

Economic and Fiscal Impacts of
Brownfields Redevelopment in Colorado

A Case Study

Timberline Star Industrial Park
1925 Timberline Drive
Fort Collins, Colorado

November 1999

Prepared by:



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INTRODUCTION

The Timberline Star Industrial Park is located at 1925 Timberline Drive, Fort Collins, Colorado. This case study of a successful cleanup and reuse project has three purposes. First, it examines how environmental cleanup and site reuse impacts local economies. Second, it provides an understanding of how environmental issues affect market transactions of environmentally impaired properties. Third, it identifies means through which the public sector can effectively facilitate the cleanup and redevelopment of such sites.



1925 Timberline Drive, Fort Collins, Colorado

TIMBERLINE STAR REDEVELOPMENT

The Timberline Star Industrial Park is a multi-use light industrial facility located on the eastern edge of the City of Fort Collins. Although recently annexed to the City of Fort Collins, at the time of sale the site was in unincorporated Larimer County. The facility includes multi-tenant spaces, common areas and storage units. The 12.5-acre site is the former location of the Fort Collins Pipe Company tubular steel pipe finishing operation. Fort Collins Pipe ceased operations in the mid-1980s. All equipment and machinery was stripped from the site and the buildings sat vacant, unused, and for sale.

Lone Star Steel, parent company of Fort Collins Pipe, recognized that environmental concerns were turning away potential buyers. In 1994, an environmental closure was completed under the Colorado Department of Public Health & Environment Voluntary Cleanup Program (VCUP). The site sold several months later and subsequently redeveloped as the current multi-tenant light industrial facility.

SUMMARY Economic and Fiscal Impacts from Redevelopment

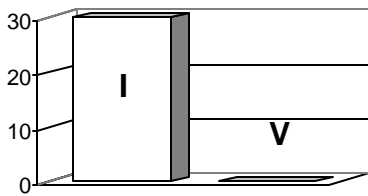
<u>Indicator*</u>	<u>Annual Impact as Light Industrial Use</u>	<u>Annual Impact as Vacant</u>	<u>Difference Between Light Industrial Use and Vacant</u>
1. Larimer County Property Tax Revenue	\$8,626	\$2,423	\$6,203
2. Larimer County Sales Tax Revenue	\$4,275	\$0	\$4,275
<i>Total County Tax Revenues:</i>	<i>\$12,901</i>	<i>\$2,423</i>	<i>\$10,478</i>
3. School Distr. Property Tax Revenue	\$22,180	\$6,231	\$15,949
4. Direct Employment (FTE)	30	0	30
5. Average Wages	\$25,000	\$0	\$25,000
6. Direct Earnings	\$750,000	\$0	\$750,000
7. Indirect Employment	27.0	0	27.0
8. Indirect Earnings	\$675,000	\$0	\$675,000
9. New Investment-Construction	\$515,000	---	---
10. New Investment-Equipment	\$134,000	---	---
11. Environmental Service Costs	\$450,000	---	---
<i>Total New Investment:</i>	<i>\$1,099,000</i>	<i>---</i>	<i>---</i>

* Estimates; see Endnotes for detailed descriptions.

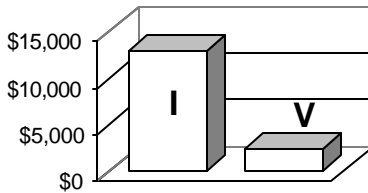
Environmental assessment and remediation work totaled \$450,000, which was also the sales price paid by the buyers. When purchased in December 1994, buildings included a 47,141-square-foot main manufacturing building, a 2,249-square-foot freestanding office, and a 5,285-square-foot utility building. Both the buyer and seller reported that the interior of the main building was in poor condition for reuse with uneven floors, various metal braces that at one time held machinery and equipment, and significant deferred maintenance.

