Fiscal Tool Brief: Tax Increment Financing (TIF)

Category
Land Value Capture

Geography/ Location
AB, BC, MB, NB, NL, NS, ON, PE, QC, SK

Municipality Size
Large

Tier
Conditional

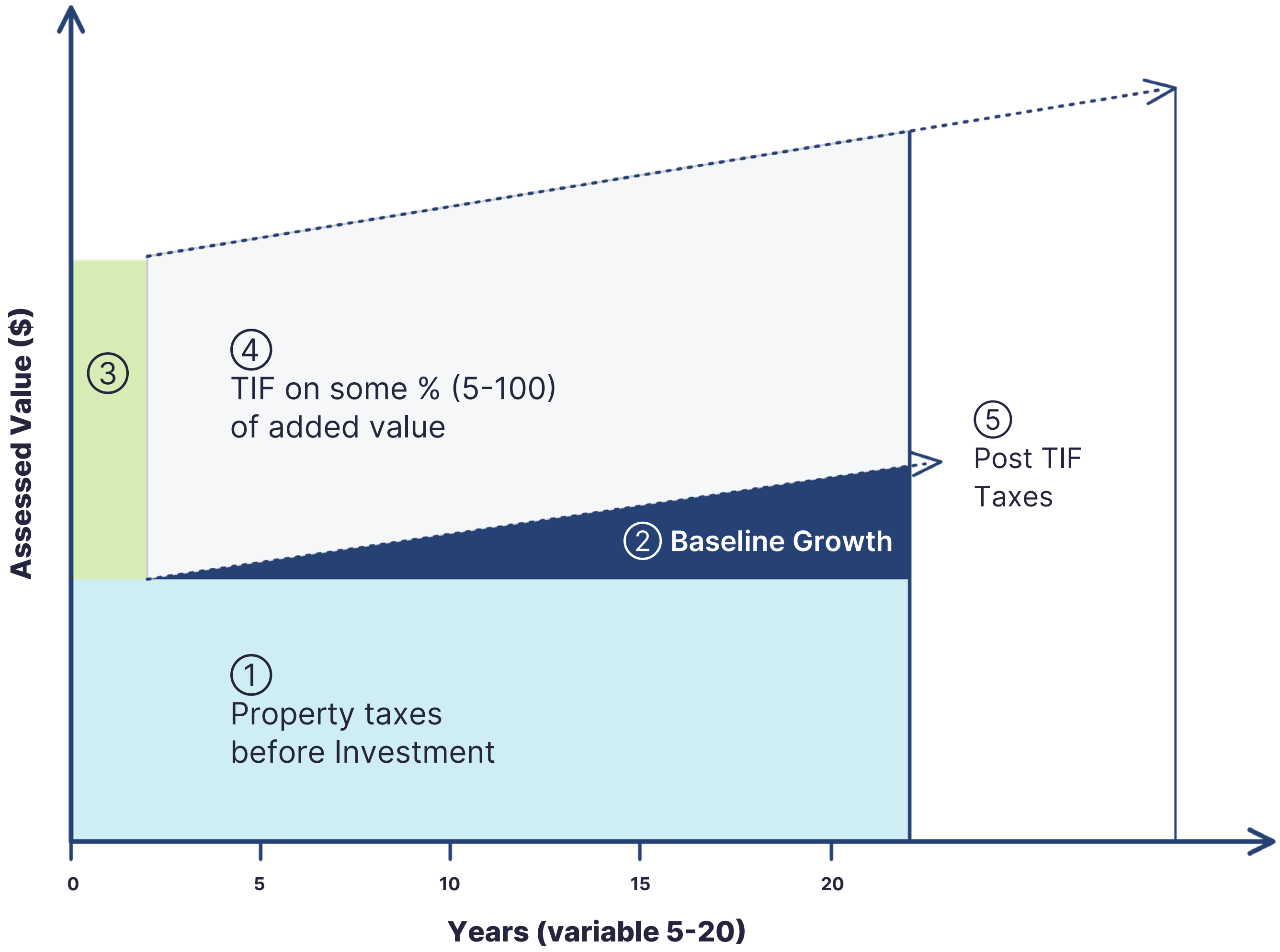
Constraints
Equity; Feasibility; Complexity

Administrative Capacity Required
High

Tax Increment Financing uses future increases in property tax revenue from a designated area to fund local infrastructure, redevelopment, and public improvement projects.

