

TAX INCREMENT FINANCING (TIF)

RESEARCH FROM THE FIELD



Master Plan for Calgary's River District and the first use of TIF in Canada

Defining the Brownfield

"A 'brownfield' is generally a former site of industrial or commercial activity that has since become blighted, unusable or underused"¹

This column summarizes the key themes and findings and provides recommendations based on the article: Sroka, R. (2016). TIF for that: Brownfield redevelopment financing in north america and Calgary's rivers district. *Cambridge Journal of Regions, Economy and Society*, 9(2), 391-404. <https://doi.org/10.1093/cjres/rsw003>

A Review of the American and Canadian Experience with TIF

By Claire Semple

Robert Sroka (2016) shares important insights on Tax Increment Financing (TIF) tools used to facilitate urban brownfield neighbourhood remediation and redevelopment in North America, with a focus on its application in Calgary's River District. This research will help planners and other key government and industry stakeholders to better understand the financial feasibility of brownfield redevelopment projects. It can also help municipalities make an informed decision on the applicability or appropriateness of a TIF program in their own jurisdiction.

The financial feasibility of brownfields is an open question. Cost-benefit calculations prove that brownfield sites are uncompetitive in the real estate market. However, recent government policy agendas as well as emerging market trends are starting to favor re-urbanization and intensification in inner-city locals. Incentives such as TIF can be used to support sustainable growth patterns and direct development.

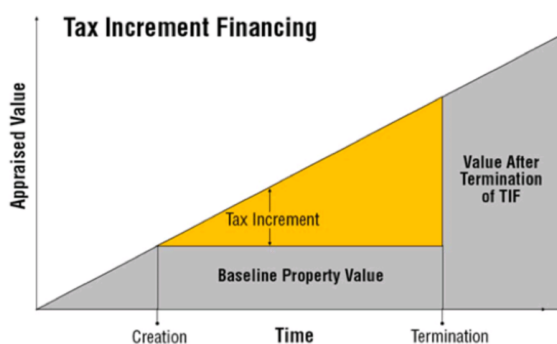
What is Tax Increment Financing (TIF)?

Essentially, TIF is a municipal property tax increment program. Local governments are allowed to define a geographic district where a baseline property tax is established following development. Taxes above this baseline threshold will not contribute to general revenue but are applied directly towards improvements within the district for a set amount of time (usually 15- 40 years).² One of the primary tests used to determine the applicability of a TIF program is the 'But For' test. The development intended would not occur 'but for' the TIF program.³

Planners and various stakeholders in Ontario might be more familiar with a Tax Increment Based Grant (TIBG) program or a Tax Increment Equivalent Grant (TIEG) program, which shares many similarities with TIF programs. The main difference is TIEG and TIBG programs apply directly to the property owner and contribute only to improvement on a specific property. Whereas TIF programs apply the increment value to neighbourhood/ district projects.

United States

The first iteration of a TIF program in North America was implemented in the 1950s in California.⁴ Various formations of TIF programs have been introduced in every state. Sroka (2016) tracks the American experience with TIF, pointing out its application has undergone a 360 transformation. Originally intended to facilitate redevelopment on urban brownfields, program scope and applicability in many jurisdictions has widened considerably. TIF became just a means to finance development of any variety. The thresholds of 'blight' became quite weak. Judiciary precedent has differed to municipalities' interpretation of TIF. Consequently, it has "... led to examples of TIF being deemed an appropriate vehicle for such things as the transformation of a Wisconsin fruit orchard into a Walmart Supercentre."⁵ The most concerning implication to the broadening scope of TIF, is that brownfield redevelopment risks losing a competitive advantage relative to greenfields.



Source: https://www.researchgate.net/figure/Tax-Increment-Financing-Phases_fig1_328769890

In recent years, states and municipalities have taken steps to realign TIF programs with brownfield redevelopment objectives. Wisconsin created a new purpose-built form of TIF for brownfields. California reintroduced a more limited TIF framework aimed at infrastructure improvement with strong direct voter controls on debt issuance.

