

Town of Markham

Financial Evaluation to the Growth Management Strategy

Project Status Report

February 4, 2010

Objective

To compare the fiscal impact of the growth options being considered by the Town on future tax and user rates and associated financial risks.

Status

Preliminary work has been carried out, including initial interviews with all departmental representatives. Preliminary conclusions are summarized herein. The results of the water/sewer and transportation master plans for the growth options are pending on a phased basis, February-May, 2010.

The Impact of New Development on Property Tax Rates

- ❑ Three primary considerations for each option:
 - a) Assessment, taxes and other revenues per occupant, for an average unit by type;
 - b) Incremental operating expenditures per occupant;
 - c) Non-DC recoverable and other capital requirements per occupant.
- ❑ Where average revenues exceed average expenditures, that development type produces annual tax surpluses.
- ❑ Where expenditures exceed revenues, that development type produces annual tax deficits.
- ❑ These averages can then be applied to the total growth increment for each option, as part of arriving at overall conclusions.
- ❑ Related considerations re water rate impact.

a) Average Assessment and Taxes by Unit Type

		<u>Town Taxes</u>
Townhouses	$\$287,000 \times .25694\% \div 2.96 \text{ ppu} =$	\$249/capita (\$737/unit)
Single Detached	$\$423,000^1 \times .25694\%^2 \div 3.77 \text{ ppu}^3 =$	\$288/capita (\$1,087/unit)
Apartments	$\$263,000 \times .25694\% \div 2.05 \text{ ppu} =$	\$330/capita (\$676/unit)

Thus, new apartments in Markham are expected to generate significantly more assessment/capita than other forms of residential development.

¹ Assessment base year 2008

² 2009 res tax rate for Markham

³ 2009 DC Background Study

Estimated (2006-31) Increase in Town Gross Tax Revenue by Option (2009 \$)

Growth Alternative \ Residential Growth Type	Singles	Semis & Townhouses	Apartments	Total Residential	
• The Region Option - Unit Increase 2006-31 - Avg. Town Tax/Unit - Total Annual Town Tax Incr. by 2031 (millions)	15,550 \$1,087 \$16.9	19,810 \$737 \$14.6	34,480 \$676 \$23.3	69,840 N/A \$54.8	
• 60% - Unit Increase 2006-31 - Avg. Town Tax/Unit - Total Annual Town Tax Incr. by 2031 (millions)	14,935 \$1,087 \$16.2	18,040 \$737 \$13.3	38,480 \$676 \$26.0	71,455 N/A \$55.5	+ \$0.7 million/yr.
• No Boundary Expansion (N.B.E.) - Unit Increase 2006-31 - Avg. Town Tax/Unit - Total Annual Town Tax Incr. by 2031 (millions)	8,795 \$1,087 \$9.6	12,840 \$737 \$9.5	57,325 \$676 \$38.8	78,960 N/A \$57.9	+ \$2.4 million/yr.

- ❑ Some differences also exist between the options re ICI taxes, but the differences are smaller.
- ❑ The question is, how much of the tax revenue in each case is expected to be required to fund incremental operating cost requirements for each option?

b) Operating Expenditures

□ Administration:

- The cost of some services is not significantly affected by the type and location of growth, e.g. Administration, the incremental per capita cost of which should be reduced by growth-related economies of scale, for all three options.

□ Roads and Related:

- Intensification with increased transit usage (Regional cost) will reduce road lane km/capita and therefore per capita road operating costs. However, these economies will be offset, to some extent, by added intensification-related maintenance costs re:
 - On-street parking;
 - Snow removal;
 - Centre median maintenance;
 - Mid-block structures;
 - Need for specialized equipment;
 - More difficult utility access.

b) Operating Expenditures (Cont'd)

□ Parks, Recreation and Library:

- Per capita service requirements tend to increase as private living space is reduced for apartment dwellers. Private recreation facilities moderate this increase, but don't address the need for municipally programmed uses, leagues, etc.
- With intensification, parks space/capita may decline, but urban parks are more expensive to develop, retrofit and maintain.

□ Fire:

- Intensification will facilitate the full use of existing stations but traffic congestion would narrow response coverage radius. High-rise fire fighting requires more manpower/call, but involves fewer fire calls/capita (although other incident calls (medicals and remote alarms) can be significant).

b) Operating Expenditures (Cont'd)

□ Stormwater Management:

- More privately-provided, on-site Q&Q control, with higher density development.
- Limited increase in run-off with increased building height under N.B.E.

□ Water:

- Demand governed by fire flow capacity which is often already available via better utilization of existing pipe capacity.

□ Sanitary Sewers:

- Additional study required.

c) Capital Contributions

- ❑ Debt + reserve contributions made from the operating budget are typically approximately 20% of other net operating expenditures
- ❑ This covers asset remediation and replacement, service level increases and Development Charge (DC) exemptions/deductions (these are relatively constant between the options)
- ❑ To what extent will intensification decrease DC coverage in comparison to Greenfield development? e.g. potentially by requiring the Town to absorb part of infrastructure replacement and upsizing cost as non-DC benefit to existing development.
- ❑ To be addressed via the Engineering master plans for sewer/water and transportation. Not as significant an option differentiation for the other services.

