

Managing The Risks Of Environmental Contamination In Redevelopment Projects

Polly B. Jessen

AKIN, GUMP, STRAUSS, HAUER & FELD, L.L.P.

Recent public concern over urban sprawl is leading municipalities to consider urban infill and brownfields redevelopment projects to be desirable options for accommodating urban growth. New federal funding and liability protections available under the Small Business Liability Relief and Brownfields Revitalization Act enacted in January of this year also enhance the incentives for municipalities to redevelop contaminated or potentially contaminated sites. Whether these projects involve redevelopment of municipal property or private property within municipal boundaries, they typically involve significant municipal and private involvement in the development process, and often a public-private partnership. In recent years, creative tools have been developed to assist both the private and the public sector in managing the risks associated with environmental remediation. The effect has been that brownfield and urban infill sites, previously prohibitively risky to develop, are offering attractive development opportunities.

Most environmental issues are substantially similar in public and private redevelopment of contaminated properties. Of the myriad issues to be considered, however, management of legal and financial risk once a project is underway can be particularly important in municipal projects. These risks include remediation cost overruns, potential liabilities due to changes in enforcement policies, changes in applicable regulatory or risk-based cleanup standards, remedy failures, undiscovered or migrating contamination and related third-party claims.

Municipalities and other local governmental entities often are subject to financial constraints and considerations not applicable to private entities, including budgeting and appropriation procedures, conditions on issuing debt, governmental immunity and charter or state law restrictions on their ability to incur contingent liabilities. As a consequence, both public and private entities involved in municipal projects are likely to have a heightened need to manage legal and financial risks involved in these projects and should be aware of the basic tools available for this purpose.

Contractual Risk Allocation

The most basic tools for managing legal and financial risk associated with environmental contamination are contractual arrangements among participants in an urban redevelopment project. Contracts should define, at a minimum, the circumstances in which the parties are obligated to perform and pay for any environmental

Polly B. Jessen is Counsel in the energy, land use and environment practice group at Akin, Gump, Strauss, Hauer & Feld, L.L.P. in Denver. Ms. Jessen focuses her practice on assisting public- and private-sector clients in redevelopment of urban brownfield sites. She is currently involved in the redevelopment of the 4,700-acre former Stapleton International Airport, one of the largest urban infill projects in the nation.



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cleanup and the procedures and standards for completing that cleanup. Indemnification clauses are another important means to transfer environmental liabilities among sellers and buyers, owners and operators, and their lenders, environmental consultants and contractors. Indemnification clauses need not necessarily reflect causation or fault, but can be treated as simply a means to allocate different legal liabilities as elements of the "deal." Releases and "as is" clauses also can be used to limit liabilities by eliminating legal recourse between one or more parties to the contract for particular types of claims.

The strength of an indemnity or other contractual commitment is only as good, of course, as the financial strength of the party providing it. Thus, including terms requiring insurance, bonding or escrowed funds is a useful financial assurance that cleanup and indemnification obligations will be met.

Environmental Insurance

Environmental insurance is one of the most comprehensive environmental risk-management tools available. Policies can be tailored to the types of contractual and regulatory liabilities facing property owners, operators and contractors in an urban redevelopment project. These policies are available both for sites that are subject to regulatory enforcement action as well as sites where remediation will be conducted on a voluntary basis.

Pollution legal liability (PLL) policies are designed for property owners and operators. These policies cover cleanup costs, and claims for bodily injury and property damage arising from unknown or new pollution conditions at a specified location or caused by pollution migrating off-site from the covered location. PLL policies also cover cleanup costs and claims for bodily injury and property damage arising from changes in regulatory or risk-based standards applicable to known conditions after coverage commences. Pre-existing conditions known to require remediation are typically excluded from such coverage. Thus, PLL coverage is appropriate for sites where site cleanup has been completed, or where contamination exists, but is below current regulatory or risk-based standards and does not require remediation. While insurers typically use a form policy, these policies are highly negotiable and can be tailored to address the issues associated with a particu-

lar project.

