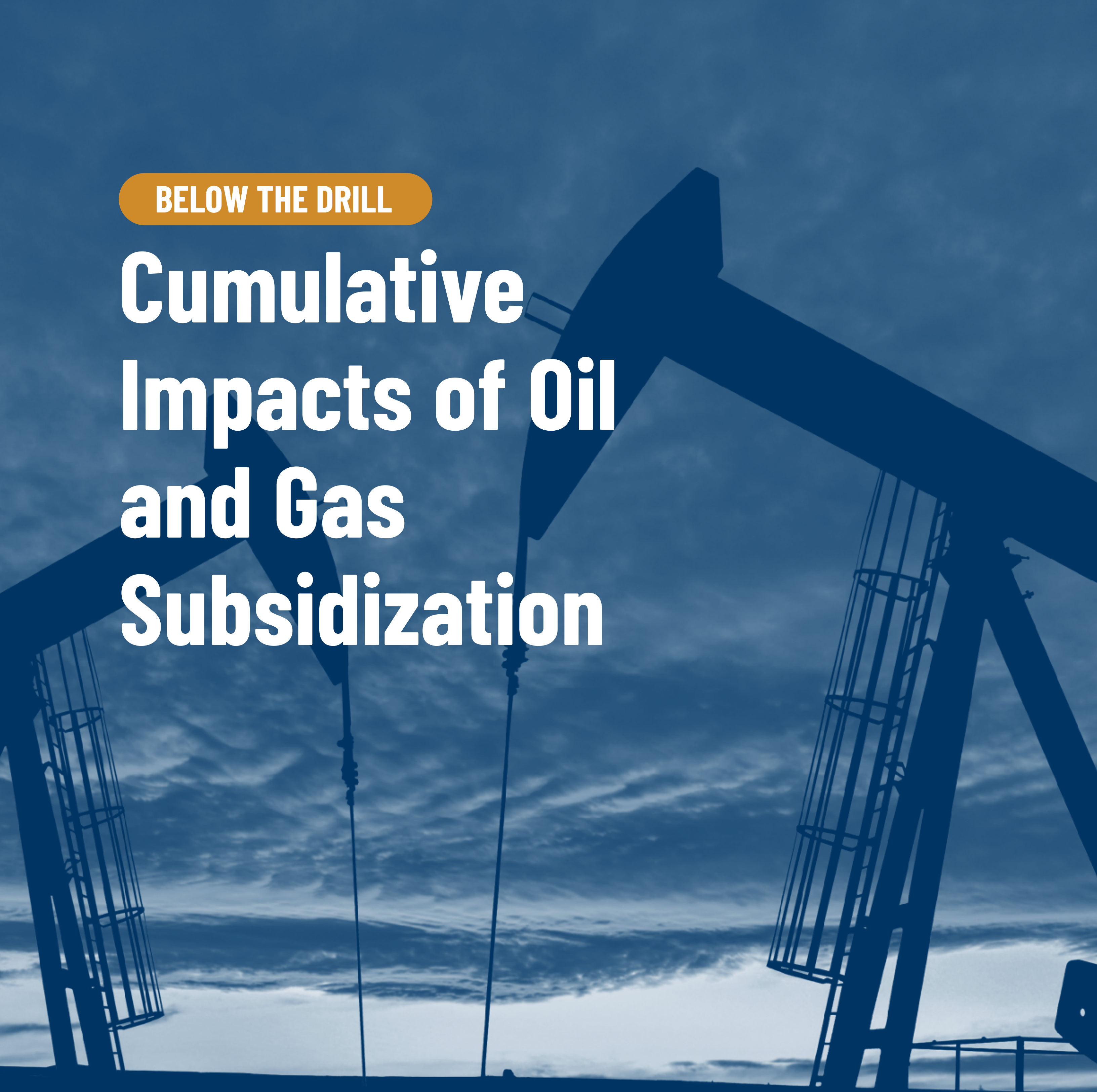

BELOW THE DRILL

Cumulative Impacts of Oil and Gas Subsidization

This is the final week of RMA's campaign to demonstrate the ongoing subsidization of the oil and gas industry by the Government of Alberta using municipal tax revenue.

