RMA
RURAL MUNICIPALITIES of ALBERTA

POSITION STATEMENT

Assessment Model Review

Alberta's assessment model is intended to provide a means for all properties in the province to be assigned an objective annual value for the purposes of property taxation and to inform municipal grants and requisitions. While most properties are assessed based on their market values, designated industrial properties such as wells and pipelines are assessed based on several regulated factors linked to depreciation, size, materials, etc. By attempting to use the assessment system to enhance industry competitiveness, the 2020 review and subsequent changes to how these regulated properties are assessed has compromised the objectivity of the regulated assessment model, and will result in serious fiscal impacts to municipalities, while actually compromising the competitiveness of many small oil and gas companies.

What is RMA's position on the role of Alberta's assessment system?

- Alberta's assessment model is intended to provide an objective and data-driven method to valuing properties in the province.

- Any changes to the regulated assessment models should be based on new information, new methodology, and accurately assessing new technology and equipment.

- Alberta's assessment system should not be modified or amended to address short-term challenges of a specific industry or property type.

- Tax exemption policies should not be built into the assessment system. Such policies should be implemented in a transparent and targeted manner.

What are the risks and challenges associated with using the regulated assessment system to enhance industry competitiveness?

- The regulated assessment model is highly complex and not designed to be used to provide targeted support to specific industries or property types. As such, any attempts at targeted industry support through assessment manipulation will have unintended impacts on both property owners and municipalities.

- "Ability to pay" is not a factor in the assessment process for any regulated and non-regulated property in Alberta, and should not be built into the model for wells, pipelines, and other oil and gas equipment. This should be addressed through other provincial policy tools.

2510 Sparrow Drive
Nisku, Alberta T9E 8N5

OFFICE: 780.955.3639
FAX: 780.955.3615
RMAlberta.com

POSITION STATEMENT

- Manipulating the assessment system to support industry competitiveness will have a wide range of impacts on municipal assessment values, which affect municipal revenues, grant distribution, requisition calculations, and will have both local and regional impacts across Alberta.

- A reduction in assessment will force municipalities to make a range of revenue-generation and spending changes, including some combination of raising tax rates on residential and non-residential property classes, reducing service levels, revising or cancelling intermunicipal agreements, or potentially facing non-viability. The actual impacts of the proposed changes will vary widely by municipality.

- There is no mechanism to require the oil and gas industry re-invest any cost savings received through changes to the assessment model in Alberta in the form of job creation and/or capital investment.

What is RMA's position on the outcomes of the 2020 assessment model review for regulated oil and gas properties?

- The final scenarios recommended to provincial ministers based on the review process will have severe negative impacts on rural municipalities in the form of reduced assessment values and taxation revenues.

- The final scenarios recommended to provincial ministers based on the review process have not been adequately evaluated in relation to enhancing industry competitiveness and supporting municipal viability, which the Government of Alberta identified as the two review priorities.

- The final scenarios recommended to provincial ministers based on the review process will have widely different impacts on municipalities in different regions of the province. Municipalities that primarily host older oil and gas infrastructure will be much more negatively impacted than municipalities that host newer oil and gas infrastructure.

- The data used to develop the final scenarios recommended to provincial decision-makers is incomplete, as it is based on only one year of impacts. Due to the significant changes to depreciation curves used in each scenario, the multi-year impacts of the changes will be much more impactful and must be considered in a final decision on changes to the assessment model.

- The final scenarios recommended to provincial ministers based on the review process will have significantly different impacts on oil and gas companies of different sizes. The largest oil and gas companies operating in Alberta will benefit significantly, while the smallest oil and gas companies will, in many cases, face significantly higher assessments.

2510 Sparrow Drive
Nisku, Alberta T9E 8N5

OFFICE: 780.955.3639
FAX: 780.955.3615
RMAlberta.com

How will the outcomes of the 2020 assessment model review impact municipal sustainability?

