

Appendix D, Part 1

Sample Cooperative Agreement Application

**The Brownfields Economic Redevelopment Initiative
Brownfields Cleanup Revolving Loan Fund Proposal**

Location: City of Louisville, Kentucky

Scope and population of pilot area: Attachment 3 to this proposal contains a map of the pilot area. The 1990 population of this area was 78,247.

Proposer identification: City of Louisville - Office of Health and Environment

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Date submitted: June 9, 1997

Project period: September 1997 - September, 2000

**Community background:
(Empowerment Zone)** 47.7% are below poverty level
74.6% of residents are minority
53.9% without high school diploma

Cooperative partners: The Office of Health and Environment, The Federal Reserve Bank, the Office of Economic Development



City of Louisville
OFFICE OF THE MAYOR



JERRY E. ABRAMSON
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June 9, 1997

Ms. Katherine A. Dawes
OSWER Outreach and Special Projects Staff
Mail Code 5101
401 M Street, SW
Washington, DC 20460

Dear Ms. Dawes:

Thanks for the opportunity for the City of Louisville to be selected for a Brownfields Cleanup Revolving Loan Fund. As Mayor, I have been involved in the agency's Brownfields program since its inception. Our City, a Brownfields Pilot Grant recipient, has been very active in changing the cleanup process in ways that encourage recycling of brownfields for economic development. The loan money would give us an opportunity to fund actual remediations at low cost.

As conceived, the fund is ideally suited to a City of our size with the kinds of brownfield sites that predominate here. We are faced with old, industrial areas located in close proximity to neighborhoods, many of which are not highly contaminated, but which carry the stigma of contamination. Many are 3 to 5 acres, and many more, smaller in size.

Now that we have a new process nearly complete, we are ready to complete site assessments. The loan fund with its low interest rates gives us another tool to address the next step, remediation, which will be followed by redevelopment.

Our Louisville Community Development Bank, which received its charter and opened for business in January of this year, is ideally suited to manage the loan fund in conjunction with its other neighborhood-oriented loan programs. It is dedicated to serving the previously underserved parts of our City. Both our Brownfield program and the Bank are outgrowths of our community-based Empowerment Zone application process. As I have said many times, the genie is out of the bottle on how we do business in the City of Louisville. Our communities must be involved. I have pledged to them my support in carrying out their strategies and the grant of this loan fund would further our efforts.

Sincerely,

Jerry E. Abramson
Mayor

Proposal Overview

The City of Louisville, with the help of a 100 member Empowerment Zone Community Board, adopted a strategic plan and applied for a federally designated Empowerment Zone in the winter and spring of 1994. The Department of Housing and Urban Development ultimately awarded Louisville Enterprise Community status. The intense and extraordinary work of the hundreds of people that worked to pull together the EZ plan has permanently changed the way Louisville approaches neighborhood and community development. Mayor Abramson, with the full support of the Empowerment Zone Board, made a commitment to continue to pursue the EZ strategies developed by the community, with or without EZ designation and the federal dollars that come with it. Two very important elements of that strategy have already been put into place and, with approval of this proposal, will be pulled closer together in a unified mission to redevelop brownfields.

The Louisville Community Development Bank (LCDB) is the economic power at the heart of the EZ strategic plan. The LCDB was able to secure millions of dollars in private investment to capitalize the bank and its major non-profit affiliate, the LCDB Enterprise Group. A major milestone was crossed when the bank received its state charter and opened for business in January of this year. The Louisville Community Development Bank's target area encompasses all of the Louisville Empowerment Zone (the federally-designated Enterprise Community) and a few additional neighborhoods in Louisville's West End. The target area is characterized by extreme poverty and a steady decline of commercial and employment opportunities. Over 47% of residents live in poverty, with 29% receiving some form of public assistance.

There has been a systematic deterioration of the physical and economic infrastructure of this area. The LCDB is designed to bring new economic opportunity to the area. A central part of this mission will increase employment opportunities for the predominantly African-American residents of the Empowerment Zone, by creating opportunity for minority-owned businesses which will, in turn, create opportunity for minority employees.