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Recap

Through several policy initiatives intended to reduce property taxes paid by the oil and gas industry, the Government of Alberta (GOA) has effectively chosen to subsidize the industry using municipal tax revenues. RMA's Below the Drill campaign explored four policies by quantifying and explaining the impacts that each had on municipal finances and operations. RMA members have a long history of partnering with and supporting the oil and gas industry to drive Alberta's economic growth, but at a certain point, municipal viability is threatened when already limited revenue sources continue to be eroded.

Reductions in municipal revenues are of significant concern for RMA as provincial government grants are declining and municipalities have a limited ability to generate their own revenue. Rural municipalities require sustainable revenue that is sufficient to fund their operations and capital projects, including the roads and bridges that provide access to Alberta's oil and gas resources. Unpredictable changes in this funding, including GOA policies that reduce municipal revenue, create significant financial uncertainty for rural municipalities.

The GOA continues to explore ways to support the oil and gas industry and keep existing low-producing wells profitable. This work includes finding ways to reduce operational costs for companies that own low-producing wells, including through the further reduction of municipal taxes.

Throughout fall 2024, RMA released a series of briefing documents explaining each policy. Each is summarized below, along with an analysis of overall municipal impacts.

Well Drilling Equipment Tax Removal

The Municipal Government Act enables municipalities to implement a well drilling equipment tax (WDET). The WDET was levied on newly drilled wells based on the depth of the drilled well, intended to provide municipalities with revenue to offset the impact of the increased industrial traffic associated with drilling operations on municipal road and bridge infrastructure. The rules and rates for calculating the WDET were historically established through regulation by the Minister of Municipal Affairs.

In 2020 the GOA removed the WDET as an option for municipalities to generate revenue to offset the impact of drilling activity. The removal of the WDET happened in 2020 during a period of significant economic uncertainty and low commodity prices. In 2020, only 2,236 wells had been drilled in the province – to put this in context, an average 3,621 wells were drilled per year from 2015 to 2019 – and the removal of the WDET was intended to provide economic relief to the oil and gas industry and incentivize drilling activity. However, as commodity prices recovered, drilling rates returned to levels more consistent with historical trends (8,294 wells were drilled in 2023), suggesting that the industry clearly still sees a profitable future in Alberta.

To calculate the amount of WDET revenue lost by municipalities from 2021 to 2023, RMA retrieved the amount of WDET collected by each municipality from 2010 to 2020 from the Municipal Financial and Statistical Data page on the province's Open Data site. RMA then calculated the average WDET revenue collected by each municipality for that ten-year period. 2020 is the end point for WDET data, as that is when the WDET regulation was amended to set the tax to $0. Therefore, each municipality's ten-year average is carried forward for each of 2021, 2022, and 2023 and then totaled for all three of those years for each municipality and the whole of the province.

For tax years 2021, 2022, and 2023, the elimination of the Well Drilling Equipment Tax cost RMA members a total of $91.74 million in lost tax revenue.

Unpaid Municipal Taxes

For several years, RMA members have struggled with unpaid property taxes from some oil and gas companies. Municipalities tax industrial properties, including oil and gas wells, pipelines, and other associated infrastructure. Unlike residential or commercial properties, municipalities lack mechanisms to enforce payment of taxes on oil and gas properties, and to this point, measures taken by the Government of Alberta to compel companies to pay have been ineffective. Even if municipalities were able to seize oil and gas properties, it is unlikely to occur due to associated liability and environmental risks.

While unpaid taxes have been a challenge for many years, the issue became widespread in 2019. Since then, the total amount of unpaid taxes has continued to grow. Although many of the taxes currently owed to municipalities are currently uncollectible as the responsible companies no longer exist, many operational companies continue to ignore property taxes. The Government of Alberta has taken steps to address the non-payment of taxes such as the implementation of the Special Lien and Ministerial Order 96/2024, but these are partial solutions that have not solved the problem.

Each year RMA surveys members to obtain up to date information on unpaid taxes. Between 2021 and 2023, RMA received 100% participation from members, which speaks to both the quality of the data and the importance of this issue to member municipalities. The values reported in this document do not include taxes that have been written off ($132 million for the oil and gas sector since 2015) or taxes in a payment plan.

