
June 1995

COMMUNITY DEVELOPMENT

Reuse of Urban Industrial Sites



**Resources, Community, and
Economic Development Division**

B-261177

June 30, 1995

The Honorable Jan Meyers
Chair, Committee on Small Business
House of Representatives

Dear Madam Chair:

Over the last several decades, many communities throughout the nation have experienced a loss of manufacturing industries. As a result, urban areas that once housed such manufacturing and served as major employment centers now contain vacant, abandoned, or underused industrial sites. As urban communities seek to revitalize their economies and create jobs for their residents, these sites, widely known as “brownfields,” are once again the focus of attention because of their potential for redevelopment. One obstacle to redevelopment is that brownfield sites are often contaminated or perceived to be contaminated with hazardous substances.

This report responds to your request for information about brownfields and federal initiatives to facilitate their reuse. Specifically, you asked us to

- determine what is known about the extent and nature of abandoned industrial sites in distressed urban communities and the barriers brownfields present to redevelopment efforts and
- provide information on federal initiatives aimed at helping communities overcome obstacles to reusing brownfield sites.

Background

In many cases, contamination on idle or underused industrial sites—brownfields—is not identified until the sites are sold or an environmental accident—such as a toxic substance seeping into drinking water—occurs. Once contamination is identified, federal and state environmental laws and regulations impose potentially broad pollution cleanup liability. For example, under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), commonly known as Superfund, past or present owners of a site containing hazardous substances may be liable for cleanup costs. Also, each party responsible for cleanup costs may be held liable under CERCLA for the entire cost of the cleanup. While the Environmental Protection Agency’s (EPA) policy is to place only the worst sites on its National Priorities List for cleanup under

Superfund¹, federal environmental laws—including liability standards—still apply to sites with lower-level contamination. This report explores issues related to redeveloping brownfield sites with lower-level contamination that are not on the National Priorities List. We collected information on state and local initiatives in Boston, Massachusetts; Union County, New Jersey; Chicago, Illinois; and Pittsburgh, Pennsylvania, because these cities were identified by EPA officials and brownfield researchers as having active site reuse programs.

Results in Brief

While no national inventory of brownfield sites exists, states have identified thousands of former industrial sites that lie abandoned and possibly contaminated. Since these sites are typically not contaminated enough to qualify for the federal Superfund's list of the most seriously contaminated sites, many offer greater potential to be redeveloped. However, in part because of far-reaching and uncertain liability imposed by federal and state environmental laws, developers and lenders have been reluctant to get involved with industrial properties. Faced with this situation, state and local governments across the nation have created initiatives to speed redevelopment, such as offering loans for cleanup and changing state and local laws to protect new purchasers from liability.

Although the issues related to redeveloping brownfields have remained primarily state and local in nature, federal agencies—mainly the EPA, the Department of Commerce's Economic Development Administration (EDA), and the Department of Housing and Urban Development (HUD)—have begun assisting local efforts to reclaim sites. EPA has provided demonstration grants to three jurisdictions to redevelop their industrial properties and has recently acted to remove about 25,000 properties that were not contaminated or had been cleaned up from its national data base of potentially contaminated sites. EDA has provided financial support for brownfield research and also acquired practical experience from cleaning up properties it acquired through loan defaults. HUD has developed and is now implementing a brownfield policy that includes emphasis on the issue through its Empowerment Zone and Enterprise Community program. HUD and EPA have also initiated a joint research project to study several brownfield issues.

¹The National Priorities List is EPA's list of sites designated for cleanup under CERCLA. As of December 1994, there were over 1,200 sites on the National Priorities List.

Cities With Brownfields Face Obstacles in Redeveloping Them

While the precise magnitude and severity of brownfields is unknown because there is no national inventory, the cities we visited had hundreds of acres of brownfields. In trying to redevelop brownfields, local governments and community organizations have faced reluctance on the part of lenders and developers who fear having to pay for costly environmental cleanups. To overcome this obstacle and others and to speed redevelopment, state and local governments have created a variety of initiatives.

