



A Pallet-able Deal

Redevelopment of an Inner-City Brownfield



By redeveloping a contaminated industrial site, American Pallet Recyclers was able to keep operations in an area of high unemployment.

The West Dallas industrial site, once home to a concrete pipe manufacturer but abandoned for about eight years, was anything but attractive. Seven vacant buildings and pockets of contaminated soil caused developers to avoid the site.

Except for Ed Ostrovitz. In 1996, Ostrovitz, owner of American Pallet Recyclers, received a loan to redevelop the site, which was contaminated and eventually labeled a “brownfield,” a term used to describe an idle or underused industrial or commercial site where contamination hinders redevelopment. With help from the city of Dallas’ Brownfield Program, which is sponsored by the Environmental Protection Agency, Ostrovitz was able to get the contaminated

land remediated. He then renovated buildings on the site and relocated his pallet recycling business from its location about two miles away.

Ostrovitz’s case is a classic example of business owners, cities and financial institutions breathing life into what many people believe are useless properties and, at the same time, creating jobs in areas of relatively high unemployment. In October, the EPA reported that, nationwide, more than \$1.6 billion had been invested in brownfields, with \$53 million going for cleanup and \$1.57 billion for redevelopment. More than 5,000 jobs were created in brownfield redevelopments. (The Brownfield Program doesn’t cover the most heavily contaminated sites, which fall under the EPA’s Superfund.)

“Turning a brownfield back into productive use can help a community be reborn,” says Dallas Mayor Ron Kirk.

Forging Partnerships

By forging partnerships with a wide variety of agencies at every level of government, Dallas has been able to celebrate numerous brownfield success stories, Kirk says. In Dallas, 20 brownfields that might otherwise have remained idle have been redeveloped, resulting in \$230 million in private investment and 750 new jobs in site cleanup, in construction and within the industries locating on the redeveloped sites.

On former brownfields in Dallas now sit an upscale apartment complex, a neighborhood recreation center and

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Brownfields Tool Kit

Across the United States, commercial and industrial properties lie idle and underused because environmental contamination hinders their redevelopment. In cooperation with federal, state and local agencies, the Environmental Protection Agency has developed tools to foster cleanup and development of these sites, known as brownfields.

Brownfield Site Assessment Grants

Up to \$250,000 for local governments to identify, assess and prioritize brownfields

Brownfield Cleanup Revolving Loan Fund

Up to \$500,000 for local governments to capitalize loan funds for the environmental cleanup of brownfield sites

State Voluntary Cleanup Programs

Removal of liability after the contamination is cleared and the site is designated "clean"

Environmental Protection Agency

Honors the "clean" designation granted by state environmental agencies participating in the Voluntary Cleanup Program

Tax Incentives

Environmental cleanup can be fully expensed in the year incurred, rather than capitalized and depreciated over time

CRA Credit

Banks may receive CRA credit for financing environmental cleanup in low- and moderate-income areas



Inner-City Brownfield

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small to medium-sized businesses like Ostrovitz's. Next to the apartments on yet another former brownfield will rise a multimillion-dollar sports arena scheduled for completion in 2001.

Ostrovitz turned to a contaminated site in 1996 when he wanted to expand his 10-year-old pallet recycling operation. He didn't want to leave West Dallas because its central location helped keep his trucking costs in check. With Ostrovitz making a \$400,000 equity investment, Comerica Bank was willing to lend the additional \$800,000 Ostrovitz needed to purchase the property and renovate the buildings.

Ostrovitz started by doing his homework. He began attending city of Dallas Brownfield Forums to learn more about

brownfield development initiatives. The forums are held every six weeks with citizens, business groups, nonprofit organizations, city officials and EPA staff.

"The forum is one of our greatest vehicles for public outreach," says Ann Grimes, the city's economic development project manager. "We probably average 30 attendees every meeting."

In one of many forums he attended, Ostrovitz learned about the state Voluntary Cleanup Program, an effort of the EPA and state environmental agencies such as the Texas Natural Resource Conservation Commission (TNRCC). Ostrovitz negotiated with the seller to clean up the site under monitoring from the TNRCC. Then, the TNRCC and EPA eliminated liability from state and federal environmental regulations.

The West Dallas industrial site lay idle for eight years until a public/private partnership engineered its redevelopment. American Pallet Recyclers relocated operations to the site with help from the city of Dallas Brownfield Program.



