



## **BROWNFIELDS TAX INCENTIVE CASE STUDY:**

### **ALLIANCE ENVIRONMENTAL SYSTEMS, INC.** **West Chester, Pennsylvania**

*A demolition and environmental service company decided to relocate its headquarters to a brownfields in a low-income area, spurring new hope and future development.*

In 1998, Alliance Environmental Systems, Inc. decided to replace its old headquarters with a new, spacious building that could accommodate its projected growth. As the demolition and environmental service company began scouting the West Chester, Pennsylvania area, it found an unexpectedly promising location: an 8.5-acre brownfields site at 510 E. Union Street.

#### **A site that could meet the company's needs**

Records show that the 8.5-acre parcel, comprised of two 3.3 and 5.2 acre lots, had been used for a variety of purposes since the late 19<sup>th</sup> century. The site was initially a brick clay quarry, but then served as a municipal landfill until the early 1940s, when National Foam Systems used it to landfill sulfate wastes. Wyeth Incorporated, a pharmaceutical company, purchased the site in 1948 along with 30 other acres as a home for its pharmaceutical manufacturing operations. In 1984, Wyeth sold the 8.5-acre site to Fermenta Products, which changed its name to Fermtec Products, Inc. in 1987 and manufactured pharmaceutical products on the site until 1991. At that time, all pharmaceutical manufacturing processes ceased and the property became a storage and distribution center for third-party materials until 1994, when Fermtec Products, Inc., vacated and abandoned the site.

#### **BROWNFIELDS AND THE TAX INCENTIVE**

Commercial developers and economic development officials are becoming more aware of the potential redevelopment value of brownfields, or parcels of land with real or perceived contamination.

These sites offer advantages, such as access to existing infrastructure and transportation systems. Moreover, they are often close to major population centers, placing companies near customers and potential workers. Looking at the big picture, many developers have found brownfields can be as attractive as undeveloped land.

Federal, state and local governments have also realized that they can play a role in returning these brownfields sites to new uses. A wide variety of government assistance is now available, ranging from low-cost financing to tax incentives. The end result has been many successful projects and improved quality of life for nearby residents.

The Federal Brownfields Tax Incentive encourages brownfields redevelopment by allowing taxpayers to immediately reduce their taxable income by the cost of their eligible cleanup expenses in targeted areas. This incentive creates an immediate tax advantage from these expenses, helping to offset short-term cleanup costs.

The tax incentive is designed to create economic growth in disadvantaged areas by encouraging brownfields redevelopment.

On the whole, Alliance liked the site because there was a large building on the 3.3-acre lot that, once rehabilitated, could easily house the new headquarters as well as the additional equipment the company intends to purchase. The remaining acreage could be used by Alliance or developed and rented to other businesses, perhaps as a self-storage facility or business incubator.

Still, Alliance had to address the issue of possible contamination. The groundwater was contaminated with methylene chloride, which Wyeth used in its penicillin manufacturing process in the 1970s and 1980s. Wyeth has worked with the Pennsylvania Department of Environmental Protection (PA DEP) to monitor and clean the groundwater and storm water from the site. In addition, the site was likely to be contaminated by other chemicals that were disposed of in the landfill during the early part of this century, before the government regulated disposal of wastes.

As Alliance considered the property, it realized that there was probably no contamination above ground. Moreover, Alliance felt that it could remediate the site for between \$100,000 and \$300,000 under the state's new Land Recycling Program (Act 2), which allows site-specific remediation standards. These remediation costs looked reasonable, especially if the cost of the land was low enough.

### **Low-cost state financing helps to seal the deal**

In July of 1998, Alliance notified the PA DEP that it intended to remediate the site under the Act 2 program, which is designed to encourage the reuse of contaminated commercial and industrial sites. Under the Act 2 program, Alliance worked with the Southeast Regional Office of the PA DEP to develop appropriate risk-based cleanup standards as well as potential remediation strategies for the site.

With the assistance of the Chester County Development Council, Alliance applied for low-cost financing from the Pennsylvania Department of Community Economic Development (DCED). As part of the state's Land Recycling Program, DCED runs the Industrial Sites Cleanup Fund, which allows companies to receive 2% interest loans for up to 75% of the cost of completing an environmental study or cleanup plan.

In light of all this information, Alliance decided to purchase the site for its headquarters. It then formulated a plan for a Phase II environmental survey with input from the PA DEP's Southeast Regional Office. The approved plan calls for taking a set of soil samples and then taking two series of groundwater samples over a three-month period. While the tests will cost about \$150,000, they are important in helping the company establish a solid baseline understanding of the existing contamination. Without such an understanding, it will be difficult to develop an effective final remediation plan.

Alliance will begin the Phase II survey as soon as the Department of Economic and Community Development approves and releases the first round of its Act II funding.

### **The Brownfields Tax Incentive adds an extra benefit to the project**

While Alliance was working on securing Act 2 status, it read about the federal Brownfields Tax Incentive in a newsletter published by a local environmental consulting firm. After the company got more information about the program from the state, it began to look into whether the property was qualified. Alliance discovered that 510 E. Union Street did - it was located in a census tract with a 29.6% poverty rate, well above the 20% poverty rate threshold set in the guidelines.

The company quickly put together a comprehensive application and submitted it in early December 1998. Within two weeks, the DEP approved their request, and Alliance was certified to use the federal Brownfields Tax Incentive.

**The project creates positive spillover effects in the community**

Because Alliance has not yet started the actual cleanup, it is difficult to say exactly how much money will be saved by using the Brownfields Tax Incentive. However, it is clear that Alliance's redevelopment project is already an inspiration to the neighborhood.

Some local companies have approached Alliance to see whether they might be able to secure space on the site, because they have found it difficult to find large tracts of land to expand their operations. Alliance estimates that as many as 100 to 200 new jobs could be created if it opts to turn the rest of the site into a business incubator. These jobs would be in addition to the 12 to 15 new jobs that Alliance expects to create after its own move.

Other companies have asked Alliance for more information on Act 2 and the federal Brownfields Tax Incentive, with an eye to replicating Alliance's experience. And Alliance, buoyed by its own success, wants to help others with similar projects.