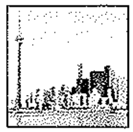


URBAN INNOVATIONS: *Financial Tools in Brownfield Revitalization*

by Casey Brendon, David Bergman, Judy Dunstan and Hon Lu

Summary

With increasing Canadian interest in brownfield redevelopment, many Ontario municipalities have begun to use financial tools such as tax increment equivalent grants to stimulate redevelopment. This article, based on a panel presentation given at the joint OPPI/CIP Conference in July 2004, entitled "Urban Innovations: Financial Tools in Brownfield Revitalization", focuses on the City of Toronto's experience in providing financial tools for brownfield redevelopment under the existing legislative framework. Comparing the use of these tools with similar revitalization tools in the United States, such as tax increment financing, provides insight into other potential applications based on the American experience.

Sommaire

Alors que les Canadiens s'intéressent de plus en plus à la remise en valeur de la friche industrielle, maintes municipalités ontariennes ont commencé à avoir recours à des mesures financières, comme des subventions équivalentes à des nouvelles taxes foncières, pour stimuler ces initiatives. Cet article, qui est basé sur un exposé intitulé « Urban Innovations: Financial Tools in Brownfield Revitalization » présenté par des experts lors du congrès de l'OPPI et de l'ICU en juillet 2004, s'intéresse à l'expérience de la Ville de Toronto à offrir des outils financiers ciblant la remise en valeur de la friche industrielle, compte tenu du cadre législatif actuel. La comparaison de l'emploi de ces outils avec des outils semblables employés aux États-Unis, comme le financement par de nouvelles taxes foncières, donne un aperçu d'applications possibles, dérivées de l'expérience américaine.

The redevelopment of urban brownfields is increasingly becoming a policy priority both north and south of the 49th parallel. As available urban land and industrial built space become a dwindling commodity, "smart growth" practices have become the new mantra. Although the United States provides more comprehensive brownfield redevelopment tools through its legislative system, Canadian policies continue to close the gap through creative application of existing legislation.

Options for Ontario Municipalities: A Summary of Potential Financial Incentive Mechanisms

In Ontario, financial incentives for brownfield redevelopment are made possible by provisions contained within the *Municipal Act* and the *Planning Act*. While Section 106 of Ontario's *Municipal Act*[1] prohibits the granting of financial assistance to businesses, this general prohibition does not apply where incentives are provided within a designated community improvement project area, as defined under the *Planning Act*. The *Planning Act*[2] makes explicit a municipality's authority to provide grants or loans for "rehabilitating" lands and buildings within an approved community improvement plan.

Potential financial incentive mechanisms for brownfields can include direct grants and loans from the municipality. These may be offered for the purpose of rehabilitation, remediation, environmental assessments and other feasibility studies. Funding for grants and loans is generally derived from the City's operating or capital budget, or may come from reserves established for this purpose. Revolving loan funds may also be used, where loan repayments are paid into a special account that is used to fund subsequent loans. Where tax increment-based grants are used in conjunction with a loan program, a portion of the tax increment amount from a number of properties may be directed to fund the initial loan requirements.

Property-tax-based incentive mechanisms include property tax reductions or tax freezes, tax increment equivalent grants, or cancellation of tax arrears on contaminated properties. The appeal of tax-based incentive programs is that funding is derived from future incremental property taxes arising from remediation and redevelopment efforts, rather than from current expenditures or reserves. This minimizes the municipality's financial risk, and the actual financial benefit provided is established on a site-specific basis, as a function of the total increase in assessed value arising from the particular rehabilitation project.

Other incentive mechanisms include the ability to waive planning application and permit fees and development charges, commercial façade improvement programs, or financial assistance from other levels of government (e.g., Federation of Canadian Municipalities' Green Municipal Funds).