Canada

Ontario, Manitoba and Alberta are the only provinces in Canada with enabling TIF legislation. The majority of TIF activity has occurred in Manitoba and Alberta. In Ontario, TIF mechanisms have only been used in two pilot projects since the enactment of the Tax Increment Financing Act (Ont) in 2006.⁶ The slow uptake has been attributed to the presence of other comparable financial tools.

The following section contains lessons learned and key themes from Sroka's (2016) review of the Canadian experience with TIF.

Influenced by the American Experience

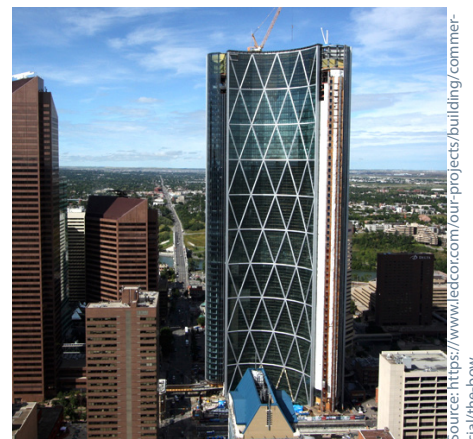
American TIFs are commonly structured as a mechanism for collateral against which future revenue repays start-up debt.⁷ However, municipalities were defaulting on TIF incurred debt or unable to gain a favourable loan structure from banks. Learning from these lessons, “Manitoba’s TIF laws are structured as more of a pay-as-you-go mechanism”.⁸ Incremental revenues are placed in a generalized Community Revitalization Fund that can be distributed to approved projects. Importantly, it minimizes the possible debt incurred from TIF.

A High Degree of Provincial Control Retained in the Legislation

In Canada and the United States, TIF programs are both empowered by provincial or state legislation, but Canadian examples retain more provincial oversight, particularly in Alberta. TIF legislation in Ontario, Manitoba and Alberta permits the redirection of both provincial and municipal shares of property tax. The necessity of oversight has been attributed to that power.

A Qualified Success

TIF in Canada is considered “a qualified success and an incomplete story”¹⁰. Provincial and municipal governments have displayed an innate distrust in the self-sufficient potential of TIF programs. Municipalities have ‘hedged their bets’ with the incorporation of significant revenue generators as well as the dilapidated properties in need of revitalization. For example, Calgary and Edmonton incorporated The Bow (a luxury office building) and the MTS Centre (NHL arena), respectively, in their district boundary. Critics argue that TIF programs have increasingly become an accounting shell to efficiently move and concentrate funds for a major project, deviating from the historic ‘but for’ test.¹¹ Moreover, TIF programs have the potential to take millions out of needed municipal general revenue funds.



The Bow, Calgary's tallest building and included in the Community Revitalization Levy (CRL) zone



The MTS Centre, an NHL arena that anchors Winnipeg's TIF district

“Considering the evidence that TIF spurs growth in areas plagued by blight at the cost of broader based urban growth and is used more frequently by faster growing cities...”⁹, TIF is perhaps not applicable to all municipalities in Canada.

Recommendations and Reflections

TIF is a relatively new phenomenon in Canada, and thus, stakeholders, planners and financial institutions have been hesitant to utilize this tool in practice. While TIF is a powerful tool that can be used to support brownfield redevelopment and counter urban decline, it is not without risks. TIF should be applied with complete public transparency. This will ensure TIF mechanisms always work in the public interest and support community development goals. To this effect, California’s TIF program incorporates direct voter controls to empower public decision-making. If other comparable programs such as TIEG/ TIBG or Tax Assistance (TA) are present in your municipality and proved successful at supporting redevelopment, it may not be necessary to incorporate TIF into the existing suite of financial tools.

Endnotes

- 1 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): p. 392
- 2 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): 393
- 3 *ibid.*
- 4 *ibid.*
- 5 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): p. 394.
- 6 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): p. 395
- 7 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): p. 396
- 8 *ibid.*
- 9 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): p. 402
- 10 *ibid*
- 11 Sroka, Robert. "TIF for that: Brownfield Redevelopment Financing in North America and Calgary's Rivers District." *Cambridge Journal of Regions, Economy and Society* 9, no. 2 (2016): p. 400

