The County of Peterborough

Waste Management Committee

To: Chair and Members of Committee

From: Chris Bradley, Director of Public Works

Date: September 9, 2013

Subject: MOF/MPAC Assessment Update

Recommendation: Receive for Information

Financial Impact: To Be Determined

Background/Analysis:

At the Waste Management Committee meeting of May 13, 2013, staff presented a report entitled “MPAC Assessment Review – Preliminary Update”.

MPAC, under the direction of the Ministry of Finance is developing an assessment formula to apply to landfills throughout the Province of Ontario. Once implemented, these assessment values, and the subsequent taxes that the County and City would have to pay on the assessed value of the landfill could be significant.

Staff from the County and City were invited to be members of a Ministry of Finance Landfill Working Group comprised of representatives of the Ministry of Finance, MPAC, and owners of the 32 defined large landfills in the Province of Ontario. The first meeting of the Working Group was held on July 31, 2013.

Presentations were made to the Working Group by MPAC and the Ontario Waste Management Association outlining options under consideration at this time. A copy of the presentations are attached to this report as reference.

There was considerable discussion at the meeting related to the options presented with numerous concerns about the development of the rationale and related formulas for assessment and taxation.

The following issues have been raised by County staff, and have been taken under advisement by the MOF and MPAC:

- A number of host municipalities already receive royalty fees which were put into place to take the place of taxes that did not exist. For example, the County and City of Peterborough pay annual royalties in the neighbourhood of $300,000 to the Township of Otonabee-South Monaghan for the solid waste that is received at the landfill. When the proposed assessment is added to the existing royalty system, the total annual combination of royalties and taxes will be incredibly high. The formula for the new assessment needs to take into consideration the existing royalties that are paid to host municipalities.
- The proposed formula for establishing existing tipping fees is incorrect. While MPAC is likely correct in developing an average tipping fee rate, the rate they arrive at is based on the advertised to the public rate given by the landfill owner. Private landfills do not publish their blended average rates (comprised of their advertised rate which is applied to small volume clients, and discounted rates for clients who dispose of large volumes). Some public landfills operate with a blended rate with different rates applied to Industrial/Commercial/Institutional waste and Residential Waste. For example, at the County/City of Peterborough landfill, while the ICI rate is $90 per tonne, the rate for Residential is %0 per tonne. There is also a reduced rate for contaminated material that can be used for daily cover of $40 per tonne which further reduces the site average rate significantly.
- There is a need to review the fixed cost value for a cell liner. The Peterborough County/City landfill cell liner cost nowhere near the $3 M value MPAC is utilizing in your model equation.

There was no consensus among the group other than there is a need to develop a fair, transparent practical method of determining the assessment of landfills. Work will be continuing on this initiative throughout 2013 and staff will keep the Waste Management Committee updated on the progress.

Respectfully submitted,

Landfill Working Group

Special Purpose Business Property Assessment Review

July 31, 2013

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Agenda

- Historical Background & Current Assessment Methodology
- Proposed New Assessment Methodology
  - Cost Approach - Capacity Variation
- Alternate Assessment Methodology
  - Discounted Cash Flow
  - Modified Capacity Variation

Historical Background & Current Assessment Methodology

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Historical Background

- There are over 600 Ministry of the Environment (MoE) **approved active** landfill sites in Ontario.
  - including 32 defined large landfill sites
- Landfills have typically been assessed along with the surrounding land, by recognizing the zoning and industrial nature of the business.

Current Assessment Methodologies

- Current and historic valuations completed utilizing the cost approach
  - Value land as if vacant (typically rural industrial and farm rates)
  - Add depreciated costs of assessable improvements

- Classify pursuant to O. Reg. 282/98
  - Publicly owned – Payment-in-Lieu of Taxes (CF)
  - Privately owed – Industrial Taxable (IT) or Commercial Taxable (CT)

Three Approaches to Value

1. Direct (Sales) Comparison Approach
2. Income Approach
3. Cost Approach

- Legislation requires MPAC to assess property at current (market) value.
- Any one of these approaches can be used to determine current (market) value.

Direct Comparison Approach

- Value is indicated by recent sales of comparable properties in the market.

