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Savvy Funding Strategies For Brownfield Redevelopment in Canada

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This article reviews alternative approaches in Canada to financing the redevelopment of old commercial properties and brownfield sites, including variations on Tax Increment Financing (TIF), and considers some of their pros and cons. Several project examples are cited that will be the subject of future articles.

Overview

Real estate developers and local governments sometimes collaborate in plans to redevelop old under-utilized properties to combat urban blight, reinvigorate neighborhoods, and even — in some cases — help economically-disadvantaged people maintain intact communities and reasonable rents. These plans may utilize alternative financing strategies to pay for construction that might not otherwise occur.

In another article we reviewed a financing program called Tax Increment Financing (TIF) as it applies in the United States. We'll briefly outline TIF here along with Canadian versions such as the Tax Increment Equivalent Grant (TIEG, in Ontario [and a version called the Tax Increment-Based Grant or TIBG]) or the Community Revitalization Levy (CRL, in Alberta). We'll touch briefly on Community Land Trusts (CLTs), which will be explored further in a future article on community impact investing.

Tax Increment Financing (TIF)

Tax Increment Financing (TIF) allows a local government to assist a developer in rehabilitating old commercial or industrial lands. Property types vary greatly and may include anything from abandoned garment factories to a chain-link-fenced field, or perhaps an historic theatre or a parcel of waterfront land.

In a typical TIF project, the local government calculates the current property tax revenue from the neighborhood slated for redevelopment, then forecasts future higher revenues (after redevelopment). The municipality or region normally raises the development funds by floating a municipal bond with a term of, say, 10 or 20 years. The developer uses the money to complete the project and the municipality enjoys permanent higher tax revenue once the bond is paid off, as well as a revitalized area.

TIF projects range in size and shape and may include new housing, condos, offices, and retail shops. In the US, TIF has even been used for large sports complexes and community theatres.

What's not to like?

Great Benefits — And a Concern

The benefits of TIF programs are obvious, when they are appropriate and executed properly. Yet this financing strategy has to date been more of an American phenomenon; Canadian projects are fewer but many do exist (examples by province below) and the concept may be gaining further traction.

Unfortunately, TIFs are also sometimes abused. (Our US article has some dramatic examples of both successful, and very controversial implementation.) Abuses include diverting funds from important renewal projects to function as slush funds for politicians' legacy projects, or away from cash-starved school boards. TIFs are sometimes used to finance projects that would've been constructed anyway, violating the "but for" provision (i.e., projects that would not have proceeded but for the special funding). TIF programs sometimes finance upscale projects that in turn negatively affect lower in-come people who become economic refugees, displaced by gentrification,

Note that in Canada these aren't established "programs" *per se* with a province-wide set of rules and application forms. Some jurisdictions have guidelines but each project is unique and is determined by local developers and municipal or regional governments on a site-specific basis.

Canada's CIP Programs

In Canada, eligibility criteria for TIFs varies from place to place and project to project. In some jurisdictions, they're governed by a Community Improvement Plan (CIP) which are themselves governed by provincial planning statutes.

Professor Chris De Sousa, head of Ryerson University's Brownfields Research Lab School in the Urban & Regional Planning Department in Toronto, is an expert and also President of the Canadian Brownfields Network (CBN). He says municipalities offer various incentives in CIPS that include study grants, tax assistance, Tax Increment Equivalent Grants, municipal fee grants, and development charge exemptions or reductions, and rehabilitation and remediation grants,

Let's look at these programs individually, and how they can be used:

Study grants: These may pay for feasibility studies, Phase I and/or Phase II ESAs, remedial work plans, risk assessments, and designated substance and hazardous material surveys.

Tax Assistance Programs: Ontario's program is typical, and is known there as the "Ontario Brownfields Financial Tax Incentive Program" (BFTIP). The assis-tance, in connection with section 365.1 of the *Municipal Act, 2001* and section 333 of the *City of Toronto Act, 2006*, is given as the cancellation or deferral of the municipal and/or school portions of property tax on eligible property to as-sist with eligible costs of site remediation and rehabilitation.

