

Federal Brownfields Tax Incentive:

Alliance Environmental

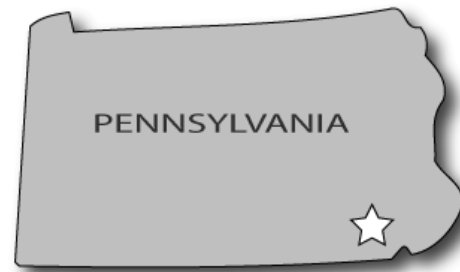
West Chester, Pennsylvania

Overview

The Federal Brownfields Tax Incentive encourages brownfields redevelopment by allowing taxpayers to reduce their taxable income by the cost of their eligible cleanup expenses. The Incentive was originally signed into law in August 1997 as part of the Taxpayer Relief Act. It was renewed in October 2004 through the Working Families Tax Relief Act of 2004 and continues until December 2005. To qualify for the Tax Incentive, three criteria must be met:

- The property must be held by the taxpayer incurring the cleanup cost for use in a trade or business;
- Hazardous substances must be present or potentially present on the property; and
- The taxpayer must obtain a statement from a designated state agency verifying eligibility for the Tax Incentive.

Designed to spur investment in blighted properties and assist in revitalizing communities, the Federal Brownfields Tax Incentive can serve as a critical tool in brownfields cleanup and redevelopment efforts.



Project Highlights

- The Federal Brownfields Tax Incentive was instrumental in enabling Alliance Environmental to clean up and redevelop an 8.5-acre former landfill and pharmaceutical property in an economically distressed neighborhood of West Chester, Pennsylvania.
- Now the location of the Good Will Business Park, which encompasses over 100,000 square feet of retail space, the property supports many tenants including a local volunteer fire department, the West Chester Area Senior Center, and a district court building.
- The Federal Brownfields Tax Incentive provided Alliance Environmental with nearly \$800,000 in tax relief.

Project Background

Alliance Environmental is a demolition and environmental service company located in West Chester, Pennsylvania. In 1997, faced with the need for larger office and storage facilities, the company was looking to expand its headquarters. The company identified a nearby, 8.5-acre property with a building that Alliance hoped to renovate. The site's former uses included a brick quarry, a landfill, and a pharmaceutical manufacturing facility, Wyeth Incorporated. Wyeth had produced penicillin in the 1970s and '80s and groundwater on the property remained contaminated from this and other activities. Before any construction could begin, Alliance knew that it would have to address the environmental cleanup issues associated with the property.

Benefits of the Tax Incentive

Once Alliance identified the contaminated property and saw its potential, the cleanup and redevelopment process began with Alliance purchasing the property in 1998. Through a newsletter published by a local environmental consulting firm, Alliance learned about the Tax Incentive. In analyzing its financial options, the company realized the Tax Incentive's value. For a small business like Alliance, the Tax Incentive was critical to maintaining adequate cash flow during cleanup and redevelopment. Alliance was able to expense its cleanup costs at the end of the year and receive an injection of cash as a tax refund.

Once the site was cleaned up, the existing building was renovated, and other buildings were constructed from the ground up. The site is now home to the Good Will Business Park. Income from leasing of the Business Park has enabled Alliance to expand its revenue base. The company has also expanded its scope of work from primarily asbestos abatement and demolition work to include property cleanup and redevelopment. A combination of the Federal Brownfields Tax Incentive and a local, municipal tax incentive program provided Alliance with nearly \$800,000 in tax relief.

Process for Utilizing the Tax Incentive

While Alliance's accountant was initially hesitant about using the then-new Federal Tax Incentive, the company found the Incentive's application and approval process to be straightforward. Senya Isayeff, a principal of Alliance Environmental, also found the process to be customer-oriented and streamlined. Isayeff obtained an eligibility statement from the Pennsylvania Department of Environmental Protection's (DEP) web site and completed the application in one day. Within a week, DEP had provided Alliance with a letter that approved the site as qualified for the Tax Incentive. According to Mr. Isayeff, throughout the process, DEP staff were committed to making the process work, and handled all inquiries with efficiency and professionalism.

Alliance also made use of local tax incentives for the Good Will Business Park project. In

particular, Alliance used a municipal tax extension in Chester county called LERTA, which offers a three-year abatement for increased value in property taxes. As a result, Alliance only had to pay taxes on the previously determined value of the property. Alliance was also able to use state programs to assist with brownfields restoration, which dovetailed well with the Tax Incentive. The first was the Pennsylvania Act 2 Program, which provides indemnity to the developer from liability issues; the second was the Pennsylvania Act 3 Program, which provides indemnity from liability issues to lenders.

Community Impact of the Brownfields Tax Incentive

Both the community of West Chester, as well as the neighborhood around the Good Will Business Park, have benefitted from Alliance's cleanup and redevelopment of the 8.5-acre former brownfield. As mentioned, four new tenants have located on the Good Will Park, bringing new commerce and services to the area. One of the new tenants, the local volunteer fire department, now has a more central location for responding to emergency calls. In addition, properties adjacent to and nearby the Good Will Business Park have increased in value, which their owners attribute to the Alliance project. Within a two block area of the Good Will property, Habitat for Humanity is constructing 17 new homes and a 12,000 SF retail strip mall was completed and occupied.

The local bank had initially expressed concern about loaning money to Alliance due to possible environmental liability issues. The use of Pennsylvania Acts 2 and 3, along with the Federal Brownfields Tax Incentive, eased its worries about liability. According to Mr. Isayeff, the bank's president eventually saw the advantages of using the Federal Brownfields Tax Incentive to clean up this property. A precedent was set within the local lending community that financing brownfields can be easier than originally perceived. Alliance has since obtained financing for other cleanup and redevelopment projects in the area. In October 2003, Alliance purchased a 13.5-acre former concrete plant. Again, the Federal Brownfields Tax Incentive was utilized to aid in the cleanup process.



The new headquarters of the Good Will Fire Department.

Continuing Success

Alliance is a proponent of the Tax Incentive and has an interest in its continued availability. Currently, the company is proposing the cleanup and redevelopment of a 114-acre property that was once the location of the state mental hospital. Once cleanup is completed, Alliance would convey the property to the municipal government and have it preserved as protected greenspace for the community to enjoy. In addition, Chester county has asked Alliance to contact other municipalities in the area to make them aware of brownfields cleanup and redevelopment tools, including the Federal Brownfields Tax Incentive. Without the Tax Incentive, the brownfields cleanup and redevelopment projects in West Chester, PA may not have proceeded. As Senya Isayeff says, "By developing brownfields, we help preserve open space somewhere else, while also strengthening neighborhoods like this one."

For more information about the Federal Brownfields Tax Incentive, please visit <http://www.epa.gov/brownfields/bftaxinc.htm>.

For more information on requirements for using the Federal Brownfields Tax Incentive in Pennsylvania, please visit <http://www.dep.state.pa.us/dep/deputate/airwaste/wm/landrecy/Tax/tax.htm>.