The brownfields program is another important element of Louisville's EZ strategic plan that has come to fruition. The Brownfields Working Group consists of about 25 community volunteers that first came together as the Environmental Practitioners Group for the Empowerment Zone application process. The City's brownfields agenda received a major boost in July of 1995 when we were selected to receive a \$200,000 national assessment pilot grant from the EPA. The work of the Louisville pilot has made it possible for a number of former industrial properties to be redeveloped that would otherwise continue to lay fallow for an indefinite period of time. There is much more work to be done, however. The City's brownfields assessment pilot

has focused on the redevelopment of brownfields properties owned and controlled by the City acquired through foreclosure or other methods. There are many more brownfields that remain in private hands. Owners of these properties are too often faced with a choice between losing money by cleaning up and redeveloping the property at great expense, or doing nothing with the property, perhaps losing less money, and allowing continued decay.

Local barriers confronting brownfield redevelopment efforts in Louisville are the common problems faced by most inner-city revitalization efforts. The brownfields are concentrated in the inner city, adjacent to rail lines and service, but may have obsolete on-site buildings and/or small lots, may be adjacent to residential areas that developed near manufacturing and related activities before zoning was adopted, and may be plagued with relatively high neighborhood crime. The sprawl experienced in the Louisville metropolitan area is similar to that occurring elsewhere, as central city properties have been abandoned for greenfields.

The proposed Brownfields Cleanup Revolving Loan Fund will be used to establish a new loan product that is not currently available at the Louisville Community Development Bank, nor is there any similar loan product available elsewhere in the Louisville financial market. It will provide an important incentive to brownfields owners to move ahead with redevelopment plans.

There are three critical elements to successful implementation of the BCRLF program in Louisville: (1) The fund must be managed by an entity with sufficient lending expertise; (2) Oversight support must be provided by an entity with sufficient environmental expertise; and (3) Everyone involved in the program must be sensitive to the needs of the community. The Office of Health and Environment has the brownfields program experience necessary to administer the program and oversee the technical aspects of cleanup projects. The LCDB is a natural fit as the fund manager. The LCDB has ample lending expertise and is unique among the local banking community in its place-based strategy. To this team we have added the University of Louisville's Center for Environmental Management (CEM), with its ability to evaluate community impacts. CEM's role will be to assist in screening loan applicants to maximize community impacts, and to perform baseline measurements and periodic evaluations of the actual community impacts. The Justice Resource Center (JRC), which will ensure adequate attention to community involvement and environmental justice concerns, is a fourth partner in Louisville's program. The JRC is a community based civil rights organization that has worked toward environmental justice for residents of the investment area targeted for this revolving loan program.

Working together, these four organizations can provide the best mix of expertise available in Louisville to successfully manage the BCRLF and provide a model suitable for other cities to follow.

BROWNFIELDS CLEANUP REVOLVING LOAN FUND PROPOSAL BUDGET

The City of Louisville is the designated Cooperative Agreement Recipient and Lead Agency for the Brownfields Cleanup Revolving Loan Fund. The Louisville Community Development Bank is the assigned Fund Manager and has developed the Financial Plan included in this proposal. US EPA Brownfields Economic Redevelopment Initiative funds are to be expended as follows:

Brownfields Cleanup Loans (Community Development Bank)	\$332,500.00
Administrative Costs (Office of Health and the Environment)	17,500.00
1. Professional Services	
a. Loan Screening Process Development and Measurement Criteria Implementation	5,000.00
b. Oversight Costs/Brownfields Site Coordinator (CERCLA Requirements/Cleanup Schedule Monitoring)	5,700.00
2. Outreach	
a. BCRLF Loan Program Outreach	
Marketing Materials (Brochures, etc.)	1,600.00
Advertising (Legal Ads, etc.)	1,200.00
b. Site-Specific Outreach	
Public Notice/Legal Ads (6-7 sites)	2,000.00
Public Meetings	<u>2,000.00</u>
	17,500.00
 Total Funding	 \$350,000.00

Threshold Criteria

A. Ability to Manage a Revolving Loan Fund and Environmental Cleanups

A.1.a. Demonstration of legal authority to manage a revolving loan fund.

