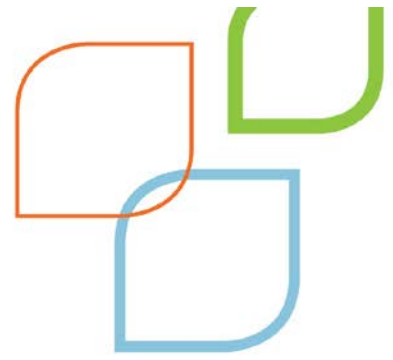




MUNICIPAL  
PROPERTY  
ASSESSMENT  
CORPORATION



# **METHODOLOGY GUIDE**

## VALUING ENTERTAINMENT ATTRACTION PROPERTIES IN ONTARIO

**Valuation Date: January 1, 2016**

JULY 2018



**MUNICIPAL PROPERTY ASSESSMENT CORPORATION**

August 31, 2016

The Municipal Property Assessment Corporation (MPAC) is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxes.

In Ontario's assessment system, MPAC assesses your property value every four years. This year, MPAC is updating the value of every property in the province to reflect the legislated valuation date of January 1, 2016.

MPAC is committed to provide Ontario property owners, municipalities and all its stakeholders with the best possible service through transparency, predictability and accuracy in values. As part of this commitment, MPAC has defined three levels of disclosure of information in support of its delivery of this year's assessment update. This Methodology Guide is the first level of information disclosure.

This guide provides an overview of the valuation methodology undertaken by MPAC when assessing entertainment attraction properties for this year's update ensuring the methodology for valuing these properties is well documented and in alignment with industry standards.

Property owners can access additional information about their own properties through [aboutmyproperty.ca](http://aboutmyproperty.ca). Login information for [aboutmyproperty.ca](http://aboutmyproperty.ca) is provided on each Property Assessment Notice mailed this year. Additional information about MPAC can be accessed at [mpac.ca](http://mpac.ca).

A handwritten signature in black ink, appearing to read "Antoni Wisniowski". The signature is fluid and cursive, with a long horizontal stroke at the end.

Antoni Wisniowski  
President and Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Rose McLean". The signature is cursive and contained within a thin black rectangular border.

Rose McLean, M.I.M.A.  
Chief Operating Officer

# Table of Contents

<b>TABLE OF CONTENTS.....</b>	<b>3</b>
<b>1.0 INTRODUCTION.....</b>	<b>4</b>
1.1 PROPERTIES COVERED BY THIS METHODOLOGY GUIDE.....	4
1.2 LEGISLATION .....	5
1.3 CLASSIFICATION .....	6
1.4 THE USE OF THIS METHODOLOGY GUIDE.....	6
1.5 CONSULTATION AND DISCLOSURE .....	7
<b>2.0 THE VALUATION PROCESS.....</b>	<b>8</b>
2.1 OUTLINE .....	8
2.2 APPROACH .....	9
2.3 DATA COLLECTION .....	9
2.4 DATA ANALYSIS .....	11
2.5 VALUATION.....	11
2.6 VALIDATING THE RESULTS.....	11
<b>3.0 THE VALUATION.....</b>	<b>12</b>
3.1 ENTERTAINMENT ATTRACTION REVENUE .....	12
3.2 ENTERTAINMENT ATTRACTION EXPENSES.....	12
3.3 ENTERTAINMENT ATTRACTION CAPITALIZATION RATES.....	13
3.4 ENTERTAINMENT ATTRACTION EFFECTIVE TAX RATE .....	13
3.5 CHATTELS .....	14
3.6 ENTERTAINMENT ATTRACTION NET OPERATING INCOME .....	14
3.7 ENTERTAINMENT ATTRACTION CAPITALIZATION RATES.....	14
3.8 SAMPLE VALUATION .....	15
3.9 EXCESS LAND .....	15
3.10 EXEMPTION .....	16
3.9 CONCLUSION.....	16

## 1.0 Introduction

The Municipal Property Assessment Corporation (MPAC) – mpac.ca – is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxation.

