

CIF Project # 1042 – Northumberland MRF Equipment Valuation

Background

CIF, in cooperation with Northumberland County (County), completed a present-day valuation of equipment at the County's MRF in Grafton Ontario. The County constructed the 55,000 square foot facility in 1996 and has owned and operated the MRF since that time. Municipal staff manage the facility and provide all required labour.

Waste management services are a single-tier function in the County and the curbside collection program includes approximately 38,000 stops. The County currently processes approximately 16,500 tonnes per year including County sourced recyclables, as well as material from the City of Kawartha Lakes received on a contract basis.

The Grafton MRF currently operates as a two-stream facility, although it can be easily converted to a single-stream operation since the County recently transitioned from a single-stream back to a two-stream curbside sort to improve quality of sorted materials.

Summary of Results

A specialist was retained to assist in the valuation effort. The Grafton MRF is considered to be in good condition with required equipment upgrades and replacements undertaken over its operating life. The overall age and condition of the MRF equipment is typical of a well-managed municipal operation with a long-term outlook.

An eight-step valuation process was undertaken to estimate equipment value as follows:

- Meeting with MRF operator to gather information about the installation, maintenance, condition and repair of the equipment
- Review of background documentation
- On-site inspection of equipment during normal operations
- Examination of comparable sales of similar equipment in Ontario and the US Northeast
- Comparison of recent sales with longer term experience
- Confirm existing condition of each piece of equipment
- Compare process line throughput quantity and quality with design specifications
- Final reporting including key factors affecting valuation.

Equipment currently in operation at the Grafton MRF was valued based on two different scenarios. The first scenario assumed that a theoretical purchaser would continue operations in Grafton for at least as long as the current equipment was deemed to be operational. Based on that assumption, the overall value of a component was considered to be directly

proportional to remaining life of that component compared to the original installed cost. For example, if a component has 50% life remaining, the value is assumed to be 50% of the original installed cost.

The second scenario assumes the Grafton MRF will no longer operate and equipment is sold at auction. Valuation is far lower in this case and a component with 50% life remaining may only generate 10-20% of its original installed cost at auction.

Learnings

Equipment valuation for an operating MRF is highly dependent on whether the MRF is considered a 'going concern' by the market place (i.e., defined primarily by geographic location or a commercial customer base); or whether the valuation is based on auction or scrap value alone.

Valuation of a going concern is highly subjective because of its dependence on market conditions. A purchaser may, for instance, pay up to 50% of the initial installed cost of the equipment if 50% of the expected equipment lifespan remains.

If there is no interest in purchasing the MRF as a going concern, auction or scrap is the only other realistic option to recover value from the existing equipment. Generally equipment will sell for 10-20% Initial Value assuming 50% Remaining Life. Often however, removal, shipping and re-installation costs to another MRF consume most of the in-place theoretical value of a piece of equipment.

Other MRF Valuation Considerations

The preceding discussion has focused solely on MRF equipment. In order to develop a complete valuation assessment for their MRF, owners should also consider:

- Fair market of building (as MRF or repurposed);
- Fair market value of property if owned; and
- Any marketplace goodwill valuation for ongoing MRF operations.

Equipment valuation combined with a current real estate and building appraisal, can provide an owner with a good foundation for determining the potential sale value of a facility. To determine whether any goodwill market potential exists, additional analysis of the revenue from existing commercial accounts combined with local market potential is required.

As mentioned above, the location, size and condition of a particular MRF can significantly affect actual valuation. MRF owners may wish to complete the above-referenced detailed evaluations to assess their particular circumstance.