The Louisville Community Development Bank, an independent for-profit institution created to target Louisville's underserved communities, will be the fund manager under this proposal. The bank is state chartered and may issue loans for home ownership, business expansion and new business development and other purposes aimed at community development. The Louisville Development Bancorp (parent company of LCDB) reflects an exemplary collaboration by Louisville's Banking Community.

- The Louisville Community Development Bank was the first community development bank in the Nation to have equity investment from virtually all of the commercial banks in its community.
- It was the first development bank to model seamless, collaborative deal development with existing banks, extending to small business the partnership that Louisville area banks had already forged to enhance the creation of affordable housing.
- It was the first denovo banking institution to receive an award from the CDFI Fund, the development banking initiative spearheaded by President Clinton.
- The grant-funded, non-voting stock investment that the Louisville Community Development Bank secured from the US Department of Housing and Urban Development is a first, helping to create a model that HUD can use with other development banks around the country.
- Fannie Mae, a shareholder in the Louisville Community Development Bank, chose Louisville as its first partner for its Community Partnership Plan.
- It was the first Development Bank created in a City of Louisville's size.
- It is the first start-up institution to begin operations with a substantial portfolio of deposits, representing broad endorsement for its revitalization mission, and putting the bank on a sound financial footing.

The Louisville Development Bankcorp's spirit of innovation makes it ideally suited for a substantial and meaningful role in remedying the problem of inner-city brownfields.

A.1.b. Demonstration of legal authority to manage environmental cleanups.

In Kentucky, cities are creatures of State law. Municipal corporate powers are detailed in Kentucky Revised Statutes (KRS) Section 82.081. They include: capacity to sue and be sued, to contract and be contracted with and to acquire and dispose of property. KRS Section 82.082 provides:

- (1) A city may exercise any power and perform any function within its boundaries, including the power of eminent domain in accordance with the provisions of the Eminent Domain Act of Kentucky, that is in furtherance of a public purpose of the city and not in conflict with a constitutional provision or statute.
- (2) A power or function is in conflict with a statute if it is expressly prohibited by a statute or there is a comprehensive scheme of legislation on the same general subject embodied in the Kentucky Revised Statutes including, but not limited to, the provisions of KRS Chapters 95 and 96. (These sections deal with city police and fire departments and utilities in cities.)

The City's own ordinances provide for the establishment of a Department of Finance and Budget (Louisville General Ordinances, Sec. 34.015), which has "exclusive control, unless otherwise provided by law, of all matters pertaining to the financial affairs, policies, programs and activities of the city."

The Department of Finance and Budget has a Division of Budget and Planning (LGO Section 34.033), whose powers include: "To identify sources of governmental or charitable grants which may be available to departments and agencies of the city and to supervise and monitor the process of application, receipt, and use of such funds." This office also serves as a clearing house for all grant applications made by departments and agencies of the city.

Kentucky's environmental cleanup statute is KRS 224.01-400. That statute makes no distinctions for local governments who possess or control hazardous substances, pollutants, or contaminants released to the environment. Its definition of "person" is an individual, trust, firm, joint stock company, corporation (including a government corporation), partnership, association, federal agency, state agency, city, commission, political subdivision of the Commonwealth, or any interstate body."

All have not only the authority, but the obligation to take one of four actions regarding releases of hazardous materials: (1) Demonstrate that no action is necessary to protect human health, safety and the environment; (2) Manage the release in a manner that controls and minimizes the harmful effects of the release and protects human health, safety and the environment; (3) Restore the environment through removal of the

hazardous substance, pollutant or contaminant; or (4) Perform any combination of these remedies.