In Ontario, property assessments are updated on the basis of a four-year assessment cycle. In 2016, MPAC will update the assessments of Ontario’s nearly five million properties to reflect the legislated valuation date of January 1, 2016. Assessments updated for the 2016 base year are in effect for the 2017–2020 property tax years.

The last Assessment Update was based on a January 1, 2012, valuation date. Increases between the 2012 assessed value and the 2016 assessed value are phased in over a four-year period. Any decreases in assessment are applied immediately.

It is important to ensure that the valuation methodology applied is capable of providing a realistic estimate of current value at the relevant valuation date, which, in turn, enables all stakeholders to understand the valuation process and have confidence in the fairness and consistency of its outcome.

This Methodology Guide has been prepared for the benefit of MPAC assessors, property owners and their representatives, municipalities and their representatives, Assessment Review Board members, provincial officials, and the general public.

This guide outlines the valuation process to be followed by an assessor, including steps that require appraisal judgment. It is incumbent upon the assessor to make informed decisions throughout the valuation process when arriving at estimates in current value.

### 1.1 Properties Covered by This Methodology Guide

This Methodology Guide applies to entertainment attractions in Ontario. There are many types and qualities of entertainment attractions, including:

- amusement/theme
- water
- family entertainment
- natural/cultural

MPAC uses two property codes to categorize the various types of entertainment attractions in Ontario. The following MPAC property codes are used to categorize the various types of entertainment attractions in Ontario:

- 725 Amusement park
- 726 Amusement park – large/regional

It should be noted that these are general guidelines that vary depending on the specific circumstances of a particular property.

An assessor may also make reference to additional Methodology Guides for properties that do not fall precisely within the description of the property code listed above.

## 1.2 Legislation

The main legislation governing the assessment of properties in Ontario for property tax purposes is contained in the Assessment Act.<sup>1</sup>

The Act contains important definitions and states that all property in Ontario is liable to assessment and taxation, subject to some exemptions. Section 19(1) of the Act requires that land be assessed at current value, which is defined to mean, in relation to land, “the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer.”

Section 3(1) 23 of the Act provides an exemption from property taxes for amusement rides including, “roller-coasters, monorails, slides, ferris wheels, merry-go-rounds or other similar mechanical amusement devices on which a person rides, including any machinery, equipment, rails, supports and trestles used for their operation and the foundations on which they rest, erected or placed upon, in, over, under or affixed to land occupied by the operator of an amusement park.”

In addition, regulations filed under the Assessment Act govern the classification of entertainment attractions.

Ontario Regulation 430/15 in relation to third party signs (or billboards) was filed on December 18, 2015. To comply with the regulation, any income attributable to a third party sign is not to be included in the valuation of any property for assessment purposes.

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<sup>1</sup> Assessment Act, R.S.O 1990, c A.31: <https://www.ontario.ca/laws/statute/90a31>.

### 1.3 Classification

MPAC's role is to accurately assess and classify all properties in Ontario in accordance with the Assessment Act and its associated regulations established by the Government of Ontario. The classification of a property will determine which tax rate will be applied by the municipality or taxing authority. All properties are classified according to their use and Ontario Regulation 282/98 of the Assessment Act sets out how various property uses are classified.

In accordance with section 5(1)1 of Ontario Regulation 282/98, Entertainment attractions are considered part of the Commercial Property Class with certain amusement rides being eligible for property tax exemption under Section 3(1)23 of the Assessment Act.

If a portion of the property is used for other purposes, it may be necessary to value those components separately and sum the component values to achieve the correct total current value. It may also be necessary to apportion the total value of the property between the various uses to ensure that the appropriate tax rate is applied to the relevant parts of the property.

