RMA
RURAL MUNICIPALITIES *of* ALBERTA

Rural Municipalities of Alberta

Assessment Model Review – Outcomes Summary

Over the past several months, RMA has participated in a Government of Alberta-led review of the assessment model for oil and gas properties such as wells and pipelines. In addition to RMA, the following organizations participated in the review:

- Alberta Urban Municipalities Association
- Canadian Association of Petroleum Producers
- Explorers and Producers Association of Canada
- Canadian Energy Pipeline Association
- Canadian Property Taxpayers Association

According to the Government of Alberta, the review was intended to "modernize" the assessment model for oil and gas properties to enhance industry competitiveness while ensuring municipal viability.

Due to strict confidentiality requirements, RMA has been unable to provide members with an update on the review process. At this point, the Government of Alberta has finalized recommended changes to the model and have briefed relevant provincial ministers and decision-makers on the recommendations. RMA (and the other organizations involved in the review) now have an opportunity to advocate to those same ministers and decision-makers on the impacts of the recommended changes.

The review concluded with four scenarios to be presented to provincial decision-makers, each of which represents different changes to the assessment model and different impacts on municipalities and industry. All scenarios reduce overall assessment values of the property impacted by the review, with province-wide reductions ranging from 7% in scenario A to 20% in scenario D. However, the impacts of the changes vary among municipalities and companies. Some municipalities will lose significant assessment value, while others will see their assessment increase. Similarly, some companies will benefit greatly from each scenario in the form of reduced assessments, while others (mainly small companies) will see massive increases in assessment. This document shows the province-wide impacts of each scenario. RMA is not aware of whether the Government of Alberta favors a specific scenario. Industry representatives have vocally supported scenario D, which most drastically reduces assessment.

Unfortunately, no multi-year impact analysis has been shared for the scenarios. All data focuses only on the first year of implementation, though due to steeper depreciation curves and other changes, municipal impacts will become more severe as assets age. It is important to note that even municipalities that are minimally impacted in year one may face much more serious impacts in year five or ten.

As will be evident in this document and other information shared with members, RMA is strongly opposed to the recommended changes to the assessment model and their impacts on both municipal viability and industry competitiveness. The remainder of this document will summarize key points from various RMA input during the review process that demonstrates the impacts of the recommended changes on municipalities and industry and proposes alternative approaches to enhancing industry competitiveness that are more transparent, targeted and effective than the proposed assessment model changes. This information was provided to the Government of Alberta during the review process and has been submitted formally to the Minister of Municipal Affairs in advance of the internal provincial minister and decision-maker briefings.

Technical Summary of Proposed Changes

The Government of Alberta has based the review process around four scenarios for changes to various aspects of the assessment model, with each resulting in a different level of impact to municipalities and industry in the form of overall assessment reductions. The review process was focused primarily on discussing the impacts of the various scenarios rather than the technical details. However, the Government of Alberta revised the scenarios repeatedly throughout the review process based mainly on ongoing data, information and suggestions received from industry. Unfortunately, RMA was not provided this data or detailed information on why the scenarios were continually changed.

As RMA was not involved in the year-long technical reviews that preceded the current review, it is unknown the extent to which the changes in each scenario are informed by the work of the technical reviews. Specific technical questions about the rationale behind the changes in each scenario should be direct to Alberta Municipal Affairs.

The technical changes in each scenario are summarized below (based on summary information provided to RMA by the Government of Alberta):

Current

Wells

- Base costs - Follows CCRG
- Depreciation - A set factor of 0.67 (67% asset value applied)
- Additional Depreciation - Production
- Land Assessment - 1766 to 12,792
- Statutory Level or Adjustment Factor - None

Pipelines

- Base Costs - Follows CCRG
- Depreciation - A straight factor of 0.67 (67% asset value applied for all pipe types [less than 10 inches or greater than 10 inches])
- Multi line adjustment - Not applicable
- Additional Depreciation - Production
- Land Assessment - Not applicable
- Statutory Level or Adjustment Factor - Not applicable
- Age - Not applicable

Scenario A – 7% overall assessment decrease

Wells

- Base costs - All costs designated by the CCRG are removed, and stimulation costs are removed.

- Depreciation - Begins at 10% and ends at 90%, dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years.
- Additional Depreciation - None applied.
- Land Assessment - No changes to the current land assessment listed in the Minister's Guidelines.
- Statutory Level or Adjustment Factor - A factor of 0.65 is applied to deep horizontal wells.