In the 1996 Kentucky Legislature, a new law which originated with the Louisville Brownfields Working Group was passed to further the state's brownfield cleanup efforts. The entire statute contemplates a city or other local government entity acquiring land and working with a prospective purchaser and state regulators to arrive at an appropriate cleanup plan for the intended use of the property. The state would then issue a "No Further Remediation Letter" which remains with title to the land. This statute provides protection from liability for the site to the innocent purchaser, to local government as well as to financial institutions who may become involved in lending money on the deals.

A legal opinion from the Director of Law for the City supporting this proposal is included in Attachment 1.

A.2. Demonstration that Louisville has effective institutional structures in place.

Cooperative Agreement Recipient

The City of Louisville, acting through its Office of Health and Environment (OHE), is the proposed cooperative agreement recipient. OHE has the authority to enter into a cooperative agreement with the EPA, with the University of Louisville, and with the Louisville Community Development Bank as detailed in Section A.1, above. OHE has experience with management and reporting on EPA grant funds through its Brownfields Assessment Demonstration Pilot.

Administering Entity: Lead Agency

OHE will also serve as the lead agency on environmental cleanups carried out by BCRLF loan recipients. The OHE Administrator is an attorney with experience on environmental matters, and has chaired Louisville's Brownfields Working Group since its inception. OHE staff includes environmental professionals with experience in cleanup work performed under the State analog to CERCLA, and an administrative assistant with responsibilities for tracking budgets. OHE also has "level of effort" type contracts in place with eight different contractors that can provide expertise on this kind of work. These contracts, which are currently being used for site assessment work under Louisville's Brownfields Assessment Pilot grant, were competitively bid in accordance with federal contracting requirements.

Administering Entity: Fund Manager

The Louisville Community Development Bank (LCDB) will serve as the BCRLF fund manager. The LCDB is a state-chartered commercial bank. Its president is a former senior vice-president of PNC Bank, and its senior lender, who will be the official responsible for this revolving loan fund, is a former vice president of National City Bank.

For further information on the bank's operations, see portions of the bank's business plan included as Attachment 2 to this proposal.

Brownfields Site Managers

The brownfields site manager appointed to each BCRLF funded project will be either an Office of Health and Environment staff person, or a consultant working under contract to OHE (reference discussion under the *lead agency* section above). Neither the State of Kentucky, nor the City of Louisville, operate a certification program for environmental professionals. OHE has staff, and contractors with contracts in place, that have training and experience in environmental cleanup work. The OHE Administrator will be responsible to ensure that the brownfields site manager designated for each project has necessary expertise in CERCLA and any other environmental programs applicable to the site.

A.3. Description of Proposed BCRLF Pilot Financial Plan

The City of Louisville is requesting \$350,000, the maximum amount available from the EPA for this revolving loan fund. As described in our budget, the City will incur administrative costs, not to exceed \$17,500 (5% of the grant total). This will cover the costs of advertising the program, setting up the applicant screening criteria (described below), gathering baseline data to support the ongoing success measurements that we plan to perform as the program is implemented, providing for brownfields site managers, and site-specific public participation.

The LCDB already has the people and the administrative structure in place to manage this loan program, so there will not be any other costs associated with instituting this program. The costs of loan origination will be 1% of the loan amount, charged to the borrower at closing. The ongoing loan servicing costs incurred by LCDB will be covered by a minimal spread, not to exceed 2%, in the interest rate charged.

We anticipate that, because the LCDB's focus is on small businesses, the BCRLF loans will be used to fund relatively small cleanup projects. The average size of the loans is expected to be in the \$40,000-50,000 range, with six or seven loans issued in the initial round of lending. The money can be disbursed to the borrower within 2 days of the time the funds are received by the bank. The disbursement schedule will also be dependent on the nature and progress of the cleanup project, however. If it is a short-term project (less than one month in duration), an initial disbursement will be made to cover material and wage costs. A hold back will be disbursed upon completion and a final inspection of the project. Longer term projects will require multiple draws that are tied to milestones in the cleanup plan's schedule.