### 1.4 The Use of This Methodology Guide

This Methodology Guide is intended to:

- Ensure MPAC's assessed values for these properties are fair, accurate, predictable and transparent.
- Provide direction to assessors and clear explanations to municipalities, taxpayers and Assessment Review Board members.
- Ensure that MPAC's methodology for valuing these properties is well documented and aligns with industry standards.
- Explain the thought process/decision-making process that an assessor should undertake to apply the valuation methodology.
- Ensure a consistent approach to valuing these property types.
- Support MPAC assessors in conducting their due diligence in:
  - applying Ontario's legislation and regulations
  - adhering to industry standards for market valuation in a mass appraisal environment

It should be noted that this Methodology Guide is not intended to be a substitute for an assessor's judgment in arriving at a market value-based assessment (i.e., current value) for a particular property. However, given that the Methodology Guide explains industry standards for property assessment, conforms to valuation industry norms, and adheres to provincial legislation and regulation, MPAC assessors are expected to follow the procedures in the Methodology Guide and be able to clearly and satisfactorily justify any deviations from it.

### **1.5 Consultation and Disclosure**

MPAC is committed to providing municipalities, taxpayers and all its stakeholders with the best possible service through transparency, predictability and accuracy. In support of this commitment, MPAC has defined three levels of Disclosure as part of its delivery of the 2016 province-wide Assessment Update:

- **Level 1** – Methodology Guides explaining how MPAC approached the valuation of particular types of property
- **Level 2** – Market Valuation Reports explaining how the methodology outlined in Level 1 has been applied at the sector level for the purposes of each assessment
- **Level 3** – Property Specific Valuation Information available to property taxpayers, their representatives and municipalities

## 2.0 The Valuation Process

The valuation process always begins with a determination of the highest and best use of the subject property.

Any reliance upon this guide is made only after the assessor has determined that the highest and best use of the subject property is that of an entertainment attraction.

Assessors determine the value of a property using one of three different approaches:

- the direct (sales) comparison approach
- the income approach
- the cost approach

### 2.1 Outline

In the **direct (sales) comparison approach**, value is indicated by recent sales of comparable properties in the market. In considering any sales evidence, it is critical to ensure that the property sold has a similar or identical highest and best use as the property to be valued.

In the **income approach** (or, more accurately, the income capitalization approach), value is indicated by a property's revenue-earning power, based on the capitalization of income. This method requires a detailed analysis of both income and expenditure, both for the property being valued and other similar properties that may have been sold, in order to ascertain the anticipated revenue and expenses, along with the relevant capitalization rate.

In the **cost approach**, value is estimated as the current cost of reproducing or replacing improvements of the land (including buildings, structures and other taxable components), less any loss in value resulting from depreciation. The market value of the land is then added.

MPAC uses the income approach to value most large entertainment attractions. The particular valuation method used is called the direct capitalization method.

The direct capitalization method for entertainment attraction properties has the following steps:

- Determine the stabilized revenues for the entertainment attraction.
- Determine stabilized operating expenses for the entertainment attraction.



- Determine net operating income (NOI)
- Deduct replacement allowance.
- Determine NOI, adjusted for replacement allowance.
- Determine overall cap rate (Basic Rate + Effective Tax Rate).
- Capitalize NOI into value (Value = Income (net operating)/ Rate).
- Determine total property value.
- Deduct for fixtures, furnishings and equipment (FF&E)
- Determine current value assessment.
- Determine current value of exempt amusement rides.

## 2.2 Approach

There are three main phases in the valuation process used by MPAC:

- data collection
- analysis of the data collected
- valuation

## 2.3 Data Collection

The data required for entertainment attraction valuations come from a number of sources:

- MPAC conducts periodic inspections of entertainment attractions.
- Property owners are required to provide MPAC with details including actual income and expenses.
- MPAC also collects information about sales and transfers of entertainment attractions.
- There is other published information about entertainment attractions.

When collecting data for the assessment of an entertainment attraction, it's important to categorize the property's site according to its uses. When doing so, consider if any uses need to be valued separately from the entertainment attraction.

MPAC generally collects the following types of data for entertainment attractions:

- general data
- financial data
- property description
- revenue data (attendance revenue, parking revenue, food, merchandise, games, entertainment, accommodation, etc.)
- entertainment attraction statistics for attendance
- building and amusement ride land valuation data
- rental data for leased spaces (retail, restaurants, concessions, etc.)
- FF&E data

### **Confidentiality**

As outlined above, it is important to be aware that, in order to enable MPAC to produce an accurate valuation of the property concerned, information needs to be obtained from a variety of sources.

