

Document 8 – Brownfield Program Details and Analysis

Current Program

The BRCIP contains a comprehensive framework of incentive programs which include the Property Tax Assistance, Rehabilitation Grant, Project Feasibility Study Grant, Environmental Site Assessment Grant, Building Permit Fee Grant, and Development Charge Deferral Programs, as well as the Municipal Leadership Strategy Program. Although the framework includes an array of different incentives, the program can be divided based on three broad categories:

1. Grant funding through uplift in property taxes.

Grants are funded based on between 85 to 100 percent of uplift in property taxes up to ten years from Council approval or when the total grant payment has been completed. The total grant from this program is based on 50 percent of the eligible cost based on a list of 12 eligible items shown in Document 2. Items 1-6 are for cost related to on-site remediation, and items 7-12 relate to on-site improvements and other incentives. Items 7-12 are further restricted to no more than 15 percent of the total eligible cost. The province also has a [Brownfield Financial Tax Incentive Program](#) separate from City property tax uplift that provide matching provincial education tax relief for up to ten years for residential development.

2. Development charge deferral

Under the program, the owner of the property can enter into a Deferral Agreement with a preferred annual interest charge of the issued index interest rate based on 50 percent of the costs related to items 1-7. The term of the agreement would be subject to a maximum of either two years after issuance of a building permit or three years after the approval of the brownfield grant application, whichever occurs first, at which time the payment of the Development Charge deferred amount, plus interest, would be made by the developer. The 2022 interest rate is approximately ten percent.

3. Municipal leadership strategy program

This is a general program of municipal property acquisition, investment and involvement in pilot projects with the private sector to remediate and rehabilitate brownfield sites in Ottawa. This funding is retained with the City and not available to the applicant. The program is funded from 15 percent of the municipal share of the increase in property taxes that resulted from the redevelopment that is

retained by the City as a result of properties participating in the Rehabilitation Grant Program and is placed into a Municipal Leadership Account. This account functions as a revolving fund. The allocation of 15 percent of the tax increment that is retained by the City to the Municipal Leadership Account will end when the Rehabilitation Grant Program ends. At that time, the City may return funds remaining in the Municipal Leadership Account to general revenues or continue to utilize these funds for Leadership activities until the Municipal Leadership Account is exhausted.

In general terms, for every dollar the applicant spends in on-site remediation, they are eligible to receive approximately 50 percent funded through the uplift of property taxes post development. The development charges deferral program has not been utilized since its introduction in 2015, and the municipal leadership account are funds retained by the City.

Before an applicant is eligible to begin receiving the brownfield grant funding, they will need to provide a record of site condition from the Ministry of Environment, Conservation and Parks to demonstrate that the site has been properly remediated and meets the relevant Ministry standards. The applicant will also need to provide the actual cost of remediation with supporting documentation. If the actual cost is less than the Council approved funding envelope, the actual cost applies. If the actual cost is more than the Council approved amount, the Council approved total represents the upset limit. Lastly, the property would need to have been reassessed by Municipal Property Assessment Corporation and the applicant has paid for a year of uplifted property taxes. All these criteria are put in place to ensure that the development is completed and an uplift in property tax has occurred before any funding is provided to the applicant.

Funding Analysis

Since the program inception in 2007, a total of 69 applications were approved by Council and the total approved brownfield grant funding is \$161 million comprised of \$91.3 million through property tax uplift funding and \$69.7 million through development charges reduction. The development charges reduction program was removed in the 2015 update, which is explained in the section below.

Years	Number of Approved Applications	Total Approved Brownfield Grant
2007-2010	3	\$7,464,025

2011-2015	21	\$24,757,481
2016-2023	45	\$128,820,228
Total	69	\$161,041,734

The total actual funding provided since program inception is \$34 million. There are a few reasons for the discrepancy between approved funding and actual payment. Firstly, the payment is spread out up to ten years from the date of Council approval. So, for recently approved projects, no funding would have been paid. Second, the actual cost of remediation is often less than the total approved funding. When an applicant submits a brownfield application, the estimate is based on data from sample borehole and monitoring wells. As a result, the total cost estimate is often conservative in order to account for the full cost of remediation, since it is difficult to estimate the extent of groundwater contamination and scope. Once remediation begins, the extent of contamination may be less, which results in a lesser actual cost. The developer is incentivized to keep the cost low since the program only assists with 50 percent of the remediation cost. Lastly, although rare, there are a limited number of applications that did not proceed despite receiving Council approval. In such cases, no grants are paid. As part of the program review, staff is recommending to also include a requirement such that if the development is not issued a building permit within 18 months post Council approval of the brownfield application, the funding approval will become null and void. This is to encourage developments to proceed in a timely manner.