Applying the Direct Comparison Approach

- Limited transactions.
- Limited access to participants.
- May involve multiple sites.
- Often part of a business purchase
  - Entanglement issues
- Comparable sales often cross border.

Income Approach

- Value is indicated by a property's earning power, based on the capitalization of income.

Applying the Income Approach

- Depends on determination of the net operating income.
  - Obtaining income and expense information from third parties can be problematic.
  - Separating income attributable to assessable realty from non-realty and business enterprise value can be problematic.
- Could be a valid approach for this property type?

Cost Approach

- Value is estimated as the current cost of replacing the improvements (including an appropriate entrepreneurial incentive or profit) plus land.
  - Replacement Cost New Less Depreciation (RCNLD)
  - Plus Land

Applying the Cost Approach

- Establishing RCNLD of improvements can be done accurately.
- Determination of land value:
  - Traditional land calculations (surrounding land)
  - Alternative land value?

Proposed New Assessment Methodology

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Cost Approach - Capacity Variation

- Footprint value of land calculated based on remaining licensed capacity of the site.
  - *Footprint: actual area of a site designated to be filled with waste*
- Add value of buffer and excess lands.
- Add depreciated costs of assessable improvements.

Recent Landfill Transactions

- **2004**
  - Sale registered for $110,000,000
  - Assessment was approximately $3,157,000

- **2007**
  - Sale registered for $220,300,000
  - Assessment was approximately $1,282,000

Cost Approach – Capacity Variation Rate Determination

Sale		Price	$ 100,000,000	
	Minus	Intangibles and non-realty @ 40%	$ (40,000,000)	
		Adjusted Sale – Real Estate only	$ 60,000,000	
	Minus	Buildings/Yardwork	$ (1,000,000)	
		Cell Liner	$ (3,000,000)	
		Buffer Lands 400 AC @ $5,000 (Bulk Land Rates)	$ (2,000,000)	
Allocation of residual amount to landfill capacity			$ 54,000,000	
		Reported remaining capacity at time of sale	9,000,000	tonnes
		Landfill allocation/tonne	$ 6.00	
		Landfill allocation/cubic metre (6.00 x .70)	$ 4.20	

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Land Value – Footprint (Capacity Methodology)

- The remaining capacity determined from:
  - information on MoE website
  - data collected by MPAC from the property owner/landfill operator
- Rate per m^3 is used to convert the remaining capacity into value
- For future value calculations, the capacity rate has been converted to a rate per cubic metre and indexed by inflation:
  - 2008 Base Year $3.90 per m^3
  - 2012 Base Year $4.13 per m^3

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Sample 2012 CVA
Cost Approach – Capacity Variation

Land

• Remaining Capacity (as of Jan 2014)	12,000,000 m^3
• 2012 rate per m^3	$4.13 per m^3
• Total Land Value	$49,560,000

Assessable Improvements & Buffer Lands

• Buildings	$1,200,000
• Yardwork	$210,000
• Cell Liner	$4,000,000
• Buffer land (200 ac @$ 2,000)	$400,000

Total Value

$55,370,000

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Sample Future Values

	2012	2016	2020	2024
Remainng Licenced Capacity (m3)	12,000,000	11,428,571	10,857,143	10,285,714
Annual Fill Rate (tonnes) *	100,000	100,000	100,000	100,000
Capacity Rate ($/m3) *	$4.13	$4.13	$4.13	$4.13
Footprint Value	**$49,560,000**	**$47,200,000**	**$44,840,000**	**$42,480,000**
Additional Land Value	$400,000	$400,000	$400,000	$400,000
Cell	$4,000,000	$4,160,000	$4,326,400	$4,499,456
Structure Value	$1,200,000	$1,248,000	$1,297,920	$1,349,837
Yardwork Value	$210,000	$218,400	$227,136	$236,221
Total Value	**$55,370,000**	**$53,226,400**	**$51,091,456**	**$48,965,514**

* Fill rate and capacity rate are dynamic

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Alternate Assessment Methodology

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Income
(Discounted Cash Flow/Royalty)

- Revenue generated by selling airspace.
- Indicates potential income based on tipping fee over life of site.
- Need to ensure rates utilized are reflective of real property only.
- An estimate of cash flow over life of site based on estimated fill rate.

