

Town of Markham

Financial Evaluation to the Growth Management Strategy

Project Update Report

April 20, 2010

1. Introduction

- ❑ A status report on the financial evaluation forming part of the Growth Management Strategy was presented to Committee on February 9, 2010.
- ❑ The objective was to compare the fiscal impact of the growth options on future tax and user rates and on associated financial risks.
- ❑ The preliminary findings were that “No Boundary Expansion” (“NBE”) in comparison with “60%,” is expected by 2031 to result in an additional \$2.4 million in tax revenue for the same population, and potential operating cost reductions of \$3.9 million/yr.
- ❑ In addition, it was concluded that should future development growth rates underperform, front-end financing will be more expensive and difficult. (Markham’s share of the GTA high density housing market required under the “NBE” option is extraordinarily high.)
- ❑ These February 2010 findings have been refined and modified herein considering the questions raised by Committee members and the preliminary masterplanning results for sewer, water, storm and roads that were produced.

Table 1

Estimated (mid-2010 to 2031) 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 - Less: Mid /06 - Mid /10 Building Permits - Mid 2010-2031 Increase - Avg. Town Tax/Unit - Total Annual Town Tax Incr. by 2031 (millions)		15,550	19,810	34,480	69,840
		<u>4,483</u>	<u>1,906</u>	<u>3,070</u>	<u>9,459</u>
		11,067	17,904	31,410	60,381
		<u>\$1,087</u>	<u>\$737</u>	<u>\$676</u>	N/A
		\$12.0	\$13.2	\$21.2	\$46.4
• "60%" - Unit Increase 2006-31 - Less: Mid /06 - Mid /10 Building Permits - Mid 2010-2031 Increase - Avg. Town Tax/Unit - Total Annual Town Tax Incr. by 2031 (millions)		14,935	18,040	38,480	71,455
		<u>4,483</u>	<u>1,906</u>	<u>3,070</u>	<u>9,459</u>
		10,452	16,134	35,410	61,996
		<u>\$1,087</u>	<u>\$737</u>	<u>\$676</u>	N/A
		\$11.4	\$11.9	\$23.9	\$47.2
• No Boundary Expansion ("NBE") - Unit Increase 2006-31 - Less: Mid /06 - Mid /10 Building Permits - Mid 2010-2031 Increase - Avg. Town Tax/Unit - Total Annual Town Tax Incr. by 2031 (millions)		8,795	12,840	57,325	78,960
		<u>4,483</u>	<u>1,906</u>	<u>3,070</u>	<u>9,459</u>
		4,312	10,934	54,255	69,501
		<u>\$1,087</u>	<u>\$737</u>	<u>\$676</u>	N/A
		\$4.7	\$8.1	\$36.7	\$49.5

+ \$2.3 million/yr. (slide 10)

TOWN OF MARKHAM MID 2006- MID 2010 ACTUAL BUILDING PERMIT ISSUANCES

Year	Low Density	Medium Density	High Density	Total
July-Dec 06	473	378	823	1,673
2007	1,578	551	1,450	3,578
2008	1,533	395	449	2,376
2009	599	389	233	1,221
Jan-June '10 (Est.)	300	195	117	611
Total	4,483	1,906	3,070	9,459

Summary Basis for Operating Cost Differences Per Capita Between “60%” and “NBE”

- ❑ General Government (Administration) – Growth (in any form) provides for incremental economies of scale which are marginally greater with high density ("NBE").
- ❑ Culture – No net impact.
- ❑ Fire – Calls per capita are similar in high density vs. low density, but high density requires more manpower/call. Some potential station economies and fuller utilization of resources under "NBE".
- ❑ Roads – The savings under "NBE" relate to the added cost of maintaining approx. 75 additional km of roads (in 900 ha), less the added cost of providing for the more intensive use of the urban road system required by further intensification.
- ❑ Library & Recreation – Per capita service requirements tend to increase as private living space is reduced for high density dwellers. Private recreation facilities moderate this increase but don't address the demand for programmed uses, leagues, etc. Some offset possible as a result of potentially improved facility utilization.