Pipelines

- Base Costs - All costs designated by the CCRG are removed, and a straight cut is used for crossings.
- Depreciation - For all pipe types less than 10 inches, depreciation begins at 10% and ends at 90%, dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years. For all pipe types greater than 10 inches, depreciation begins at 10% and ends at 90%, dropping 3% per year until maximum depreciation (factor of 0.10) is reached in 26 years.
- Multi line adjustment - A factor of 0.80 is applied to all pipe greater than 10 inches.
- Additional Depreciation - 0.95 for CFB Suffield.
- Land Assessment - Not applicable.
- Statutory Level or Adjustment Factor - Not applied.
- Age - Updated to reflect new information.

Machinery and Equipment – Well Sites

- Base Costs - All costs designated by the CCRG are removed.
- Depreciation - Depreciation begins at 25% and ends at 90%, holding 25% for the first four years, and dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years.
- Additional Depreciation - Loss in value from site-specific causes.
- Land Assessment - Included in the well assessment.
- Statutory Level or Adjustment Factor - Legislated 77%.

Machinery and Equipment – Facilities

- No change from the current
- Statutory Level or Adjustment Factor - Legislated 77%.

Scenario B – 9% overall assessment decrease

Wells

- Base Costs - All costs designated by the CCRG are removed, and stimulation costs are removed.
- Depreciation - Begins at 25% and ends at 90%, holding at 25% for the first four years, and dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years.
- Additional Depreciation - None applied.
- Land Assessment - Maintain current land assessment listed in the Minister's Guidelines, except the land assessment is reduced to zero when maximum depreciation is achieved.
- Statutory Level or Adjustment Factor: - A factor of 0.65 is applied to deep horizontal wells. A factor of 0.80 is applied to SAGD wells.

Pipelines

- Base Costs - All costs designated by the CCRG are removed, and a straight cut is used for crossings.
- Depreciation - For all pipe types less than 10 inches, depreciation begins at 10% and ends at 90%, dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years. For all pipe greater than 10 inches, depreciation begins at 10% and ends at 90%, dropping 3% per year until maximum depreciation (factor of 0.10) is reached in 26 years.
- Multi line adjustment - A factor of 0.80 is applied to all pipe greater than 10 inches.
- Additional Depreciation - 0.95 for CFB Suffield.
- Land Assessment - Not applicable.
- Statutory Level or Adjustment Factor - Not applied.
- Age - Updated to reflect new information.

Machinery and Equipment – Well Sites

- As described in Scenario A.

Machinery and Equipment – Facilities

- No change from the current.

Scenario C – 14% overall assessment decrease

Wells

- Base Costs - All costs designated by the CCRG are removed, and stimulation costs are removed.
- Depreciation - Begins at 25% and ends at 90%, holding at 25% for the first 4 years, and dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years.
- Additional Depreciation - None applied.
- Land Assessment – Maintain current land assessment listed in the Minister's Guidelines, except the land assessment is reduced to zero when maximum depreciation is achieved.
- Statutory Level or Adjustment Factor - A factor of 0.65 is applied to SAGD wells.

Pipelines

- Base Costs - All costs designated by the CCRG are removed, and a straight cut is used for crossings.
- Depreciation - For all pipe sizes less than 10 inches, depreciation begins at 25% for the first four years and ends at 90%, dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years. For sizes greater than 10 inches, depreciation begins at 25% for the first four years and ends at 90%, dropping 3% per year until maximum depreciation (factor of 0.10) is reached in 26 years.
- Multi line adjustment - Factor of 0.80 is applied to all pipe greater than 10 inches.
- Additional Depreciation - 0.95 for CFB Suffield.
- Land Assessment - Not applicable.
- Statutory Level or Adjustment Factor - Not applied.
- Age - Updated to reflect new information.

Machinery and Equipment – Well Sites

- As described in Scenario A.

Machinery and Equipment – Facilities

- No change from the current.