Market Considerations

The forecast amount of apartment construction between the three options is significant:

- The “Region Growth Option” calls for High Density (HD) unit average of 1,484 units/year 2010-31; “60%” calls for 1,674 HD/year and “No Boundary Expansion” for 2,572 HD units/year¹

Demographic and Economic Factors Encouraging an Increase in Apartment Construction:

- Aging population – more empty-nesters and seniors
- The affordability gap re low density housing for first time buyers
- An improved apartment environment in York, re attractive centres, transit, planning incentives, etc.
- Ripple effect of higher-density development market moving out from Toronto.

¹ Increased in each case to reflect 2006-2009 high density underperformance

Market Considerations (Cont'd)

- The Town averaged 332 high density (HD) building permit issuances 1990-2009 and 453 from 1998 to 2009
- By comparison, Toronto has averaged 9,257 HD units/year over the past decade and Mississauga has averaged 1,372/year
- The more detailed forecasts underpinning the Provincial Growth Plan called for an HD average 2011-31 of 13,500/year across the GTA. Markham's share for "No Boundary Expansion" would be 19% ($2,572 \div 13,500$). Markham's share of GTA HD permits over the past decade has been 4%.
- Assuming that 13,500 HD units/year is a sound market-based GTA target, the "No Boundary Expansion" option would require Markham to increase its market share of GTA apartment production by approximately 375%, over the 20 year period.

Fiscal Concerns re a Potential Over-estimate of Markham's Share of the GTA High Density Market

- ❑ Reduced growth rates would result in slower recoupment of municipal oversizing. Also, developer front-ending would involve increased risk and longer term carrying costs;
- ❑ Reduced growth, particularly in low density forms, is likely to create upward pressure on low density housing prices;
- ❑ Under N.B.E., more employment growth must occur as office, rather than industrial/service, development. This could slow Town employment increase, as office growth limits are reached.

Findings from Other GTA Fiscal Impact Studies

- ❑ Some municipalities are starting to carry out detailed analysis of intensification-related service retrofits. Findings generally not yet available.
- ❑ Some types of development (e.g. apartments and industrial) tend to show more favourable fiscal results than others (e.g. small lot singles and retail).
- ❑ The overall tax rate difference between different options is often not large. Results largely affected by capital requirements.
- ❑ Concern re the potential impact on road service levels, if transit funding and modal splits underperform.

Overall Fiscal Impact Summary

1. “No Boundary Expansion” in comparison with “60%” by 2031 is expected to produce:
 - An additional \$2.4 million/year in tax revenue (1.5% increase overall)¹ for the same population increase
 - Potential operating cost reductions of \$3.9 million/year by 2031 Build-out – Table 1 (2.6% tax rate decline)²
2. The operating cost difference reflects the fact that:
 - Increased intensification is expected to suppress operating costs by reducing:
 - Lane km/capita of roads;
 - Water pipe and Town SWM requirements/capita;
 - Ha/capita of parkland;
 - Floor area/capita of some facilities
 - These benefits are (partially) lost as a result of:
 - More complex, time-consuming operations and maintenance (O&M)
 - Increased demand for public space to offset reduced HD private space;
 - Need to repair and replace infrastructure more frequently (higher use)
 - A more quantitative set of conclusions will be produced in the next few months reflecting the results of the engineering masterplans and further research.

¹ $2.4 \div 108 \text{ (2009)} + 58 \text{ (increment, millions)}$

² $3.9 \div 108 \text{ (2009)} \times (423,500 \text{ (2031)} \div 303,000 \text{ (2009 pop'l.)})$

Overall Fiscal Impact Summary (Cont'd)

3. Growth-related capital is largely funded by DCs, other than exemptions and deductions. These include any benefit to existing development of retrofits, for example. Should future development growth rates under-perform, front-end financing will be more expensive and difficult. Capital to be further addressed via the engineering masterplans.

TABLE 1
TOWN OF MARKHAM
ESTIMATE OF PER CAPITA OPERATING COST DIFFERENCE BETWEEN "60%" AND "NBE"

Town Service Category	2009 Net Costs	% of Total	Anticipated Cost Difference	Weighted NBE % Change
General Government (Administration)	30,567,637	27.4	very small savings re NBE (2%) ¹	(0.55)
Culture	1,587,327	1.4	no net impact ²	-
Fire	24,722,541	22.2	very small savings re NBE (2%)	(0.44)
Roads	11,722,892	10.5	small savings re NBE (8%)	(0.84)
Library	9,824,201	8.8	no net impact ²	-
Parks	6,029,337	5.4	no net impact ²	-
Recreation	5,824,040	5.2	no net impact ²	-
Waste	7,491,926	6.7	significant savings re NBE (50%)	(3.36)
Planning & Development	4,624,851	4.1	no net impact ²	-
Other	9,052,422	8.1	no net impact ²	-
TOTAL	111,447,174	100.0		(5.19) ³

¹ In addition to significant economies of scale for growth in any form

² No net impact of any significance. Growth economies and diseconomies generally expected to be in equilibrium between the Options.

³ 2009 overall Town net spending per capita is \$395. $\$395 \times 188,500 \text{ gross population increase} \times 5.19\% = \3.86 million