



TO: Mayor and Council

CC: Andy Taylor, Chief Administrative Officer,
Trinela Cane, Commissioner of Corporate Services
Brenda Librecz, Commissioner of Community and Fire Services
Joel Lustig, Treasurer
Phoebe Fu, Director, Asset Management

FROM: Shane Manson, Senior Manager, Revenues & Property Taxation,
Robert Muir, Manager, Stormwater,
Jonathan Tate, Senior Business Analyst

DATE: September 9, 2015

Re: **Memo on Deferred Report: "Stormwater Fee Non-Residential
Consultation and City-wide Implementation"**

Background:

On May 26, 2015 Staff presented to General Committee an update on the Stormwater fee non-residential consultation and City-wide implementation. It was noted that the proposed recommendations (as outlined in attached report) be considered at the June 15, 2015 Council meeting.

During the Council meeting Richard Cunningham, President and CEO of the Markham Board of Trade (MBOT), voiced opposition to the Staff recommendation to use the Council-approved CVA option as the basis of calculating variable stormwater fees. Rather, Mr. Cunningham preferred a two-tiered flat fee option which in his opinion best met the 3 principles of payment; 1. ability to pay, 2. equity/fairness in relation to runoff and 3. ease of administration and communication. The two-tiered option results in a flat fee of \$154 for Non-Residential properties with a CVA less than \$5.0M. Non-Residential properties with a CVA greater than \$5.0M would pay a flat fee of \$4,351.

Council deferred the report on non-residential fee implementation to the September 16, 2015 Council meeting, with the expectation that Staff meet with Richard Cunningham to discuss in further detail.

Discussion:

City Staff reached out to MBOT and organized a follow-up meeting on July 21st, 2015. In attendance from MBOT were Mr. Cunningham, Margaret Peco (Manager Business Centre, Business Development Bank of Canada) and Caroline Grech (Government Relations Specialist, CAA). At the meeting Staff provided information that included a

comparison analysis between the Council approved option and the two-tiered option (see Memo-attachment 1).

Staff demonstrated that if the City was to adopt the two-tiered option that 3,839 Non-Residential properties or 59% from a total count of 6,514 would pay more under the two-tiered option. Furthermore, Staff elaborated that in many instances the financial impact between the two options was significant. For example, a property with a CVA of \$5.0M would pay \$1,450 annually under the Council approved option and \$4,351 annually under the two-tiered option. Over a 30-year lifespan of the program, the difference of \$2,901 annually, would result in a total impact of \$87,030. Staff reiterated its position that the Council approved option is the best option that meets the 3 principles of payment.

Mr. Cunningham requested and was provided the following additional information; 1) a comparison of the Markham Council approved stormwater fees with other municipalities and 2) list of Markham's highest CVA properties. (see Memo-attachment 2). Staff met with Mr. Cunningham on August 25, 2015 for follow-up discussions.

Mr. Cunningham submitted a formal response on behalf of MBOT on September 1, 2015 (see Memo-attachment 3) requesting Council to consider a change in the allocation of the stormwater fee between residential properties and non-residential properties from 60% residential/40% non-residential to 80% residential/20% non-residential. According to Mr. Cunningham this change would mirror the way property taxes are collected. Furthermore, he indicated that the increased residential fees from \$47 to \$65 would be comparable to that of other municipalities like Mississauga.

Staff position:

Council evaluated a range of fee allocation methods in February 2013 and identified City-wide fees as the funding source. In June 2013, following consultation on funding sources, Council directed staff to develop a fee structure based on runoff contribution. The 60% residential/40% non-residential allocation of fees on a City-wide basis is based on the City-wide runoff contribution from these land uses. The allocation was determined by the City's stormwater fee consultant who analyzed thousands of representative Markham properties by measuring the area of hardened, high-runoff surfaces (e.g., rooftops, parking lots, driveways) throughout the City using detailed mapping. This approach of using hardened, impervious surface measurements to determine fee allocation is consistent with the approach of the majority of municipalities with stormwater fees in North America. The resulting 60% residential/40% non-residential allocation of fees was approved by Council in November 2013, and is essential to meeting the principle of equity and fairness of fees in relation to runoff. A 80% residential/20% non-residential allocation would not meet this principle.

