields cleanup, such as CCLR, will be eligible for the new funding; the state will give out grants and loans worth between \$50,000 and \$5 million.

Several ambitious Bay Area projects probably will compete for the new funding sources, Reeves said. One of those sites, **New Railroad Square LLC's** plan to redevelop Santa Rosa's historic train depot, just recently entered the site assessment phase, Reeves noted.

New Railroad Square would transform about five acres of Sonoma-Marín Area Rail Transit District land into a multifamily, multi-use project sporting 118 units of market-rate, for-sale housing and 40 units of rental, affordable housing; 44,000 square feet of retail, including the 30,000-square-foot "Public Market Hall," a sustainable market inspired by San Francisco's Ferry Building; a public square and multi-modal transit station; as well as 44,000 square feet of office space.

Completing the Cinderella-style conversion of the site, all of the buildings built on this former industrial site would achieve ambitious Leadership in Energy and Environmental Design Platinum certification by the U.S. Green Building Council, according to an October announcement by SMART.

"If they can pull it off, this site will make a great case study," Reeves said of New Railroad Square, which CCLR recently rewarded with a grant to test for industrial pollutants.

Still, some gaps between the amount of projected revenues from the project and project costs currently have transit and city officials looking at potential financing solutions, staffers reported during an Oct. 17 meeting of the transit district board. Developer Michael Dieden of **Creative Housing** and of **New Railroad Square LLC** currently is exploring other options for the project, including tax-increment financing, a CCLR grant and city housing trust funds as well as outside sources, such as government money, board members discussed during the meeting.

Without public money — including the Prop. 1C funding and some funding from SMART district and city sources — Dieden said the project



Redevelopment funding from the state could aid Lennar Corp. and the city of San Francisco in site cleanup at Hunters Point, a former U.S. Navy site beset by several types of radiological and chemical contamination.

wouldn't happen.

"This funding is critical," he said. "Transit-oriented development in brownfield areas such as Santa Rosa relies on strong public-private partnerships."

New Railroad Square isn't the only project stretched by financing gaps. Bayview Hunters Point in San Francisco is being redeveloped by the city of San Francisco and **Lennar Corp.** Blighted by poverty and higher-than-average crime and cancer rates, the district will compete for the funding it needs to complete the cleanup as fast as feasible, said Kyri S. McClellan, who specializes in base reuse and real estate development as a project manager for Mayor Gavin Newsom.

A current Superfund site and a former U.S. Navy facility, the site requires a lot of cleanup for the radiological and chemical contaminants that pose an environmental justice threat to Bayview, McClellan said.

The Hunters Point site is a top contender for the Prop. 1C dollars, said McClellan, who also noted that the rules allow Hunters Point to compete for state money despite its status as a federal site.

"This community deserves as many resources as possible," McClellan said.

When completed, the 771-acre San Francisco option at the former Hunters Point Naval Shipyard will include about 9,000 dwelling units, 700,000 square feet of retail and entertainment uses, 2 million square feet of commercial office space, and more than 300 acres of parks and open space.

Competitive Funding Needed

Money allocated by the state comes from Proposition 1C, one of several infrastructure bonds approved by California voters in 2006. Developments with high public benefit, such as projects designed to house elderly, disabled or low-income Californians, can apply for the grant funding. Other projects can qualify for loans at 3 percent simple interest or at London InterBank Offered Rate, plus 2 percent, depending on what percentage of affordable housing the site will offer.

But LIBOR plus 2 percent isn't really all that competitive, according to Reeves and others who spoke at a Nov. 19 meeting on the proposed rules. Additionally, the funding requirements bar certain types of inclusionary housing from getting grant money, meaning most brownfields projects will

have to compete for loans.

"The way the requirements are going, a project is going to have to be 100 percent affordable to get funded," said Desmond Parrington, infill coordinator for the city of Sacramento.

Brownfields cleanup takes a lot of green. In addition to the expenses from the project technology itself, most developers have to take out the expensive "cost cap" insurance policies that keep a \$500,000 cleanup from becoming a \$5 million cost hemorrhage.

Without cost cap, expenses can rise astronomically when litigation comes into the picture, according to Reeves.

Sometimes, cleanup isn't the development's only potential legal hurdle, said Katie Lamont, a project developer with **Eden Housing**. She's working on a site in Richmond, where there's a historic preservation issue, and the project is next to both a freeway and a creek, complicating environmental-impact assessment of the site.

"Sadly, brownfields are often not the only problem we're trying to resolve," Lamont said.

Even where brownfields are the only legal problem, litigation costs can torpedo cleanups before they even begin, said Stephanie Shakofsky, the executive director of CCLR. One Los Angeles County developer dropped a brownfields redevelopment project after being told it would take between three and five years and \$500,000 in legal fees to pursue the "responsible party," the original polluter or its legal heir, she said.

Without pursuing the responsible party, though, the developer can't qualify for most kinds of federal or state funding.

These restrictions mean sites like Sacramento's Railyards — a 240-acre mixed-use site north of the city's downtown — won't be able to pursue funding, Shakofsky said. Even though historic uses of the railroads caused much of the site's present pollution, the developer, **Thomas Enterprises**, can't collect from the railroads because its 2006 purchase of the property made it the party responsible for site cleanup.

Developers like Thomas Enterprises choose to take on RP status in order to expedite the cleanup process, and shouldn't be punished for acting fast just because they didn't contaminate the property they own, the CCLR head said.

"There's a higher public policy goal here than forgiving renegade polluters," she said. "You can't always get an RP to come to the table and pull out their checkbook."

Some sites don't even have RPs. For example, many Oakland sites suffer from lead contamination caused by pollution from the leaded gasoline formerly used by California drivers, explained Mark Gomez, environmental program supervisor for the city of Oakland.

It's not fair to make the former property owner pay for pollution caused by passing cars, he said.

Money from the grant program will cover things like lead contamination, as well as the kind of contamination caused by the presence of asbestos or lead paint from the previous owner's building.

Handed out in tiers, the first loan monies will go to "economically distressed communities," and second, to those with existing infrastructure. Sites not currently listed as federal Superfund sites receive top priority over Superfund sites because

See **BOOST**, page 5

BOOST

Continued from page 3

Superfund sites theoretically have federal funding available, according to the regulatory text.

Superfund sites need state funding too, because the state's cleanup rules are much tougher than the federal ones, Gomez said. Disputes over whether to follow federal or state cleanup rules are common, he added.

"A lot of times, the federal government will only clean up to federal standards," Gomez said. "These sites still aren't usable under California standards."

San Francisco's McClellan said she was glad that the Hunters Point site remains eligible for state funds despite its status as a former military property. As originally drafted, the CPCFA's brownfields rules wouldn't have allowed federal Superfund or military sites to qualify for state relief, but the rules were broadened to help sites like Hunters Point fill the emerging financing gaps.

"There are limited clean-up resources available for closed military bases," she said.

CPCFA will begin taking applications for the money this month, and funds may become available as soon as March or April, according to Michael Paparian, the authority's executive director.

— E-mail Colleen_Flannery@DailyJournal.com

WWW.CAREALESTATEJOURNAL.COM