The Number of Unused Industrial Sites Is Large

State and local governments have estimated that they have thousands of vacant industrial properties that could be redeveloped. In 1987, we estimated that anywhere from about 130,000 to over 425,000 sites throughout the nation contain some contamination.² This estimate includes many vacant industrial sites. Our visits to the four states confirmed the existence of numerous former industrial sites that were once productive but now sit abandoned and probably contaminated:

- The state of Illinois has estimated that 5,000 abandoned or inactive industrial/commercial sites exist throughout the state. In Chicago alone, an estimated 18 percent of the industrial acreage is unused. This estimate includes 1,500 acres spread among 2,000 sites.
- One Boston neighborhood, located around Dudley Street, covers just 1-1/2 square miles but has within its boundaries 54 state-identified hazardous waste sites.
- A regional planning group study of Union County, New Jersey, identified 185 separate sites containing more than 2,500 acres of reusable land in the county, all zoned for commercial or industrial development.
- Towns throughout the Monongahela Valley in Pennsylvania, once a major steel-making center, contain hundreds of acres of land filled with vacant steel mills and other manufacturing facilities.

Fear of Cleanup Liability Has Slowed Revitalization Efforts

As states and localities attempt to redevelop their abandoned industrial sites, they have faced several obstacles, including the possibility of contamination and the associated liability for cleanup. This situation is caused largely by federal and state environmental laws and court decisions that impose or imply potentially far-reaching liability. The uncertain liability has encouraged businesses to build in previously

²Superfund: Extent of Nation's Potential Hazardous Waste Problem Still Unknown (GAO/RCED-88-44, Dec. 17, 1987).

undeveloped nonurban areas—called “greenfields”—where they feel more confident that no previous industrial use has occurred.

Lenders, environmental attorneys, local officials, and community development officials in the areas we visited and the documents we reviewed reported that the general uncertainty about the costs of environmental cleanup and who will pay those costs has delayed the redevelopment of industrial properties. A lending official with a large Pittsburgh-based bank, for example, stated that little redevelopment has occurred on the former steel mill sites because of environmental concerns. In some cases, the bank has chosen not to foreclose on properties because it does not want to assume cleanup and associated liabilities. Furthermore, some owners have preferred to keep properties idle rather than sell them and take the risk that the environmental assessments required upon sale will detect contamination that they will have to clean up.

A January 1995 EPA action agenda on brownfields stated that the fear of contamination and its associated liability has left many investors wary of buying properties that may be contaminated and is enough to stop real estate transactions from moving forward. In its local strategic plan, EPA’s Chicago Regional Office further concluded that lenders are often unwilling to provide loans for property that could be contaminated because they are concerned about their own liability, the reduced collateral value of the land if it is found to be contaminated, and the ability of the property owners to repay a loan if they must also pay for a major cleanup.

A variety of interest groups has also concluded that the potentially large and uncertain liability thwarts efforts to revitalize communities. For example, the U.S. Conference of Mayors has adopted the brownfield issue as one of five priority areas and has publicly endorsed EPA’s efforts to reduce the fear of and uncertainty about cleanup liability. The National Association for the Advancement of Colored People testified before the Congress in June 1994 that liability concerns have impeded the efforts of communities to clean up brownfield sites. Furthermore, the Mortgage Bankers Association of America has concluded that the redevelopment of potentially viable properties has been obstructed by concerns in the commercial real estate market that lenders will be held liable for environmental contamination that they did not cause.

Rather than face the uncertain liability and potential delays associated with an old industrial site, businesses have looked to greenfields—previously undeveloped sites in rural and suburban

areas—for expansion and new development. This trend, according to a regional EPA official, has contributed to suburban sprawl and leads to increased congestion and air pollution. Furthermore, such development requires the construction of new infrastructure and results in reduced tax bases and employment in traditional urban centers, according to state officials and community development practitioners.