Fees: Municipal fee grants can include building permit or demolition permit fees, sign permit fees, and land tipping fees. (The latter may be eligible as remediation costs granted back by TIEGs.) (*More on TIEGs below.*)

Development Charges: Some municipalities promote brownfield redevelopment by exempting all or a part of development charges. Sometimes the developer pays the charges upfront and is reimbursed later. Development charge reductions or exemptions tend to be offered early in the process compared to other grant programs that may provide funds after project completion and reassessment.

Rehabilitation and Redevelopment Grants/Loans: This is up-front financial assistance for eligible rehabilitation activities. (These are rare as municipalities are challenged to raise the money and are concerned about default risk.)

Community Land Trusts

Community Land Trusts (CLTs) are an effective model for providing and maintaining affordable housing. CLTs also provide a way for governments and nonprofits to pull together resources and land to deal with affordability issues, particularly in high cost and growing cities where land values are rising fast, along with the density fuelling the rise. They essentially help less affluent people avoid economic dislocation.

According to De Sousa, the challenge is competition for the land.

"Market professionals are usually way ahead in identifying land opportunities years before the development gets there," De Sousa says. "As such, government-owned property, including brownfields, are seen as a possibility because they are often well located, underused, and have activities on them (e.g., parking, works yard) that can be easily moved in some cases.

"At the same time, municipalities are in a difficult position given they have increasing service responsibilities and few revenue sources (and taxpayers who don't like their property taxes raised), so while they would like to use their property for a CLT, they would also like to sell their land to the highest bidder to help with their budgets and show they're being fiscally-responsible."

Let's look next at how this all works in Ontario and the other provinces with a history of TIF projects, namely, Alberta, Manitoba and Nova Scotia.

Ontario & TIEGs

The aforementioned Community Improvement Plan (CIP) is meant to revitalize an urban area. According to De Sousa, in Ontario under Section 28 of the *Planning Act*, all or a part of a municipality can be designated as a Community Improvement Project Area (CIPA).

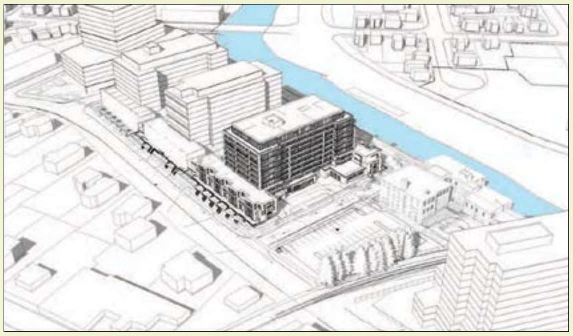
"CIP and CIPA doesn't refer specifically to brownfields," De Sousa says, "but since October 2010, 44 Ontario municipalities have adopted CIPs containing brownfield provi-sions."

In Ontario, TIFs generally take the form of a TIF-like mechanism called the tax increment equivalent grant (TIEG). Minor variations of this term may be found in different provinces.

A TIEG functions much like a TIF and extends financial assistance to developers in the form of a grant equal to all or a portion of the municipal property tax increase within the community improvement area. The eligible costs for a TIEG grant may include the costs of:

1. Environmental cleanup;
2. Bringing in clean fill and site grading;
3. A Phase II Environmental Site Assessment or a Site Specific Risk Assessment;
4. Removing structures (where the structure would block remediation);
5. Financing (interest charges) of preparing the studies and undertaking the rehabilitation; and
6. An insurance premium to guarantee work completion.

TIEGs are sometimes called "Rehabilitation and Redevelopment Grants" in municipal CIPs. However, a TIEG is paid out over a period of years following environmental restoration and redevelopment, based on the tax increment, whereas Rehabilitation and Redevelopment Grants provide planning and development application and permit fees such as minor variances or site plan approvals.