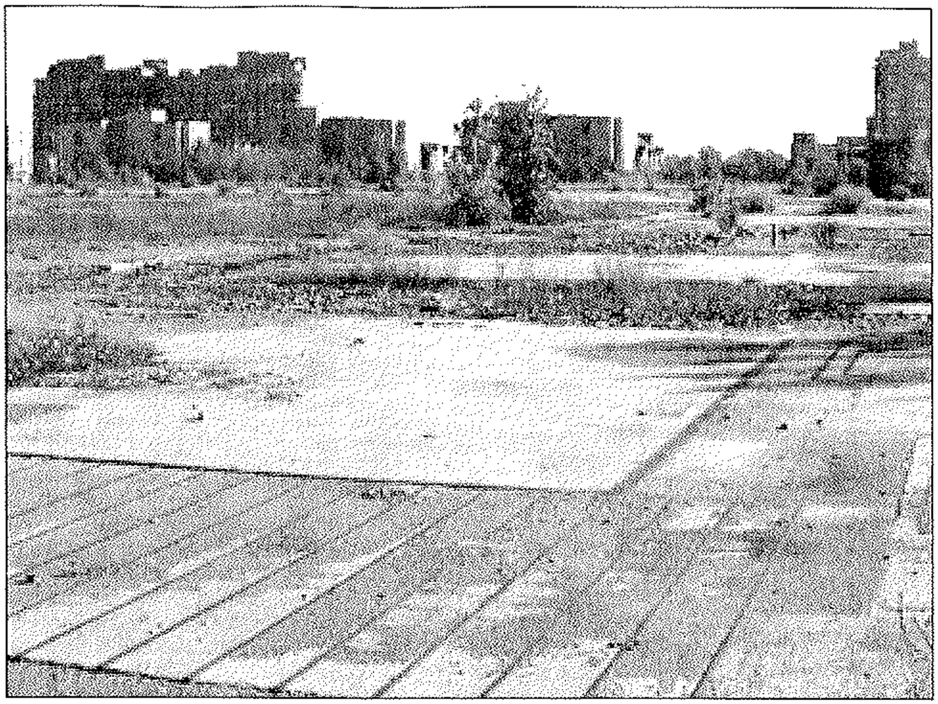
Toronto's Brownfield Policy Approach

Toronto's current public policy interest in promoting brownfield redevelopment is focused on employment revitalization. Toronto is characterized by "mature" employment areas that cumulatively represent approximately 18,000 acres of land across the city. These lands have been used for commercial and industrial uses and may be vacant, underutilized, contaminated, or occupied by an ageing built form difficult to adapt to modern business needs. Recent policy initiatives acknowledge that unlike residential projects, typical brownfield redevelopment for employment uses is less cost effective and entails greater risk than similar greenfield development elsewhere in the Greater Toronto Area.[3]

Toronto currently loses approximately one percent of its employment lands annually through conversion to other uses. As the number of available sites for employment uses decline, attracting new employment investment becomes increasingly difficult. Toronto's new industrial and office investment grants are designed to stimulate private sector investment on brownfield sites for employment uses that may not otherwise occur.

Toronto's Industrial and Office Investment Grants for Brownfield Redevelopment and Employment Revitalization

The City of Toronto now boasts a new tax equivalent finance program aimed at meeting the diverse challenges afflicting its ageing employment areas. This includes pressures to convert employment lands to other uses, contaminated sites, ageing infrastructure, and older industrial buildings that are difficult to adapt or retrofit for employment uses typical of the new economy. These major impediments to business attraction and retention adversely affect the city's ability to remain globally competitive.



New Toronto vacant land.

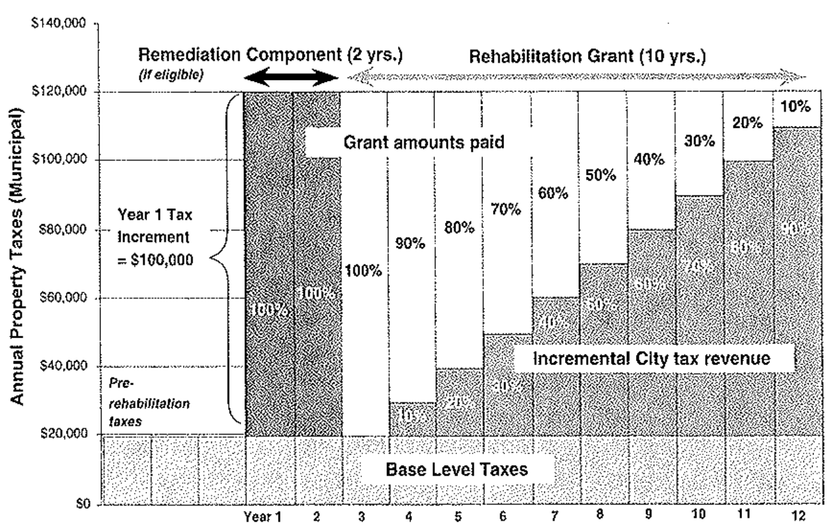
The Toronto program provides financial incentives for industrial and office uses within a defined Community Improvement Project Area (approximately 300 acres/70 properties), pursuant to Section 28 of the *Planning Act, RSO 1990*.[2] This innovative and creative grant program is unique in Ontario, as it is designed to retain and attract employment investment to brownfields whether or not the lands are contaminated. Essentially, a grant is provided to property owners once there is an increase in a property's assessed value from cleaning up contaminated sites *and/or* rehabilitating existing industrial and commercial buildings, expanding the existing built form or constructing new facilities.

Funding for the grant is derived from the municipal tax increment, the increase in municipal property tax revenue arising from the rehabilitation/development. The grant is calculated each year with the municipal tax increment split between the property owner and the city over a 10-year term, returning a maximum 55 percent of the municipal share of the tax increment to the property owner, with the City retaining the remaining 45 percent as new property tax revenue. If the property requires site remediation, the program increases to a maximum 12-year term, returning a maximum 62.5 percent of the municipal share of the tax increment to the property owner.