Summary Basis for Operating Cost Differences Per Capita Between “60%” and “NBE” (Cont’d)

- ❑ Neighbourhood Parks – Neighbourhood park growth is at 3 acres/1,000 population and largely unaffected by development density. Urban parks cost significantly more to build (and replace) than greenfield and cost more to maintain re more intense use and programming, technically-engineered planting areas, etc.
- ❑ Waste Collection – Approx. 50% lower cost per unit to provide high density service. No condo service opt-out provision.
- ❑ Planning & Development – Reduced land area coverage with “NBE,” offset by an increased per development time commitment for processing intensification.
- ❑ Other (e.g. transfers to reserves (life cycle)) – A savings in Road, Stormwater and Fire Station replacement reserves re “NBE,” offset by added per capita capital requirements re Parks, Recreation and Libraries.

TABLE 2
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" (5%) ¹	(1.37)
Culture	1,587,327	1.4	no net impact ²	-
Fire	24,722,541	22.2	no net impact ²	-
Roads	11,722,892	10.5	dollar impact included separately	N/A
Library	9,824,201	8.8	} added costs re "NBE"	20% 1.76
Parks (Neighbourhood)	6,029,337	5.4		50% 2.70
Recreation	5,824,040	5.2		20% 1.04
Waste	7,491,926	6.7	significant savings re "NBE" (50%)	(3.36)
Planning & Development	4,624,851	4.2	no net impact ²	-
Other	9,052,422	8.1	no net impact ²	-
TOTAL	111,447,174	100.0		0.77 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 Operating cost impact applicable to the 2010-31 gross population increment housed in high density under "NBE" (as compared with "60%"), i.e. 2.05 persons per unit X (54,255-35,410) = 38,632 additional persons in high density housing 2010-31. The additional per capita operating expenditure under "NBE" is \$2.83/capita (\$368/capita in 2010 X 0.77%). Thus, \$109,000/yr. (38,632 persons X \$2.83) is the added cost under "NBE," excluding additional road and SWM requirements which are addressed separately. This appears on Slide 10 as \$0.1 million.

Water, Sewer and Stormwater Impacts

- The preliminary Master Servicing study indicates the following incremental 2031 capital costs:

	2006-2031 Millions \$	
	<u>"60%"</u>	<u>"NBE"</u>
Water	51.3	18.6
Sanitary	<u>51.8</u>	<u>33.0</u>
Sub-total	103.1	51.6
Stormwater	130.0	45.5
Roads	<u>316.0</u>	<u>268.0</u>
Sub-total	446.0 ¹	313.5 ¹
Total	549.1	365.1
Rounded	\$ 550 million	\$ 365 million