Tax Increment Financing (TIF) is a municipal financing tool used to support local economic development and public improvement projects. When a municipality designates a specific area also known as a Tax Increment District (TID),[1] it continues to collect the existing level of property tax revenue from that area. However, any future increases in property tax revenue, generated by rising property values resulting from new development or improvements, are set aside in a special fund (Figure 1). These "tax increments" are then used to pay for projects within the district, such as upgrading public infrastructure (better sidewalks, improved lighting), cleaning up brownfields, or enhancing parks, transit, and public spaces. In many cases, municipalities borrow upfront based on the expected future tax revenue, allowing them to finance projects now and repay over time as property values rise. The time period for TIFs are flexible, and depending on the project, it can range from 10 to even 50 years. After the time period, the value after termination may be used to pay for items such as any remaining debt obligations, contractually obligated expenses, and/or administrative expenses.[2]

Tax Increment Financing (TIF) Agreement Mechanics



1
Taxes on original property valuation

2
Expected growth in tax, with no investment

3
Amount investment raises property value

4
Added value subject to TIF Agreement Exemption

5
Company pays taxes on full assessed value of property upon TIF expiration

Figure 1. Tax Increment Financing Phases[3]

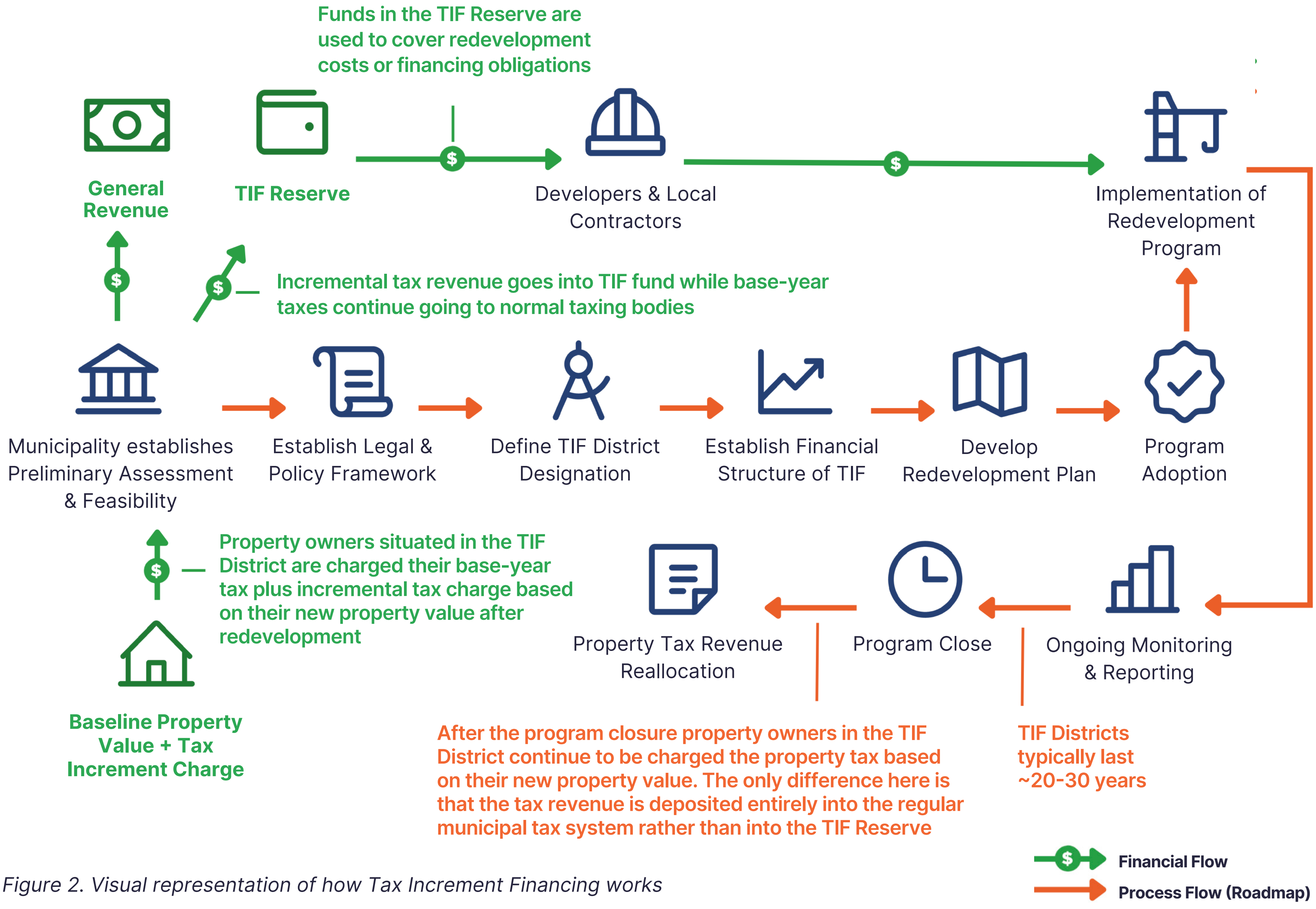


Figure 2. Visual representation of how Tax Increment Financing works

Examples

TIF has been implemented to fund urban renewal projects and revitalize underdeveloped neighbourhoods. Calgary (AB) adopted a tool called Community Revitalization Levy (CRL) to underwrite some of the costs of The Rivers revitalization. Since the developers and landowners will benefit from public improvements in The Rivers district, the City recovered some of the infrastructure costs through fees as development occurred. This tool allows the City to use a portion of the property tax revenue from this area and directly invest it into the local infrastructure improvements, for up to 20 years. St. Catharines (ON) developed a TIF program to help offset the cost of a redevelopment project. The incentive is given as an annual rebate of 45% of the increase in the City portion of property taxes generated by project completion for up to 10 years. In addition, if a project includes a minimum of 30% affordable rental dwelling units, the percentage of the rebate is increased to 65%. In Winnipeg (MB), the City established TIF programs in designated areas of the City in order to encourage investment or development. Winnipeg's incentives are in the form of grants/other payments and development projects, including affordable housing and rehabilitation of eligible heritage buildings.

