

BRIDGE LOANS

BRIDGING THE GAP

Brownfields Loans as part of the Capital Stack



Denver's Union Station in the midst of redevelopment. Redevelopment of Union Station spurred the redevelopment of surrounding areas which created over 2000 new jobs in the retail, dining, and housing sectors.

The U.S. Environmental Protection Agency (EPA) Brownfields Program's Revolving Loan Fund (RLF) grants are a source of capitalization for RLF cooperative agreement recipients (CARs) to make loans to clean up brownfield sites. To maximize the longevity of the RLF pool, CARs may make short-term loans or **bridge loans**. The Colorado State Brownfields program is a CAR that uses its RLF for shorter term loans to help maximize use of available funds. These loans act as a "bridge" until the borrower can secure permanent financing for the entire project. The main characteristics of the bridge loans are:

- **Shorter loan term durations**
A relatively quick return of principal and interest to the RLF program allows new loans to be made for future projects. The typical term of loans offered by the Colorado Brownsfields RLF is 60 months or less.
- **Favorable terms and interest rates**
Offering flexible loan terms, below-market rates, or variable payment schedules help maximize the RLF funds available for future projects while still being a desirable source of funding to developers.



Prior to redevelopment, Union Station and the surrounding areas were under-utilized due to the industrial history of the area.

Bridge loans play an important role in redevelopment because private lenders may not be willing to provide loans for contamination cleanup, or may provide loans only at high interest rates due to environmental risks associated with a brownfield.

RLF loans are able to absorb some of these risks, given that the CAR is not a for profit enterprise. The result may lead to clean up and redevelopment, and ultimately environmental, health, and economic benefits to the community.

RLF recipients work with distinct local market conditions to address their community needs, tailoring their RLF products accordingly. It is important to note that the short-term or bridge loans might not be the right financing vehicle for some of the projects.

COLORADO DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT

The Colorado Department of Public Health and Environment (CDPHE) received \$10.8 million in RLF funding from EPA on behalf of the Colorado Brownfields RLF (CBRLF). The CBRLF uses the Colorado Housing and Finance Authority (CHFA), a quasi-government entity, as their RLF fund manager.

CDPHE prefers to give RLF loans as bridge loans, to preserve longevity and allow for issuing new loans with bridge loan repayments in an expedient manner leading to revolving of the CBRLF. To date, the CBRLF has revolved \$2.2 million by issuing four bridge loans.

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Redevelopment of the Station into a multi-modal transportation hub spurred massive redevelopment of surrounding properties, demonstrating how brownfields programs can assist in revitalizing underutilized areas.

DENVER UNION STATION PROJECT

CASE STUDY REPORT

The Denver Union Station is a public/private development venture. It covers approximately 50 acres in Denver's lower downtown. The project redeveloped the existing rail station into a multimodal transportation hub surrounded by substantial transit-oriented development. The project cleaned up 20 acres, created 325 permanent jobs, and constructed 287 housing units. The CBRLF loan of \$500,000 for cleanup allowed \$400 million in federal and state grants and loans to be used for vertical development.

The CBRLF bridge loan was structured with the following main features:

- \$500,000 loan for site cleanup;
- Approximately a 3-year term;
- 1% escalating interest rate, which means that after the first year the interest rate increases by 1% every year;
- 1% loan fees

Note: The loan repayment occurred within 24 months after closing, and as soon as the developers secured permanent financing. The CBRLF loan acted as a bridge until permanent financing was secured.

Other loans and grants

- U.S. Department of Transportation—\$145 million loan for transportation infrastructure, \$155 million loan for railroad, \$50 million grant for highways improvement, and \$28.6 million ARRA grant for transportation infrastructure
- City of Denver—Appropriated \$2.5 million for infrastructure development
- State of Colorado—\$18.6 million legislative appropriation for transportation development