

Making Smart Growth Economically Viable

As our planning has progressed, it has become evident that Downtown Markham will not be economically viable unless innovative financial strategies are applied by the town, the region and the province.

Indeed, it appears that in general Smart Growth or any urban-style development cannot compete in a suburban setting without tax mechanisms to pay for the “premium” infrastructure costs that are necessary to allow for higher densities.

This realization is not a complete surprise. In fact, the town’s guiding principles call for an appropriate financing strategy for Markham Centre. Today, we simply have a better understanding of the scope and nature of the assistance required.

Our analysis indicates that rental rates in our proposed commercial buildings would have to be as much as 35 per cent higher than competitive space in nearby traditional developments, if no relief is provided.

This is a problem not just for us as developers, but for the public authorities who have sought to create urban development as an antidote to continued urban sprawl and traffic congestion in the suburbs.

We have studied a range of financial and tax mechanisms, most of which on their own are insufficient to cover the costs associated with a project of the magnitude and scope of Markham Centre. However, two taxing methods would work.

We are seeking the co-operation of the municipal, regional and provincial governments for the implementation of these methods.

1. Tax Increment Financing (TIF)

This mechanism is based on the fact that high density Smart Growth projects create significantly increased property tax revenue for the local, regional and provincial taxing authorities. In the case of the Downtown Markham lands, the additional commercial density alone will generate about \$20 million more per year in tax revenue than a typical suburban development of these lands.

Background: Financial Strategies

This additional annual property tax revenue is possible because of the higher densities made possible by the provision of “premium” infrastructure, such as parking structures, rapid transit and so on. *If this level of development cannot be achieved, the site will generate baseline tax revenue common to traditional suburban infrastructure.*

Here’s how TIFs work:

- At all times, the annual tax revenue available to local, regional and provincial taxing authorities is no less than they would receive if the site were built as a traditional suburban development.
- Under a TIF, the increased tax revenue only (the increased value resulting from the higher density) is collected and temporarily allocated toward the cost of providing the “premium” infrastructure that permits the high density development to proceed.
- Once the “premium” infrastructure is paid for, the increased tax revenue is available to the taxing authorities to use as they see fit in perpetuity.
- We estimate that the increased tax revenue would have to be redirected to pay the cost of the “premium” infrastructure for approximately 25 years, depending on the availability of parking revenue.

The chart on the next page summarizes tax increment financing for the commercial lands within Downtown Markham.

2. Special Tax Districts

A second financing mechanism is Special Tax Districts, which capture revenue through special levies and direct those funds toward the cost of specific infrastructure. Markham and all Ontario cities already apply development charges to fund local parks, schools, hospitals and so on. In the case of special tax districts, the added value created by infrastructure investment is returned to pay for the infrastructure.

Downtown Markham*

Business As Usual <i>(No financial strategy by public taxing authorities)</i>	
Traditional Suburban Development	1.1 million sq. ft.
Annual Realty Tax Revenue	\$ 2.0 million
<u>Non-Economic Consequences:</u> Increased urban sprawl; increased traffic congestion; detriment to the natural environment; increased need to commute; lower quality of life	

Innovative Financing Regime <i>(Taxing authorities defer increased tax revenue temporarily in order to finance Smart Growth development that permits the increased density that generates the additional tax revenue)</i>	
Smart Growth Development	4.5 million sq. ft.
Annual Realty Tax Revenue	\$ 21.7 million
Tax Revenue Temporarily Directed to Pay for Infrastructure	\$ 19.7 million
Annual Realty Tax Revenue Not Affected by TIF	\$ 2.0 million
Total Tax Revenue Available Once “Premium” Costs Paid	\$ 21.7 million
<u>Non-Economic Consequences:</u> Reduced urban sprawl; reduced traffic congestion; environmental sustainability; rational accommodation of growth; increased public transit use; central focus for Markham; variety in housing stock and tenure; improved quality of life	

★ This table does not include retail space or residential development. Smart Growth commercial development is mainly comprised of high-rise office buildings, whereas traditional suburban commercial development comprises mostly low-rise industrial buildings. The numbers also refer only to Downtown Markham and not the boarder Markham Centre. Note that tax revenue is available to all taxing authorities.