



TAX INCREMENT FINANCING FOR BROWNFIELD REDEVELOPMENT

AN OVERVIEW



NOV 2019



1 WHAT IS TIF?

Tax Increment Financing (TIF) is an economic development tool. A developer is provided money upfront to cover costs of environmental remediation and associated costs. The increased property taxes from the new development is used to cover the money provided.

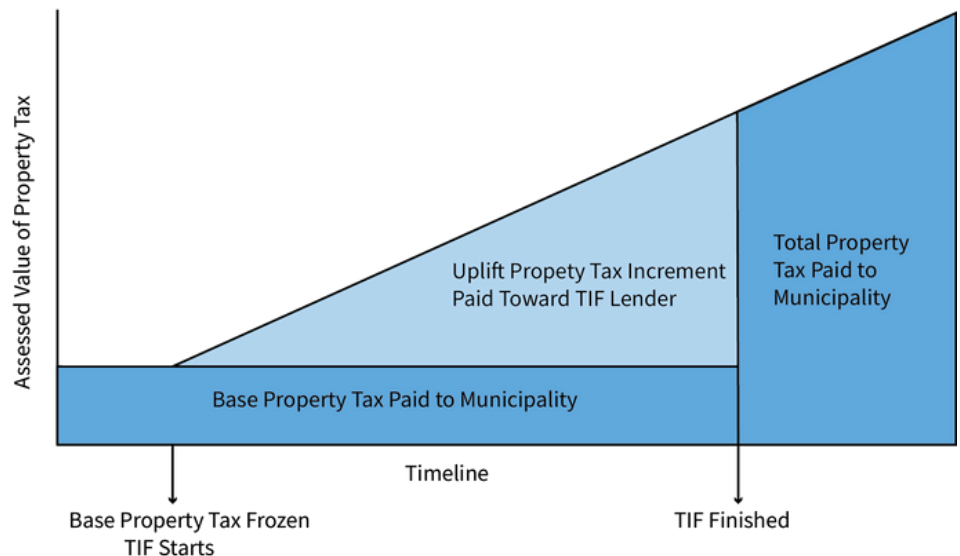
TYPES

- District TIF
- Site-Specific TIF
- Municipal Loan/Bond
- Market TIF (Financial Lender Loan)

WHERE

TIF is used widely in the USA, with 49/50 states having regulations. In Canada, only Alberta & Manitoba have regulations and use TIF districts.

HOW IT WORKS



When a TIF is established, the property tax before development is frozen. This is the base tax. The difference between the base tax and the increase in property taxes (the tax increment) is used to pay back a municipality or a financial lender for eligible costs of remediation. Project money is provided upfront to cover a portion, or the full amount, of remediation. A TIF may be extended to provide revenues towards a reserve fund and TIF authority to manage the program (see FAQ).

BENEFITS

- Increases property tax base in long-run
- Promotes development in small-to-medium sized markets
- Remediation assistance upfront
- Lender gets interest from loan
- Can cover administrative/program costs

CRITIQUES

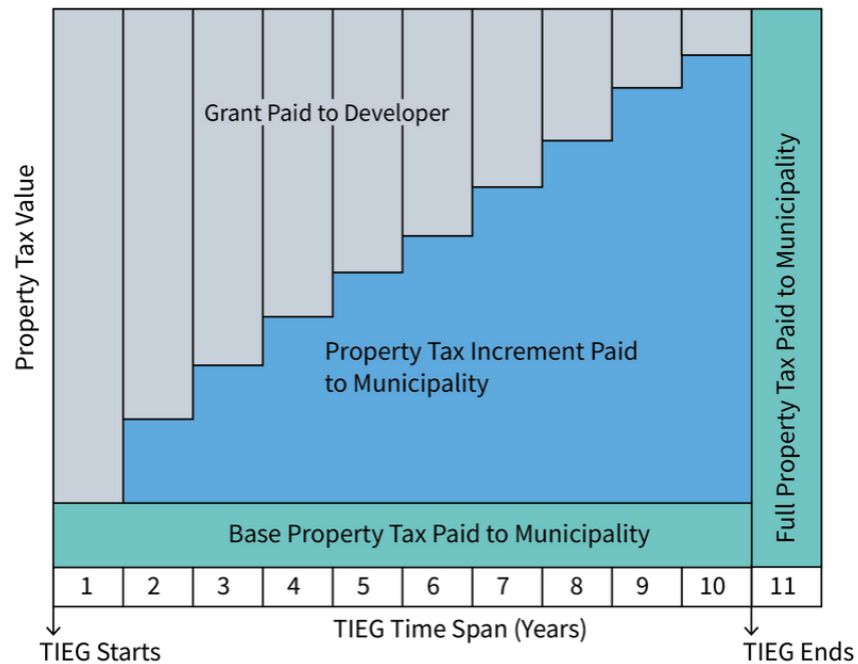
- Reduces municipal revenue for services in the short term
- Relies on property tax increases
- Potential political uncertainty
- Interest payments are an additional cost



2 TIEG

A Tax Increment Equivalent Grant (TIEG) is one of the most used financial incentive tools Ontario municipalities provide for brownfield redevelopment.