Since inception (October 2003), one application has been received and three additional property owners have indicated that applications are forthcoming. In combination, the proposals represent approximately 425,000 square feet of new employment floor space that could generate approximately 700 jobs. Pro forma calculations indicate that for every dollar of public funds expended through this program, approximately $10 is leveraged from private sector investment.

The City's new industrial and office investment grants represent an innovative and decisive public policy approach to brownfield redevelopment and the revitalization of ageing employment areas. As a business attraction and retention tool, the grants provide for economic growth and development through the supply of employment land and space for existing businesses to expand and for new businesses to start-up, ensuring that the city remains a viable business location, both now and in the future.

The Rehabilitation Grant



Sample Rehabilitation Grant Calculation
(150,000 sq.ft. Building/ 15 ac)

CVA	$2,190,000
Pre-dev Taxes	$ 89,000
New Investment[1]	$5,250,000
New CVA (With Investment)[2]	$5,340,000
Post Dev Taxes[3]	$ 278,000
Tax Increment	$ 189,000
Municipal Share	$ 98,000
10-year Grant Total[4]	$ 540,000
12-year Grant Total[5] (Includes Remediation)	$ 736,000

**Figures have been rounded

[1] Based on $35/sq.ft.
[2] Assumed investment to CVA increase ratio is 60%
[3] New Property Tax premised on revised CVA
[4] Maximum 55% of tax increment returned to the property owner over the 10-year term
[5] Maximum 62.5% of tax increment returned to the property owner over the 12-year term

Lessons to Learn from American Municipalities—Brownfield Revitalization and the Role of Financial Incentives

While the use of tax increment financing is relatively new in Canada, it has been the principal method of funding public improvements in cities in the United States for more than 40 years, and has been a critical component of most brownfield redevelopment projects.

Tax increment financing (TIF) pledges any new taxes generated from new development (tax increment) within a defined geographic area or district to the capital requirements/public improvements required within the TIF district boundary. A TIF district is administered by a redevelopment agency or similar government entity that has the ability to issue bonds to raise capital. Generally, these bonds are backed by the tax increment that the agency receives and uses to undertake public improvements to remediate blight. This is typically achieved through the provision of infrastructure support including public parking, roads, streetscaping, public amenities (e.g., parks, libraries) and the ability to use powers of eminent domain to assemble sites.

Most states require that TIF districts only be used in urbanized areas and not as a tool to promote greenfield development on the urban fringe. All of the investments within a TIF district must meet a test of public purpose for the removal of blight. Blight has a legal definition that varies from state to state, but typically includes economic disuse or dislocation, irregular lots or undevelopable sites, inadequate street sanitation and public infrastructure, and loss of population.

The long history of TIF in the United States has provided an opportunity to consider in detail the strengths and weaknesses of its application. The strengths primarily relate to the situation that "but for" the existence of financial incentives, new private capital investment in blighted areas would not occur. In fact, the experience of a number of cities indicates that this approach is the most effective way of leveraging public dollars into private investment. For example, the city of San Diego's Centre City Development Corporation reports that over its 30 plus years of operation, $770 million in public investment has induced $4.4 billion in private investment for a 5.7 to 1 ratio.[4]

Another advantage frequently cited for the TIF model is that tax revenues allocated for a development project within a TIF district have not been redirected from off-site sources, general fund operating revenues, or other jurisdictions. In other words, no funds are taken from other social uses or priorities.

Critics have noted that TIF projects tend to favour large-scale development, and in fact, this is true. Capital-intensive projects are the most common, and the entire logic of redevelopment is to move from a lower state of capitalization within a TIF district to a higher level, by providing incentives for new investment within a blighted area. However, the definition of blight is loosely interpreted, and varies from state to state. Some states are very restrictive about the number of TIF districts and have tight "blight" definitions, whereas other states have considerably looser standards. Finally, critics have pointed out that in certain market conditions, development would have occurred without public subsidy in place.[5]

The key to resolving these criticisms is to focus closely on the application of this powerful tool to make certain that it is truly being directed toward areas where development would not have occurred without some sort of subsidy or incentive.

Conclusion

While Canadian municipalities do not have an equivalent roster of financial brownfield tools as compared to our American neighbours, they do have some latitude to provide financial incentives within existing legislation. The ability of Canadian municipalities to respond effectively to brownfield redevelopment opportunities is often hampered by a lack of capital. The provision of financial tools for brownfield redevelopment is a key element of implementing a broader economic and urban development growth management strategy that stimulates reinvestment in strategic areas, thus advancing "smart growth" strategies across the nation. ■

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References and Notes

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