

Economic Benefits of the Proposed Mountsberg Quarry



CLAYTON
RESEARCH

May 8, 2006

Mr. David Lowndes, President
Lowndes Holding Corp.
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Dear Mr. Lowndes:

Re: Proposed Mountsberg Quarry
Our File: P-3698

I am pleased to submit our report entitled "Economic Benefits of the Proposed Mountsberg Quarry". Our findings indicate that the quarry will have substantial benefits in terms of generating revenues for the City of Hamilton and the Province of Ontario, as well as creating local employment opportunities and spin-off spending to other local businesses.

Sincerely,



Patricia Arsenault, M.A.
Senior Vice President

PA:sya
Encl.



Economic Benefits of the Proposed Mountsberg Quarry

Prepared for:

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EXECUTIVE SUMMARY

Clayton Research was commissioned by Lowndes Holdings Corp. to undertake an analysis of the potential economic benefits associated with the proposed Mountsberg quarry in the City of Hamilton. The quarry is expected to have substantial benefits in terms of generating revenues for the City of Hamilton and the Province of Ontario, as well as local employment opportunities and spin-off spending to other local businesses, as summarized below.

Employment	<p>110 permanent full-time jobs at the quarry</p> <p>42 person-years of employment during site preparation stage</p>
City of Hamilton Revenues	<p>Property taxes: almost \$80,000 in municipal property taxes per year, or about \$1.5 million over the 20 year life of the quarry</p> <p>Aggregate license fee: \$135,000 per year or about \$2.7 million over the quarry life</p>
Province of Ontario Revenues	<p>Incomes taxes: about \$100,000 in provincial personal income taxes during the site preparation and over \$275,000 per year related to the permanent jobs; corporate income taxes also would be payable</p> <p>Aggregate license fee: \$30,000 per year or about \$600,000 over the life of the quarry</p> <p>PST: about \$2 million per year in PST related to the purchase of the aggregate from the quarry; in addition, about \$56,000 during the site preparation stage and about \$240,000 per year during the operation of the quarry related to material and supplies purchased by the quarry</p>

<p>Indirect Financial Benefits for City of Hamilton and Local Residents</p>	<p>Use by local residents of roads that will need to be upgraded, in large part at the quarry's expense</p> <p>Potential for up to \$100,000 per year in voluntary contributions made by the quarry (e.g. community events sponsorships, fundraising campaigns, etc.)</p>
<p>Boards of Education</p>	<p>About \$40,000 per year will be generated in education taxes (or about \$800,000 over the life of the quarry), without any additional financial burden on local Boards of Education</p>
<p>Spin-offs to Local Businesses</p>	<p>A portion of the estimated \$5.4 million in annual wages earned by quarry workers, as well as the estimated \$2 million earned by workers during the site preparation stage, will be spent locally</p> <p>A portion of the estimated \$3 million spent annually by the quarry on operating supplies and services will be done locally</p>

Employment Impacts

- Lowndes Holdings Inc. expects that approximately **110** persons will be permanently employed when the quarry is fully operational, including trucking jobs. Most of the jobs are expected to be filled by local residents.
- The site preparation for the quarry is estimated to generate approximately **42** person-years of temporary employment: **27** person-years directly related to the on-site work and a further **15** person-years of employment in the supporting industries that produce the materials, equipment and services used during the site preparation stage. The majority of this employment is expected to be filled by local residents from the City of Hamilton.

City of Hamilton Revenues

- The quarry will generate substantial direct revenues for the City of Hamilton.

- It is estimated that the quarry will generate taxation revenue for the City of Hamilton of almost **\$80,000** per year (based on 2005 values and tax rates).
- In addition, revenues will be generated through the aggregate licence fee, at a rate of 4.5 cents per tonne of aggregate produced. When fully operational, the quarry is expected to produce about 3 million tonnes of aggregate per year, which translates into annual revenue for the City of Hamilton of **\$135,000**.

Province of Ontario Revenues

- The quarry will generate substantial direct revenues for the Province of Ontario.
- Personal incomes taxes will be generated by the wages earned during the site preparation stage (about **\$100,000**), and the on-going operation of the quarry (over **\$275,000** per year). Additional corporate income taxes will be payable, and will be dependent on the revenues, cost and profitability profile of the operation.
- The Province's share of the aggregate license fee will generate another **\$30,000** per year or about **\$600,000** over the life of the quarry.
- Provincial sales tax payable on the aggregate sold from the quarry is estimated at about **\$2 million** per year.
- Provincial sales tax (PST) revenues will also be generated from the purchase of materials and supplied during the site preparation stage and the on-going operation of the quarry. PST of about **\$56,000** is expected from the site preparation stage and about **\$240,000** per year during the on-going operation of the quarry

Indirect Economic Benefits for the City of Hamilton and Its Local Residents

- Some roads will need to be upgraded to accommodate the quarry, a portion of which will be borne by Lowndes Holdings. Local residents will also have use of these upgraded roads.
- The aggregate industry in Ontario contributes back to the local communities in various forms of donations, sponsorships, etc. Lowndes Holdings Inc. has indicated it expects to contribute up to **\$100,000** per year in this regard.