The Metalworks is a new condo and townhouse development by Fusion Homes at 5 Arthur Street South, Guelph. The project was completed in 2017.

Examples in Ontario Cities

A few examples illustrate how these schemes work.

De Sousa cites two examples from Ontario that include up-front loan programs in their CIPs: Hamilton and Sarnia.

Hamilton targets specific priority areas and offers low-interest "bridge" loans equal to 80 per cent of remediation costs (to a maximum of $400,000 per project). Sarnia's "Building Rehabilitation Loan Program" offers funding on a revolving basis at a below-prime interest rate, to be repaid over 10 years. The CIP suggests a maximum of $100,000 or the cost of rehabilitation (whichever is less).

The City of Guelph, Ontario has a Brownfield Redevelopment Community Improvement Plan that includes tax assistance and grant programs to offset investors' and developers' costs studying, remediating/risk assessing, and redeveloping local brownfield sites. In Guelph, a Tax Increment-Based Grant (TIBG) was used to redevelop an old industrial property at 40 Wellington that was the former location of circuit-board maker Rockwell Automation.

"The property — contaminated with trichloroethylene (TCE) — is now home to restaurants, plus grocery and liquor stores," says Rino Dal Bello, program manager of Guelph's Downtown Renewal with Business Development and Enterprise Department. (See photo.)

Dal Bello says the same kind of funding mechanism was used by the Kilmer Group and Fusion Homes to build a residential neighborhood that was the former home of a metalworks and the Woods family appliance manufacturing plant.

In the City of London, the Tricar Group built hi-rises on two former brownfield sites, with funds paid to the developer over a 10-year period after project completion.

In Kitchener, Ontario, Shannondale Developments is redeveloping a TCE-contaminated property (formerly an Electrohome plant and later a vehicle paint shop) at 152 Shanly Street into a mixed-use development that will include an eight-story residential building.

"The project uses a TIEG strategy for financing," says Shannondale's Nicolas Tyers, adding, "The one-acre property was acquired from a tax sale and quite a bit of prior work had been done by consultants from Stantec to characterize the site." (*See photo.*)

TIEGs have also been used by the Town of Parry Sound to develop an old industrial site into a popular waterfront brewpub.

"In 2016 our town agreed to a TIEG in which a portion of the taxes were rebated to cover a portion of the costs related to environmental cleanup [after work was completed and passed inspection]," says Taylor Elgie, Manager of Building and Planning Services for the Township of Parry Sound.

"This was a low risk decision for the municipality with great a benefit to the community," says Elgie.

This photo shows the old TCE-contaminated property at 152 Shanly Street, Kitchener, Ontario that was formerly an Electrohome plant and later a vehicle paint shop, which has subsequently been turned into a an eight-story residential building.

Alberta Program Examples

Calgary, Alberta, was the first city in Canada to adopt TIF. In 2005 the city used it to re-develop the so-called Rivers district in downtown Calgary. (Ontario adopted TIF into its statutes the next year, and Manitoba followed suit in 2009.)

Alberta allows municipalities to utilize a form of TIF called the Community Revitalization Levy (CRL) mentioned above. Municipalities impose a property tax on the incrementally assessed value of properties inside the revitalization district, revenue from which is used to pay for the redevelopment. Municipalities can issue debentures to pay for the construction and use taxes collected on the (increased) assessed property value to re-pay the debenture.

The province helps by dedicating the portion of provincial education taxes to pay for approved projects within a CRL Plan. Only the increase in school taxes from the assessment increases from the baseline in the CRL boundary is affected. Calgary has to apply to the province for approval of the "CRL Bylaw" — as each district has its own CRL bylaw with specifications for that specific site.

The Rivers District, Calgary, Alberta, was developed with its own Community Revitalization Levy Regulation.