In addition to the fear of and uncertainty about the costs of environmental cleanups, other factors have also contributed to the slow pace of brownfields' redevelopment. City and state officials and community development practitioners told us that, often, unused industrial sites have infrastructure weaknesses (e.g., poor transportation access), are perceived to be areas of high crime, and have a general unattractiveness that reduce their redevelopment potential.

State and Local Governments Are Responding With Initiatives to Encourage Redevelopment

Wanting to revitalize their communities and yet fearing environmental cleanups, state and local governments and community groups have responded with a variety of initiatives. These efforts address those state laws and regulations that appear to hinder redevelopment. For example, some of the provisions provide covenants not to sue so that innocent purchasers are protected from liabilities, some clarify the lender's liability, and others seek to streamline the states' regulatory processes. A few even provide seed money and loans for cleanup and redevelopment.

In Massachusetts, for example, the legislature changed environmental laws to make it clear that a lender does not automatically become liable for environmental cleanup when it forecloses on property, according to state officials. The state law also authorizes state officials to take into account future uses of the site and surrounding areas in determining the appropriate cleanup level. And, among other things, for economically distressed target areas, under a pilot program Massachusetts will provide a covenant to new property owners: The state will not sue new owners who have followed the procedures of the state's voluntary cleanup program. This provision, it is hoped, will reduce some property owners' and lenders' fear of liability for contamination identified in the future.

New Jersey recently made some similar legislative changes with the Industrial Sites Recovery Act and the Lender Liability Act. One component is a \$55 million hazardous site remediation fund to provide grants and low-interest loans for assessing and cleaning up sites. Also, the state participated in a model industrial site redevelopment project in Union

County that identified numerous sites having less contamination and more development potential than most officials had thought.

Local governments and neighborhood groups, working with other stakeholders, have also been trying to overcome obstacles and spur redevelopment. For example, officials in Chicago have recognized that if cleanup is not coupled with redevelopment, sites are likely to be recontaminated through illegal dumping. The city has worked closely with state and federal environmental protection agencies in assessing and cleaning up five demonstration brownfield sites. The project has received \$2 million in city funds for the sites, several of which have specific redevelopment plans.

In Boston, the Dudley Street neighborhood has been working to overcome the negative impact of years of industrial contamination. A community group, with the help of city officials, was recently successful in getting a private developer to build a supermarket and shopping center on a large former industrial tract. Not only does this shopping center provide essential services for community residents, but its success has caused adjacent vacant lots to become more economically viable.

Federal Efforts Are Targeted Toward Redeveloping Brownfields

As state and local governments have shown increased interest in redeveloping their industrial sites, several federal agencies have begun to help them. Both EPA and EDA have gained practical experience through redevelopment activities at several sites, while HUD has started a series of projects to carry out its brownfield strategy. In addition, the agencies have begun to coordinate their efforts and sponsor joint projects.

EPA Has Provided Aid Through Demonstration Projects and Administrative Reform

While maintaining its chief focus on the National Priorities List, EPA has in recent years become more involved with state and local governments in efforts to redevelop less contaminated industrial sites. In January 1995, the agency announced a multifaceted action agenda on brownfields, which includes a variety of ongoing, enhanced, and new initiatives.

A major element of EPA's agenda is the demonstration pilots funded under the Brownfields Economic Redevelopment Initiative. The main intent of these demonstrations, according to EPA, is to learn how environmental hurdles can be overcome and urban communities restored. The first major project started with the State of Ohio and Cuyahoga County (Cleveland) in November 1993. EPA contributed \$200,000, which the county used to

identify contaminated areas for cleanup and redevelopment. According to the Cuyahoga County Planning Commission, the project has generated \$625,000 in new tax revenues and resulted in 100 new jobs. The project also includes plans to consult with communities surrounding these sites to help decide on future uses. Two more cities, Richmond, Virginia, and Bridgeport, Connecticut, were selected as demonstration projects in 1994, and EPA expects to select 47 more locations by 1996. EPA plans to work closely with EDA to make the transition from the cleanup to the redevelopment stage of its demonstration projects.