Years	Actual Payment	Approximate actual Payment per Year
2007-2010	\$2,555,000	\$638,750
2011-2015	\$6,337,911	\$1,267,582
2016-2023	\$25,335,259	\$3,166,907
Total	\$34,228,170	

Brownfield Grant's Role in Land Development

One of the key questions that staff aimed to explore as part of the program review is whether the same development on a brownfields site would have occurred without the support of the brownfield grant funding. Staff hired consultant RCI Consulting to perform a scoped best practice review of brownfield incentive programs in Ontario and this question was posed to the consultant. The response is that it is virtually impossible for any municipality to develop a valid “but for” test when it comes to brownfield incentive program, meaning “but for” the incentive program, would the brownfield redevelopment project have taken place anyways. Staff also spoke to other Ontario municipalities, including industry experts and the consensus is that such test is difficult to be proven.

A proforma analysis is a set of calculations that projects the financial return of a real estate project and is a standard tool developers use to analyze the financial feasibility of a development project. It projects the revenue, project cost, financing cost, and return on investment to determine the viability of projects. Because of the large number of unknowns associated with the different variables, the output is only as good as the accuracy of the input variables. The outcome also depends on the rate of return threshold a company establishes, which is different between companies and is based on project type and size. Therefore, the conclusion is that even if staff were to request a proforma analysis associated with each brownfield application grant, it is difficult to verify the validity of the content.

There was a survey to the development industry completed in 2021 which posed the question on BRCIP’s impact on the financial feasibility of their projects. The response is generally that the impact is very high, and many projects would not have proceeded without the program, with others responding that the effect is moderate such that projects would have proceeded without the program, but the program made the project more viable.

Without an accurate “but for” test, staff explored other ways to quantify the relative importance of brownfield funding using available data, and one of the methods is to perform a ratio analysis based on the total brownfield grant funding against the estimated construction value. Construction value represents the largest project cost in any development project, often in the range of 60 to 70 percent of total project cost; therefore, the ratio can be used to estimate the relevant significance of the brownfield funding as it relates to the project feasibility. The average ratio of a brownfield grant against the estimated construction cost is three percent and ranged between under one percent for some projects to over 20 percent for others. Upon further review, the highest percentages are associated with commercial projects and residential affordable housing projects, followed by low to mid-rise developments, and the lowest ratio are typically

associated with high-rise developments on small infill lots. Furthermore, based on comparative analysis of the construction cost submitted at the building permit stage against the estimate submitted for the brownfield grant, the actual construction cost of projects appears to be lower than the estimate, which means that the relative ratio of a brownfield grant against the actual construction cost statement is conservative and should be even higher.

In summary, although it is impossible to predict whether a project would have proceeded with or without brownfield grant funding, it is a reasonable assumption that due to the overall ratio of the grant to the total project cost, some projects may have been delayed waiting for the right market condition and that the grant would have helped to promote the prompt development of underutilized parcels.

Economic and Social Benefits

The redevelopment of brownfield properties has significantly increased the assessment of those properties, which leads to a large increase in municipal property taxes. The annual estimated property tax uplift for the properties is approximately \$73 million. The City has also collected over \$13 million in building permit fees and \$124 million in development charge revenues. Lastly, the direct construction value of the proposed developments is estimated at over \$5.5 billion. During the development of the site, direct and indirect economic benefits to the local economy will be experienced as a result of site remediation, the construction period through payroll, purchased material supplies, services, and equipment rentals. The overall economic impact and spin off benefits are significant.