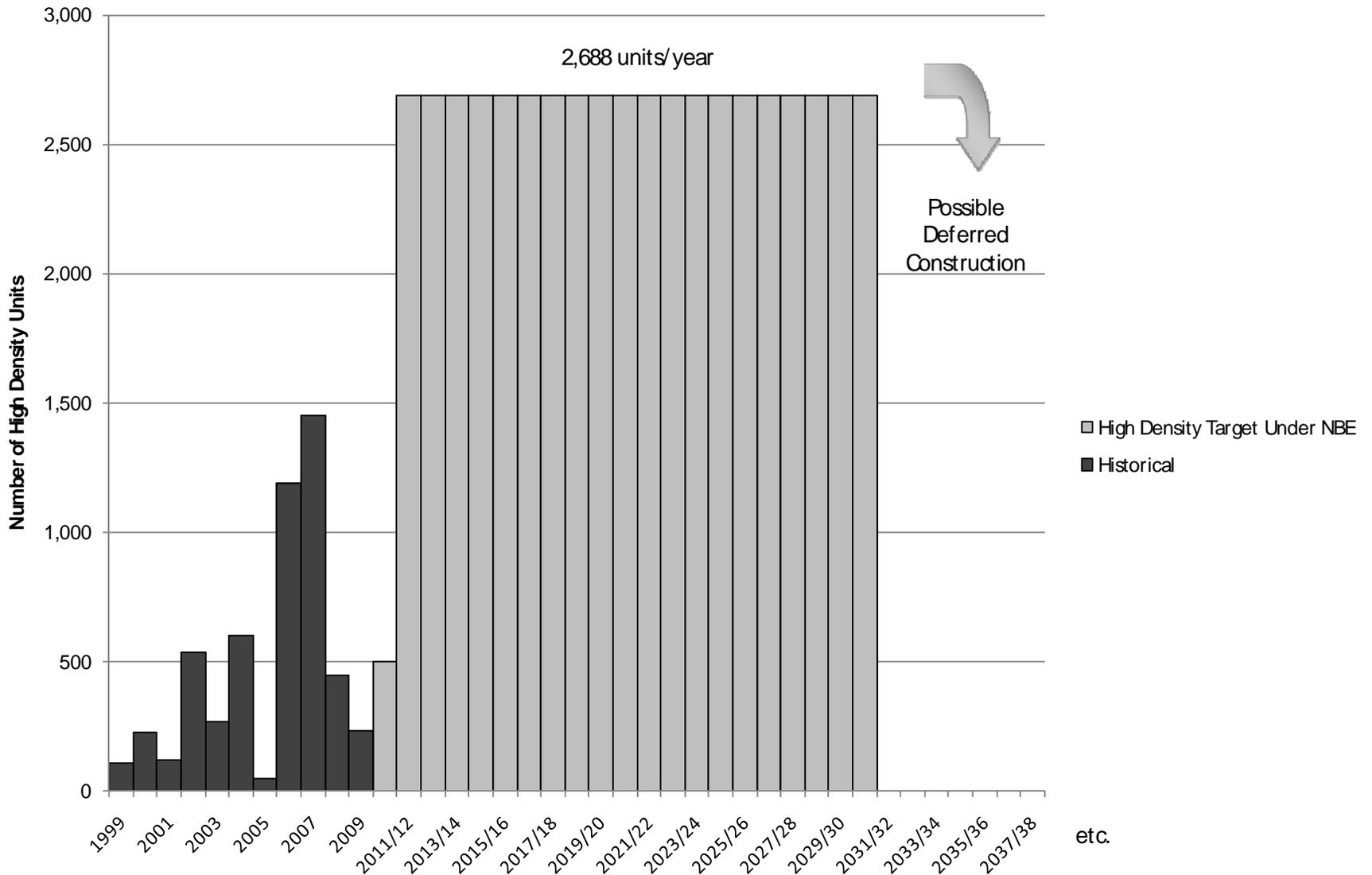
- These capital costs are expected to be virtually entirely funded via subdivision conditions and/or development charges, with the added cost impact on the “60%” operating budget confined to:
 - Added operating cost associated with maintaining more incremental capital (minimal for stormwater management (SWM) and approx. \$0.2 million/yr. for water and sanitary – Slide 11);
 - Added life cycle reserve contributions required by the additional capital (\$51.5 million re the water rate at approximately 1%/year = \$0.5 million/yr. (Slide 11) and \$113 million re stormwater and roads (excluding parks, etc.) at approx. 2%/year = \$2.3 million/yr. (Slide 10)).

¹It is estimated that approx. \$4,000/single detached unit (\$1,060/capita) in parks and recreation costs would be subject to a 50% cost premium re high density unit occupants. Therefore, \$1,060/capita X 50% X 38,632 additional high density occupants = \$20.5 million in “60%” capital savings to be netted out.

Market Considerations

- The Town averaged 332 high density (HD) building permit issuances 1990-2009 and 453 from 1998 to 2009.
- 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% (approx. $2,600 \div 13,500$). 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 which may not be achievable.
- A shortfall in anticipated housing and employment growth would create capital and operating funding problems re front-ended infrastructure.