Another item on EPA's agenda was its announcement that it has removed from its data base of potentially contaminated sites about 25,000 sites where the agency planned to take no further remedial action. According to EPA, many of these sites either were not contaminated, had already been cleaned up under state programs, or were being cleaned up; still, potential developers were reluctant to get involved with them because they remained on EPA's list. To further reduce the stigma associated with these sites, EPA officials planned an outreach program to inform interested parties about the true status of a purchaser's federal liability in each case.

To assist in removing liability barriers, the action agenda calls for EPA to develop a package of reforms to limit liability for brownfield sites. As part of this package, EPA is developing guidance that is intended to expand the circumstances under which the agency will agree not to hold prospective purchasers liable for preexisting contamination on a property. In addition, EPA plans to issue guidance explaining its policy of not pursuing lenders for cleanup costs. EPA is also working to clarify municipal liability so that local governments will be encouraged to start the cleanup process without concern for liability under Superfund.

Aside from the brownfield activities led by EPA's headquarters offices, several regional offices have formed partnerships with local governments to work on industrial site redevelopment issues. EPA's Region 5 office in Chicago, for example, has developed a strategy aimed at developing partnerships with key stakeholders, encouraging voluntary cleanups, promoting broad community participation in the cleanup processes, and disseminating information to prospective purchasers and lenders involved in brownfield sites. EPA has also loaned staff to local governments to further assist efforts to redevelop brownfields.

EDA's Projects Have Provided Operational Experience

EDA's involvement in industrial sites' redevelopment has two primary aspects: The agency, according to its environmental officer, has had direct experience in cleaning up and developing its own properties, and it has sponsored projects to educate and inform state and local entities about redevelopment issues.

The agency's direct experience stems largely from loans that EDA guaranteed in the 1970s and early 1980s to improve industrial facilities. When several borrowers defaulted on the loans, EDA acquired title to the sites and was thus faced with the responsibility for cleaning them up before they could be sold and redeveloped. The sites, which include a 176-acre steel mill in southeast Chicago and a 22-acre foundry in Two Harbors, Minnesota, have undergone environmental assessments and are now in the cleanup phase.

EDA officials have used this practical experience to help communities as they attempt to redevelop their industrial sites. The agency has provided, among other things, funds for independent research into the issues related to reusing industrial buildings. EDA has awarded a grant to develop and publish a booklet aimed at helping communities deal with their abandoned industrial sites. In addition, EDA has developed a cooperative relationship with EPA on its pilot initiative concerning brownfields, which has included providing help in selecting projects and assisting EPA on technical matters.

HUD Has Begun Several Brownfield Projects

While HUD has become active in brownfield issues relatively recently, it has developed a strategy with several ongoing and planned components. The Department's Empowerment Zone and Enterprise Community program may provide, among other things, opportunities for the agency to learn and disseminate information on how selected communities deal with issues related to reusing industrial sites. And in addition to its own initiatives, HUD has formed a cooperative relationship with EPA to pursue research and other mutually beneficial objectives.

One of HUD's first major activities in brownfield issues was a December 1994 conference on "The Relationship Between Environmental Protection and Opportunities for Inner-City Economic Development." The meeting, attended by a wide variety of federal, state, and local officials, researchers, and community development practitioners, was aimed at advising and informing HUD on programs' obstacles and policy options associated with reusing industrial sites.