Relevance to Advancing Adaptation

While the basic premise of TIF allows municipalities to borrow against future increases in property tax revenue within the designated area, this approach allows municipalities to unlock upfront capital without raising current taxes, which can be particularly useful in addressing urgent climate resilience needs such as enhanced stormwater management, new green infrastructure, and other flood mitigation measures.

Using the example of flood prevention, a municipality could designate a flood-prone area as a TIF district, especially if the area has development potential but is currently undervalued due to flood risk. The municipality could use TIF proceeds to invest in flood-resilient infrastructure that would make the area more attractive for private investment. For example, a municipality could identify a low-lying commercial district that frequently floods during heavy rain events, reducing business continuity and deterring new investment. The municipality could establish a TIF district covering this commercial zone and borrow to fund a $20 million climate-ready infrastructure package. This could include constructing green roofs on public buildings, installing underground water storage tanks, and redesigning roads with improved grading and permeable surfaces. As flood risk declines and the area becomes more attractive for redevelopment, new buildings are constructed, existing properties are renovated, and property values rise. Over future decades, the increase in property tax revenue (the "tax increment") is captured and used to repay the TIF bonds.

However, some caution should be used with the premise, as with all land value capture instruments. TIF assumes the financed infrastructure itself drives the property value increase that repays the bonds, but the empirical literature on land value capture finds that this link is highly variable and uncertain, particularly for the kind of hidden adaptation infrastructure that lacks visible amenity value. Kim's (2022) study of land value capture at urban expansion frontiers found that estimating land value uplift is fundamentally a subjective exercise whose results depend heavily on who is doing the calculation and for what purpose, and that even sophisticated developers looking at the same public investment in her case study radically disagreed on whether profitable opportunities existed. Significant land value capture typically materializes only sporadically and over long time horizons, which complicates the design of TIF tools that depend on predictable near-term incremental flows.[4]

Accessibility

Tax increment financing is legally accessible only in Manitoba and Alberta, with a narrow and dormant Ontario framework that is materially different in structure. No TIF-enabling legislation could be found for other provinces.