Without elimination of liability, Ostrovitz says he would have taken his business elsewhere—and the brownfield might have remained abandoned.

During its first year of operation at the new site, American Pallet Recyclers cranked out so many shipping pallets that a national manufacturer took notice. In January 1998, Ostrovitz sold his operation to PalEx, although he still owns the property. PalEx retained all 76 employees. A second business, Nature Reclaimed, a wood-recycling company with five employees, also leases space from Ostrovitz at the site.


Ensuring Profits and Uncontaminated Economics

Dave Marks, a small-business loan officer at Comerica Bank, says the perceived complexity of redevelopment due to the site's contamination was not a major issue. Once the site's contamination and potential liability had been evaluated, the bank was able to make the loan. "We saw a good loan and wanted to help out a customer," he says.

Rick Plewa, vice president of environ-

mental risk management at Comerica, says the top issue in brownfield development is, "How does the contamination affect the economics of the deal? Is the development profitable?" He adds that public/private partnerships are important to the development of contaminated sites because the public sector can resolve liability issues and reduce cleanup costs.

In addition to brownfield benefits, Ostrovitz received business incentives from the city because the pallet business is located in one of Dallas' four enterprise zones. Enterprise zones are a way of encouraging investment and job creation in areas with high unemployment and population loss, such as West Dallas. American Pallet Recyclers was awarded development fee rebates and a 10-year, 90 percent real property tax abatement on added value worth \$293,000—all because the company is located in an enterprise zone.

For more information on brownfield initiatives and success stories, visit the EPA Brownfields home page at www.epa.gov/swerosps/bf/index.html. 

Fast Facts

To expand and stay in West Dallas, American Pallet Recyclers decided to purchase and redevelop an existing industrial site where the soil was contaminated by hydrocarbons. Company owner Ed Ostrovitz negotiated with the property owner to have the site cleaned. Ostrovitz secured a loan from Comerica Bank to purchase and redevelop the property. He then worked with the TNRCC and the EPA to have the property designated "clean." Because of the expansion, American Pallet Recyclers added 25 employees over the next two years.

American Pallet Recyclers

Invested \$400,000 in site to expand business, retaining 51 employees and adding 25 more

Comerica Bank

Financed \$800,000 for purchase and redevelopment of site

City of Dallas

Sponsored Brownfield Forums, which brought together appropriate stakeholders

Texas Natural Resource Conservation Commission

Issued Certificate of Completion designating site as "clean"

Environmental Protection Agency

Issued a Comfort Letter recognizing "clean" designation

City of Dallas

Provided development fee rebates and a 10-year, 90 percent real property tax abatement on added value of \$293,000 because property is located in an enterprise zone

For additional information, contact the city of Dallas Economic Development Department at (214) 670-1686.

Burnett Nelson opened his small manufacturing operation, The 101 Group, seven years ago with \$25,000 from family and friends. Since that startup, he has won awards for his business acumen. But as demand for the company's multi-functional furniture for the school and child care markets grew, Nelson needed to take The 101 Group to the next plateau.

That meant seeking and obtaining capital. Nelson knocked on the right door when the Houston Minority Business Development Center referred him to Enron Economic Development Corp. (EEDC), started by energy giant Enron to invest in minority- and

women-owned growth-oriented businesses.

Through its Houston Economic Opportunity Fund, EEDC invested \$250,000 in venture capital in Nelson's company. This will allow The 101 Group to expand its business in the educational furniture, specialty products and architectural woodwork markets. Nelson forecasts sales will hit \$400,000 in 2000.

"Small businesses like mine are unable to take advantage of economies of scale and are always faced with insufficient sources of capital when trying to get past the month-to-month grind," Nelson says.

For five straight years, *Fortune* magazine has designated Enron, a Fortune 500 company, the "Most Innovative Company in America." Last year, *Fortune* named Enron one of the 100 best companies to work for in America and moved it from 73rd to 24th place for the year 2000.

EEDC sprang from several altruistic Enron employees who volunteered their time to consult with emerging small busi-

A New Equity Partner

Energy Giant and Banks Form Investment Fund for Minority and Women Entrepreneurs



Effie Booker (left) of Wells Fargo Bank and Gene Humphrey (right) of Enron Economic Development Corp. work to provide equity investment for businesses such as The 101 Group, owned by Burnett Nelson (center).

nesses. The volunteers discovered that inner-city entrepreneurs had a recurring need for equity to start or expand their businesses. After more than a year of working with entrepreneurs, the volunteers prompted Enron's board to establish the Houston Economic Opportunity Fund with a \$20 million stake.