***Light Industrial Use
Compared to
Vacant Facility***

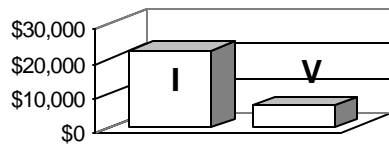
Employment



County Revenues



School Revenues



The first building permits for renovation were approved in Spring 1995. The 2,249-square-foot freestanding office building was refurbished and the main building was renovated for 52,796 square feet of multi-tenant, light industrial use. Construction of a new 4,680-square-foot building for public storage use north of the main building began in August 1996 and was completed in November of that year. The utility building was also renovated into public storage lockers. Redevelopment was completed by year end 1996. Altogether, about \$515,000 was invested in the 65,010-square-foot redevelopment. The property reached stable tenant occupancy during 1997.

Economic Impacts

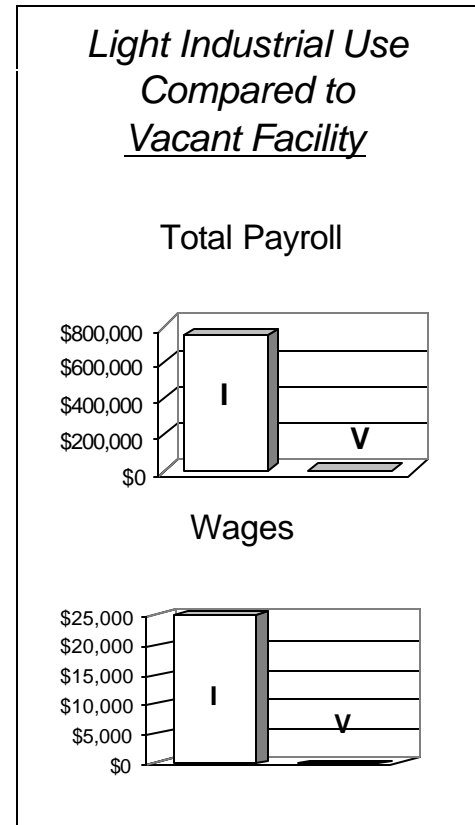
Currently, uses include automotive service, specialty construction businesses, and wholesalers. Fourteen business tenants provide employment for an estimated 30 employees, earning an average of \$25,000 each per year, or \$750,000 total. These businesses purchase goods and services from other businesses creating indirect employment for 27 workers with estimated earnings totaling \$675,000.

Almost \$1.1 million was invested in cleanup, redevelopment, and reuse of the site, much of which was spent locally. The sellers spent about \$450,000 for environmental assessment and cleanup services which was provided by local and regional firms. About \$515,000 was spent on remodeling and construction. The balance represents fixtures, furniture and equipment at tenant businesses.

Fiscal Impacts

The taxable value of the property increased incrementally as the property was environmentally closed and redeveloped. As of 1994, the assessor's \$400,000 actual valuation was considerable of impairment due to environmental conditions. Upon completion of the environmental cleanup, the assessor's actual value increased by about \$50,000. It should be noted that the \$50,000 was not necessarily the market value of the impairment, but rather a figure negotiated during a previous tax protest. The assessor's actual valuation in 1997 increased to \$1.29 million, a 223% increase, upon completion of the redevelopment. As a result, total Larimer County property and sales tax collections increased by \$10,478 and school district property tax revenues increased by \$15,949. Market values at this time were increasing 8% to 9% a year according to the Larimer County Assessor, meaning that the property's value increase is primarily attributable to cleanup and being put back into productive use.

The property was annexed to the City of Fort Collins in 1998. However, it was in unincorporated Larimer County at the time of sale and redevelopment. If the property had been in Fort Collins at the time, annual tax revenue would have increased by more than \$15,000. Redevelopment provided a greater revenue generator to the City than the annexation of a vacant property:



If the Property were Already Annexed to Fort Collins at Time of Sale

Indicator*	Annual Impact as Light Industrial Use	Annual Impact as Vacant	Difference Between Light Industrial Use and Vacant
Ft. Collins Property Tax Revenue ¹²	\$4,046	\$1,136	\$2,910
Ft. Collins Sales Tax Revenue ¹³	\$12,300	\$0	\$12,300
Total City Tax Revenues:	\$16,346	\$1,136	\$15,210

* The site was annexed to the City of Fort Collins in 1998, this analysis is based on a hypothetical situation only; estimates, see Endnotes for detailed descriptions.