In 1994, almost 300 communities applied for six federal Urban Empowerment Zone and 65 Enterprise Community designations that provide tax incentives. Empowerment Zones also provide other benefits to businesses that locate in these economically distressed communities. Several cities that received designations in late 1994 included industrial and commercial sites' redevelopment as part of their Empowerment Zone strategies:

- Chicago cited its own brownfield program as an element of its revitalization plan and listed several "environmental waivers" that could speed the cleanup and redevelopment of sites in the zone.
- Boston, which contains an Enhanced Enterprise Community, proposed a strategy including plans to redevelop a 175-acre former hospital site and create a center for emerging industries at the site of a former computer-manufacturing facility.
- For the two-state Empowerment Zone contained in Philadelphia/Camden there is a plan to clean up and redevelop a former oil company site with help from Pennsylvania's program to clean up industrial sites.

Another important brownfield project, according to HUD officials, is a research project sponsored jointly with EPA. Although the project started out with HUD, the two agencies have since combined resources and plan to contract for a study that will explore the reasons why businesses locate in certain areas. The study is designed to provide knowledge that will be useful to both agencies as they look for ways to help communities redevelop industrial sites.

HUD officials also told us that brownfield issues are mentioned specifically in two major initiatives: HUD's own plan to transform or reinvent itself and a strategy announced in March 1995 targeted to achieving environmental justice. In the reinvention plan, HUD proposes to consolidate its grants for community economic development into a single Community Opportunity Fund. A bonus pool in this program would be used to give good performers the opportunity to compete for additional funds for large-scale job creation projects and environmental cleanup of brownfield sites. HUD's environmental justice plan, which is part of a larger strategy approved by the President, designates brownfields' redevelopment as one of four priority initiatives.

Agency Comments

We requested comments on a draft of this report from EPA, the Department of Commerce, and HUD. We met with the Director for Outreach and Special

Projects Staff in the Office of Solid Waste and Emergency Response, EPA; and the Director of the Building and Technology Division in the Office of Policy Development and Research, HUD, to discuss their agencies' comments on our report. EPA and HUD generally agreed with the information provided in the report; however, both agencies said that they had made substantial recent progress on brownfield issues. We incorporated information that EPA and HUD provided us about their new initiatives into the report where appropriate.

The Department of Commerce, in written comments that are contained in appendix I of this report, suggested that we include additional information on EDA's initiatives. In response, we added to our report information about EDA's current activities and partnership with EPA. We did not address several other issues raised in the comments—such as rural brownfields and existing businesses' relocations—because the issues were beyond the scope of this assignment.

Scope and Methodology

To determine what is known about the extent and nature of abandoned industrial sites in distressed urban communities and the barriers that brownfields present to redevelopment efforts, we reviewed previous GAO reports on Superfund issues and other reports on the subject, such as the Northeast-Midwest Institute's report entitled New Life For Old Buildings and Resources for the Future's report entitled The Impact of Uncertain Environmental Liability on Industrial Real Estate Development. To find out about state and local initiatives, we visited Boston, Massachusetts; Union County, New Jersey; Chicago, Illinois; and Pittsburgh, Pennsylvania, because they were identified by EPA and brownfield researchers as having active site reuse programs. While there, we obtained information from directors of state and local government environmental and community development efforts, environmental attorneys, developers, and community development practitioners, such as those at the Jamaica Plain Neighborhood Development Corporation in Boston and Bethel New Life, Inc., in Chicago. We also interviewed public interest group officials, including the Directors of the Coalition for Low Income Community Development, the National Council for Urban Economic Development, and the Urban Land Institute and researchers and analysts at the Northeast-Midwest Institute, the Environmental Defense Fund, and Resources for the Future to obtain their perspectives on the issue.