This will include information from MPAC's records, from the owner or operator of the property, from the municipality in which the property is located, from the assessor's visit to the property, and from other sources.

All stakeholders in the property tax system have an interest in ensuring that the current value provided by MPAC is correct; in order to achieve this, it is necessary for all parties to cooperate in the provision of information.

It is appreciated that some of the information outlined above may be of a commercially sensitive nature. MPAC recognizes the need to ensure that any information provided to it is properly safeguarded and only used for the purpose for which it is supplied. Assessors must appreciate the nature of this undertaking and ensure data is treated accordingly.

If, after an appeal has been filed, MPAC receives a request for the release of actual income and expense information, or other sensitive commercial proprietary information, the usual practice is to require the person seeking the information to bring a motion before the Assessment Review Board (ARB), with notice to the third parties, requesting that the ARB order production of the requested information. The release of such information is at the discretion of the ARB and commonly accompanied by a requirement for confidentiality.

The Assessment Act outlines in section 53(2) that disclosed information may be released in limited circumstances “(a) to the assessment corporation or any authorized employee of the corporation; or (b) by any person being examined as a witness in an assessment appeal or in a proceeding in court involving an assessment matter.”

## **2.4 Data Analysis**

Having carried out the data collection outlined previously, the assessor needs to analyze the data and reach a conclusion regarding the appropriate valuation method to use and how it should be applied.

## **2.5 Valuation**

Having undertaken the necessary steps outlined above, the assessor should now be in a position to apply the appropriate valuation model.

## **2.6 Validating the Results**

Once the assessor has completed the valuation, it is necessary to carry out a series of checks to ensure that all relevant parts of the property have been included in the valuation, there has been no double-counting of any adjustments made for depreciation, the resulting valuation has been compared with any market evidence that may be available in relation to similar properties, and the final valuation is in line with the valuation of other similar properties in Ontario.

### **3.0 The Valuation**

Two key components in the application of the direct capitalization method of the income approach for the valuation of entertainment attractions are:

- stabilized projections of net income
- capitalization rates reflecting the entertainment attraction facility market risk

#### **3.1 Entertainment Attraction Revenue**

Typical and stabilized (over a period of three years) revenues by type of entertainment attractions include:

- attendance revenue (regular admission, season passes and parking)
- food, merchandise, games, entertainment, accommodation and other revenue
- trends and competition

Typical rents include the following operations:

- retail
- restaurants
- concessions

All forms of incomes are combined to establish stabilized potential gross income.

#### **3.2 Entertainment Attraction Expenses**

As with revenues, the expenses should be selected from calendar year figures that are the closest figures to the base year valuation date.

Typical and stabilized operating costs include:

- food, merchandise and games expenses
- operating expenses
- selling, general, administration and other expenses

Actual, stabilized operating costs include:

- water/sewer supply
- gas and electricity
- maintenance and repair
- wages and benefits
- security
- management and administration
- insurance
- other costs

### **3.3 Entertainment Attraction Capitalization Rates**

Analysis of entertainment attraction sales is complex and involves knowledge of past performance of the revenues and expenses of the properties. It is important to know whether the facilities have reached a stabilized revenue level when considering the transactions.

### **3.4 Entertainment Attraction Effective Tax Rate**

When the income approach is used to assess an entertainment attraction, property taxes should not be considered as an expense item. The practice of using actual taxes as an expense would import a preconceived level of taxation based on a historical assessed value. This issue is resolved by including an effective tax rate in the capitalization rate applied to the direct capitalization income method for entertainment attraction properties. The effective tax rate expresses the relationship between the assessed value of a property and the level of taxation within the municipality the property is located in.

The income stream of an entertainment attraction property includes income generated from real property, chattels (FF&E) and exempt amusement rides. The total capitalized value of the entertainment property includes real property (which is subject to municipal taxation) and chattels and exempt amusement rides (which are not subject to municipal taxation).