It is noted that the stormwater fee supports the design and capital works related to flood remediation, and that the City's other stormwater management activities are funded through other sources. As a result Markham property owners fund various operation and maintenance activities through taxes (e.g., pond cleaning, technical studies, watercourse erosion restoration, sewer and outfall inspection and rehabilitation, and channel maintenance). Accordingly, property owners already contribute more than the stormwater fee amount that is dedicated to flood control improvements.

Recommendation:

After thorough review of feedback received from MBOT, Staff continues to maintain that it is in the best interests of the City, and the residents, to apply the Council-approved annual rate of \$29 per \$100,000 of CVA for Non-Residential property classes and vacant land properties. The Council approved option best meets the 3 principles of payment which are: 1) ability to pay, 2) equity/fairness in relation to runoff and 3) ease of administration and communication. Furthermore, this Non-Residential rate is derived based on a widely-accepted and applied scientific fee allocation methodology. The 80% residential/20% non-residential allocation of fees proposed by MBOT would be inconsistent with the second principle of payment.



Memo - Attachment 1

Stormwater Fee

Markham Board of Trade

July 21th, 2015





STORMWATER AGENDA

1. Background
 - i. Fee Calculation
 - ii. Council Approved option
 - iii. Two Tiered option
 - iv. Items included under the Council Approved option
 - v. Feedback from the Business Community
2. Stormwater Analysis – Two Tiered option compared to Council Approved option



1. BACKGROUND

FEE CALCULATION

Annual fee approved by Council on June 24, 2014:

- \$47 flat fee per Residential property
- \$29 / \$100,000 of Current Value Assessment (CVA) – fee for Non-Residential property

Allocation Methodology: 60% Residential and 40% Non-Residential

	Total Cost	Residential	Non-Residential	Vacant Land
Annual Program Cost	\$ 9.60M	\$ 5.30M	\$ 3.50M	\$0.80M
Less: Federal Gov't Grant funding	(\$ 2.00M)	(\$ 1.10M)	(\$ 0.70M)	(\$0.20M)
Required funding/year	\$7.60M	\$ 4.20M	\$ 2.80M	\$0.60M

\$2.80M NEEDS TO BE COLLECTED FROM 6,514 NON-RESIDENTIAL PROPERTIES



1. BACKGROUND (cont'd)

FEE CALCULATION

- Staff utilized 3 principles to develop the fee methodology which would allocate the \$2.80M program cost to the Non-Residential properties

Principles of Payment

1. Ability to Pay
2. Equity/Fairness (relationship to runoff)
3. Ease of Administration and Communication

Annual Fee Distribution Options Reviewed

1. Council Approved Fee
2. Option 1: Flat Fee
3. Option 2: Flat Fee Based on Property Type
4. Option 3: Multiple Tiered Fee
5. Option 4: Two Tiered Fee

MANY OPTIONS WERE CONSIDERED AND ANALYZED. (COUNCIL APPROVED FEE AND OPTION 4 RECEIVED THE MOST FAVOURABLE FEEDBACK)



1. BACKGROUND (cont'd)

FEE CALCULATION

NON-RESIDENTIAL PROPERTY TYPE	PROPERTY COUNT	% OF TOTAL	TOTAL CVA	% OF TOTAL
Commercial Office Properties	160	2%	\$2.30B	23%
Commercial Retail Properties	4,606	71%	\$4.40B	45%
Industrial Properties	1,748	27%	\$3.20B	32%
Total	6,514	100%	\$9.90B	100%



1. BACKGROUND (cont'd)

COUNCIL APPROVED OPTION

Annual Fees approved by Council are:

- \$29 / \$100,000 of CVA – fee for Non-Residential properties
- \$47 flat fee per Residential property

Timelines:

- Construction began in Fall of 2014
- Residential properties have been invoiced in the 2nd half of 2015
- Fee Implementation for Non-Residential is scheduled for 2016

Examples of the approved methodology:

CVA in \$'s	\$0.50M	\$1.00M	\$2.00M	\$5.00M	\$10.00M	\$20.00M	\$50.00M-\$312.00M
Annual Fee (\$'s)	\$145	\$290	\$580	\$1,450	\$2,900	\$5,800	\$14,500-\$90,480