Boards of Education

- The quarry is expected to generate about **\$40,000** in additional education property taxes each year (or about **\$800,000** over the life of the quarry), without imposing any additional burden on the school systems.
- These revenues are generated to the Province, but will contribute to the pool of education tax revenues that are then reallocated to local school boards, including those in the City of Hamilton.

Spin-offs to Local Businesses

- Estimates suggest that the permanent quarry jobs will generate about **\$5.4 million** per year in wages, and that the temporary jobs created during the site preparation stage will generate another **\$2 million** in wages. These wages will generate spending on goods and services locally within the City of Hamilton.
- The on-going operation of the quarry is expected to require purchases of goods and services in the amount of about **\$3 million** annually, a large portion of which would occur locally.

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INTRODUCTION

Clayton Research was commissioned by Lowndes Holdings Corp. to undertake an analysis of the potential economic benefits associated with the proposed dolostone quarry in the City of Hamilton, in the area that was formerly the Township of East Flamborough.

The quarry site encompasses 158.2 hectares, with a proposed excavation area of about 68 hectares. When the quarry is fully operating, it is expected to have about 110 employees, with annual stone production of about 3 million tonnes per year.

The proposed quarry is expected to have substantial benefits for the City of Hamilton and its local businesses and residents in terms of the following:

- Employment, both during construction and permanent jobs created once the quarry is operational;
- Contribution to the City of Hamilton's revenues through property taxes and aggregate license fees;
- Contributions to the Province's revenues, through the provincial sales tax, income taxes and the aggregate license fee;
- Indirect financial benefits to the City of Hamilton and local residents;
- Indirect benefits for local Boards of Education; and
- Spin-off benefits to local businesses.

EMPLOYMENT IMPACTS

There are two aspects to the employment benefits: temporary jobs created during the site preparation stage and on-going employment once the quarry is operational.

Employment Generated During Site Preparation

The site preparation will generate work both directly and indirectly. Directly, jobs are created in the engineering construction industry; indirectly, work is generated in the industries that support the engineering construction industry with materials, equipment and other inputs that the site preparation requires.

For every \$1 million spent on engineering construction, it is estimated that about 8 direct person-years of employment and 4 indirect person-years¹ of employment are generated. The estimated \$3.5 million that will be spent on the site preparation therefore would generate about 42 person-years of employment: 28 person-years in on-site work, and 14 in the supporting businesses. Most of the jobs are expected to be filled by City of Hamilton residents.

Figure 1

Estimated Employment Generated from Site Preparation, Proposed Mountsberg Quarry

Estimated Site Preparation Costs	Person-Years of Employment Generated				
	Per \$Million		Total Employment		
	Direct	Indirect	Direct	Indirect	Total
\$3,500,000	8	4	28	14	42

Source: Estimates by Clayton Research

On-Going Employment

The quarry will also provide on-going employment benefits. Lowndes Holdings estimates that there will be about 110 full-time positions at the quarry once it is fully operational, including trucking.

It is expected that the majority of these jobs will be filled by local residents of the City of Hamilton. Data from the 2001 Census of Canada shows that about three-quarters of all jobs located within the City of Hamilton are filled by persons who live in the City of Hamilton.

CITY OF HAMILTON DIRECT REVENUES

The proposed Mountsberg quarry will directly generate revenues for the City of Hamilton in two main areas: property taxes and aggregate license fees.

Municipal Property Taxes

Local property tax generated when the quarry has been completed will be a function of the assessed value applied to the site and the applicable property tax rates.

¹Person-year refers to one person working full-time for 12 months.

It is not possible to determine with certainty what exactly will be the assessed value for the site, it is ultimately the Municipal Property Assessment Corporation (MPAC) who will make that determination.

However, one can say with certainty that the assessed value of the site will be increased substantially, as part (the "disturbed" area) will be valued as industrial property rather than its current designation as residential or farm.

At the same time, industrial tax rates, which are substantially higher than residential tax rates, will be applied.