For instance, under the *Municipal Government Act*, The Rivers District is subject to the "City of Calgary Rivers District Community Revitalization Levy Regulation." The CRL is limited to 20 years duration and, when complete, the increased municipal property taxes and school taxes dedicated to the CRL will return to civic and provincial general revenues, benefiting both the city and province. Calgary is able to borrow through the Alberta Capital Finance Authority and exploit the province's AAA credit rating to obtain better rates.

Alberta's CRL programs in downtown Edmonton are expected to generate between $600 million and $1.6 billion over 20 years. The use of the CRL in the Rivers District ($108 million invested) has increased the land value within the district and along its borders dramatically, especially since the area was blighted before redevelopment. In one loan scenario, $735 million dollars is projected to be generated by the total CRL over 20 years. Cochrane, Alberta has also invested $13 million in a CRL program.

Manitoba's Community Revitalization TIF

Manitoba legislation known as the *Community Revitalization Tax Increment Financing Act* took effect on November 1, 2009. Manitoba's first two "Community Revitalization Levy" programs (another term!) were implemented in Winnipeg and Brandon.

Artist's rendering of one component of the Centrepoint / SHED development in Winnipeg, Manitoba. The SHED concept consists of four separate developments in one location. Longboat Developments and Artis REIT from Winnipeg funded a new fifteen-story tower at 311 Portage Avenue. The first five floors include two major chain restaurants, and leased office space, while floors six to fifteen are occupied by an Alt Hotel (funded by Montreal's Germain Group). The third portion involves "Glasshouse" — a 21-floor condo building located slightly north of the commercial tower, developed by Toronto firm Urban Capital. Since the Glasshouse property was originally inside the SHED boundaries, it was unable to receive the "DRGP incentive" (as this would be "double-dipping"). The property was severed from the SHED lands altogether to allow the developer to receive the DRGP. The fourth and final component is a five-story parkade between the hotel and Glasshouse which was funded by a repayable loan from the city.

Winnipeg's TIF projects were put in place for five to 15 years, with an option to extend the projects another 15 years. (Legislation prevents TIFs extending beyond 25 years.) Manitoba's rules differ from typical US TIFs in that the developer doesn't need to prove private funds are lacking, nor do they demand compliance with "but for" provisions or classification of an area as "blighted." The Act only asks that the authorities believe significant improvements to the property will occur and that the improvements are in the public interest.

In 2011 the city and province partnered with CentreVenture Development Corporation to redevelop an area in Winnipeg's downtown that planners call the Sports, Hospitality and Entertainment District (SHED). The corporation was established by the city for the purpose of fulfilling the vision outlined in the $100 million CentrePlan — a vision that likely would not have been fulfilled without TIF-style financing. (*See sidebar.*)

More recently, Winnipeg saw Tax Increment Financing schemes used in the Investors Group Field project, which is partly financed by tax revenue generated by developments at the former Canad Inns Stadium site.

TIF was also used in new residential high-rises at True North Square, and to improve the sidewalks outside Bell MTS Place. The projects were subject to reformed rules that took effect in 2018. The city expects a strong return on its $550 million investment in the towers at True North Square, which is expected to generate $25 million in provincial sales tax and around $75 million in provincial and federal income taxes during the construction period.

Brownfields FINANCING TRENDS

Different program names: Ryerson Professor Chris De Sousa says TEIGs are the most common form of financial assistance offered to developers by municipalities, followed by tax assistance and study grant programs. These have different names such as: the Brownfields Financial Incentive Program; Brownfields Tax Assistance Program; the Tax Increment Equivalent Grant (TIEG); and, the Environmental Assessment Grant Program. (Ontario examples predominate here because this province has the largest number of TIF-style funded projects.)

Varying application styles: How these are applied varies. For example, in Niagara Falls, Ontario the CIP applies to the entire "urban area"; however, three sub-areas are delineated where different levels of incentives are available, "based on prioritization determined through a critical needs analysis," according to De Sousa.