The capitalization rate needs to be adjusted to reflect property taxes for the real property only. The effective tax rate for an entertainment attraction needs to reflect two factors:

- the chattels (FF&E) ratio
- the tax exemption for amusement rides

In the example table below, an overall capitalization rate is derived by adjusting a tax rate of 2.028171% by an FF&E allowance of 3% and an exemption allowance of 20% for the amusement rides, producing an effective tax rate of 1.57386070%. When this is added to the basic cap rate of 10.5%, it produces an overall cap rate of 12.07%.

Base	Tax rate	FF&E	Exempt	Tax rate FF&E	Tax rate exempt	Overall rate
10.50%	2.028171000%	3.00%	20%	1.967325870%	1.57386070%	12.07%

### 3.5 Chattels

The FF&E, or chattels, adjustment used for entertainment attractions should reflect a survey of actual chattels at the entertainment attraction itself and any comparable facilities.

### 3.6 Entertainment Attraction Net Operating Income

Using the stabilized revenues and expenses data obtained, the next step is to deduct expenses from the total entertainment attraction revenue to determine the net operating income (NOI).

Once the NOI has been established, deduct income attributable to non-real estate items (e.g., reserves for entertainment attraction improvements, and other management) to produce the net operating income attributable to the real estate.

### 3.7 Entertainment Attraction Capitalization Rates

Having established the NOI attributable to the real estate, MPAC applies the capitalization rate that was determined from the analysis of market sales. The effective tax rate is added to the capitalization rate before it is applied to convert the net income into value.

### 3.8 Sample Valuation

A sample valuation is provided below to demonstrate the valuation approach. It should be noted that the figures used in this example are illustrative only.

<b>Revenues</b>		<b>Percentage</b>
Admissions	\$7,000,000	47.62%
Merchandise	\$3,500,000	23.81%
Food	\$2,100,000	14.29%
Games	\$700,000	4.76%
Other Revenue	\$1,400,000	9.52%
<b>Net Operating Income</b>	<b>\$14,700,000</b>	
<b>Expenses</b>		
Administration & General	\$1,250,000	8.50%
Salaries and Wages	\$2,370,000	5.00%
Operating Supplies and Expenses	\$1,300,000	8.84%
Utilities	\$370,000	2.52%
Maintenance Labour	\$450,000	3.06%
Maintenance Material and Supplies	\$970,000	6.60%
Insurance	\$870,000	5.92%
Advertising	\$340,000	2.31%
Management Fee	\$735,000	5.00%
Reserve For Replacement	\$1,176,000	8.00%
<b>Total Expenses</b>	<b>\$9,831,000</b>	<b>66.88%</b>
<b>Net Income (Loss) for the year</b>	<b>\$4,869,000</b>	
<b>Valuation</b>		
Indicated Capitalization Rate	12.07%	
Total Value	\$40,339,685	
Less Allowance for FF&E 3%	\$1,210,191	
<b>FINAL ESTIMATE OF VALUE</b>	<b>\$39,129,494</b>	
	\$39,129,000	

### 3.9 Excess Land

One possible source of additional value is excess land, which is land in excess of the requirements of the entertainment attraction buildings and parking. Such land is generally held in anticipation of expansion. To determine excess land values, the assessor should analyze local zoning bylaws, current development of the property and market sales of similar parcels.

### **3.10 Exemption**

As indicated earlier, the amusement rides and associated machinery, equipment, rails, supports and trestles used for their operation and the foundations upon which they rest are exempt from taxation under the section 3(1)23 of the Assessment Act. The portion of the value of the amusement rides is based on the proportion of the income related to the amusement rides. The portion for the amusement rides is determined on a property to property basis.

### **3.9 Conclusion**

This guide sets out how MPAC assessors approach the valuation of entertainment attractions for property assessment purposes.

Although it outlines the general approach adopted, it does not replace the assessor's judgment and there may be some cases where the assessor adopts a different approach for justifiable reasons.

For further information about MPAC's role, please visit [mpac.ca](http://mpac.ca).