Of the total quarry site, on average about 60 hectares are expected to be "disturbed" area, subject to industrial assessment and tax rates. The remainder is assumed to be classed as per its 2005 assessment class, with portions being residential and portions farm.

For this analysis, a review was made of assessed values for two other quarry properties in the City of Hamilton: Lafarge Dundas Quarry and Dufferin Aggregates Flamboro Quarry (also located in Dundas).

Based on the analysis, an estimate of \$33,500 per hectare of industrial classed land is used. The residential and farm lands are assumed to hold the same assessment per hectare as in 2005. The resulting assessment values are shown on Figure 2.

Figure 2

Estimated Assessed Value for the Proposed Mountsberg Quarry

	Area by Class <i>hectares</i>	Estimated Assessment	
		Per Hectare	Total Value
Assessed residential	14.6	\$34,178	\$499,000
Assessed farm	83.6	\$7,203	\$602,157
Assessed industrial	60.0	\$33,500	\$2,010,000
Total	158.2		\$3,111,157

Source: Clayton Research

Property tax rates vary within the City of Hamilton among the former constituent municipalities. For the area that was formerly Flamborough, the municipal property tax rate for industrial properties for 2005 was 3.5443470%, for the residential class 1.099836% and for the farm class 0.244164%.

Based on the assumed assessment values and these tax rates, the estimated annual municipal property tax revenues from the quarry are estimated at approximately \$78,000 per year (or about \$64,000 more than the 2005 taxes paid).

Figure 3

**Estimated Annual Municipal Property Tax
Revenues from the Proposed Mountsberg Quarry**

	Assessment \$	2005 Municipal Tax Rate %	Municipal Tax Revenue \$
Residential	\$499,000	1.099836%	\$5,488
Farm	\$602,157	0.244164%	\$1,470
Industrial	\$2,010,000	3.544347%	\$71,241
Total	\$3,111,157		\$78,200

Source: Estimates by Clayton Research

Aggregate License Fee

Since 1990, a 6 cent per tonne license fee has applied to aggregate production in Ontario under the Aggregate Resources Act. This is divided as follows:

- 4 cents to the lower tier municipality
- 0.5 cents to the upper tier municipality
- 1 cent to the Province
- 0.5 cents to the Abandoned Pits and Quarries Fund (for rehabilitation purposes)

In the case of the single tier City of Hamilton, it receives 4.5 cents for every tonne of aggregate produced.

When fully operational, the proposed Mountsberg quarry is expected to produce about 3 million tonnes of aggregate per year. This translates into annual revenue for the City of Hamilton of about \$135,000 or about \$2.7 million over the expected 20 year life of the quarry.

Figure 4

Estimated Annual Aggregate License Fees Generated from the Proposed Mountsberg Quarry

Estimated Annual Production tonnes	Aggregate License Fee Rate		Total Aggregate License Fees Revenue, City of Hamilton
	Total per tonne	To City of Hamilton	
3,000,000	\$0.06	\$0.045	\$135,000

Source: Clayton Research

PROVINCE OF ONTARIO REVENUES

The proposed Mountsberg quarry will generate revenues for the Province of Ontario in three main areas: income tax, aggregate licenses fees and provincial sales tax.

Income Tax

Personal income tax will be generated based on the wages earned by the workers employed during the site preparation stage and by the workers employed on an on-going basis at the quarry.

Applicable wage rates for workers in the aggregate sector were applied to the jobs generated during the site preparation stage to generate total wages. Estimates of average taxable income and applicable Provincial tax rates were then applied to these total wage estimates to derive the income tax payable.

Estimated total wages earned during the site preparation stage are about \$2 million. Total personal Provincial income taxes payable on these wages are estimated at \$102,000.

For the on-going employment, total wages are estimated at about \$5.4 million per year, with estimated Provincial income taxes per year of about \$278,000.

There will also be corporate income taxes payable. These will depend on the revenue, cost and profitability situation of the operation, and have not been estimated here.

Aggregate License Fees

As discussed earlier, 1 cent of the total 6 cent per tonne of aggregate produced license fee goes to the Province. At an estimated 3 million tonnes annual production for the proposed quarry, that would result in annual revenue of \$30,000 or \$600,000 over the expected life of the quarry.