- Municipalities rely on fair, objective and consistent property assessment system to adequately plan and budget.
- Under the four scenarios proposed by the Government of Alberta, Alberta municipalities will lose between $109 million and $291 million in tax revenue in 2021, with likely increases each year as assessable property depreciates.
- Under the scenario favored by the oil and gas industry, the average rural municipality will lose over 12% of its revenues in 2021, and 10 municipalities will lose over 20% of their revenues.
- Municipalities have limited tools to generate revenue. Significantly reducing property assessments will force municipalities to increase non-residential and residential tax rates, reduce service levels, eliminate staff positions, and/or consider dissolution. A rural dissolution would have significant cost and service implications, as the average rural municipality manages 1955 kilometres of road over 120 bridges, most of which exist to provide industry access to natural resources and markets.
- Industry has formally requested that municipal tax rates be frozen for non-residential properties. This, along with the changes to the assessment model favored by industry, would require municipalities to raise their residential tax rate by an average of 199% to offset revenue losses.
- Including capital and infrastructure investment, the average municipality would be required to reduce expenses by over 16% to offset revenue losses in the oil and gas industry's preferred scenario.
- When combined with increased policing costs, reduced grant funding, and COVID-19-related property tax deferrals, many rural municipalities will lack the ability to adapt to the revenue reductions that will be the result of the scenarios proposed by the Government of Alberta.

How will the outcomes of the 2020 assessment model review impact oil and gas industry competitiveness?

- Throughout the review process, no data or information linking assessment reductions to competitiveness enhancements was provided by industry stakeholders or the Government of Alberta.
- Although the oil and gas industry as a whole will receive modest cost reductions through the reduction of

2510 Sparrow Drive
Nisku, Alberta T9E 8N5

OFFICE: 780.955.3639
FAX: 780.955.3615
RMAlberta.com

property assessment, there is absolutely no requirement or incentive that will ensure any savings benefit Alberta in the form of increased industry investment and job creation.

- Based on the Government of Alberta's proposed scenarios, the largest oil and gas companies operating in the province will receive a disproportionate share of benefits from changes to the assessment model. Small and locally-owned companies will, on average, receive significantly less benefit, and in many cases will face significant assessment increases.

- Many of the companies that will benefit most from the assessment model review have holdings worldwide and are under no obligation to reinvest savings in Alberta.

- Under the proposed changes to the assessment model favored by industry, over one-third of all oil and gas companies would face assessment increases, while the largest oil and gas companies would receive benefits that greatly exceed their share of the assessment base.

What alternatives would better enhance oil and gas industry competitiveness while supporting municipal sustainability?

- There are a wide variety of tax and policy tools available to enhance oil and gas industry competitiveness.

- Any tool to enhance industry competitiveness should be evaluated on five principles:
  - Equitable in cost-sharing – are the costs of supporting industry shared equitably among different levels of government?
  - Equitable in benefits-sharing – are the benefits of an incentive or support distributed equitably within industry and do they reach the sub-sets of industry that need it the most?
  - Tangibility - Do the benefits of the tool lead to direct, observable action by industry that provides an overall provincial benefit (capital investment, job creation, etc.)?
  - Sustainability – Does the tool prioritize long-term growth and investment for industry and is it adjustable or cancellable if it is on longer needed?
  - Transparency – Is the tool understandable to taxpayers? Are the province-wide benefits easily observable? Does the tool have a built-in means for regular review and modification?

Contact

Gerald Rhodes
Executive Director
gerald@RMAlberta.com

POSITION STATEMENT

Tasha Blumenthal
Director of External Relations and Advocacy
tasha@RMAlberta.com

Wyatt Skovron
Senior Policy Advisor
wyatt@RMAlberta.com

2510 Sparrow Drive
Nisku, Alberta T9E 8N5

OFFICE: 780.955.3639
FAX: 780.955.3615
RMAlberta.com