Since its beginning in February 1999, EEDC has invested amounts ranging from \$110,000 to \$2.2 million in companies like The 101 Group—a limousine service, a Spanish education software firm, an affordable housing construction company, and an e-commerce firm and a 200-seat call center that both target the Latino market. Wells Fargo Bank and Bank of America have lined up behind EEDC, and other financial institutions are considering investing in the fund.

Wells Fargo was the first to hop on board with a \$5 million commitment. The EEDC is "filling the gap needed in this marketplace, and that gap is equity

financing," says Effie Booker, senior vice president for Wells Fargo Community Development.

EEDC President and CEO Gene Humphrey says his organization provides both startup and equity capital to women- and minority-owned businesses and those located in low- to moderate-income areas. He says EEDC and Houston Economic Opportunity Fund goals are to build solid businesses that can stand on their own and, at the same time, provide Enron with a respectable return on investment.

EEDC is targeting \$100 million for a national fund to provide equity to businesses similar to Nelson's in cities like

Atlanta, Chicago, Los Angeles and Philadelphia. Humphrey says EEDC also will coinvest with other funds to spread the money further and reduce risk.

EEDC owns 35 percent of Nelson's company to Nelson's 65 percent. Like most venture capitalists, Enron looks for a three- to five-year exit strategy through an owner- or third-party buyout or a public offering. EEDC also looks for at least a 20 percent return. Humphrey says the two criteria he searches for in a business plan are growth orientation and dedicated people. "Plans are great, but people are what's really important," he says.

Before he approached EEDC, Nelson had chalked up enough accomplishments to win the African-American Business Achievement Pinnacle Award in 1997 and a nomination for *Black Enterprise* magazine's Innovator of the Year Award in 1998. But awards don't translate into venture capital, so Nelson called upon his

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Are All Boats Rising on Economic Tide?

As the U.S. economic expansion continues its ninth year, the annual GDP growth rate is more than 5.5 percent, unemployment is in the low 4 percent range and inflation has fallen below 2.5 percent. In early 1999, this expansion became the country's longest peacetime expansion, exceeding that of the 1980s. In February, it will reach another important milestone, becoming the longest ever—exceeding even the wartime expansion of the 1960s.

In the past, some segments of society—particularly African-Americans and Hispanics—did not experience the full benefits of a growing economy. To determine how those two groups have fared this time, we analyzed a number of economic indicators, back to 1992, the first full year of expansion after the 1990–91 recession. Our analysis also includes information dating to the late 1960s, when the numbers were first tracked, to illustrate historical trends. We looked at average income; unemployment, poverty and home-ownership rates; and the number of mortgages originated. The indicators are measured for the African-American, Hispanic and white populations, as well as the total population. We also compared each population with the total to determine if the groups are benefiting from the good economy at different rates.

We found that all segments of the population studied have made substantial economic gains during the expansion. However, we also found that African-

Americans and Hispanics continue to experience higher unemployment and poverty rates and lower average income and home ownership than the total population. The differences in unemployment, poverty and home-ownership rates between these two populations and the total have decreased, but the gap in average income has not.

Unemployment

Figure 1 shows unemployment rates for the total population and by racial/ethnic group. In the 1990s, unemployment among all populations peaked in 1992. By 1999 total unemployment had dropped to 4.3 percent, its lowest level since 1969.¹ Unemployment also dropped for each racial/ethnic group studied.

African-American unemployment fell to 8.1 percent in 1999 from 14.2 percent in 1992—a drop of 6.1 points in just seven years and the lowest rate since data became available in 1972. The numbers show that 2.8 million more African-Americans were employed last year than in 1992. However, more than 1.3 million African-Americans in the civilian labor force were without jobs.

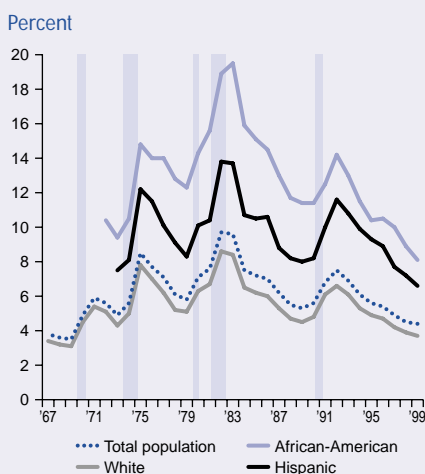
Between 1992 and 1999, the Hispanic civilian labor force grew by more than 3.2 million workers. Hispanic unemployment fell almost 5 percentage points as Hispanics filled roughly 3.9 million new jobs generated by an expanding economy. In 1999, unemployment among Hispanics fell to 6.6 percent—its lowest since these data became available in 1973. Approximately 970,000 Hispanics in the civilian labor force did not have jobs.