Community Impacts

Prior to redevelopment, the site sat idle and was a target for vandals. The buyers reported seeing signs of vagrant activity during their inspections of the property. The reuse of the property eliminated this nuisance.

The buyer stated they would not have purchased the property without the assurances that the VCUP program offered

As outlined in its City Plan, Fort Collins encourages entrepreneurial opportunity as a "community value" in support of new and existing businesses. The redeveloped Timberline site provides an incubator-style business location for the start-up and operation of small, light-industrial business enterprises. It is positioned to the small tenant market by providing divisible bays, on-site storage rental, and common vending, conference, and locker room areas. In fact, the property is tenanted by a variety of entrepreneurial businesses ranging in size from 2 to 5 employees. The Group Inc., the brokerage firm managing the Timberline property, reports that there is little similar rental space in Fort Collins and market demand is growing.

As the City of Fort Collins grew in the 1990s, the Timberline site became completely surrounded by the City. In 1998, the City of Fort Collins annexed the Timberline property as a county enclave within city limits. The Fort Collins Structure Plan, the City's long-term land use plan developed to guide the growth over the next 20 years, identifies the Timberline area as an "Employment District" for future development. This district type is intended to be

developed for basic employment uses including light manufacturing, offices, corporate headquarters, and other similar uses. Having been through the VCUP, the City annexed an environmentally sound site rather than acquiring a future problem.

ENVIRONMENTAL ISSUES IMPACTING THE TRANSACTION

While it operated, the Fort Collins Pipe Company facility received steel coils by truck and/or railcar from the Lone Star Steel manufacturing mill. The Fort Collins Pipe Company finished pipe and tubular products for oil well operators in the Colorado/Wyoming region. Having operated at this location for many years, diminished regional demand forced the company to close this facility in the mid 1980s.

The property sat vacant and for sale for at least five years. Poor property condition created a challenging real estate investment for any buyer, which was compounded by unknown environmental conditions. Lone Star Steel cited potential environmental hazards as a primary reason that the site did not sell during this period. According to the buyer and purchasing broker, there were many other potential buyers who lost interest because of the environmental conditions.

This property was a surplus business asset held by Lone Star Steel. In the interest of removing this asset from their books, Lone Star absorbed the environmental assessment and cleanup costs necessary to gain buyer acceptance. Lone Star Steel began environmental assessments to position the property for sale and applied for regulatory closure under

Once a location attracting vagrants and vandals, the site now houses small entrepreneurial businesses

VCUP. In positioning the site for sale, Lone Star Steel undertook an environmental assessment of potential concerns including underground storage tanks, wastewater lagoons, a drum storage area, and waste disposal pits on an adjacent 1.8 acre tract leased from Union Pacific Railroad.

Applications were submitted to the Colorado Voluntary Cleanup Program in August 1994, necessary cleanup was completed, and the property subsequently sold to the buyer in December 1994. Lone Star spoke highly of the accessibility and usability of the Voluntary Cleanup Program.

The buyer and redeveloper is a local partnership which saw an investment opportunity to rehabilitate the property to meet a market niche. However, the buyers stated that they would not have bought the property with potential environmental problems or without the assurances that the Voluntary Cleanup Program offered. Closure through the VCUP was instrumental in their decision to move forward with the deal. In fact, the buyers began investigating the site for purchase around the time that assessment work was begun, but did not put the property under sales contract until the remediation was completed and approved by the VCUP. Financing was provided by one of the ownership partners rather than an independent lending institution, and was dependent on the environmental issues being put to rest prior to purchase.