Scenario D – 20% overall assessment decrease

Wells

- Base Costs - All costs designated by the CCRG are removed, and stimulation costs are removed.
- Depreciation - Begins at 25% and ends at 90%, and dropping 8% between year zero and year one, and by 4 % per year thereafter until maximum depreciation (factor of 0.10) is reached in 16 years.
- Additional Depreciation - 0.10 for zero production. Maximum depreciation is 0.10.
- Land Assessment - The land assessments are as follows:

Zone	Land Value – Single Pad	Land Value – Multi Pad
Central	3,838	512
NE	2,164	288
NW	1,589	212
SE	2,781	371
SW	2,424	323
Other	0	0

- Statutory Level or Adjustment Factor - SAGD receives a 0.65 factor

Pipelines

- Base Costs - All the costs designated by the CCRG are removed, and a straight cut is used for crossings.
- Depreciation - For all pipe sizes less than 10 inches, depreciation begins at 25 % for the first four years and ends at 90%, dropping 5% per year until maximum depreciation (factor of 0.10) is reached in 16 years. For sizes greater than 10 inches, depreciation begins at 25% for the first four years and ends at 90%, dropping 3% per year until maximum depreciation (factor of 0.10) is reached in 26 years.
- Multi line adjustment - A factor of 0.70 is applied to all pipe greater than 10 inches.
- Additional Depreciation - 0.95 for CFB Suffield.
- Land Assessment - Not applicable.
- Statutory Level or Adjustment Factor - Not applied.
- Age - Updated to reflect new information.

Machinery and Equipment – Well Sites

- As described in Scenario A.

Machinery and Equipment – Facilities

- No change from the current.

RMA's Response to Proposed Technical Changes

As noted, RMA was not involved or provided any information from the technical review processes that informed the development of the scenarios. Notably, every iteration of each scenario focused on increased tax relief to industry. Given the lack of available technical information, detailed data or methodology for the calculations used it is difficult to form an opinion on the scenarios outside of the reality that they will all negatively impact rural municipalities and will only become worse as assets continue to age. The proposed scenarios read as a wish list of industry and will cause significant harm to rural municipalities who have been strong partners to industry development for decades.

Further, these scenarios add even more tax policy items into the assessment model, which already includes many **existing** issues and challenges, including:

- Some of the excluded costs under the CCRG would not be excluded under the cost approach to value, and have been excluded under the CCRG to reflect historic negotiated decisions.
- The yearly setting of the assessment year modifier in Schedule B is not transparent and is not data driven based on changes to construction costs.
- The setting of the assessment year modifier is subject to ministerial discretion as impacted by the advocacy of industry groups.
- The age lives of machinery and equipment are set between 15 – 20 years at which time the equipment is fully depreciated; these artificially shortened age lives contrast with the actual life of a facility at 40 – 60 or more years.
- During the first five years equipment is assessed it receives an immediate 25% depreciation (the purpose of this tax policy was to provide an incentive to construct new machinery and equipment, however, there is no data to track whether this policy achieved this goal).
- The depreciation in Schedule C for machinery and equipment reaches a floor of 40% remaining; the purpose of this policy dating from the mid 1980s was to provide consistency and stability for municipalities.
- The statutory factor contained in the *Matters Relating to Assessment and Taxation Regulation*, further reducing the M&E assessment by a factor of 23%; the statutory factor represents a historical policy which should be reconsidered to see if it is still relevant.

As shown, many existing tax policies within the assessment model are still in existence despite their original intent (often investment incentive programs) having long since passed. This highlights the danger of the 'permanence' and lack of transparency of using the assessment model to engage in obvious tax policy initiatives, which is the primary intent of the current review.

Despite the "unknowns" in the proposed scenarios and lack of detail in the review process, there are a number of observations RMA has made about the suitability of the proposed changes:

Major Concerns

- ***Base Costs Exclusions***

The rates in the *Minister's Guidelines* should reflect the typical cost to construct, or in this case drill, the well. Construction costs include both labour and equipment. The only costs which can be excluded are those under the *Construction Cost Reporting Guide (CCRG).*

Absent any additional information from the technical reviews, it is impossible to evaluate specific changes to base costs in these scenarios. However, they appear to be a departure from the intended value of reflecting accurate costs of construction, appear to arbitrarily exclude costs, and are potentially an embedded tax policy for industry.

- ***Depreciation***

The scenarios include the introduction of depreciation of wells and pipelines, where the current assessment model uses a fixed rate of 0.67 (67%) asset value at all asset ages. The new scenarios add an age table for depreciation for pipelines and wells. The depreciation ranges from a high of 90% asset value or 75% asset value when new (depending on the scenario), to a floor of 10% asset value once fully depreciated. The asset life of depreciation is either 16 or 26 years depending the asset type and the scenario.

