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Rural municipalities continue to struggle as unpaid tax amounts owed by oil and gas companies increase

Nisku, AB, February 18, 2021 – The Rural Municipalities of Alberta (RMA) has conducted a member survey identifying that approximately **\$245 million in property taxes** currently owed to rural municipalities by oil and gas companies have gone unpaid. This continues the now multi-year trend of this issue worsening, as a similar survey conducted in early 2020 showed unpaid amounts at an estimated \$173 million, and a 2019 survey estimated the amount at \$81 million. The latest survey shows a 42% increase in unpaid tax amounts compared to 2020, and a 203% increase from 2019. The \$245 million amount is based on a 100% response rate to the survey from all 69 RMA members.

Non-payment of property taxes by some oil and gas companies is an ongoing and increasingly urgent threat to the ability of rural municipalities to provide the core infrastructure and services that the oil and gas industry relies on to access natural resources. RMA members manage over 70% of Alberta's roads and 60% of Alberta's bridges, and the revenue needed to manage this critical transportation network is almost entirely derived from property taxes. If municipalities are unable to depend on taxes being paid, they may be unable to manage roads and bridges at a level required by the oil and gas and other industries.

"The fact that every rural municipality in the province took the time to complete this survey speaks to the anxiety and frustration that rural leaders are facing on this unpaid tax issue. In some municipalities, unpaid tax amounts are so high that service levels are being reduced, municipal staff are being laid off, and serious discussions are occurring about whether the municipalities can continue to function." – Paul McLaughlin, RMA President

While municipalities can take action to recover unpaid taxes on most residential and commercial properties, the oil and gas industry is subject to a legislative loophole that does not allow municipalities to place special liens or use other tax recovery tools on linear property. This puts rural municipalities in a powerless position to enforce the payment of property taxes on oil and gas companies and has made recovering unpaid taxes from both operational and non-operational companies extremely difficult. According to the member survey results, approximately 57% of unpaid taxes are the responsibilities of companies that continue to operate.

"As a homeowner, I am responsible for paying my property taxes or facing stiff penalties. Small business owners across the province are expected to pay property taxes regardless of the profitability of their business," McLaughlin said. "There is no reason why oil and gas companies should have an option to pay property taxes and face no consequences if they choose not to. Not only does this non-payment impact municipalities providing the infrastructure that those companies use every day, but it is also

disrespectful to every other homeowner and small business in the municipality who will see their taxes increase or their service levels decrease due to the irresponsibility of some oil and gas companies.”

Although this issue continues to become more serious, there are actions that could be taken by the Government of Alberta. The most straightforward provincial solution would be to amend the process through which the Alberta Energy Regulator approves the acquisition and transfer of energy licences and approvals. The current approval process uses a variety of financial criteria to determine whether an energy company has the fiscal capacity to take on additional licences. However, the process does not consider whether the acquiring company has outstanding municipal property taxes, a condition that could easily be added. The province could also amend the *Municipal Government Act* to clearly state that municipalities may use tax recovery powers available for other property types to address non-payment oil and gas property taxes. The province could also choose to no longer require municipalities to provide education property tax funds to the province on properties for which taxes are uncollectible. Under the current model, not only are municipalities not able to recover unpaid oil and gas property taxes, they are actually on the hook for forwarding a portion to the province, even if they are unable to collect it from the property owner. Unfortunately, the province has yet to take any action, despite repeatedly indicating that they take the issue seriously over the past several years.

McLauchlin said, “We appreciate that this is a complex issue, and that the province needs to thoroughly evaluate the options available. However, action is needed now. RMA and its members are willing to work with the province and the oil and gas industry to develop tools and incentives to lessen the property tax burden on industry during these difficult economic times. However, constructive dialogue will not take place while the oil and gas industry continues to take advantage of municipalities through the non-payment of property taxes, and the province stands by and does nothing. Let’s have a conversation about how municipalities, industry, and the province can work together to support one another, rather than continue to let some companies take advantage of legislative loopholes.”

It is important to note that while this is a province-wide issue, most oil and gas companies pay taxes on time, or work with the municipality to develop an agreement to defer taxes or pay through installments. Many rural municipalities have recognized the issues facing the industry in recent years and have extended payment deadlines and reduced penalties for late payments. However, some companies still prefer to simply avoid paying property taxes, regardless of the impacts on the municipality and other property owners.

“Rural municipalities and the oil and gas industry have a long history of supporting one another to grow Alberta’s economy and create vibrant rural communities,” said McLauchlin. “Now that times are tough for the industry, that partnership is needed more than ever. We understand that those not paying taxes do not represent the entire industry, and most companies understand the important role municipal service and infrastructure play in the industry’s success. We need to address this issue, ensure that oil and gas companies pay taxes the same as everyone else, and move forward on how to build strong rural industries and communities.”