Years	Estimated Annual Tax Uplift	Building Permit Fees	Development Charge	Residential Units Created	Commercial Gross Floor Area Created
2007-2010	\$1,573,169	\$231,000	\$1,190,000	782 units	28,020 m ²
2011-2015	\$10,713,377	\$3,152,500	\$15,875,900	1,797 units	109,145 m ²
2016-2023	\$61,021,769	\$9,884,718	\$107,045,000	16,168 units	161,676 m ²

Total	\$73,308,315	\$13,268,218	\$124,110,900	18,747 units	119,721 m2
-------	--------------	--------------	---------------	--------------	------------

Cost Benefit Analysis

Having established that the brownfield redevelopments provide significant economic and social benefits, and the brownfield grant's relative importance associated with project feasibility, the next step is to determine whether the funding produces a net benefit to the City and provides value for money. A sensitivity analysis was conducted to determine what the impact is on property tax uplift if the projects are being delayed by several years due to the absence of the funding. Sites and projects often stay vacant until the market condition makes the development viable from a financial return perspective. Brownfield sites are further subject to the costs associated with remediation of land, the timing to acquire a Record of Site Condition demonstrating the land has been properly remediated, the uncertainty of predicting the total remediation cost and difficulty in securing project financing. For complicated remediation projects, the process could take up to several years to complete. Therefore, the brownfield funding helps to facilitate the prompt development of vacant land by providing financial incentive to assist developers with the extra costs and help make brownfield sites more attractive for purchasers.

Project Delay	Estimated Loss of Property Tax Uplift Revenue (see note below)
1 year	\$73,308,315
2 years	\$146,616,629
3 years	\$219,924,944
4 years	\$293,233,258
5 years	\$366,541,573

Note: The calculation is based on the post-development property tax estimate minus the pre-development property tax for all approved brownfield applications. The post-development tax estimate is prepared by qualified tax consultants and are shown within each of the approved brownfield report.

The total Council approved brownfield grant funding is \$161 million. When comparing the annual tax increase, it takes just over two years of the property tax increase

following project build out to fund the maximum brownfield grant approved by Council. Once the costs are fully funded, any additional tax increase represents a net benefit to City revenue. Therefore, the conclusion is that if the brownfield funding assisted with the prompt development of projects that would not have otherwise proceeded in the same time frame by more than two years, the program is cost neutral or net positive to the City.

Best Practices Review of Brownfield Incentive Program in Ontario

Staff has retained RCI Consulting to produce a Scoped Best Practice Review of Brownfield Incentive Programs in Ontario, the full report is attached as Document 3. The report was produced in November 2021 and was recently revisited to ensure the information is still accurate. The purpose of the report is to understand:

- What is the evidence of impacts on investment, jobs, assessment values, and property taxes as a result of brownfield redevelopment projects that have taken advantage of municipal brownfield redevelopment incentive programs in Ontario?
- What are the recent trends in terms of municipalities in Ontario generally maintaining, reducing, or enhancing the brownfield redevelopment incentive programs contained in their CIPs through their CIP reviews and updates?

The consultant reviewed seven Ontario municipalities, including Ottawa, with well-established, long standing brownfield programs including: City of Cornwall, City of Guelph, City of Hamilton, City of Kingston, City of Ottawa, City of Windsor and the Region of Waterloo. The summary of findings is outlined below:

- Between 2011 and 2018, the number of Ontario municipalities with Brownfield CIPs increased from 44 to 80.
- The brownfield redevelopment incentive programs have proven effective in promoting remediation and redevelopment of brownfield sites, which are often located in key downtown areas.
- In terms of impact on investment, the leverage ratio for municipal brownfield redevelopment is typically in the range of 9.0 to 11.5, meaning for every one dollar of municipal funding, a municipality can expect to generate between approximately nine to eleven dollars in private sector construction investment. Similar to construction value, the programs have a large impact on increase in property assessment and uplift in property taxes.