There were many potential buyers who lost interest because of suspected environmental conditions

Observations

- The Timberline site went from a vacant, deteriorating property to an active light industrial use. As a result, local employment and public revenues both increased.
- The property sold for \$450,000 after the seller spent \$200,000 for assessment and \$250,000 for cleanup work. The seller absorbed the cost of assessment and cleanup work, which resulted in a net zero financial gain on the sale of real estate. This property was a surplus corporate asset requiring accounting reserves and carrying other corporate financial impacts. As such, it was cost-effective for Lone Star to dispose of the property at a net zero gain.
- The property sold for a discounted price after having been on the market at \$700,000. Post-VCUP, the seller accepted a \$450,000 purchase offer. The buyer likened the deal to paying for the land and getting the buildings for free.
- If the property was being sold by an individual or other entity without a greater financial purpose, assessment and cleanup may not have been undertaken. Further, a buyer may not have been willing or financially able to clean the site.

- Site cleanup under CDPHE’s Voluntary Cleanup Program resulted in a relatively quick resolution of environmental issues and provided necessary assurances to both buyer and seller.

Prior to environmental closure, the property was being impacted by a feasibility gap and the purchase was contingent on the site being clean

- The City’s long-term Structure Plan identifies the Timberline area for development as a commercial and industrial mixed-use area. An extension of Timberline Road from Prospect Road north to Mulberry Street was completed in late 1997. Timberline Road has become a significant north-south connector for traffic movement along the east side of town and Prospect Road has experienced significant commercial and industrial development. Location factors are improving and the current light industrial use is awaiting market conditions to potentially warrant additional property upgrades. As an interim use, the Timberline site is environmentally well positioned.

- Prior to environmental closure, the property was being impacted by a feasibility gap. If a single party had borne the costs of site acquisition, cleanup and redevelopment, the deal would likely have not been financially feasible. The seller absorbed the cleanup cost and sold the site at a discount to eliminate a surplus asset, and enabled a feasible redevelopment by the buyer. The purchase and construction work was funded by a member of the buying entity. The entire deal was contingent on the site being clean.

- Prior to environmental closure, the property was being impacted by a liability gap where potential environmental liabilities dashed the interest of buyers. The sellers retained responsibility for pollutants on-site before the sale. The buyers view the VCUP process as a way of documenting this agreement.

The Timberline Star site was a “Threshold Site.” Threshold refers to marginal financial feasibility; an environmentally impaired property that possesses some economic potential, however, environmental conditions create a nonviable situation. The property likely would not have been redeveloped without some form of public assistance. In the case of the Timberline site, assurances provided by the VCUP process were sufficient to keep this sale and redevelopment on track. If the right circumstances were not present, for example the seller could not absorb the environmental costs, some form of public financial assistance may have been necessary to realize the site’s economic potential.

BACKGROUND INFORMATION

Property Description

- Post-redevelopment, the site houses four buildings totaling 65,010 square feet in size. These include in-line, industrial tenant space (52,796 square feet), mini-warehouse/utility space (9,965 square feet), and a freestanding office unit (2,249 square feet). The site is 12.5 acres with frontage on the west side of Timberline Drive.
- Prior to redevelopment, the site included 54,675 square feet of vacant industrial buildings, in poor condition, and showing evidence of vagrant use.