Cost cap or "stop loss" policies are available as a means to control costs of remediation resulting from contamination in excess of known amounts, newly discovered types of contaminants, or regulatory changes that affect the type or extent of required cleanup. Cost cap policies allow remediation contractors to insure fixed-price contracts and also allow property owners or developers to cap remediation costs. These policies may also be purchased to cover the costs of long-term monitoring and maintenance of a property where contamination will remain on the site (e.g., landfill cleanups). To obtain coverage, a thorough site evaluation and remediation plan is required as well as a self-insured retention equal to the estimated cost of cleanup plus a buffer amount specified by the insurer. Coverage terminates once remediation is completed and any necessary regulatory approval has been issued. "Blended" cost cap and PLL policies are also available and may be the most appropriate choice where a single entity is responsible for both remediation and redevelopment of a contaminated property.

Finally, professional- and contractor-liability policies are also available. These policies cover bodily injury, property damage and cleanup cost claims arising from covered professional services and contracting operations provided by environmental consultants. These policies provide another level of protection to public and private entities against cost overruns that may not be collectable in the event of a judgment against an environmental professional and can be required under professional services contracts.

Regulatory Programs

Where environmental regulators have not initiated enforcement action to require cleanup of contaminated sites, most property owners and prospective purchasers instinctively avoid regulatory involvement for fear of facing cost-prohibitive requirements that include expensive reporting and review processes. However, taking advantage of programs providing regulatory supervision and/or approval of cleanup efforts may be another method of managing legal and financial risk associated with regulatory enforcement actions.

Most states have adopted voluntary cleanup programs that offer incentives for remediating and redeveloping contaminated sites in the form of liability protection or streamlined approval of remediation plans and completed cleanup. These programs typically offer "no further action" letters, which document a finding by the state regulatory agency that no further remedial action is required to meet regulatory or risk-based environmental standards for the end use of the property. These letters do not preclude enforcement action to address new conditions or conditions that differ from those disclosed by the property owner or operator. Such letters do, however, offer assurance that enforcement action is unlikely and also may make third-party negligence claims more difficult to establish.

Some state voluntary cleanup programs also may allow regulators to offer covenants not to sue to the property owner once cleanup has been completed and approved by the state regulatory agency or

may offer prospective purchaser agreements that require reciprocal benefits to the state. In addition, some states have negotiated memoranda of understanding with the U.S. Environmental Protection Agency (EPA) under which EPA defers enforcement action at sites that are remediated under the state's voluntary program. Even where states do not have a formal voluntary program, most regulatory agencies have authority under state law to enter into voluntary or consent agreements under which similar benefits would be available.

In limited circumstances, EPA will issue comfort letters to property owners or operators and prospective purchasers that indicate its intention not to take enforcement action at the site. While these letters are not binding on EPA, and do not preclude it from taking enforcement action in the future, they offer some assurance regarding the likelihood of EPA enforcement action. In the past, EPA also offered covenants not to sue to prospective purchasers of contaminated sites under very limited circumstances pursuant to prospective purchaser agreements. However, these agreements may be eliminated or substantially changed by the recent Small Business Liability Relief and Brownfields Revitalization Act.

Third-Party Liability Assumption

Third-party liability assumption or "guaranteed fixed price remediation" is another option for managing the legal and financial risk associated with environmental contamination that has come into use since the late 1990s. A number of environmental firms now offer liability assumption and fixed-price remediation services. For a fixed price, these firms will assume all contractual and regulatory liability related to a site through contractual indemnity and will conduct site cleanup necessary to obtain regulatory approval. These obligations are typically backed by an environmental insurance policy. Where a site is subject to state or federal enforcement action, the firm will become a liable party and signatory to the consent decree or other order governing the remediation of the site, and the regulatory agency typically will agree to look first to the firm for performance. In some instances, state agencies may also agree to fully release other liable parties, although EPA is unlikely to do so.

Taking this approach transfers not only legal and financial risk from redevelopment participants, but also the responsibility for cleanup contracting, interaction with regulatory agencies and insurance administration involved in a comprehensive environmental remediation program. However, like other risk-management tools described above, its efficacy depends on the financial strength of the firm assuming liability and the financial strength of the firm's environmental insurance company.

Not all of these tools may be appropriate for every urban redevelopment project. Depending on the characteristics of the site, the participants in the project and their respective risk sensitivity, these tools may be applied singly or in combination to cost-effectively manage legal and financial risks associated with redevelopment of contaminated property.

Please e-mail the author at pjessen@akingump.com with questions about this article.