- All the studied municipalities have a brownfield tax increment grant program that provide annual grant payments up to ten years.
- Ottawa allows for 85 percent uplift in property tax to be used to fund the program, which is competitive in comparison to other municipalities.
- Ottawa is the only municipality that caps the eligible cost based on 50 percent of remediation cost whereas all other municipalities allow 100 percent of remediation cost as eligible for funding.
- Ottawa is also the only municipality that caps non-remediation eligible cost at 15 percent of total eligible cost, whereas no other municipality does so.
- In recent program update, most municipalities kept the tax increment grant program either as status quo or made minor changes. Ottawa is the only municipality to have made significant reductions to its program in 2010 and 2015. Three municipalities have made substantive reductions to their brownfield development charge reduction program in recent years. Ottawa has already eliminated its development charge reduction program in 2015 in exchange for a deferral program.
- A few municipalities have experimented with an innovative approach by tying the level of incentive to the performance of an as built project with regards to criteria such as economic impact, design, provision of affordable housing and environmental sustainability.

In summary, Ottawa provides the lowest percentage of eligible total brownfield funding out of all the municipalities in this study, but the rate of recovery based on 85 percent of property tax uplift allows for a fast recovery timeline. The consultant also recommended that the City simplify the existing program and to consider introducing performance criteria attached to the brownfield program based on the City's policy direction.

Past Program Updates

The City of Ottawa has had a well-established brownfield program since 2007 and is one of the pioneer municipalities in introducing this program to promote the redevelopment of vacant and utilized contaminated land. Since the original introduction, there have been two program reviews that happened in 2010 and 2015.

During the 2010 update, the program was adjusted to remove off-site infrastructure costs as eligible items and decreased the on-site infrastructure cost eligibility from 100 percent to 50 percent.

As part of the [2015 update](#), the development charges reduction program was cancelled and replaced with a development charge deferral program that would allow a 50 percent deferment of eligible costs with a preferred interest rate. Furthermore, the on-site improvement and incentive portion of the program, being item 7-12, was limited to not exceed 15 percent of total eligible cost. This was because the incentive portion became a significant portion of funding which does not align with the intent that the program is primarily meant to assist with remediation cost. Lastly, a sunset clause was inserted into all brownfield agreements so that the funding becomes null and void if development is not issued a building permit within four years of Council approval. This is to ensure the prompt development of brownfield sites.

Details on the Proposed 2023 Program Update - Eligible Costs

Item Number	Description	Eligibility
1	Environmental studies, Remedial Work Plan and Risk Assessment, including the cost of preparing a Record of Site Condition	50 percent eligible
2	Environmental Remediation	50 percent eligible
3	Placing clean fill and grading	50 percent eligible
4	Installing environmental and/or engineering controls/works as specified in the Remedial Work Plan and/or Risk Assessment	50 percent eligible
5	Monitoring, maintaining and operating environmental and engineering controls/works as specified in the Remedial Work Plan and/or Risk Assessment	50 percent eligible
6	Environmental Insurance Premiums	50 percent eligible
7	Leadership Program	Removed from eligibility
8	Cost of Feasibility Study	Removed from eligibility
9	30 per cent of Building Permit Fee (only eligible in priority area)	Removed from eligibility
10	50 per cent Building demolition costs	Removed from eligibility
11	50 per cent Building rehabilitation costs	Removed from eligibility
12	50 per cent of the upgrading costs for on-site infrastructure including water services, sanitary sewers and stormwater management facilities	Removed from eligibility

1. The eligible costs are recoverable based on 50 percent tax uplift over a maximum of 20 years from the date of Council approval or up until the total eligible funding is recovered, whichever occurs earlier.
2. Maximum brownfield grant upset limit of \$5 million.
3. Brownfield CIP may be stacked with other CIPs but shall not exceed an annual tax incremental grant funding above 100 percent of the yearly tax uplift and shall include a funding cap of up to \$5 million for all the CIPs combined.
4. If the annual tax increment following stacking exceeds 100 percent of the yearly tax uplift, the portion above the yearly threshold may be accrued for payment in a future year within the maximum 20-year grant payment period. Once the 20-year period has been reached, any outstanding or accrued funding is considered null and void.
5. All proposed costs shall exclude HST.
6. All proposed costs shall be the incremental cost between a greenfield and brownfield development. For example, if excavation and shoring is required regardless of whether the site is a brownfield project, these costs are not eligible. However, the tipping fee which is only associated with a brownfield project is eligible.
7. Project management costs shall have an upset limit of ten percent of the total remediation cost and shall be supported by backup invoices or timesheets.
8. For applications that require site plan approval, the application for brownfield grant can only be made once the site plan application has been deemed complete. However, staff will only bring forward a report for Council consideration post site plan approval or once there are no outstanding substantial comments related to the site plan application.
9. Any cost associated with remediation of future City parkland is not eligible.