Figure 1 Town of Markham-Historical & Projected High Density Units Re "NBE"



Conclusions

1. The long range fiscal impact of the No Boundary Expansion ("NBE") option vs. the "60%" option has been compared at an order of magnitude level.
2. The tax impact of "60%" vs. "NBE" is summarized on Table 3. Based on the assumptions made, the Town's tax rate under "NBE" is expected to be up to 4% lower in 2031 than under "60%." This is the result of additional road and SWM requirements under "60%."
3. The water rate impact of "NBE" vs. "60%" is summarized on Table 4. Based on the assumptions made, the Town's water rate is expected to be just under 1% lower in 2031, than under "60%." This is the result of additional water and sewer infrastructure requirements under "60%."

Table 3

Summary of Tax Rate Impact Comparison Between “60%” and “NBE”

<u>Tax Impact re "NBE"</u>	<u>Millions \$ 2009/year</u>
• Maximum increased tax yield from additional HD residential assessment	\$2.3
• Operating Expenditure Impact (excluding Roads and SWM)	(0.1)
• Net Operating Expenditure Savings re Additional Roads and SWM	1.7 ¹
• Annual Savings in Replacement Reserve Contributions re Additional Roads and SWM (less added cost of Parks, Rec., etc.)	2.3
Total Annual "NBE" Savings	<u>\$6.2</u>
2031 Tax Levy (\$111 million X 423.5 ÷ 303)	\$155
Est. "NBE" Tax Rate Advantage by 2031	4%

¹Order of magnitude estimate of \$15,000/road km for maintenance + \$4,000/road km for streetlight O&M X 76 additional road km under “60%” + additional cost for rear lane snow clearing and any possible DC capital non-coverage, with no deduction yet made for added road O&M cost for “NBE” re higher usage and increased boulevard snow clearing.

Table 4

Summary of Water Rate Impact Comparison Between “60%” and “NBE”

<u>Water Rate Impact re "NBE"</u>	<u>Millions \$ 2009/year</u>
<ul style="list-style-type: none"> • Operating Expenditure Savings re Additional Infrastructure • Annual Savings in Replacement Reserve Contributions re Infrastructure 	<p>\$0.2</p> <p><u>0.5</u></p>
Total Annual "NBE" Savings	\$0.7
2031 Water Billings (\$64 million X 423.5 ÷ 303)	\$89
Est. "NBE" Water Rate Advantage by 2031	<u>0.8%</u>

Conclusions (Cont'd)

4. At the Regional level, increased high density intensification can be expected to increase resident proximity to (higher order) transit. This should serve to increase ridership, revenue and transit service levels, assisting the Region in funding the large transit capital and operating expenditure program that it has embarked upon. The "NBE" implications for Regional water, wastewater and roads was not readily available.
5. It is important to note that these potential fiscal benefits associated with increased intensification under "NBE" are only theoretical, in that the amount, type and timing of residential and employment growth under "NBE" may not be market-achievable by 2031, based on GTA market share considerations.

Conclusions (Cont'd)

6. As a result, consideration should also be given to the fiscal risks associated with adopting "NBE," with respect to potential:
 - ❑ Failure to meet the 2031 population and employment allocation;
 - ❑ Difficulties in establishing and following through on the necessary front-end financing arrangements re oversized services;
 - ❑ Upward pressure on low density housing prices as a result of supply constraints.
7. The Town's Official Plan references fiscal considerations primarily in terms of the efficient and economical provision of services, so as to avoid excessive tax increases and service level decreases.

The fiscal analysis carried out to-date was comparative. Both options would appear to meet these tests and have similar net cost and service level implications.

Conclusions (Cont'd)

8. “NBE” expansion is anticipated to produce small but tangible tax rate benefits over time and minimal water rate benefits. These potential differences are not considered to be large or certain enough to be a primary consideration in selecting an option.