THE FEE INCREASE IS IN PROPORTION TO PROPERTY VALUE AND BEST MEETS THE 3 PRINCIPLES OF ALL THE OPTIONS CONSIDERED



1. BACKGROUND (cont'd)

OPTION 4 – TWO TIERED OPTION

Each Non-Residential property will pay a flat fee based on the property CVA:

- Each property owner with a CVA less than \$5.00M will pay the same flat fee
- Each property owner with a CVA over \$5.00M will pay the same flat fee

1. Tier 1: (less than \$5.00M): # of properties = 6,086
2. Tier 2: (over \$5.00M): # of properties = 428

Example: Tier 1

- Total CVA of all Tier 1 properties : \$3.31B
- Tier 1 properties total CVA represents 33% of the total Non-residential CVA.

$$\begin{aligned}\text{Fee Calculation} &= \frac{(\text{Total cost of Non-Residential}) \times (\% \text{ of CVA})}{\# \text{ of Properties}} \\ &= \frac{(\$2.80M \times 33\%)}{6,086}\end{aligned}$$

Annual Fee = \$154

For Discussion Purposes Only



1. BACKGROUND (cont'd)

OPTION 4 – TWO TIERED OPTION

Each Non-Residential property will pay an annual fee according to total CVA of the property.

TIERS (BASED ON CVA)	COUNT	% OF COUNT	% OF CVA	ANNUAL FEE (ROUNDED)	TOTAL DOLLARS COLLECTED (ROUNDED)	EXAMPLES
<u>Tier 1</u> Under \$5.00M	6,086	93%	33%	\$154	\$0.90M	Retail Store (CVA: \$0.44M) Daycare (CVA:\$0.80M)
<u>Tier 2</u> Over \$5.00M	428	7%	67%	\$4,351	\$1.90M	Auto dealership (CVA:\$8.40M) Large Shopping Mall (CVA: \$312.00M)
Total	6,514	100%	100%		\$2.800M	

TIER 1 - PROPERTIES VALUE LESS THAN \$5.00M WILL PAY A FLAT FEE OF \$154
TIER 2 - PROPERTIES VALUED OVER \$5.00M WILL PAY A FLAT FEE OF \$4,351



1. BACKGROUND (cont'd)

ITEMS INCLUDED UNDER THE COUNCIL APPROVED OPTION

- 1) Any property with a CVA of less than \$100,000 shall not have a stormwater fee imposed upon it (approximately \$7,300 in uncollected fees under the Council Approved option)*
- 2) The Treasurer is authorized to adjust the annual stormwater rate for Non-Residential and vacant land properties to compensate for the average change in City CVA

*Note: Under Two Tiered option there is a higher financial impact for those properties with a CVA of less than \$100,000.