Borrowers will be screened through a variation of the typical loan qualification process that a bank routinely goes through. Environmental and economic development

factors will be added to the regimen of financial tests that are typically used. The University of Louisville has agreed to assist the city in developing an applicant screening process. Reference the discussion on our partnership with the university under Section C.2. We anticipate that the process will follow these basic steps:

- (1) The "bankability" of the project will be determined...is approval of this loan application a sound business decision? Prudent banking guidelines will be used to ensure that loans are properly collateralized.
- (2) Establish an estimate of the extent of need for a subsidized interest rate based on the project's financials.
- (3) Projects will then be reviewed for probable off-site economic and environmental impacts. This review would emphasize the extent to which any one project will enhance the likelihood that other area projects will go forward and/or property values will increase due to new willingness to invest near the brownfield site. Environmental justice concerns will be taken into account in this part of the evaluation.

The implementation schedule for the initial round of lending will be as follows. This schedule starts with the date funds are actually available from the EPA for lending. The initial outreach activities and finalization of the loan screening methodology will be completed within three months. The initial round of lending will be closed within three years, with no less than 50% of the funds disbursed within 18 months, and 80% in two years. The LCDB will track this disbursement activity, the loan periods, repayment schedules, and borrower profiles. The format and timing of reporting this information to the City (and hence to the EPA) will be negotiated in the cooperative agreement between the City and LCDB.

Evaluation Criteria

B. Demonstration of Need

B.1. Problem Statement and Unique Needs of the Community

Centered around land that has formed the core of Louisville's heavy industrial corridor for more than a century, the target area of the Louisville Community Development Bank encompasses the City's most distressed neighborhoods. As much as 25% of this land is old industrial property that is vacant or severely underutilized (converted to cheap warehouse space), including large tracts and obsolete structures boarded up and overgrown with weeds. These are Louisville's brownfields.

All of the neighborhoods heavily affected by the brownfields issue suffer from extreme poverty, with an average of 47.7% of the Empowerment Zone (EZ) residents living in poverty. In addition, these neighborhoods suffer from a 30 year population drain, including a nearly 20% loss in population in the last decade. They are home to the State's highest concentrations of minority residents, with an African-American population of 74.6%. Attachment 3, taken from the LCDB's application for funding from the Community Development Financial Institutions Fund, provides more detailed demographic information about each neighborhood in the EZ, as well as the surrounding neighborhoods that are included in the Louisville Community Development Bank's investment area. It also provides specific information about unmet needs of the investment area. To summarize, western Louisville has experienced a significant level of disinvestment relative to other parts of the Metropolitan Statistical Area and other comparable cities.

The African-American community has borne the brunt of this disinvestment as evidenced by numerous measures of economic activity. Note that the bank was created in response to the realization that no other institution in Louisville exists that has, as its primary mission, the place-based permanent revitalization of the most distressed areas in Louisville. One of the specific goals in carrying out this mission is to enhance the availability of business loans, particularly to African Americans. The brownfields cleanup revolving loan fund will enhance the bank's ability to carry out this mission, and will nicely compliment other products and services offered by the bank.

There are a number of other initiatives under way, in addition to the creation of the LCDB, that are designed to increase jobs and capital investment in the target area. The LCDB Enterprise Group was established to foster business and is committed to building successful companies and accelerating their growth to create jobs and increase wealth for business owners and residents in its target area neighborhoods. The Enterprise Group is affiliated with the Louisville Development Bancorp, a bank holding company,

and the Louisville Community Development Bank, a commercial banking subsidiary of the Louisville Development Bancorp. Working with these partners, the Enterprise Group provides business management and technical assistance to businesses seeking or which have acquired capital from bank and non-bank lenders, and provides non-bank financing to companies with job creation and development potential. The LCDB Enterprise Group operates a business incubator, which houses small businesses and provides marketing and management services for its tenants and other emerging firms in the area. It will also manage a non-bank revolving loan fund to finance pre-bankable businesses, develop commercial projects in the investment area, and create a streamlined system for brokering skills training and providing necessary support for neighborhood residents so that they can successfully gain employment. The LCDB Enterprise Group will also make referrals to the LCDB for loan products, such as the BCRLF, that will meet its customers needs.