In the absence of technical review information, and based on conversations during the review process, it appears that this new depreciation approach is based on the economic profitability of the assets. This represents a marked departure from the current regulated valuation approach, which focuses on typical wear and tear (physical depreciation) and typical technological changes over time (functional depreciation) rather than market value.

These new scenarios are contrary to the principles underlying regulated assessment, and imports market value principles into the regulated assessment process. Depreciating wells and pipelines on the premise of profitability solely for the purpose of reducing assessment is one-sided, as the proposed scenarios do not include a mechanism to increase the assessment during healthy economic times.

- ***Land Assessment***

Scenarios B and C set the land component at zero to when a well has reached maximum depreciation. Scenario D introduces set land value rates based on the region and well characteristics, though the proposed values are well below the current land value ranges, which are already nominal and do not reflect market value.

Land typically does not depreciate and should reflect market values, so this can only be considered an additional tax policy to benefit industry.

- ***Other Adjustments, Statutory Factors and Depreciations***

The scenarios include a range of additional adjustments, statutory factors and depreciations. This includes a 0.75 factor for SAGD wells, a 0.70 factor for a multi-line adjustment, a 0.10 factor for zero production, among others. Again, without technical review information provided, it appears that these adjustments are actually very specific tax reduction policy initiatives to support particular asset types, that are being embedded into the assessment model. RMA is concerned that if the additional tax policy incentives are embedded in the assessment model then there will be no mechanism to know whether the policies have achieved their objectives and no mechanism to remove them after the objectives have been achieved. This phenomenon can be seen in the large amount of historical tax initiatives that are currently embedded in the assessment model. If history repeats itself, these adjustments (which are a clear response to current market factors) will remain in the assessment model for decades, with no ability to dial them back when market conditions correct.

Areas of Support

- ***Base Costs - Updating***

As noted above, the base cost rates should reflect the typical cost to construct, or in this case drill, a well. In this spirit, RMA supports the need to regularly review and update base costs to accurately reflect changes in construction costs, technological advances, and other necessary changes.

RMA would support a meaningful review process, undertaken by objective experts, and using detailed data. While RMA is hopeful this accurately describes the work conducted in the technical reviews, the work of the technical review has not been shared, so it is impossible to know what process was followed.