Modified Capacity Variation

Examples of modified capacity factors affecting the market value of landfills:

- distance to market
- type of waste permitted
- proximity to competition
- restrictions on receiving waste (e.g. local inhabitants only)
- remaining life (individual site, provincial capacity)
- cross border rates or restrictions

Modified Capacity Variation

Examples of Modified Capacity Factors

Distance to Market Border Excluded	Average Tipping Fee	Location Factor (Southwest as base location)	Rate/m^3	# of Sites
SouthWest	$71	1.00	$4.13	7
Golden Horseshoe	$127	1.72	$7.31	4
East	$89	1.25	$5.14	5
North	$74	1.04	$4.30	3
Far North	$58	0.81	$3.36	1

Border Rates	Average Tipping Fee	Border Rate	% Adj	Rate/m^3	# Border Sites
SouthWest	$71	57.50	0.80	$3.32	2
Golden Horseshoe	$127	94.33	0.75	$5.45	3
East	$89	62.00	0.70	$3.58	1
North	$74	71.00	0.96	$4.11	1
Far North	$58	n/a			0
		Average	0.80		
		Average excluding North Site	0.75		

Permanently Closed Landfills

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Permanently Closed Landfills

- Footprint – Industrial Land rates reduced by 90% to reflect permanent contamination on this portion of the property.
- Buffer Lands – valued based on use/zoning – if part of monitoring area value same as the footprint area.
- Other lands (farm, residential, etc.) valued according to current valuation methods.

An Equitable Approach to Landfill Assessments

Meeting with Landfill Assessment Working Group

July 31st, 2013

ONTARIO WASTE MANAGEMENT ASSOCIATION

Overview

- Who We Are
- Current Landfill Assessment Methodology
- Broad Implications of Changes
- Consequences
- Principles in Designing Alternative Approach
- OWMA Proposed Regulation
- Consultations to Date
- Timing
- Emerging Issue
- Conclusion

ONTARIO WASTE MANAGEMENT ASSOCIATION

Who We Are

- OWMA is non-profit industry trade association.
- Represent over 300 private & public sector members.
- Members manage roughly 85% of the province's waste.
- Both private & public sector OWMA members have actively expressed concerns with MPAC's proposed new assessment approach and been involved in developing the proposed solution.
- Ongoing outreach to other municipal associations to seek feedback and support.

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Current Landfill Assessment Methodology

- Current assessment system is inconsistently applied which impacts both private & public owners of landfills and residential taxpayers.
- It also neither transparent, intelligible, nor predictable.
- Change is necessary.
- Landfill sales have reflected the business value

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Broad Implications of Proposed Changes

- New assessed values will increase up to 4,430%.
- Taxes (PILT) payable will increase between 2 to 100 times from current levels.
- Temporarily closed landfills with capacity remaining will be subject to new methodology.
- All municipal landfills likely not currently captured would now be assessed.
- 2013 rolls identified only 283 of the over 2,280 landfill sites.
- Landfill sales have reflected the ‘business value’ not just the land value.
- Not consistent with the Act to value the business for municipal taxes.

Consequences

- Disproportionate impact on sites with abundant capacity remaining – disrupts level marketplace.
- Potential $5/tonne increase in tip fees.
- Increase in waste exports (Michigan & New York).
- Acts as a disincentive for diversion of many materials as landfills will want to maximize annual disposal limits.
- Exposure for clients to increased costs depending on current contract provisions (municipalities using private landfills).
- Potential impact on host agreements.

Consequences

- Upper tier municipalities who own landfills in lower tier municipalities would have exposure under payment in lieu of taxes.
- Lower tier municipalities with a private or municipal landfill would also be impacted by:
  - increased assessment value focused on one taxpayer
  - the risk of appeals to the re-assessment (golf courses)
  - impact on grant eligibility due to increased municipal tax base
  - challenge of planning for sustainable municipal services with high levels of taxes paid in early years declining over time as the landfill reaches capacity.

Principles in Designing Alternative Approach

- Traditional physical definition of land as the basis of assessments excluding intangibles.
- Assessment needs to be consistently applied, equitable, transparent and predictable.
- Overall tax revenue should not be reduced.
- Should not unduly disrupt waste management in the province (exports, level market & diversion).
- Environmental protection improvements are in the public good and should not be subject to assessment.