1. BACKGROUND (cont'd)

FEEDBACK FROM THE BUSINESS COMMUNITY

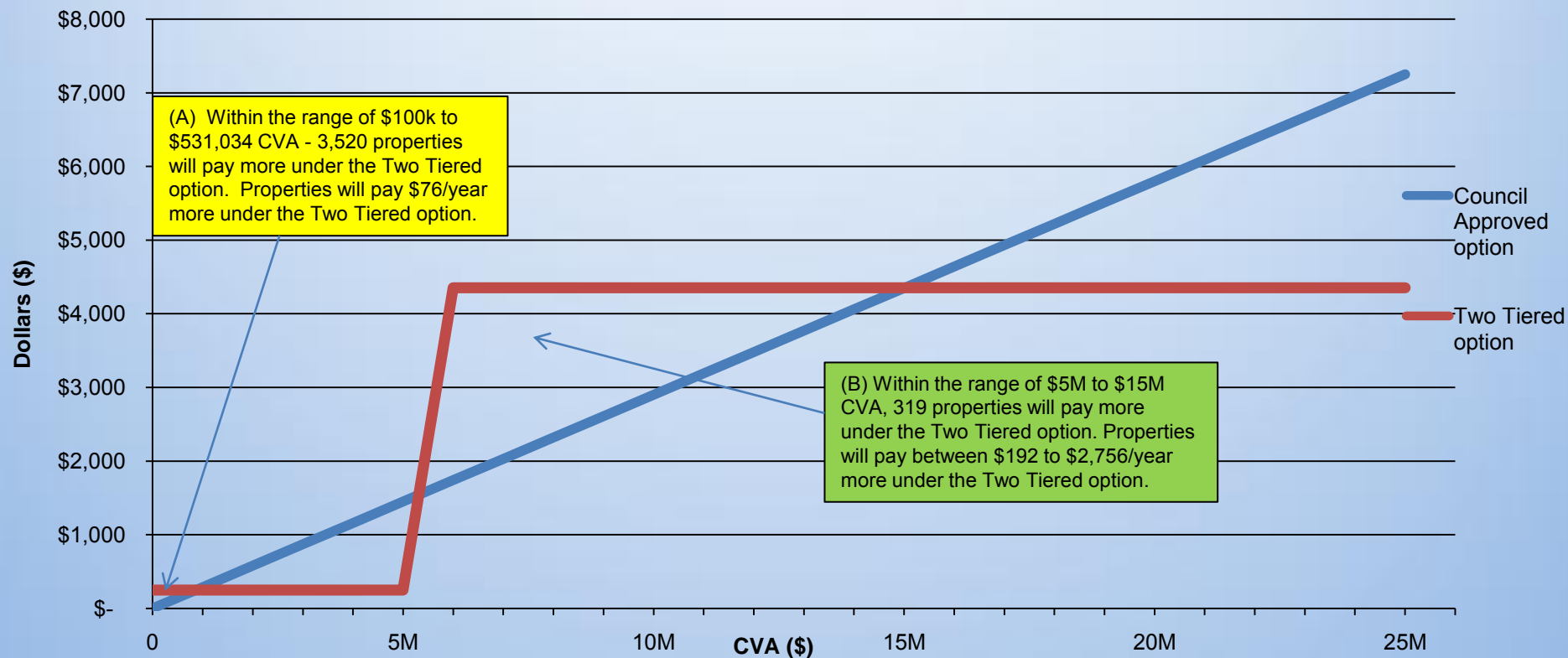
- The average impact of the fee is 6.6 cents per square foot per year
- The stormwater fee equates to only 1.4% (industrial) to 1.6% (commercial) of the total average tax bill for Non-Residential properties. No participants during the business consultations suggested that the stormwater fee would have any negative economic development impacts.

Feedback from Business Community:

- ☐ GWL Realty Advisors stated Council approved option is the most fair and equitable (they would just pass the cost to the tenants).
- ☐ The Milestone Group said Council approved option is equitable and easier to administer (tier is not fair, all other methods are not easy to administer. They will pass the cost through to the tenants).
- ☐ Metrus Properties stated Council approved option is most fair and equitable
 - 6.6 cents / sq ft is not a deal breaker



2. STORMWATER ANALYSIS – TWO TIERED OPTION COMPARED TO COUNCIL APPROVED OPTION



A property with a CVA of \$5M over a 30-year span will pay \$43k under the Council Approved option and pay \$130k under the Two Tiered option. Two Tiered will cost \$87k more for the 30 year program.