Figure 5

Estimated Annual Aggregate License Fees Generated from the Proposed Mountsberg Quarry

Estimated Annual Production tonnes	Aggregate License Fee Rate		Total Aggregate License Fees Revenue, Province of Ontario
	Total per tonne	To Province	
3,000,000	\$0.06	\$0.01	\$30,000

Source: Clayton Research

Provincial Sales Tax (PST)

Provincial sales tax (PST) of 8% will be payable on the aggregate sold from the quarry as well as on materials and supplies inputs during the site preparation stage and on-going quarry operations.

Assuming an average price of \$9 per tonne,² the expected annual production of 3 million tonnes per year could generate about \$2 million per year in PST revenues for the Province.³

Given the physical nature of the site preparation, the materials component of the costs is not expected to be substantial. Assuming 20% of the total site preparation costs of \$3.5 million is comprised of materials and equipment, the total PST payable would be about \$56,000.

Based on industry statistics, an operation of the proposed size would likely require material and supply inputs of about \$1 per tonne of aggregate produced. For the expected 3 million tonnes per year, these would translate

² This is considered a conservative assumption. The 2004 edition of Ontario Mineral and Exploration Statistics indicated the average unit value of stone produced in Ontario in 2004 was \$9.86.

³ The net benefit to the Province could be reduced by the extent to which the Province purchases some of the quarry's aggregate for its road-building programs.

into material and supply costs of about \$3 million per year, and would generate about \$240,000 per year in PST.

INDIRECT FINANCIAL BENEFITS FOR THE CITY OF HAMILTON AND LOCAL RESIDENTS

There are several other benefits that would accrue to the City of Hamilton and its local residents as discussed below.

Road Upgrades

Some roads will need to be upgraded to accommodate the quarry, a portion of which will be borne by Lowndes Holdings. Local residents will also have use of these upgraded roads.

Voluntary Contributions

The aggregate industry in Ontario contributes back to the local communities in various forms of donations, sponsorships, etc. Lowndes Holdings has indicated it expects to contribute up to \$100,000 per year in this regard.

Examples of the types of contributions that have been made by aggregate producers in Ontario to their local municipalities include:⁴

- Monetary support for local festivals, sports teams, sporting events, etc.;
- Contributions to hospitals, local charities, community centres/facilities and other fundraising campaigns;
- Donations of sand for local playgrounds/schools, stone for recreational trails, walkways;
- Funding for maintenance of nature trails;
- Making aggregate sites available to local police and fire stations for training exercises;
- Use of aggregate sites by the film industry, with proceeds donated to the local community.

⁴ Based on interviews with aggregate producers by Clayton Research for the study *Financial Impacts of Aggregate Extraction on Municipalities in Ontario (2001)*

BOARDS OF EDUCATION

In addition to municipal level property taxes outlined earlier, there is another layer of property taxation - the education property tax component. These taxes are generated to the provincial government, who then allocate funds throughout the province (not necessarily in proportion to the amounts paid within each municipality). While not direct revenues for local boards of education, ultimately they share in the availability of these funds.

The same assessment base is used as for the municipal property taxes (refer back to Figure 3) but the tax rates differ, as shown in Figure 6.

Figure 6

Estimated Annual Education Property Tax Revenues from the Proposed Mountsberg Quarry

	Assessment \$	2005 Education Tax Rate %	Education Tax Revenue \$
Residential	\$499,000	0.296000%	\$1,477
Farm	\$602,157	0.074000%	\$446
Industrial	\$2,010,000	1.916584%	\$38,523
Total	\$3,111,157		\$40,446

Source: Estimates by Clayton Research

More than \$40,000 in education property taxes is expected to be generated each year by the quarry, or more than \$800,000 over the 20 year life of the quarry.

SPIN-OFF BENEFITS TO LOCAL BUSINESSES

Local businesses will benefit from sales associated with spending done by quarry employees and the quarry itself as part of its normal operation.

Spending by Workers on Local Goods and Services

The wages paid to the 110 full-time employees at the quarry are estimated to be about \$5.4 million annually, based on Statistics Canada information on the wages in the stone quarrying industry in Ontario.

In addition, about \$2 million in wages will be earned by the workers employed during the site preparation stage.

These wages will generate spending on goods and services. As the majority of these workers are expected to be local residents, they can be expected to do a large portion of their spending on these goods and services within the City of Hamilton.

Spending Related to Quarry Operations on Local Goods and Services

Based on information from Statistics Canada, the average spending on operating supplies and services (excluding contracted out trucking) by Ontario firms in the quarry industry is about \$1 per tonne of stone produced. Based on the expected production of about 3 million tonnes per year at the proposed quarry, that would translate into total annual spending on operating supplies and services of about \$3.0 million.

It is expected that a large portion of this spending will be done locally within the City of Hamilton.