

Municipal Taxation and Assessment

Municipalities require a source of revenue to maintain infrastructure and provide services. For all municipalities in Alberta, property taxes are the largest source of revenue. Rural municipalities are highly dependent on property tax revenue from the industries operating within their boundaries, and much of the revenue collected is used to maintain the roads, bridges and other services that industry relies on. It is critical that property assessments are conducted transparently and objectively, and that both assessment values and tax rates ensure that all property owners pay their fair share for municipal services and infrastructure. The ability to set tax rates that meet local infrastructure and service delivery needs is a core aspect of municipal autonomy.

What is the RMA's position on the importance of municipal taxation and assessment?

- ◆ Alberta's rural municipalities rely on a stable, fair and transparent property assessment regime to ensure they can collect the taxes needed to provide residents and businesses with municipal infrastructure and services. Any changes to Alberta's assessment regime must not proceed without an understanding of how they will impact the ability of municipalities to generate adequate revenue.
- ◆ Non-payment of municipal property taxes causes municipalities significant planning and financial challenges. Alberta's current legislation allows for different tax recovery powers for different property types. Due to the importance of property taxes to municipal sustainability, municipal tax recovery powers must be clarified and applied consistently across property types.
- ◆ While most property types in Alberta are assessed based on market value, some unique property types (such as pipelines) use a regulated assessment rate based on a formula determined by the Government of Alberta. Regulated assessment processes should be based on the most accurate and up-to-date data and methodology possible, and must not be impacted by economic or political influences.

What financial considerations do rural municipalities have with respect to municipal taxation and assessment?

- ◆ To effectively plan and budget, municipalities rely on the Government of Alberta to provide timely and accurate assessment information, such as annual assessment year modifier rates. Delays or untimely changes to this information can cause municipalities significant financial and planning challenges.
- ◆ As of January 2022, Alberta's rural municipalities are facing approximately \$253 million in unpaid taxes from the oil and gas industry.
- ◆ Recent changes made by the Government of Alberta to allow municipalities to place special liens on property to recover unpaid oil and gas property taxes provide municipalities with an important tax recovery tool that was previously lacking. However, serious doubts exist as to how these tools can be safely and effectively used by municipalities.
- ◆ Municipalities are required to collect education property taxes on behalf of the Government of Alberta. This requirement often impacts the ability of municipalities to collect adequate property taxes to support local needs.

How does the work of the RMA support a fair and objective municipal taxation and assessment system?

- ◆ The RMA collaborates with partner organizations (such as ABmunis and the Alberta Assessors' Association) to advocate on behalf of municipalities for fair, transparent and accountable assessment and taxation legislation and policies to support municipal sustainability.
- ◆ The RMA does not support the assumptions made by the Government of Alberta and the oil and gas industry that the current assessment model is unfair and that municipal property taxes are a driving contributor to the oil and gas industry's struggles. Much like any other industry, property taxes are a "cost of doing business" and directly support the municipal infrastructure that oil and gas companies rely on to access well sites.
- ◆ The RMA has taken the position that payment of municipal taxes should be a core measure of an oil and gas company's ability to operate and should be considered as a core measure of company risk by the Alberta Energy Regulator. If a company is unable or unwilling to pay municipal taxes it is likely they will struggle to meet other regulatory or environmental requirements.

What current taxation and assessment-related issues are impacting rural Alberta?

Unpaid Oil and Gas Property Taxes

- ◆ As of January 2022, Alberta's rural municipalities are facing approximately \$253 million in unpaid taxes from the oil and gas industry.
- ◆ As oil and gas prices rise and the industry recovers from previous economic struggles, there are no more excuses for oil and gas companies to not pay property taxes. Other taxpayers are not exempt from payment due to economic, industry or personal situations and such a loophole should not exist for a single industry.
- ◆ Recent changes made by the Government of Alberta to grant municipalities a special lien on property to recover unpaid oil and gas property taxes provide municipalities with an important tax recovery tool that was previously lacking. However, clarity is required as to how these tools can be safely and effectively used by municipalities.
- ◆ As the regulator of the oil and gas industry in Alberta, the Alberta Energy Regulator (AER) should be responsible for ensuring that oil and gas companies meet their property tax obligations. The AER currently monitors nearly all aspects of oil and gas companies' financial activities to ensure that they do not pose an operational risk to Albertans, and it is reasonable to include payment of property taxes within the AER's scope.
- ◆ To this point, the AER has indicated an unwillingness to become more involved in ensuring that the companies they regulate meet their property tax obligations.
- ◆ The AER's unwillingness to consider payment of property taxes in their regulatory scope does not align with the characteristics of effective regulatory bodies and reflects poor regulatory practice on the part of the AER. To learn more, review RMA's report titled *Missing the Mark: The AER and Unpaid Oil and Gas Property Taxes*.
- ◆ Although the AER amended Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals to add municipal property tax payment as a company risk factor that can be considered by

the Alberta Energy Regulator, they have provided no information on if or how this new power has been used. The RMA has significant outstanding questions as to how and to what extent the AER is considering unpaid taxes when evaluating company risk, as well as how unpaid tax information is being collected and verified.

- ◆ The AER should work directly with municipalities to collect, verify, and update unpaid oil and gas property tax information.
- ◆ The Government of Alberta should appoint an independent panel to review unpaid property taxes owed by oil and gas companies and provide legislative recommendations to empower municipalities in the tax recovery process.
- ◆ It is critical that municipalities be recognized as secure creditors for all property types, as a lack of tools and power to recover unpaid linear property taxes from bankrupt oil and gas companies has major fiscal consequences for many rural municipalities.

The Role of Alberta's Regulated Assessment System

- ◆ Any changes to Alberta's municipal taxation and assessment regime must occur through collaboration with municipal and industry stakeholders.
- ◆ 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.
- ◆ The property assessment system is intended to determine objective property values for the purpose of taxation. Politically-motivated changes to taxation levels for certain property types should not occur through modifications to the assessment system, but rather through adjustments to tax rates.
- ◆ Municipalities must have access to detailed assessment data for all property types to support municipal informed budgeting and forecasting.
- ◆ The ongoing process of centralizing industrial assessment responsibility within the Government of Alberta should not result in a reduction in the quality and accuracy of assessments. The RMA is concerned with reports that centralization has led to a reduction in in-person assessments, an increased reliance on industry self-reporting, a lack of an assessment audit mechanism, municipal difficulties in accessing assessment information, and in some cases, reduced taxation revenues for municipalities.
- ◆ Alberta's property assessment system should not be used as a tool to reduce costs for struggling industries. Municipalities depend on a stable, fair and transparent assessment system to budget and provide services, and arbitrarily reducing assessments to support specific property owners is not only unfair, but may have unintended consequences such as reduces services or municipal viability risks.
- ◆ "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.
- ◆ 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.

Municipal Support of Industry and Economic Development

- ◆ RMA members have a long history of partnering with industry to support local and province-wide economic development and continue to do so.
- ◆ 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 no 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?

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