Unemployment in the white labor force was 3.8 percent in 1999—the lowest rate since 1969. Employment among the non-Hispanic white population grew by almost 9.9 million workers from 1992, although about 4.2 million white workers were unemployed last year.

Figure 1 also shows that the disparities between the U.S. unemployment rate and those for African-Americans and Hispanics have fallen to their lowest levels since 1972. In 1999, unemployment among African-Americans was 3.7 percentage points higher than for the total labor force, 3 points lower than in 1992.

The 1999 unemployment rate for Hispanics was 2.3 percentage points higher than for the total labor force, a narrowing of 1.7 points from 1992.

Figure 1
Unemployment Rate Gaps Are the Narrowest Since 1972



NOTES: 1999 rates are averages through October. Shaded areas indicate recessions.

SOURCE: U.S. Census Bureau, Current Population Survey.

Household Income

As seen in Figure 2, average U.S. household income rose to a record \$51,855 in 1998, up 11.8 percent from 1992's \$45,124 (in 1998 dollars). During this period, average household income among African-Americans grew at a somewhat faster 13.2 percent rate to \$34,139, its highest recorded level.

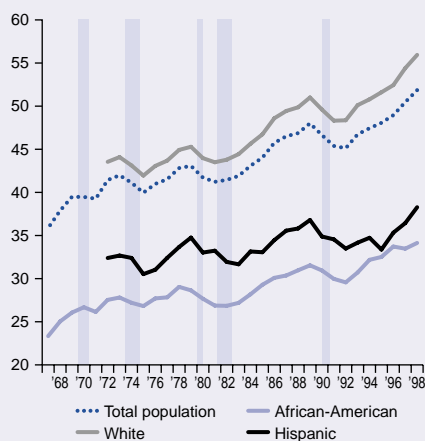
The average household income for Hispanics in 1998 was also the highest on record at \$38,280, up from \$33,485 in 1992. The 8.8 percent increase lagged the pace for the total population largely because Hispanic population income fell in 1995.

Average household income for the non-Hispanic white population was

Continued on next page

Figure 2
Average Household Incomes
Rise to Record Levels

Thousands of 1998 dollars



NOTE: Shaded areas indicate recessions.

SOURCE: U.S. Census Bureau, Current Population Survey.

\$55,943 in 1998, 12.5 percent higher than in 1992. Since the 1990–91 recession, the greatest single-year increase for this group came in 1996–97, when average income rose by nearly 4 percent.²

Although income grew sharply across these racial and ethnic groups, the average household income of African-Americans was only 66 percent of the U.S. average, essentially the same as in 1992. The income gap has been nearly constant since 1967, when the numbers were first collected.

Figure 3 shows that in 1998, Hispanics' average household income was 73.8 percent of the total population's. The percentage point difference grew from 1992, when Hispanics' average income was 74.2 percent of the total population's. The smallest gap came in 1979, when Hispanic income was 80.7 percent of total population income. The data show that the income gap had been increasing for many years but has narrowed since 1995.

Poverty

The percentage of people living below the poverty line in 1998—less than \$16,660 annually for a family of four—was 12.7 percent for the total population,

an improvement from 1992, when 14.8 percent lived in poverty (Figure 4). In 1998, 26.1 percent of African-Americans lived in poverty, the lowest percentage since the Census Bureau began keeping this statistic in 1967. Since 1992, this percentage has declined by more than 7 points.

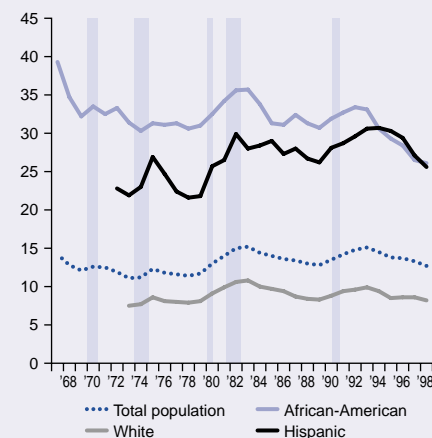
Following a somewhat different pattern, the percentage of Hispanics living in poverty rose five of the past 10 years and did not begin to decline until 1995. However, by 1998 it had fallen by more than 4 points to 25.6 percent, its lowest level since 1980. In contrast, only 8.2 percent of the white, non-Hispanic population lived below the poverty line in 1998, down 1.4 points from 1992.