OWMA Proposed Regulation

- Developed in October 2012 and submitted to both MPAC and the Ministry of Finance.
- Based on similar Regulation developed for pits and quarries under O.Reg. 282/98.
- For valuation of complicated properties, regulation provides greater transparency, predictability and intelligibility for all parties.

Consultations to Date

- Overall concerns with consultation to date.
- First meeting with MPAC was held in February 2013 of which only a few select participants were included.
  - Did not include representation from 32 largest landfills.
  - MPAC committed at the meeting to providing a comparison various models (including OWMA regulation) on valuation of 32 largest landfills and details of a proposed 8 week consultation process.
- Second round of consultations held in April 2013 which were poorly advertised and separated out private & public interests.
- MPAC has neither provided summaries of these consultations, nor the comparison data they agreed to in February.

Timing

- Appeal before the ARB on landfill assessment.
- Chair has expressed concerns about the lack of progress on a resolution on this issue and that he would not wait indefinitely.
- Next hearing discussions are scheduled in November.
- A solution through the ARB would unlikely be ideal for any of the stakeholders.

Emerging Issue – Transfer Stations & MRFs

- Two members have confirmed that MPAC has changed the classification of their transfer stations & MRFs from commercial to industrial.
- It is not clear yet whether this is a broader initiative.
- Runs counter to the classification for landfill sites.
- Increases the tax payable & affects both public & private sector.
- Negatively impacts diversion efforts which the province is trying to promote through the Waste Reduction Act.
- Both have appealed.
- Potential to include all waste management properties in a regulation.

Conclusion

- Based on the feedback received to date, continue to believe this regulatory approach is in the best interest of all parties.
- Will be winners and losers but believe we have achieved a balanced approach.
- Comparison data needed from MPAC for all stakeholders before any next steps taken.
- Should also incorporate smaller landfill sites to evaluate whether it would work for these sites as well.