To provide information on federal initiatives aimed at helping communities overcome obstacles to reusing brownfield sites, we

discussed brownfield programs and issues at three federal agencies—EPA, HUD, and the Department of Commerce—that were identified by public interest group, state government, or local government officials as having brownfield programs. We interviewed EPA’s Director of Outreach and Special Projects, Office of Solid Waste and Emergency Response, and her staff; HUD’s Director of the Building and Technology Division in the Office of Policy Development and Research and the Director, Office of Block Grant Assistance, and their staffs; and the environmental officer and staff in the Department of Commerce’s EDA’s Office of Research and Technical Assistance. We also reviewed programs’ guidance, policy statements, and reports on the programs at these agencies. Finally, we also contacted officials at other federal agencies, such as the Small Business Administration, the Department of Agriculture’s Farmer’s Home Administration, and the Department of Transportation, to determine whether they had any initiatives under way. We conducted our review between November 1994 and May 1995 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees and subcommittees, the Secretaries of HUD and Commerce, the Administrator of EPA, and the Director of the Office of Management and Budget. We will also make copies available to others on request. If you would like additional information on this report, please call me at (202) 512-7631.

Sincerely yours,



Judy A. England-Joseph
Director, Housing and Community
Development Issues

Comments From the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

May 30, 1995

Ms. Judy A. England-Joseph
Director
Housing and Community
Development Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. England-Joseph:

Thank you for your letter requesting the Department's comments on the draft General Accounting Office report entitled "Community Development--Reuse of Urban Industrial Sites."

As the report points out, there is no single source of data to determine the size of the problem in urban areas. It would be helpful if the GAO report could aggregate the data and provide a summary table by state of the data that has been collected.

While the study focuses on urban areas, the problem is not confined to distressed urban areas. The same problem exists wherever topography or regulations make "greenfield" development difficult. Wetlands or mountains in many rural areas restrict where development can occur. If development is restricted because of several "brownfield" sites in a rural area, they experience the same type of problems as urban areas.

The report focuses on how the problems caused by brownfields serve as barriers to redevelopment. They are also the direct cause of disinvestment that has occurred, contributing substantially to other problems noted on page 7. These will be the cause of future disinvestment unless the issues are addressed. Existing businesses are likely to move out of such areas when seeking expansion sites, rather than incur added liability. Some will relocate and refuse to market sites fearing clean up costs will exceed the price received for the land.

These issues forced many communities to rethink the role of the public sector as land owner and developer. The examples cited where the Economic Development Administration (EDA) has had a direct interest in contaminated sites have resulted in a particular sensitivity at EDA to the risks of acquiring title to contaminated sites. EDA's capacity to assist in environmental studies of existing sites is limited.

Appendix I
Comments From the Department of
Commerce

-2-

EDA has assisted in the redevelopment of urban and rural industrial sites to a far greater degree than reflected in the draft. We have undertaken probably hundreds of millions of dollars worth of redevelopment projects, many of which involved issues addressed through environmental assessments, remediation plans, oversight by state agencies, and site clean up prior to, or as part of, the EDA project investment. Such studies and clean up is often included in the value of the land, or preliminary costs eligible for reimbursement under the EDA grant.

On April 21, 1995, EDA and the Environmental Protection Agency (EPA), Office of Solid Waste and Emergency Response signed a Memorandum of Understanding (MOU) to develop a cooperative working relationship in support of the EPA's Brownfields Economic Redevelopment Initiative. Through the MOU, EDA is providing technical assistance relevant to economic development. Thus far, EDA Headquarters staff, with assistance from the Philadelphia Regional Office, have assisted EPA in the second round of the project selection process.

Once the pilot projects are selected and the grants are awarded, it is anticipated that EPA recipients will seek technical economic development assistance from EDA's field staff. The state-based Economic Development Representatives will be especially useful in assisting the recipients in the economic development of the remediated sites.

A typographical correction on page 11, the third paragraph from the top, the second line says "EPA guaranteed," but should read "EDA guaranteed." On the last line of page 11, it says "EDA has also contracted to..." but should read "EDA has awarded a grant to...."

We appreciate the opportunity to comment on the draft report.

Sincerely,



Wilbur F. Hawkins
Acting Assistant Secretary
for Economic Development

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