The LCDB is physically located across the street from the Nia Center, which brings together the essential components of the Louisville Empowerment Zone economic development strategy. Along with the LCDB Enterprise Group, the Nia Center Campus houses a Business Information Center managed by the Small Business Administration, a Neighborhood Travel Center managed by the Transit Authority of River City (TARC), and the Workforce Development Partnership Center. The Workforce Development Partnership Center has several elements designed to create an effective, self-sustaining and entrepreneurial intermediary that will create economic opportunity for residents of the Empowerment Zone through skills development and job placement:

- Workforce Skills Academy - modeled after Detroit's Project Hope Fast Track program and San Antonio's Project Quest program, will provide work-readiness training through a contextual learning approach. It will provide remedial skills development (self-paced computer and one-to-one tutorial assistance) training to meet functional grade level requirements of the employers; industry-specific pre-trade skills training, other employment-related skills development training (i.e., basic computer literacy, including word processing and other software packages, life skills, pre-employment skills).
- Career Resources, Incorporated (CRI) - will provide total assessment, case management, career consulting, and job placement services. CRI will broker all training and support dollars for the Workforce Development Partnership Center and through the Private Industry Council, serve as personnel agent for staffing.
- Child Care Component - funds of "last-resort" will be available for Empowerment Zone residents enrolled in the Workforce Skills Academy. A child care voucher system will provide access to child care providers located within the Empowerment Zone. These funds will enable trainees to successfully engage in job training activities provided at or through the Workforce Skills Academy.

- Community Network - locating potential new employees for the Algonquin Center will be the mission the Empowerment Zone Community Support Network. This network represents an array of agencies who embrace the Workforce Development Partnership Center's training component. Forty-eight active partners derive from disciplines including: education, social justice, health, welfare, religion and recreation. The partners have committed themselves to active participation by referring residents of the Enterprise Community to the Workforce Development Partnership Center on a continual basis.

Because the Louisville Community Development Bank, the LCDB Enterprise Group and the Workforce Development Partnership Center share not only the same campus but complementary missions, they will work in concert to support efforts to revitalize Louisville's inner-city Brownfields. Community outreach, access to capital, and business development within former brownfields will all be enhanced by this public-private partnership.

The Park DuValle revitalization project is a HUD-funded effort to redevelop two of Louisville's oldest housing projects in one of the highest crime areas of the city (the southwest section of the EZ). These two housing projects are being torn down, along with some structures on adjoining property that has been acquired, and an entirely new neighborhood is being developed. The new neighborhood will include a mixture of single family owner-occupied housing, market rate rental housing, and subsidized rental housing. A commercial marketplace is also included in the plans. This is the largest project of its kind in the United States. It encompasses an area of over 200 acres and will take about ten years to complete.

B.2. Description of Potential Borrowers and Property

Due to several unknowns, including the timing of the availability of the BCRLF, it is difficult to predict at this time who the borrowers will be, or exactly what properties the BCRLF funds will be directed toward. A few examples of current properties and/or business opportunities that have come to the attention of the Brownfields Working Group that may benefit from this revolving loan fund can be given, however.

The Exmet site is an abandoned facility located on a 3.25 acre parcel on Merriwether Street in the southern tip of the eastern section of the Empowerment Zone. While in operation, the company accepted hazardous waste as a feedstock that was processed and used for fertilizer production. The Exmet Company went bankrupt, leaving behind a large quantity of this hazardous waste, along with a baghouse filled with hazardous waste, and some large above ground tanks containing hydrochloric acid, ammonia, and other chemicals. The State of Kentucky was able to get a court order requiring the generator of the remaining hazardous waste to remove it and some of the tanked materials. The State is planning to demolish a building in order to remove the