Thank you

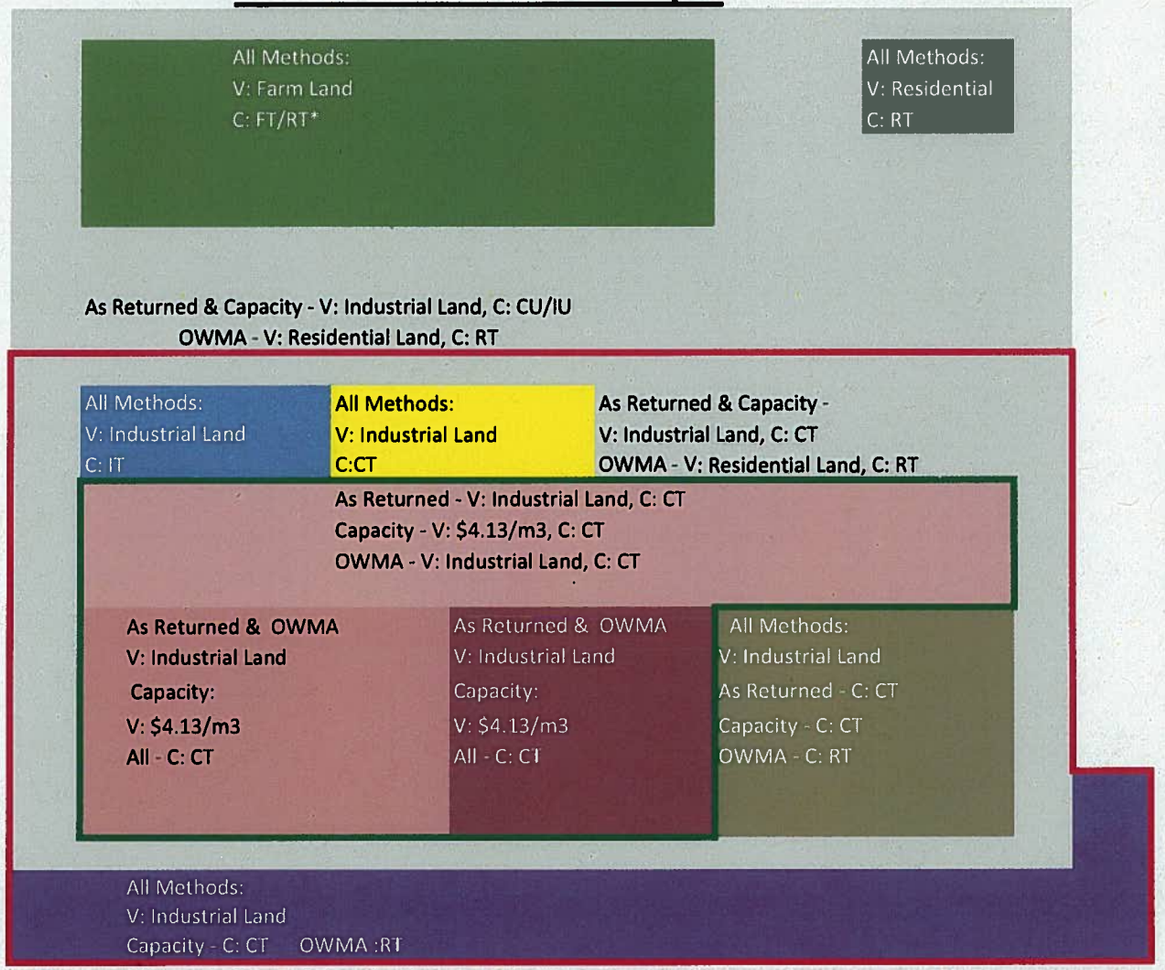
Rob Cook

Chief Executive Officer

905-791-9500

rcook@owma.org

Private Landfill Site Example



V: Valuation C: Classification

- Landfill total property/Buffer Area
- Footprint - Filled area
- Footprint - Active fill area
- Footprint - Area under development
- Footprint - Area for future development
- Industrial Area - e.g. tire shredding
- Transfer Station
- Residential Home on landfill property
- Farm Land
- Contaminant Attenuation Zone (CAZ) is normally found along the border(s) according to direction of flow
- Total Licenced Site (portion of total property that includes Footprint and Buffer plus CAZ)
- Estimated Remaining Capacity (ERC)