African-Americans have narrowed the poverty gap with the total population, as shown in Figure 4. In 1992 the percentage of African-Americans in poverty was 18.6 points higher than the total population. By 1997 and 1998 the difference had fallen to 13.2 and 13.4 points, respectively, the smallest since these data have been collected.

In contrast, the gap between Hispanic and overall poverty rates in 1998 was

Figure 4
Poverty Rates Trend Downward

Percent



NOTE: Shaded areas indicate recessions.

SOURCE: U.S. Census Bureau, Current Population Survey.

about the same as it was during the 1980s—12.9 points. This gap widened during the early 1990s to 16.5 points before it began narrowing in 1996.

Home Ownership and Mortgages

We also examined home-ownership rates and mortgage originations to see if the growing economy, employment gains and rising average income have had an effect.

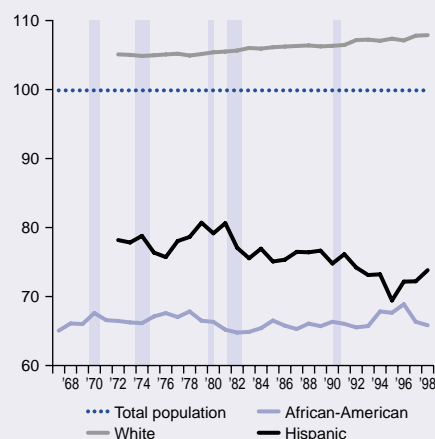
The Census Bureau's 1998 housing survey found that 66.2 percent of all U.S. households owned a home, the highest rate since 1983 (Figure 5). The figure shows 46.6 percent of African-American, 44.9 percent of Hispanic and 72.2 percent of non-Hispanic white households owned a home in 1998.

It also illustrates that in 1987 home ownership among African-Americans declined, and it wasn't until 1996—when the rate rose by more than 2 percentage points—that the levels of the early 1980s were reached again. In 1997 and 1998 home ownership continued to grow, hitting 46.6 percent in 1998, the highest level since 1983.

Home ownership among Hispanics reached 44.9 percent in 1998, a 5-point

Figure 3
Income Disparity Persists

Percent



NOTES: Each group's income is shown as a percentage of the total population's income. Shaded areas indicate recessions.

SOURCE: U.S. Census Bureau, Current Population Survey.

increase from 1992 and the highest level since 1983.

Home-ownership rates for African-Americans and Hispanics are rising slightly faster than for the overall population. From 1992 to 1998 the difference in rates between African-Americans and the total population narrowed by 1.9 points and for Hispanics by 2.9 points. Nevertheless, the percentage of African-Americans and Hispanics owning homes remains about 20 points lower than that of the total population.

The higher home-ownership rate is also reflected in the increases in mortgage originations between 1992 and 1998. The number of mortgage loans made to African-American homebuyers rose to 276,093 in 1998 from 106,581 in 1992, a 172 percent increase.

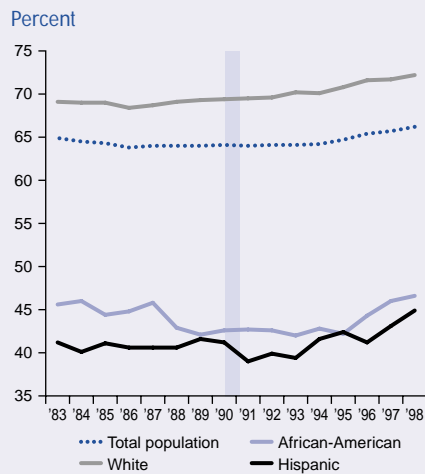
The number of mortgages made to Hispanic households grew even faster during this period, rising 189 percent to 294,639 in 1998 from 101,807 in 1992. Mortgage loans made to white homebuyers grew to 3.3 million in 1998 from 2 million in 1992, a 67 percent increase.

All Boats Are Rising— But on Different Tides

The sustained economic expansion has benefited not only the population as a whole but also the African-American, Hispanic and white populations individually. The economic picture for all these groups is the best on record in terms of unemployment, average income, poverty rate and home ownership.

