

Compensation Policy for Land Acquisition:

The Importance of Market Value Pricing to the Development of Forestry Infrastructure.

The following outlines the key issues and impacts to be considered when determining the compensation methodology for land proposed for the development of forestry infrastructure in British Columbia. At present MoFR Real Estate staff support and practice the compensation methodology based on the principle of fair market value. Market Value is defined in the *Expropriation Act* as the amount that would be paid for land if it was sold in the open market by a willing seller to a willing buyer.

This definition is the foundation upon which all government agencies in British Columbia base fair and equitable compensation to the owners of private property acquired in whole or part for public projects. However, an independent study commissioned by MoFR indicates that practices used, by both government and the forest industry in BC, for temporary road use agreements are inconsistent with widely accepted market based valuation principles.

Historically, compensation has been based on an alternate methodology, in particular, a volume or “per m³” rate has come to be accepted as the industry standard in BC. BC is the only province, and forestry the only industry, where a compensation model, based on the volume of a product hauled, is used to calculate compensation to a private land owner for an interest in land.

In contrast, other publicly funded transportation related projects are based on the fair market value of the land within the right-of-way and land acquired. A current high profile example is the negotiations for the new Skytrain corridor in Vancouver. Compensation will be paid upfront and based on the value of the land consumed by the right-of-way, and not based on the number of passengers carried in the trains. While it is still possible to express compensation in terms of a volume amount, it must be rooted in the principles of fair market value for land.

Employing the volume based methodology, although seemingly more practical and expedient for this industry, has the potential to create problems for the Ministry. It may establish unrealistic precedents and raise false expectations for property owners across the Province. The failure to base compensation on fair market value may conflict with OCG policy, and may, as has been the case in the past, result in audits of our compensation policies and practices. It is important to be mindful that, despite the value of surrounding land, if an income is established on a property, the present value of all future payments becomes the value of that land. This may become extremely costly if government attempts to purchase or expropriate the property at a future date. The overall objective of the MoFR compensation policy is to compensate a private land owner for the loss of ownership rights and use, not to create a business partnership in the resource, which may be unfairly exploited.

MoFR real estate staff has discussed the importance of adhering to a market value framework with the management staff at MoFR districts, BCTS headquarters and business area offices, and MoFR Revenue Branch. In the districts, the payment of fair market value supports the principle that the taxpayers of the Province are to be treated

fairly in government transactions and that other groups, such as local communities and First Nations, have reliable and fair access to public timberlands. BC Timber Sales recognizes that fair market value compensation is important to the organization's objective "to provide a credible reference point for costs and pricing." Revenue Branch is aware that appraisal credits to stumpage must reflect market costs or result in a loss of revenue for the Province.

It is the recommendation of MoFR real estate staff that this policy, based on a fair market value of land, be applied consistently across the Ministry. It is further recommended that this policy serve as the principle reference point for land valuation in the Ministry's non-market transactions involving lands that form part of broader negotiations, such as land exchanges, gifting agreements and the deletion of private lands from Tree Farm Licenses.

Key Points

1. Fair market value is based on the value of the underlying land.
2. Our recommended compensation methodology for land acquisitions, statutory rights-of-way and partial takings is consistent with the *Expropriation Act*.
3. BC is the only jurisdiction and forestry the only industry, where a compensation model, based on the volume hauled, is used to calculate compensation.
4. MOFR must not place itself in a position where, if we were to expropriate, we must compensate for an income stream that is in excess of market value of surrounding land.
5. The objective of compensation is to compensate for loss of ownership rights, not create a business partnership with the private land owners.
6. This policy direction has been laid out for districts, BCTS, and Revenue Branch.
7. The MoFR compensation policy should be consistent across all divisions, to ensure that all land transactions are in alignment with the principles of fair market value.

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