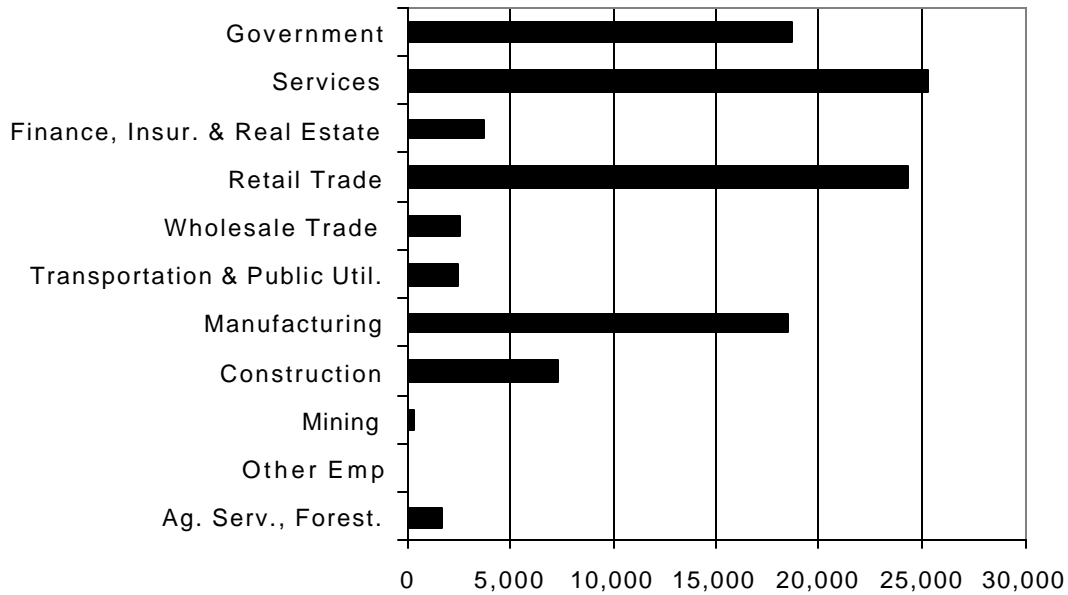
Neighborhood Description

- Larimer County is located at the eastern base of the Rocky Mountains approximately 65 miles north of Denver and 45 miles south of Cheyenne, Wyoming. The county extends to the Continental Divide and includes a portion of Rocky Mountain National Park.
- The Timberline site is on the west side of Timberline Road, bordered on the west by Union Pacific railroad tracks.
- West of the site, a residential neighborhood extends westward from the opposite side of the railroad tracks. An electrical substation is located north of the site. Immediately south of the site are several older industrial buildings. The surrounding area south and east is in agricultural use.

Local Economic Conditions

- Larimer County's largest employers include Hewlett-Packard, Anheuser Busch, Teledyne WaterPik and Colorado State University.
- As of 1999, Larimer County's population is 242,783 persons and the City of Fort Collins' population is 115,630 persons.

Larimer County Employment Sectors 1997



Source: Colorado Department of Labor and Employment; Development Research Partners

- Larimer County's most significant private-sector industries include services, retail trade, and manufacturing.

Largest Employment Sectors Larimer County 1997

Sector	Employment	% of Total Employment
Services	25,344	24%
Retail Trade	24,271	23%
Manufacturing	18,542	18%

Source: Colorado Department of Labor and Employment; Development Research Partners

- In the retail trade industry, the largest employment sectors in Larimer County are eating & drinking places, general merchandise, food stores, and miscellaneous retail.
- In the services industry, the largest employment sectors are health services, business services, engineering services and miscellaneous services.
- In the manufacturing industry, the largest employment sectors are machinery, instruments and printing/publishing.

STUDY METHODOLOGY

This case study was selected based on its location and general property characteristics. A site visit was made to the property and surrounding area. County Assessor's records were accessed for property information and County Treasurer's records were reviewed for real and personal property information. Real estate recordings regarding the property were researched to gain an understanding of the real estate transaction and to discover the names of the buyer, seller, and lender. City building departments were interviewed to determine the extent of construction activity. Interviews were held with the buyer, seller, purchasing broker, and environmental consultant. Interviews with county and city planning staff were supplemented by a review of Fort Collins' Comprehensive Plan and Zoning Regulations. Businesses currently operating at the site were surveyed as to type of business and size. Estimates were made where exact dollar figures could not be obtained, and supporting evidence provided where possible.