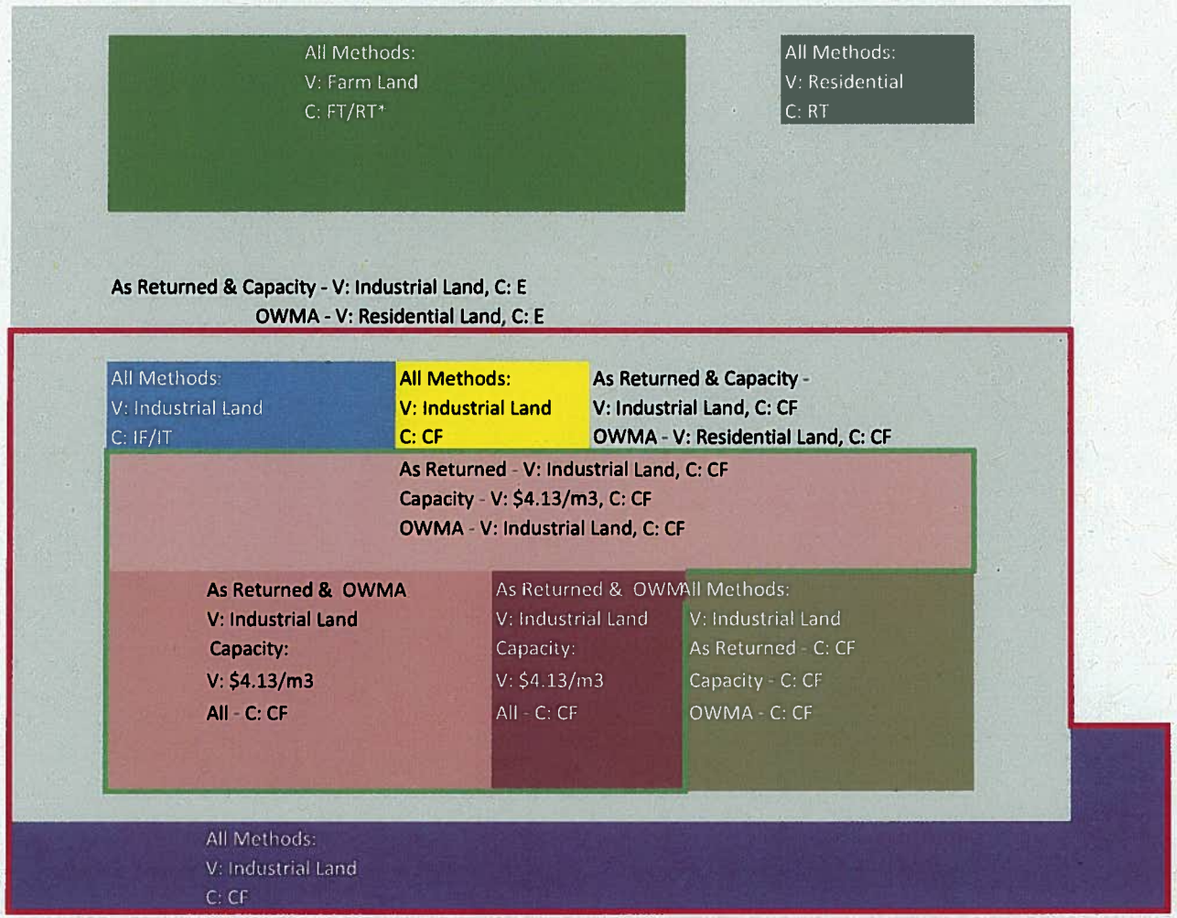
Classifications:
E: Exempt
CT: Commercial Taxable
CU: Commercial Excess Land
CF: Commercial PIL - Full Rate
FT: Farm Taxable
RT: Residential Taxable
IT: Industrial Taxable
IF: Industrial PIL - Full Rate
*FT if application approved by Ministry of Agriculture and Food, Otherwise RT

Private Landfills [1]

			Valuation Method/Classification Private Owner		
	Property Area	Assessment	**As Returned** [2]	**Capacity Method**	**OWMA Draft Reg**
Total Landfill Site Area per Certificate of Approval	Closed Cell -No longer Accepting Waste	Valuation	Industrial Land [3]	Adjusted Industrial Land	Unserviced Industrial Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	RT - Residential Taxable
	Active Cell	Valuation	Industrial Land	Capacity (4.13/ cu metre)	Unserviced Industrial Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	CT - Commercial Taxable
	Cell Under Development	Valuation	Industrial Land	Capacity (4.13/ cu metre)	Unserviced Industrial Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	CT - Commercial Taxable
	Future Capacity	Valuation	Industrial Land	Capacity (4.13/ cu metre)	Unserviced Industrial Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	CT - Commercial Taxable
	Buffer	Valuation	Industrial Land	Industrial Land	Unserviced Residential Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	RT - Residential Taxable
	Contamination Attenuation Zone (CAZ)	Valuation	Industrial Land	Industrial Land	Unserviced Industrial Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	RT - Residential Taxable
Other Areas	Farm Portion	Valuation	Farm Land Values	Farm Land Values	Farm Land Values
		Classification	FT - Farm Taxable - if application has been made of Ministry of Agriculture and Food RT - Residential Taxable (if no application)	FT - Farm Taxable - if application has been approved by Ministry of Agriculture and Food RT - Residential Taxable (if no application)	FT - Farm Taxable - if application has been approved by Ministry of Agriculture and Food RT - Residential Taxable (if no application)
	Residential Portion (House)	Valuation	Residential Model (standard method)	Residential Model (standard method)	Residential Model (standard method)
		Classification	RT - Residential Taxable	RT - Residential Taxable	RT - Residential Taxable
	Industrial Portion	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	IT - Industrial Taxable	IT - Industrial Taxable	IT - Industrial Taxable
	Transfer Station	Valuation	Industrial Land	Industrial Land	Unserviced Industrial Land
		Classification	CT - Commercial Taxable	CT - Commercial Taxable	CT - Commercial Taxable
	Excess Commercial Land	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	CU - Commercial Excess Land	CU - Commercial Excess Land	CU - Commercial Excess Land
	Excess Industrial Land	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	IU - Industrial Excess Land	IU - Industrial Excess Land	IU - Industrial Excess Land

1. The classifications noted in this table apply to most landfills. However, there may be individual variations.
2. Applies to the majority of landfill properties.
3. Industrial Land means land rates are applied from MPAC-developed tables based on sales of nearby industrial land.