Different goals: Throughout Waterloo Region, brownfield developers can access Phase II ESA grants for studies that assess site impacts on groundwater, as well as exemptions from regional development charges.

Strategies and coordinators: Some municipalities have adopted a Brownfields Municipal Leadership Strategy (MLS, not to be confused with the Multiple Listing Service of the real estate industry). Projects include direct purchase and development of key properties, remediation of municipally-owned land, and pilot projects using innovative environmental remediation techniques. Some towns and cities have established a brownfields coordinator as a single point of contact and/or a brownfields advisory group.

Brownfields Inventories: Municipalities (e.g., Brockville, Windsor, Port Colborne) create inventories of potential brownfield sites or potential redevelopment opportunities. Guelph used its CIP to broach the idea of an inventory program for further development. A trend exists toward the presence of brownfield CIPs in larger regional centres in Northern Ontario, such as Fort Frances, Thunder Bay, Sault Ste. Marie and North Bay.

Marketing: Halton Hills and Windsor typify municipalities that target their marketing strategy to professionals, lending institutions, real estate agents, consultants and legal and accounting service providers. De Sousa notes that an Economic Development Corporation (EDC) can provide a shared vision and ownership structure between a municipality and the private and/or not-for-profit sector.

Innovations: Other ideas De Sousa recommends people consider include a parkland dedication reduction grant program and parking requirement exemptions or reduction programs. Some cities play with the TIEG idea and roll funds back into a "Municipal Brownfield Reserve Fund." Niagara Region retains a portion of the tax increment equivalent to fund its Brownfields Leadership Program. Windsor provides a TIEG that equals the total tax increment if the redevelopment meets LEED standards. Other municipalities offer tax increment grants on a sliding scale depending on the level of LEED standard achieved.

Argyle Street in Halifax, Nova Scotia typifies heritage building facades for which small-scale restoration funds have been provided by Main Street 2.0 programs.

Nova Scotia's "Mainstreet" Programs

Sometimes small is beautiful and not all TIF projects redevelop massive land parcels.

A 1993 policy decision ended a TIF-style program in Nova Scotia known as "Mainstreet" that was active from the mid-1980s through the early 90s. It was replaced with another structure based on the same principles, called the Regional Development Authorities. The eponymous program had funded small-construction improvements to the facades of buildings on main streets in the province, with funding capped at about $10,000 per business.

On July 26, 2013 Nova Scotia announced "Mainstreet 2.0" in tandem with its First Impressions tourism program, the goal being to support development of attractive heritage downtowns and main streets. Total program funding was announced at $1.5 million per year. This program replaces earlier versions.

Conclusions & Upcoming Webinar

Tax-Increment Financing is an established strategy in North America that has found utility in bringing a number of compelling Canadian projects to fruition. Done right, it can be an elegant solution to long-standing problems of urban blight and under-utilized lands sitting empty for years and even decades. Thus far, Canada appears to have avoided most abuses of the concept experienced south of the border. ERIS supports the appropriate utilization of TIF and its variants, and hopes this article has made the complicated hodge-podge of programs and names less confusing for everyone. To help clients understand alternative financing mechanisms better, ERIS is planning a webinar and expert panel discussion in the fall of 2020. Stay tuned!

END NOTE: The author wishes to recognize the following documents that were useful in preparing this article: "Tax Increment Finance: The Legislative Romance Between the Municipal Government and Winnipeg Stakeholders," thesis prepared for the University of Manitoba by Rebecca Copping; and, "Using TIF to Establish a More Robust Self-Funding Municipal Brownfields Development Program Structure in Ontario," discussion paper by Christopher De Sousa, PhD, MCIP, RPP (Ryerson University School of Urban & Regional Planning / Canadian Brownfields Network) and James Tischler, FAICP, PCP, MCIP-I (State of Michigan Land Bank Fast Track Authority).