2. STORMWATER ANALYSIS - TWO TIERED OPTION COMPARED TO COUNCIL APPROVED OPTION(cont'd)

Range	Total Property Count	%	Council Approved Option \$29 per \$100k (A)	Two Tiered Option (B)	FAV / (UNFAV)	
					(A) - (B) \$	(A) - (B) %
\$0 - \$99.99K	1,391	21.4%	No fee	\$154 No Fee		
\$100K - \$531,034*	3,520	54.0%	\$78	\$154	(\$76) (\$122)	(97.6%)
\$531,035 - \$0.99M	313	4.8%	\$216	\$154 - \$200	\$62 \$16	28.6%
\$1M to \$4.99M	862	13.2%	\$710	\$154	\$556 \$510	78.3%
\$5M to \$5.99M	81	1.2%	\$1,595	\$4,351	(\$2,756)	(172.9%)
\$6M to \$6.99M	64	1.0%	\$1,885	\$4,351	(\$2,466)	(130.8%)
\$7M to \$7.99M	35	0.5%	\$2,171	\$4,351	(\$2,180)	(100.4%)
\$8M to \$8.99M	37	0.6%	\$2,463	\$4,351	(\$1,888)	(76.6%)
\$9M to \$9.99M	21	0.3%	\$2,736	\$4,351	(\$1,615)	(59.0%)
\$10M to \$10.99M	30	0.5%	\$3,073	\$4,351	(\$1,278)	(41.6%)
\$11M to \$11.99M	15	0.2%	\$3,347	\$4,351	(\$1,004)	(30.0%)
\$12M to \$12.99M	18	0.3%	\$3,633	\$4,351	(\$718)	(19.8%)
\$13M to \$13.99M	10	0.2%	\$3,917	\$4,351	(\$434)	(11.1%)
\$14M to \$14.99M	8	0.1%	\$4,159	\$4,351	(\$192)	(4.6%)
\$15M** to \$24.99M	53	0.8%	\$5,449	\$4,351	\$1,098	20.1%
\$25M to \$49.99M	42	0.6%	\$10,632	\$4,351	\$6,281	59.1%
\$50M to \$99.99M	9	0.1%	\$19,544	\$4,351	\$15,193	77.7%
\$100M and over	5	0.1%	\$48,602	\$4,351	\$44,251	91.0%
TOTALS	6,514	100.0%	generates \$2.8M	generates \$2.8M		

*When the CVA is \$531,034, the fee is the same under both options, i.e. \$154

**When the CVA is \$15,003,448, the fee is the same under both options, i.e. \$4,351

For Discussion Purposes Only



Memo - Attachment 2

Stormwater Fee

Markham Board of Trade

Follow-Up Information From July 21st, 2015 Meeting





FOLLOW-UP INFORMATION

- In response to requests by the Markham Board of Trade, staff has prepared the following information regarding non-residential stormwater fees:
 1. A comparison of the Markham Council approved fees with other municipalities
 2. Details of the 14 highest CVA properties



1. FEE COMPARISON – Large CVA (> \$14M)

- For the top 100 CVA properties in Markham, the Council approved stormwater fee for non-residential properties of \$29/100,000 CVA is equivalent to **\$1,574** per impervious hectare / year.
- The Council approved fee can be compared to fees in other municipalities that have adopted variable non-residential fees including:
 - i. Victoria, BC - **\$5,475** per impervious hectare / year
 - ii. Mississauga, ON - **\$3,745** per impervious hectare / year
 - iii. **Markham, ON** - **\$1,574** per impervious hectare / year
 - iv. Halifax, NS - **\$1,490** per hectare
 - v. London, ON - **\$1,447** per hectare

THE MARKHAM FEE IS IN THE MID-LOW RANGE FOR LARGE CVAs



1. FEE COMPARISON – Medium CVA (\$1-5M)

- The Council approved fee for non-residential properties has been compared to fees in other municipalities for sample properties with CVAs in the range of \$1M to \$5M:
 - i. 165 Shields Crt, Warehousing – \$1.9M CVA
 - ii. 2751 John St., Warehousing – \$2.9M CVA
 - iii. 45 Bodrington Crt, Std Industrial – \$4.0M CVA
 - iv. 8885 Woodbine Ave, Warehousing – \$5.0M CVA
 - v. 4641 Hwy 7, Gas Station - \$3.9M CVA



1. FEE COMPARISON – Medium CVA (\$1-5M) Cont'd

	Annual Stormwater Fee					
Address	Victoria	Mississauga	Halifax	London	Markham (Council Approved)	Markham (Option 4)
165 Shields Crt	\$ 1,916	\$ 1,310	\$ 549	\$ 533	\$ 559	\$154
2751 John St	\$ 4,077	\$ 2,789	\$ 1,387	\$ 1,347	\$ 856	\$154
45 Bodrington Crt	\$ 4,077	\$ 2,789	\$ 1,387	\$ 1,347	\$ 1,166	\$154
8885 Woodbine Ave	\$ 4,946	\$ 3,383	\$ 1,682	\$ 1,634	\$ 1,477	\$4,350
4641 Hwy 7	\$ 3,262	\$ 2,231	\$ 1,110	\$ 1,078	\$ 1,141	\$154
Total	\$ 18,276	\$ 12,501	\$ 6,114	\$ 5,938	\$ 5,200	\$ 4,966
Markham Comparison	352%	240%	118%	114%	100%	96%