ENDNOTES

1. The assessed value of the property (real and personal property) more than tripled from \$116,000 in 1994 (pre-redevelopment) to \$412,939 in 1997 (post-redevelopment). Applying the Larimer County 1997 mill levy of 20.889 (per \$1000) to the before and after assessed values indicates an increase in annual property tax collections attributable to the renovation from \$2,423 to \$8,626.
2. Occupancy is predominantly by automotive service shops and specialty construction companies. In 1998, automotive service companies averaged \$32,550 of taxable sales per employee and construction companies averaged \$5,573 in taxable sales per employee. Estimating an average of \$19,000 per employee for 30 employees, gives about \$570,000 in taxable sales. Larimer County has a 0.75% sales tax rate, totaling \$4,275.
3. The assessed value of the property (real and personal property more than tripled from \$116,000 in 1994 (pre-redevelopment) to \$412,939 in 1997 (post-redevelopment). Applying the (Poudre Valley) School District 1997 mill levy of 53.712 (per \$1000) to the before and after assessed values indicates an increase in annual property tax collections attributable to the renovation from \$6,231 to \$22,180.
4. A telephone survey with 9 of 14 tenants indicate all have 5 employees or less with a total of 18 full-time employees and 3 part-time employees. Based on typical sizes of establishments reported in County Business Patterns (U.S. Census Bureau 1997), an additional 11 employees are estimated to be on-site. A total of 30 FTE employees is estimated to be on-site.
5. Based on average 1997 Larimer County wages of \$29,349 for construction and \$21,025 for auto repair services. Average earnings of \$25,000 per employee is estimated.
6. 30 employees x \$25,000 wages = \$750,000 annually.
7. A business purchases goods and services from other businesses; jobs at the purchasing business represent direct employment, jobs at the supplying business represent indirect employment.

The employment multipliers for Larimer and Weld counties (developed by the Colorado Division of Local Government, Demographic Section) are applied to direct employment to estimate total direct and indirect job creation. Multiplying by FTE employees at each type of establishment gives total employment (direct and indirect). The construction industry has an employment multiplier of 2.074 and the auto service industry has a multiplier of 1.63. A 1.9 estimated overall multiplier applied to 30 direct jobs results in total employment of 57 jobs. Subtracting direct employment provides an estimate of 27 regional indirect jobs created.

	<u>Employment</u>
(1) Total	57.0
(2) Direct	<u>30.0</u>
(3) Indirect (=1- 2)	27.0

8. A business purchases goods and services from other businesses; wages paid to employees of the purchasing business represent direct earnings, wages paid to employees of the supplying business represent indirect earnings.

The earnings multipliers for Larimer and Weld counties (developed by the Colorado Division of Local Government, Demographic Section) are applied to total annual payroll to estimate total direct and indirect earnings. Multiplying by total earnings at each type of establishment gives total earnings (direct and indirect). The construction industry has an earnings multiplier of 1.910 and the auto service industry has a multiplier of 1.807. A 1.9 estimated overall multiplier applied to direct wages of \$750,000 results in total earnings of \$1,425,000. Subtracting direct earnings gives an estimate of indirect earnings of \$675,000.

	<u>Automotive and Construction</u>
(1) Total	\$1,425,000
(2) Direct	<u>\$750,000</u>
(3) Indirect (=1- 2)	\$675,000

9. Building permits filed with Larimer County indicate that roughly \$250,000 was spent on renovations. The buyers stated that the actual amounts were confidential but that building permits were a good approximation. This is a one-time benefit and reported as a total impact only.
10. This is the Assessor's actual valuation for all taxable business property on-site, which totaled \$133,823 in 1997. In 1999, this amount totaled \$133,728. Not all businesses are taxed at this location and the actual amount of investment may be higher. This is a one-time benefit and reported as a total impact only.
11. The sellers stated that about \$200,000 was spent on environmental assessment and about \$250,000 was spent on cleanup. ENSR environmental consultants, located in Fort Collins, provided environmental consulting services and much of the actual cleanup work. Construction, transportation and disposal business did go to local companies or to those in the region. This cost estimate does not include associated legal fees. This is a one-time benefit and reported as a total impact only.
12. The assessed value of the property (real and personal property) more than tripled from \$116,000 in 1994 (pre-redevelopment) to \$412,939 in 1997 (post-redevelopment). Applying the 1997 Fort Collins mill levy of 9.797 (per \$1000) to the before and after assessed values indicates an increase in annual property tax collections attributable to the renovation from \$1,136 to \$4,046.
13. Occupancy is predominantly by automotive service shops and specialty construction companies. In 1998, automotive service companies averaged \$32,550 of taxable sales per employee and construction companies averaged \$5,573 in taxable sales per employee. Estimating an average of \$19,000 per employee for 30 employees, gives about \$570,000 in taxable sales. The City of Fort Collins has a 3% sale/use tax, totaling \$17,100.