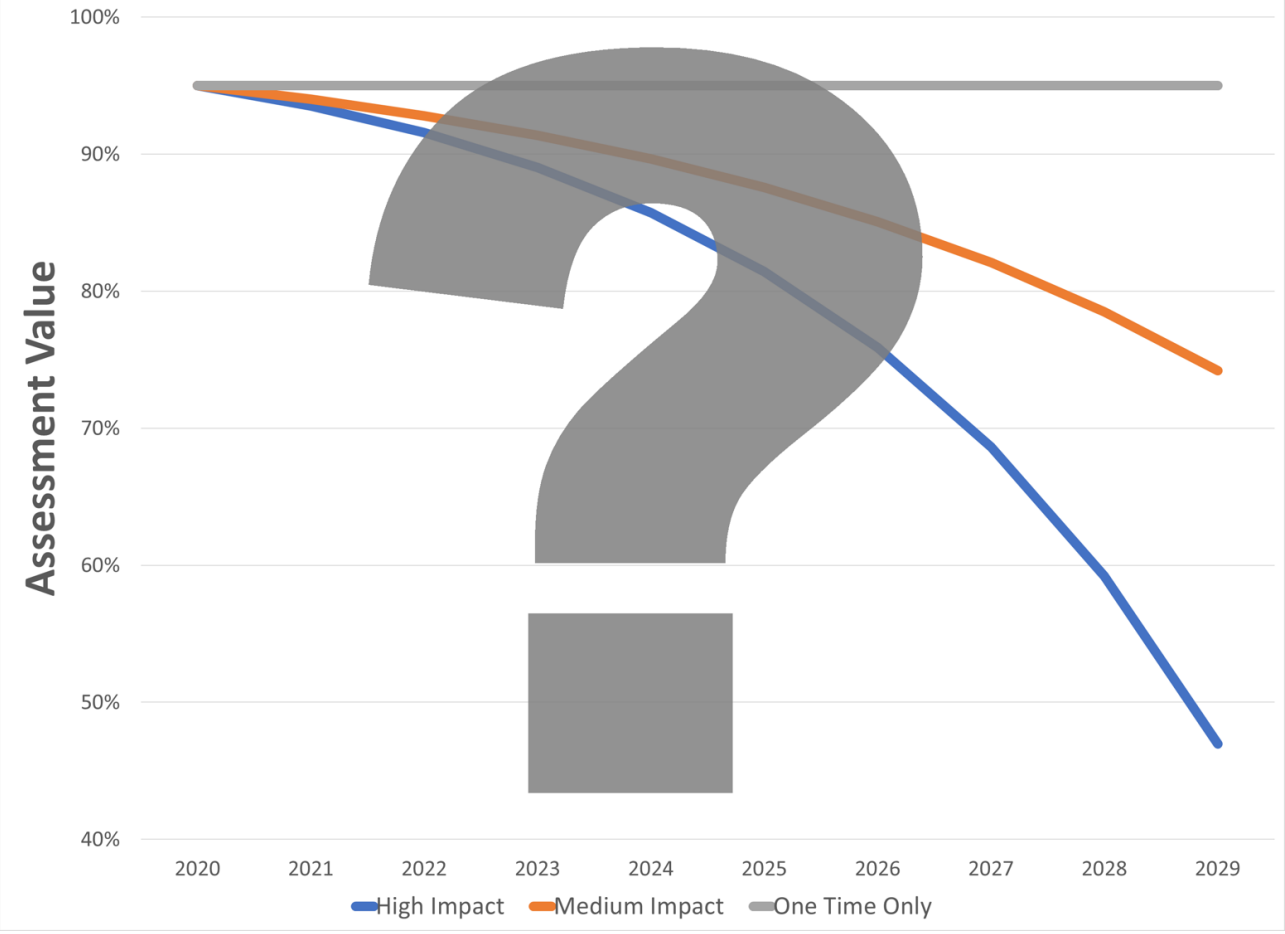
- ***Changes to the Assessment Year Modifier***

It appears that the review will include a move to an open, transparent, specified formula and data sources for the Schedule B Assessment Year Modifier being set out in the *Minister's Guidelines*. In the past, this modifier has not been transparent on how it was calculated. The inclusion of the formula, with reference to the public data sources, would increase transparency, predictability and consistency for all stakeholders.

Municipal Impacts of Proposed Changes

Each of the four scenarios proposed by the Government of Alberta would significantly reduce the overall rural municipal assessment base. This section will provide an overview of municipal fiscal impacts and potential municipal response mechanisms to the changes. It is important to note that the impacts of the scenarios vary significantly by region: a few municipalities actually benefit from the changes in some scenarios, while many lose huge amounts of assessment value and associated tax revenue. The analysis below shows average impacts as well as impact range to provide further support to the unpredictable and drastically different impacts that the changes produce across the province.

Due to limitations on the data provided during the review, RMA is only able to accurately model the impacts of the change in 2021. Due to changes to asset depreciation curves, it is likely that reductions will become more severe in each year beyond 2021. The lack of a long-term impact analysis is an extremely serious flaw of the review process. Due to the more aggressive depreciation curves inserted into all models, even municipalities who are relatively unaffected by the scenarios in 2021, will see the value of assessed value of existing property decrease much more rapidly than under the current model. Unfortunately, due to the lack of data provided during the review process, it is impossible to know how significant long-term impacts will be, as this is dependent on the age and type of each municipality's asset base.



What is known is that proceeding with such significant change with no knowledge of the long-term impacts it will have on the assessment base is highly concerning, which is why RMA has repeatedly called for a long-term impact analysis of the changes on both municipalities and industries prior to implementation.

It is important to continue to note that the data below is for 2021 only.

Overall municipal assessment base change ($) – RMA members

Scenario Tax Impacts	Scenario A	Scenario B	Scenario C	Scenario D
Average among all rural municipalities	-126,863,993	-174,416,214	-277,155,495	-$382,073,334
Least impacted municipality	+1,844,854,368	+1,510,074,086	+38,816,782	-5,088,160
Most impacted municipality	-1,059,619,509	-1,258,803,514	-1,495,636,950	-2,175,007,683

While average assessment base losses worsen somewhat consistently across the four scenarios, the actual individual municipal impacts of each scenario vary significantly. While many rural municipalities may be able to adapt to an assessment base loss between $100 - $400 million, for the several in each scenario that would face losses near or exceeding $1 billion in assessment, the consequences may be much more extreme.