Municipal Landfill Site Example



V: Valuation C: Classification

- Landfill total property/Buffer Area
- Footprint - Filled area
- Footprint - Active fill area
- Footprint - Area under development
- Footprint - Area for future development
- Industrial Area - e.g. tire shredding
- Transfer Station
- Residential Home on landfill property
- Farm Land
- Contaminant Attenuation Zone (CAZ) is normally found along the border(s) according to direction of flow
- Total Licenced Site (portion of total property that includes Footprint and Buffer plus CAZ)
- Estimated Remaining Capacity (ERC)

Classifications:
E: Exempt
CT: Commercial Taxable
CU: Commercial Excess Land
CF: Commercial PIL - Full Rate
FT: Farm Taxable
RT: Residential Taxable
IT: Industrial Taxable
IF: Industrial PIL - Full Rate
*FT if application approved by
Ministry of Agriculture and Food, Otherwise RT

Public Landfills [1]

			Valuation Method/Classification Public Owner		
	Property Area	Assessment	As Returned [2]	Capacity Method	OWMA Draft Reg
Total Landfill Site Area per Certificate of Approval	Closed Cell - No longer Accepting Waste	Valuation	Industrial Land [3]	Adjusted Industrial Land	Unserviced Industrial Land
		Classification	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate
	Active Cell	Valuation	Industrial Land	Capacity (4.13/ cu metre)	Unserviced Industrial Land
		Classification	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate
	Cell Under Development	Valuation	Industrial Land	Capacity (4.13/ cu metre)	Unserviced Industrial Land
		Classification	CF - Commercial Payment In Lieu	CF - Commercial Payment In Lieu	CF - Commercial Payment In Lieu
	Future Capacity	Valuation	Industrial Land	Capacity (4.13/ cu metre)	Unserviced Industrial Land
		Classification	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate
	Buffer	Valuation	Industrial Land	Industrial Land	Unserviced Residential
		Classification	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate
	Contamination Attenuation Zone (CAZ)	Valuation	Industrial Land	Adjusted Industrial Land	Unserviced Industrial Land
		Classification	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate	CF - Commercial Payment In Lieu -Full Rate
Other Areas	Farm Portion	Valuation	Farm Land Values	Farm Land Values	Farm Land Values
		Classification	FT - Farm Taxable - If application has been made of Ministry of Agriculture and Food RT - Residential Taxable (if no application)	FT - Farm Taxable - If application has been approved by Ministry of Agriculture and Food RT - Residential Taxable (if no application)	FT - Farm Taxable - If application has been approved by Ministry of Agriculture and Food RT - Residential Taxable (if no application)
	Residential Portion (House)	Valuation	Residential Model (standard method)	Residential Model (standard method)	Residential Model (standard method)
		Classification	RT - Residential Taxable Full	RT - Residential Taxable Full	RT - Residential Taxable Full
	Industrial Portion	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	IF - Industrial Payment In Lieu Full IT - Industrial Taxable (Tenanted)	IF - Industrial Payment In Lieu Full IT - Industrial Taxable (Tenanted)	IF - Industrial Payment In Lieu Full IT - Industrial Taxable (Tenanted)
	Transfer Station	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	CF - Commercial Payment In Lieu	CF - Commercial Payment In Lieu	CF - Commercial Payment In Lieu -Full Rate
	Municipally Owned Excess Commercial Land	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	Exempt	Exempt	Exempt
	Municipally Owned Excess Industrial Land	Valuation	Industrial Land	Industrial Land	Industrial Land
		Classification	Exempt	Exempt	Exempt

1. The classifications noted in this table apply to most landfills. However, there may be individual variations.
2. Applies to the majority of landfill properties.
3. Industrial Land means land rates are applied from MPAC-developed tables based on sales of nearby industrial land.