Other Eligibility Requirements

1. If the applicant or one of its associated companies caused the contamination on-site, they are not eligible for an application for grant funding.
2. The proposed development shall be for either residential or mixed-use developments that is eligible under the Affordable Housing CIP.
3. For large developments with a portion of the site meeting the eligibility above, only costs related to that portion for the development is eligible for funding.
4. Post remediation, the applicant shall obtain a record of site condition from the Ministry of Environment, Conservation and Parks to demonstrate that the site has been properly remediated and meets the relevant Ministry standards.
5. Eligibility for BRCIP grant funding can be combined with any other Community Improvement Plan programs. However, the maximum grant funding in any given year cannot exceed 100 percent of the property tax uplift.
6. If the combined grant funding of all the CIP programs exceeds 100 percent of the property tax uplift, the remaining portion can be accrued to be recovered during a subsequent year within the 20-year maximum eligibility period. Once the 20-year period has been reached, any accrued amount is no longer eligible.

7. Any brownfield funding approval will become null and void if the development is not issued a building permit within 18 months post Council approval of the brownfield application.

Application Submission Requirements

1. All environmental studies (Phase I ESA, Phase II ESA, Remedial Action Plan (RAP), Risk Assessment).
2. Detailed work plan and cost estimate prepared by a qualified person (as defined by the Environmental Protection Act and Ontario Regulation 153/04 as amended) for all eligible environmental remediation and risk assessment/risk management works (if not already included in the above environmental studies).
3. A cost estimate prepared by a bona fide contractor for eligible rehabilitation/redevelopment costs.
4. A detailed architectural/design and/or construction drawings.
5. Estimated post-project assessment value prepared by a private sector property tax consultant.

Process

1. An optional pre-consultation process to identify required submission material and determination of project eligibility.
2. Applicant submits the completed package.
3. City staff will review the submission package and provide any comments relating to the submission.
4. The applicant will respond and resubmit to address the comments.
5. City will retain the right to request for a peer review on any of the submission material and the full cost will be borne by the applicant.
6. Once all the comments are addressed, staff will deem the application complete and prepare a report to Finance and Corporate Service Committee and subsequent Council for final deliberation.
7. Any remediation costs following application deemed complete are eligible for recovery, the applicant may proceed with remediation at its own risk subject to final Council approval of the brownfield application.
8. Following Council approval, an agreement will be prepared.

Requirements Prior to Grant Payment

1. Complete the Rehabilitation Work.
2. Register the Record of Site Condition in accordance with all applicable laws.
3. Satisfy the City that the Rehabilitation Costs incurred have been paid in full and that there are no liens, claims or litigation in respect of the Owner's obligation to pay the Rehabilitation Costs, or in the event of any such lien, claims or litigation the Owner is, in good faith, disputing same.

4. Satisfy the City that there are no outstanding work orders and/or orders or requests to comply from any City department or other regulatory authority in respect of the initial development of the Project, the Lands and the business of the Owner to the extent it relates directly to and in respect of the Lands.
5. Have requested that the Lands be assessed by the Municipal Property Assessment Corporation and that the revised assessment be added to the tax roll of the City, which assessment must demonstrate to the satisfaction of the City, acting reasonably, that the rehabilitation and development of the Lands has resulted in the occurrence of a Tax Increment.
6. Pay or cause to be paid all outstanding property taxes levied on the Lands for a minimum of one year after the Lands have been reassessed by the Municipal Property Assessment Corporation. However, if the development has been sold to individual homeowners and there is outstanding property tax payment, the grant payment can still be issued but shall be made pro-rated based on the total amount of property taxes paid for that given year.
7. Provide a written request to the City for the initial payment of the Rehabilitation Grant.
8. Satisfy the City that the building has been constructed in accordance with the building permit.