Manitoba provides the most fully operationalized framework. The Community Revitalization Tax Increment Financing Act (CRTIF) enables real property to be designated by regulation as a "community revitalization property" (s. 4) for a term that, including any renewals, cannot exceed 25 years (s. 5(2)).[5] Designation triggers a mandatory re-allocation of the assessment roll under s. 7 into pre-designation and incremental assessed value portions (determined under ss. 8 and 9 respectively). A community revitalization levy is then imposed on the portioned value of the incremental assessed value under s. 11(1). Importantly, s. 11(2) reveals the mechanism's specific fiscal logic: the levy is imposed and is payable in lieu of school taxes that would otherwise be payable on the designated property. Manitoba's CRTIF is therefore not a general increment-capture tool: it is specifically a redirect of the school tax portion of the increment toward revitalization purposes, with the incremental value also exempted from school taxation under s. 10. Grants to municipalities, property owners, occupiers, and qualifying local organizations for improvement projects are authorized at s. 15(6), with purposes specified at s. 15(6.1) (community revitalization, economic development, social and cultural development, heritage preservation).

In Alberta, the Municipal Government Act (ss. 381.1–381.5) establishes the Community Revitalization Levy (CRL).[6] A municipality passes a CRL bylaw (s. 381.2(1)) imposing a levy on the incremental assessed value of property within a designated CRL area (s. 381.2(2)), with the revenue used toward infrastructure and other redevelopmental costs. A CRL bylaw has no effect unless approved by the Minister (s. 381.2(3)), and the Minister may approve a bylaw in whole, in part, with variations, or subject to conditions (s. 381.2(4)). The incremental assessed value is excluded from both equalized assessment calculations and provincial requisitions (s. 381.4), meaning the growth in assessed value is genuinely segregated to the revitalization purpose. A 3% cap on the combined taxable assessment that may be included in a proposed CRL area across a municipality was introduced with the program revamp, imposed through the provincial Community Revitalization Levy Program Guidelines rather than through the statute itself.[7]

In Ontario, the Tax Increment Financing Act provides a statutory framework that has remained dormant since enactment.[8] The regulations contemplated by s. 6 (governing tax increment calculation, feasibility study requirements, payment administration, and funding agreement terms) have never been prescribed, leaving the Act inoperative for practical purposes. Beyond the dormancy, the Ontario framework is structurally distinct from Alberta's CRL and Manitoba's CRTIF: it enables a municipality to apply for provincial funding for designated projects based on projected education tax increments (s. 2(1)), with the Minister of Finance authorized to enter into funding agreements paying out of the Consolidated Revenue Fund (ss. 3(1)(c), 4, 4(6)). The aggregate ceiling on Ministerial payments is capped at the estimated education tax increments (s. 4(5)), and an additional municipal-side limit restricts designated-project funding to 1% of total municipal-purpose taxes in a given year (s. 2(3)). Eligible projects are confined to infrastructure or amenities supporting the redevelopment or intensification of previously developed areas, the development of urban growth centres under the Places to Grow Act, 2005, environmental remediation in previously developed areas, and municipal public transit facilities (s. 1 definitions of "eligible project"). In substance, the Ontario framework would function as a project-specific provincial grant program funded by foregone provincial education tax revenue, rather than as a general municipal TIF authority.

No TIF-enabling legislation has been identified in British Columbia, Quebec, Saskatchewan, Nova Scotia, New Brunswick, Prince Edward Island, or Newfoundland and Labrador. Municipalities in these provinces realistically cannot access TIF-equivalent increment capture without new enabling legislation.

Feasibility

TIF programs show varying levels of feasibility across provinces and territories based on legislation, political will, and municipal capacity. In Alberta, TIF is highly feasible through the Community Revitalization Levy (CRL), which has supported major projects with strong provincial and municipal alignment and public backing. The framework is well-established and supported by legislation.[9] In Manitoba, feasibility is moderate to high - Winnipeg has used TIF effectively,[10,11] while TIF is legally permitted under Section 28 of the Planning Act, provincial approval is required for each project and political hesitancy leads to limited use to large-scale infrastructure in major cities.