While the dollar amount losses paint a concerning picture, an even more impactful way to consider the scenarios is by looking at the percentage of assessment lost.

Overall municipal assessment base change (%) – RMA members

Scenario Tax Impacts	Scenario A	Scenario B	Scenario C	Scenario D
Average among all rural municipalities	-14	-16	-19	-24
Least impacted municipality	+16	+13	+1	-1
Most impacted municipality	-52	-52	-53	-56

A major weakness of using the assessment model to support industry competitiveness is that its complexity results in widely different regional impacts of any changes. The scenarios proposed by the Government of Alberta are no different. The chart below looks at the percentage of municipalities that will experience assessment base losses in excess of 10% under each scenario, divided by RMA district.

Percentage of municipalities with assessment base loss above 10% - by RMA district

District	Scenario A	Scenario B	Scenario C	Scenario D
1- Foothills-Little Bow	92%	100%	100%	100%

District	Scenario A	Scenario B	Scenario C	Scenario D
2 – Central	62%	69%	85%	85%
3 – Pembina River	46%	54%	54%	77%
4 – Northern	53%	60%	73%	93%
5 – Edmonton East	77%	85%	85%	92%
Overall	62%	68%	80%	88%

While rural municipalities across the province are severely impacted by the proposed changes, large reductions in revenue are most widespread across all scenarios in RMA's district one, which consists of thirteen municipalities in the far south of the province. Many of these municipalities are already suffering from unpaid taxes on oil and gas properties. The disproportionate regional impacts, and lack of mitigation strategies on the part of the Government of Alberta demonstrate the inequities built into the review process and proposed changes.

The information above speaks to the severe and inequitable impacts that the proposed scenarios have on the assessment bases of rural municipalities. While this is important, to adequately understand the consequences of these reductions, it is important to consider how they will impact municipal revenues and service delivery. Because each municipality will be impacted to different extents and select different responses, the information below provides hypothetical "average" rural municipal responses based on the impacts of the various scenarios and publicly available municipal data.

Potential Response Options – Average Rural Municipality

	Scenario A	Scenario B	Scenario C	Scenario D
Residential mill rate increase	85.78%	106.63%	148.23%	199.43%
Or				
Non-residential mill rate increase (excluding 5:1 limits)	15.63%	19.33%	22.76%	31.89%
Tax capacity shortfall due to 5:1 ratio (includes tax capacity loss still required to achieve 5:1)	$4,806,050	$4,952,061	$5,093,415	$5,608,241
Or				
Workforce cuts to cover losses (% of total FTEs)	11.52%	14.82%	21.59%	28.82%
Total rural municipal FTEs at risk	957	1,231	1,793	2,394
Or				
Average total expense reduction % (including capital infrastructure investment)	9.28%	10.78%	12.82%	16.24%
Or				

	Scenario A	Scenario B	Scenario C	Scenario D
% of rural municipalities that could not cover shortfall for one year with unrestricted reserves	44.9%	40.6%	42.0%	50.7%
% of rural municipalities that could not cover shortfall for two years with unrestricted reserves	60.8%	57.9%	63.7%	73.9%

In reality, most municipalities will react to the loss in revenue through a combination of tax rate increases, service level reductions, and debt. However, the examples above show how significant the reductions in assessment will be for rural municipalities.

More importantly, it shows the likelihood that other commercial property owners and residents will "pay the price" in subsidizing a property tax break to the oil and gas industry in the form of increased non-residential and residential tax rates or reduced services. The assessment approach for other commercial and residential properties is not being reviewed to give property owners "a break" during these challenging economic times; this manipulation of the assessment model is only being offered to the oil and gas industry. All other properties will be assessed in the same manner, and either receive a lower level of service or pay higher taxes to subsidize the municipal revenue lost from the oil and gas industry. **In other words, the tax burden will simply be shifted away from the oil and gas industry and on to all other businesses and residents. Most municipalities will simply have no other choice.**

Industry Impacts of Proposed Changes

******Please note –*** *The Government of Alberta has indicated that the data used to determine tax impacts of each scenario on specific companies may not be fully accurate. As RMA must rely on the Government of Alberta to provide this level of detailed information, the conclusions below are reflective of the data provided during the review, and any inaccuracies are the result of the information provided.*

Both RMA and its members have a long history of supporting and collaborating with Alberta's oil and gas industry. The final section of the report will propose an array of options to support industry competitiveness that are both fairer and more effective than manipulating the assessment model. This section will focus on evaluating the Government of Alberta's claim that the assessment model review is intended to enhance industry competitiveness and consider the extent to which it meets this priority.