MARKHAM'S COUNCIL APPROVED FEE:

A. IS LOWER THAN VICTORIA AND MISSISSAUGA FEES.

B. IS LOWER THAN 3 OF 5 HALIFAX AND LONDON FEES (VARIABILITY IS DUE TO UNIQUE COMBINATIONS OF CVA AND PROPERTY AREA).



2. DETAILS OF TOP 14 CVA PROPERTIES

#	Owner	Property Identifier	Address	Property Type	2014 CVA
1	ONTREA INC	Markville Mall	5000 HIGHWAY 7 E	Mall	\$312,844,903
2	IBM CANADA LIMITED	IBM	3600 STEELES AVE E	Office	\$166,363,500
3	BCIMC REALTY CORPORATION	Great West Life	11 ALLSTATE PKWY	Office	\$130,503,500
4	IBM CANADA LIMITED	IBM	8200 WARDEN AVE	Office	\$124,047,500
5	IBM CANADA LIMITED	IBM	3500 STEELES AVE E	Office	\$104,198,000
6	CF/OT BUTTONVILLE PROPERTIES	Buttonville Airport	2833 16TH AVE	Airport	\$98,576,000
7	BCIMC REALTY CORPORATION	Great West Life	675 COCHRANE DR	Office	\$78,288,000
8	CANADIAN PROPERTY HOLDINGS	Retail Plaza	3105 HIGHWAY 7 E	Mall	\$74,424,000
9	MARKET VILLAGE MARKHAM INC	Market Village	4350 STEELES AVE E	Mall	\$68,834,500
10	HONDA CANADA INC	Honda Dealership	180 HONDA BLVD	Warehouse	\$67,323,000
11	2303406 ONTARIO INC	Amex Bank of Canada	101 MCNABB ST	Office	\$57,603,500
12	COMMERCE VALLEY REALTY HOLDING	Office Building (ATI)	1 COMMERCE VALLEY DR E	Office	\$52,259,000
13	GE CANADA REAL ESTATE EQUITY	Office Building (Netfirms)	7030 WOODBINE AVE	Office	\$50,666,500
14	COMMERCE VALLEY EQUITIES INC	Office Building (ADC)	123 COMMERCE VALLEY DR E	Office	\$48,148,000

11 OWNERS REPRESENT THE TOP 14 CVA PROPERTIES

September 1st, 2015

Joel Lustig
City of Markham
101 Town Centre Blvd
Markham ON L3R 9W3

Re: Proposed Storm Sewer Fee

Dear Mr Lustig:

With the proposal sent back to staff, we have reviewed the fees further and recommend that the stormwater management fees be restructured such that it mirrors the way property taxes are being collected, 80% collected from residential and 20% from non-residential. The previous proposal had a 60/40 split.

The effect of this would be an \$18 increase in the residential fees. This would mean that residential properties would have the current \$47 fee raised to \$65. With this re-alignment, we would also suggest that the non-residential charges change from \$29 per 100k of CVA to \$16 per 100k of CVA. This would mean a 45% drop from the proposed fee for non-residential properties.

Not only would this provide consistency in taxation and fees, it would still result in residential fees that are significantly less than in other areas with comparably sized and valued homes (Mississauga residential fees average \$100). This change will also reduce the burden on smaller businesses under \$2,0mil. in value, which represent 93% of all businesses in Markham. Their assessment will change from \$580 to an average of \$200 which is still more than double what home owners pay. This change will result in non-residential properties having a positive business impact with the fees going from the initial 1.6% increase to an increase of approximately 1%, allowing Markham to remain in a more competitive position to attract new business.

Overall, this proposal supports the staffs 3 principles of payment:

Ability to pay
Equity/Fairness
Ease of Administration and communication.

Sincerely,



Richard Cunningham
President & CEO