Risk

TIF has been adopted by some Canadian municipalities, but not without concerns. One key issue is the lack of transparency in how TIF funds are allocated, which can lead to concerns over mismanagement or misuse of public funds. While this has been more widely documented in U.S. cases, the concern is equally relevant in Canada where public oversight of financial tools remains critical to maintaining.[12] Another growing concern is the risk of gentrification, illustrated by Calgary's Rivers District CRL. Since inception, CMLC has committed approximately $400 million to East Village infrastructure, attracting nearly $4 billion in planned development and substantially increasing both residential and non-residential property assessments within the district.[13] While these increases generate the incremental revenue that finances the levy, they also raise the cost of housing within the district boundary, with unmitigated consequences for lower-income residents. The Alberta enabling regulation requires that CRL plans address "the impact, if any, that the redevelopment of the Rivers District will have on the residents of that area" and identify mitigation measures,[14] but critics have noted that these requirements are loosely specified and that Alberta's CRL framework lacks the displacement-prevention guardrails common in mature TIF jurisdictions.[15] Additionally, TIF relies on the assumption that redevelopment will increase property values to generate the tax revenue needed to repay the infrastructure debt, but this isn't guaranteed. One example of this is the Sheppard East subway line in Toronto, built in the early 2000s at a cost of approximately $1 billion. Even though it wasn't financed via a TIF, a retrospective study by the Institute on Municipal Finance and Governance modelled what TIF revenues would have generated over a 30-year period along that corridor. Even under favorable assumptions, the net present value of projected TIF revenues would have covered less than 10% of the capital cost.[16] These challenges highlight the need for cautious implementation, and it's important to note that there may be additional risks beyond those discussed here—particularly as municipalities continue to explore TIF in diverse economic, political, and social contexts.

Scalability

TIF shows moderate scalability, with successful examples like Calgary's Rivers District CRL and Winnipeg's Sports, Hospitality and Entertainment District (SHED) generating significant tax increments for long-term redevelopment over 20-40 years. These projects demonstrate that TIF can be scaled for targeted, high-profile redevelopment, especially in municipalities with strong real estate markets and supportive provincial legislation. However, in other cases scalability is limited by some provincial regulations, such as Alberta's 3% cap on the municipality's total property tax assessment base[17] (e.g., If a municipality's total property assessment base is $10 billion, the combined assessed value of properties in all CRL zones cannot exceed $300 million (3% of $10 billion) and Ontario's Municipal Act, that prohibits a municipality from providing bonuses to business enterprises, including grants, loans or other forms of financial assistance-which limits how TIF funds can be used to attract or accelerate development.[18] This regulatory landscape creates uneven opportunities across provinces, meaning that while some municipalities can use TIF to unlock major redevelopment, others are left with a tool that looks powerful on paper but is functionally restrained in practice. To overcome these barriers, municipalities could pursue regulatory reforms and flexible policy design that streamline provincial approvals, improve transparency, and allow for hybrid funding models. Pairing TIF with complementary tools like development charges, grants, or resilience bonds can also reduce financial risk and make the mechanism more viable for climate adaptation. TIFs can enable the conditions to attract private capital financing to fund proactive climate adaptation because they generate a distinct revenue stream that can be leveraged.

Evaluation Matrix

Scoring: High = +1 | Medium = 0 | Low = −1

Criterion	Rating	Score	Key Evidence	Assessment
Effectiveness & Performance	Medium	0	Generates upfront capital tied to future property value increases	TIF can support adaptation infrastructure, but its value depends on development-led property growth rather than direct adaptation funding.
Economic Efficiency	Low	-1	Requires complex forecasting, long timelines, and administrative oversight	TIF is resource-intensive and comparatively inefficient because it depends on uncertain projections and sustained oversight.
Equity & Fairness	Low	-1	Risk of gentrification and displacement from rising property values	Benefits may be distributed unevenly, with redevelopment gains potentially creating burdens for vulnerable residents.
Political Acceptability	Medium	0	Transparency concerns and mixed public acceptance	TIF can be politically viable in some settings, but fairness and accountability concerns may limit support.
Feasibility (Admin/Legal)	Low	-1	Limited provincial enabling legislation and complex approval processes	Legal constraints and institutional complexity significantly limit widespread municipal use.
Coherence (Portfolio Fit)	Medium	0	Can be combined with other tools but constrained by regulations	TIF can fit within broader capital financing strategies, but uneven provincial rules reduce consistency and ease of integration.

Best Use Context

TIF is most effective in large, growing municipalities with strong redevelopment potential and the institutional capacity to manage complex financing arrangements. It is best suited to district-scale urban revitalization where adaptation measures can be incorporated into broader redevelopment projects.

Context Factor	Relevance	Notes
Municipal Size	High	Most effective in urban municipalities with significant infrastructure needs
Administrative Capacity Required	High	Requires GIS, billing systems, and technical expertise
Development Pressure	High	Revenue scales with impervious surface growth
Climate Risk Targeting	Medium	Highly effective for flood and stormwater risks
Fiscal Flexibility Required	High	Generates stable, dedicated revenue outside property tax base

Recommended Citation

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