However, as groups, African-Americans and Hispanics are still experiencing economic conditions that would be unacceptable if they occurred in the total population. For example, the African-American unemployment rate dropped from 14.2 percent in 1992 to 8.1 percent in 1999. While this is a significant improvement, it would not be considered good if it applied to the total U.S. population. In fact, 8.1 percent is higher than the peak rate for the total population during the recession of the early '90s.

Figure 5
Home-Ownership Rate Gap
Slowly Narrows



NOTE: Shaded area indicates recession.

SOURCE: U.S. Census Bureau, Current Population Survey.

As unemployment has fallen, Hispanic and African-American earnings have risen to record levels. The \$38,280 average family income for Hispanics in 1998 was a big improvement over the inflation-adjusted \$33,485 for 1992. However, the 1998 figure was only 73.8 percent of total population income. At 66 percent, the African-American proportion was even lower. Both percentages were essentially the same as in 1992, demonstrating that these income gaps have not narrowed during the expansion.

In 1998, the lowest percentage of African-Americans living in poverty was realized; for the Hispanic population, it was the smallest in over a decade. The poverty gap between African-Americans and the total population is the smallest ever and for Hispanics the smallest since the early 1980s. Still, more than one in four people in both groups lived in poverty, over double the rate in the total population.

Home ownership has increased among African-Americans and Hispanics, yet less than 50 percent own a home. And while African-Americans and Hispanics have narrowed the gap with the total popula-

tion since 1992, in 1998 the gap for African-Americans was essentially the same as it was in 1983. The strides made during the '90s expansion have only offset the losses incurred during the most recent recession.

Yes, all boats are rising in the new economy, in many instances to unprecedented heights. This does not mean, however, that all economic gaps between racial groups are closing. The expansion is reducing the disparity in unemployment, and it has recently started to close the poverty and home-ownership gaps. However, the expansion has not closed the income gap. ■

— Nancy Vickrey
Toby Cook

Notes

- ¹ 1999 unemployment rates are the average of the rates for January through October.
- ² From 1992 to 1998, average household income for the Asian/Pacific Islander population grew by 10.6 percent to \$60,200. During that period, the poverty rate increased by 1.5 points to 17.5 percent. Historical data for unemployment and home ownership in this group are limited and excluded from the analysis.

Community Development Investments Symposium

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Federal Reserve Bank of Dallas

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CRA-qualified investments and related regulatory and technical issues will be the focus of the symposium. The program—in question-and-answer format—will assist participants in identifying investment opportunities that may work for their bank and community.

Representatives from large and small financial institutions, including compliance, CRA, investment and treasury officers involved with community development investing, are encouraged to attend. Community development practitioners and investment specialists are also invited.

Registration brochures will be mailed soon. For additional information, please call 214-922-5377.

Did You Know. . .?

CEDRIC: An Internet Resource

The Federal Reserve Bank of Chicago's Consumer and Economic Development Research and Information Center (CEDRIC) web page features research papers, data and links to additional information on community and economic development. Some of the featured topics include:

- Access to credit
- Affordable housing
- Consumer and small business financial behavior

To visit the site, log on to www.frbchi.org and select the Community Development Research Center link under Resources or click on the CEDRIC icon. You can also access CEDRIC from the Dallas Fed's web site at www.dallasfed.org under Community Affairs, Other Resources/Links.

CDFI Technical Assistance Grants

Technical assistance grants from the CDFI Fund are available to community development financial institutions for staff and management training, acquisition of technology to improve financial management or internal operations, and hiring of outside experts to build organizational capacity. The application deadline is March 28. For additional information, visit the CDFI Fund web site at www.treas.gov/cdfi.

New Equity Partner

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experience as an investment consultant and manager to present a well-thought-out and organized business plan for his innovative products to EEDC. His multifunctional learning centers, designed for schools, day care centers, churches and such, allow teachers to insert different sections and work surfaces to change the theme of the teaching experience.

Financial experts point to Nelson as an



Perspectives

First Quarter 2000

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Internet web site: www.dallasfed.org

example of somebody who has a great idea but needs capital to reach the next level of growth. "It's just good business sense to invest in local Houston businesses that have been underserved in the past," Humphrey says. "We think of this as an opportunity to create wealth both for us and those businesses in which we invest."

To contact the EEDC, call (713) 345-7972. **D**