HOW IT WORKS



Similar to TIF, the property tax before development is frozen and a base tax is established. As the property tax increases, the developer is reimbursed a percentage of eligible remediation costs. Developers pay remediation costs upfront and the program begins after completion of the project. TIEGs end when costs are paid, but generally have a maximum lifespan of 10 years.

COMPARISON

	TIF	TIEG
Covers Interest/Financing Costs	✓	✗
Administrative Draws	✓	✗
Strict Time Frame	✗	✓
Partner With Financial Lending Market	✓	?



3 CASE STUDY

WINDSOR, ON: GAS STATION

Parcel Size: 20,000 sq.ft

Commercial Building: 60,000 sq.ft

Remediation Costs: \$ 2.5 million

Development Costs: \$22 million

Rent per sq.ft: \$55 (hypothetical)

Property Tax: 4.31%

In all scenarios, property tax increases from \$90,000 to \$700,000 per year

1. TIEG

Grant on 100% increase in property taxes towards eligible costs for 10 years

MUNICIPALITY

- Costs \$1,720,000 to deliver TIEG program

DEVELOPER

- Rate of Return: **Y10: -1.69%** | **Y11: 4.58%** | **Y12: 7.95%**

2. TIEG+

Grant on 70% increase in property taxes towards eligible costs for 10 years; Up to \$25,000 Environmental Assessment Grant; \$7,500 Feasibility Study Grant; 60% Development Charge Exemption Program

MUNICIPALITY

- Costs \$1,745,000 to deliver TIEG program with additional grants

DEVELOPER

- Rate of Return: **Y10: -1.61%** | **Y11: 4.63%** | **Y12: 7.99%**

3. TIF

Site-Specific & Market TIF; Eligible remediation costs for lifespan of TIF, reserve fund, authority and interest

MUNICIPALITY

- Forgoes \$2,729,703 in revenues to administer TIF
- Receives \$300,000 for TIF authority and \$437,782 for reserve fund

DEVELOPER

- Rate of Return: **Y10: 3.18%** | **Y11: 7.19%** | **Y12: 9.63%**

FINANCIAL LENDER

- Paid \$236, 903 from 7% interest on remediation loan through TIF

Poor

Medium

Good



4 CASE STUDY

TIF PERFORMANCE

	Developer Rate of Return		
	Y10	Y11	Y12
Base Case	-6.57%	0.54%	4.38%
TIEG	-1.69%	4.58%	7.95%
TIEG+	-1.61%	4.63%	7.99%
TIF	3.18%	7.19%	9.63%

TIF yields the highest rate of return for developers.

TIF

BENEFITS

- **Developer:** All remediation costs are covered upfront
- **Developer:** Does not have to rely on availability of municipal funds
- **Municipality:** Potential for administrative and special funding for municipality via reserve and authority components
- **Municipality:** Overall property tax uplift due to remediation
- **Lender:** Additional revenue source

RISKS

- **Developer & Lender:** Property values must increase
- **Developer & Lender:** Loan risk accounting for additional remediation costs
- **Municipality:** Initial loss of property tax increment
- **All:** Additional party included in agreements



5 FAQ

Does TIF need enacting legislation to be implemented?

Yes, to enact TIF a province needs to have legislation and regulations. Currently only Alberta and Manitoba have TIF regulations. Ontario introduced legislation in 2006, but there have been no enacting regulations.

What is the TIF reserve and authority for?

Setting up a TIF to also pay for a TIF authority allows a municipality to set up a department or agency to administer the TIF program. A reserve fund is for a municipality to use how they see fit in regards to brownfields.

Are different tools better for different markets?

The purpose of these financial tools is to incentivize brownfield development. However, some medium to smaller municipalities may need additional tools to effectively promote brownfield redevelopment.

Are Site-Specific and District TIFs the same?

No, Site-Specific encompasses one parcel of land, while District TIF's are area-wide and encompass multiple parcels of land.

How does TIF impact the taxpayer?

TIF does not require an increase in property taxes or new taxes on other properties. Only the increased taxes from the TIF site are temporarily diverted until the TIF is completed. Taxpayers pay the same rate as they would prior to a TIF in their community.

LINKS TO RESOURCES

[Calgary Community Revitalization Levy](#)

[2006 TIF Legislation](#)

[Michigan Resources](#)

[Barriers to Brownfield Development in GTHA](#)

[Practical Guide to Brownfield Redevelopment](#)

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