"Industry competitiveness" was never defined during the review process, and the industry stakeholder representatives involved in the review (Canadian Association of Petroleum Producers [CAPP], Canadian Energy Pipelines Association [CEPA] and the Explorers and Producers Association of Canada [EPAC]) provided no evidence as to how reduced property assessments would enhance competitiveness in comparison to other industry cost drivers. There was also no consideration or respect afforded by industry to the important role that municipal infrastructure and services play in supporting oil and gas industry competitiveness by providing safe and reliable access to natural resources.

In addition to a lack of evidence as to the link between assessment and competitiveness, the recommended scenarios result in shockingly different outcomes for different oil and gas companies. While the overall oil and gas industry would see assessment reductions under each model, those benefits are not distributed equitably.

RMA has divided the 750 oil and gas companies that own property impacted by the review into the following categories based on the overall value of their assessed assets:

- Tier 1 (assessed asset value over $500 million) – 27 companies
- Tier 2 (assessed asset value $100 million - $500 million) – 63 companies
- Tier 3 (assessed asset value $20 million - $100 million) – 98 companies
- Tier 4 (assessed asset value ($1 million - $20 million) – 227 companies
- Tier 5 (assessed asset value under $1 million) – 335 companies

The table below shows how companies of different sizes would be impacted by assessment scenario D, which is favored by industry.

Industry Assessment Impacts – by Company Size – Scenario D

	Percent of Total firms	Percent of Total Assessment Base	Average Savings	Percent of total savings	Percent of firms with tax increases
Tier 1	3.60	62.14	-$7,184,488	71.72	0
Tier 2	8.40	26.55	-$868,011	20.22	6
Tier 3	13.07	8.83	-$176,215	6.38	8
Tier 4	30.27	2.32	-$18,828	1.58	16
Tier 5	44.67	0.16	-$819	0.10	29

For comparison purposes, the impacts in the table below are for scenario B, which still has major revenue implications for municipalities but has been dismissed by industry as not meaningful in enhancing competitiveness.

Industry Assessment Impacts – by Company Size – Scenario B

	Percent of Total firms	Percent of Total Assessment Base	Average Savings	Percent of total savings	Percent of firms with tax increases
Tier 1	3.60	62.14	-$4,358,795	108.88	19
Tier 2	8.40	26.55	+$51,529	-3.00	46
Tier 3	13.07	8.83	+$49,230	-4.46	47
Tier 4	30.27	2.32	+$5,380	-1.13	40
Tier 5	44.67	0.16	+$928	-0.29	41

What is significant about both scenarios is the disproportionate benefit that the largest oil and gas companies in the province receive. In each scenario, Tier 1 is the only group of companies who receive benefits that exceed their share of the actual assessment base. In scenario D, which has the most extreme negative impacts on municipal viability, all tiers benefit, though the extent of benefits decrease as company size decreases. In scenario B, tiers 2-5, which comprise 723 of 750 companies impacted by the review, collectively face increased costs, while the 27 tier 1 companies receive huge assessment and tax relief. Additionally, in both scenarios, many of the smallest companies (tiers 4 and 5) would face assessment increases.

What does this mean? Industry is arguing that scenario D is the only option to truly enhance competitiveness, and that may be true given the options developed. Scenarios A, B and C would hurt municipalities and hurt most oil and gas companies, while scenario D would decimate municipalities and provide at least modest relief to all company tiers (though again, even under scenario D, 145 companies would face assessment increases). The only groups that win in every scenario are the

largest oil and gas companies operating in Alberta, many of which have holdings worldwide and would be under no obligation to reinvest savings in the province.

What this industry analysis shows is that the assessment model review is not meeting its mandate of enhancing competitiveness and supporting municipal viability. It is reducing assessments for the largest and most well-connected companies on the backs of small oil and gas producers and municipalities.

