



BrownfieldNews

VOL. 9, ISSUE 1 FEBRUARY 2005

www.brownfieldnews.com

Cash Flow Solutions

EPA Grants: Are They Worth It?

Tax Deferral Strategies

The Spitzer Insurance Investigation

Brownfield Cleanup in the Arctic

Are You a Grant Junkie? How to Get Off the G-Train

By Todd S. Davis

Dear Todd:

My company spends an enormous amount of time, money and effort applying for subsidies to support our deals. While we have been relatively successful, it seems like we spend more time chasing grant funds than doing deals. Does this strategy make sense?

Mr. Grant E. "Desperately Seeking Funding"

Dear Grant E:

My first reaction to your question was, "What don't you understand about free!?" However, upon deeper reflection, your inquiry is quite insightful. In fact, I have personally witnessed the tragic, downward spiral of numerous "grant junkies" whose lives become obsessed with the relentless pursuit of subsidies.

It all starts innocently enough. A friend at a political fundraiser hooks you up with an acquaintance at U.S. EPA who tells you about a \$400,000 Brownfield Site Assessment grant. You submit a successful application. It's like magic.

Next, bored with Site Assessment Grants alone, you move on to the harder stuff — \$1 million in Revolving Loan Funds. After a while, you get satisfaction from nothing less than a \$2 million HUD Brownfield Economic Development Initiative (BEDI) grant!

Eventually, addicted to alternative financing sources, a grant junkie's entire existence becomes finding free money. They will submit literally hundreds of applications to their "funding sources" in search of their next "fix." Ultimately, grant junkies will do just about anything just to get local match funding. As we all know, grant dependence is not just a problem in big cities. It is an addiction that has spread like wildfire to small cities, towns and villages in search of funding.

How can we break this vicious cycle of self-destructive behavior? Well, only a professional "intervention" forcing the grant junkie to focus on the root cause of their addiction will work. So, if you think you may be a grant junkie, take time for a little self-analysis and ask yourself, "Why are you pursuing the subsidy?"

Many entities, whether for-profit or not-for-profit, are not strategic about the reasons for pursuing grant funding. At the risk of stating the obvious, the major benefits of grants include the following:

- Grants can make the difference between an economically viable project and a non-viable project.
- Grants can significantly decrease economic risks associated with brownfield redevelopment.
- Grants are FREE! Why wouldn't we apply?

Unfortunately, few entities consider the downsides of pursuing grant funding. These pitfalls can be categorized by several financial truisms as described below:

Time is money. Many entities, particularly in the public/non-profit sector, are just not sensitive to this issue. Therefore, waiting for grant funding results runs the risk of losing project momentum, often critical to closing a transaction. Further, many tenants or end users simply cannot afford to wait for the next grant cycle to locate on a brownfield site. Consequently, the cost of waiting for "cheap" money may be outweighed by the time cost of pursuing such funding.

There are always strings attached. Even the best subsidy programs have "strings attached." For instance, we were recently advised that the Economic Development Administration has a policy in its grant funding programs for brownfields including "anti-profiteering" provisions, which may effectively preclude for-profit developers from pursuing such funding. Does this provision mean the grant program is not fantastic? Absolutely not. However, understanding the "strings" will assist grant junkies in selecting only

the most appropriate programs to pursue.

There is no such thing as a free lunch. As any entity dedicated to pursuing grant funding knows, the mere activity of pursuing grant funding can be expensive and extraordinarily time consuming. Merely recognize that transaction costs associated with grant funding can increase the effective cost of low-interest loans and grants, as well as potentially delay progress on these projects.

In summary, while I would love to draft a twelve-step program to help you recover from your addiction to grant funding, I will try to hit the highlights in three short steps:

- **Admit you have a problem** — Admitting that pursuing a grant or low-interest loan does not make sense in every transaction is the first step on the road to recovery.
- **Evaluate the economics** — If a project's economics work without the grant or low-interest loan, carefully consider whether it makes business sense to pursue such funding. While undoubtedly many, if not most, brownfield transactions require such subsidies, several of the largest and most successful brownfield redevelopments to date have not relied on grant funding to make the deals work.
- **Time is not on your side** — Pursue grant funding only if the transaction's timing works. The cost of pursuing such funding, while obviously reducing financial risks, may also kill the deal.

Remember, even if you overcome your addiction to grant funding in the short term, the lure of "free money" can be overwhelming. Hopefully, understanding the sometimes hidden costs of your actions will keep you "clean."

BFN

Todd S. Davis, Esq. is the CEO of Hemisphere Development LLC and author of [Brownfields: A Comprehensive Guide to Redeveloping Contaminated Property](#) (2d. Ed. ABA). Send your questions for Todd to rachels@brownfieldnews.com