RMA supports an assessment model review, but this analysis proves that the current process is inequitable. A review should focus on updating data and methodology to maintain an objective assessment system, and industry competitiveness should be address using the alternatives on the following page.

Alternative Approaches to Enhancing Industry Competitiveness

Although not part of the review process, RMA conducted an analysis of alternative approaches to enhancing industry competitiveness and evaluated them based on the following five principles:

Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency
All activities enacted to support oil and gas competitiveness should be equitably born through a partnership between the Government of Alberta and Alberta municipalities and reflect the relative powers and financial tools available to each level of government to support industry.	All activities enacted to support oil and gas competitiveness should equitably benefit companies in the oil and gas sector and not be focused on large companies to the detriment of smaller entities.	Financial contributions to industry either through direct investment or tax reduction should be designed to elicit direct, observable action by industry in the form of capital investment or employment creation.	Solutions cannot be solely focused on short-term gains or impacts but should put in place mechanisms that consider the potential for times of greater prosperity. Sustainability to municipalities means that revenue over the taxable life of the asset justifies infrastructure investments to support industrial development.	The goals, contributions, benefits and mechanisms put in place to support industry must be reported in a manner that is understandable to provincial taxpayers and municipal ratepayers. Mechanisms have built-in means for regular review and potential revision to maintain equitability and fairness.

Based on these principles, RMA analyzed 13 options (including manipulation of the assessment model) to support industry competitiveness and assigned each a score out of five – a high score indicates a strong option based on RMA's principles. Options and scoring were as follows:

Policy Alternatives	Scoring Factors					
	Cost Sharing	Benefits Sharing	Tangibility	Sustainability	Transparency	Total Score
Tax and Royalty Forgiveness						
Assessment Manipulation (Current Review)	1	2	1	1	1	**1.2**
Municipal Tax Rebate Policy	1	3	1	2	3	**2.0**
Tax Rebate Policy on New Investment	3	3	4	2	3	**3.0**
Education Property Tax Requisition Adjustments	5	3	1	3	3	**3.0**
Oil & Gas Royalties Reduction	5	3	2	3	4	**3.2**
Additional Mill Rate Categories	3	4	1	3	3	**2.8**
Property Tax Incentives Expansion	2	2	4	1	4	**2.6**

Mill Rate Ratio Adjustment	2	3	1	2	3	**2.2**
Downtime and Production Tax Rebates	2	2	2	2	1	**1.8**
Income Tax Reduction / Tax Credits	5	4	5	3	4	**4.2**
Direct Incentives						
Environmental Remediation	5	2	4	4	3	**3.6**
Incentive Based Grants / Shared Investment	4	4	5	4	4	**4.2**
Direct Infrastructure Investment Program	5	3	4	4	4	**4.0**

What this analysis shows is that making changes to the assessment model to support industry competitiveness during a difficult economic time is a poor option by all measures, and there are many other approaches the province could take that would better support competitiveness. Changing the assessment model is inequitable, as it places the entire burden for industry savings onto municipalities. It is also inequitable in how the benefits are distributed, as the section above demonstrates that large companies receive significant assessment reductions, while assessment will increase for many small companies. The approach lacks tangibility in that there is no link between any cost savings provided to industry and capital investment or job creation in Alberta. The approach is also not sustainable as the aggressive depreciation curves proposed will have long-term impacts on municipalities that are even more serious than the immediate impacts summarized above. Finally, the approach is not transparent as any industry incentives are "baked" into the assessment model in a way that is not easily visible, and very difficult to change or remove when they are no longer required.

On the other hand, many alternatives in the table above score much higher in all principle categories. For example, incentive based grants/shared investments (in which government provides financial support based on a company meeting specific targets or committing to particular levels of investment) score highly in all categories, as it fairly shared the cost burden and benefits, provides a direct link between the incentive given and measurable actions taken on the part of the company, is sustainable in the sense that the incentive would not be provided if the company's action did not lead to a long-term benefit to the province, and is highly transparent as the incentive is only provided based on the company undertaking a specific action.

RMA's full submission to the Government of Alberta includes a complete analysis of all the options above. **What is important for members to consider is that the province's stated goal of using the assessment system for industry competitiveness fails in meeting every principle identified by RMA as characteristic of an effective industry competitiveness enhancement tool.** RMA can provide members with more detailed information on the tools and analysis upon request.