In total, $161.5 million in municipal taxes went unpaid by the oil and gas industry from 2021-2023. These are new outstanding tax amounts that build on historical unpaid taxes. It is important to note that this figure differs from the total cumulative unpaid tax amount previously shared by RMA, as the Below the Drill campaign focuses specifically on 2021-2023.

New Drilling Assessment Holiday

As an incentive to the oil and gas industry during the early days of the COVID-19 pandemic, the Government of Alberta announced a three-year holiday on the assessment of new wells and pipelines. This means that wells drilled and pipelines installed during the tax years of 2022 to 2024 will not pay any municipal taxes during that period.

The assessment holiday was announced in 2020 as a temporary relief for the oil and gas industry, and applied to tax years 2022, 2023, and 2024. Municipal Affairs provided data on the assessment lost by municipality for each year. RMA then calculated the tax value lost in each municipality by multiplying the assessment data by the local mill rate for that year.

The assessment holiday on new wells and pipelines cost RMA members $52.6 million in taxes for the period of 2021-2023. While the holiday applies to additional years, 2021-2023 is reported here for consistency with the other policies explored in Below the Drill.

Shallow Gas Assessment Reduction

As an incentive to producers operating shallow gas wells and pipelines, the Government of Alberta (GOA) announced a three-year 35% assessment reduction for shallow gas wells and associated pipelines. The assessment reduction was first announced for the 2019, 2020, and 2021 tax years, but was later extended indefinitely and remains in effect. This GOA initiative came at a time of very low natural gas prices and was an attempt to decrease costs for operators holding assets that tend to be lower producing.

Municipal Affairs only provided data on the impacts of the shallow gas reduction for 2023; therefore, for the 2021 and 2022 tax years, RMA assumed that the data was the same as 2023. Similar to the tax holiday explored in the previous issue explained above, RMA calculated the loss in tax revenue by multiplying the assessment data by local mill rates in each RMA member municipality.

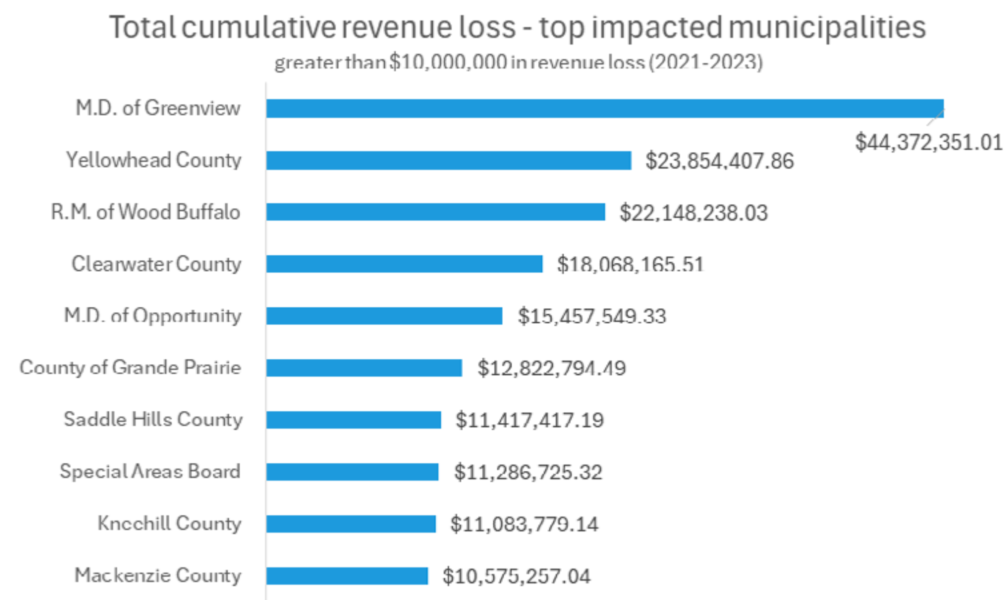
From 2021 to 2023, the shallow gas assessment reduction cost RMA members $25.4 million in lost tax revenue.

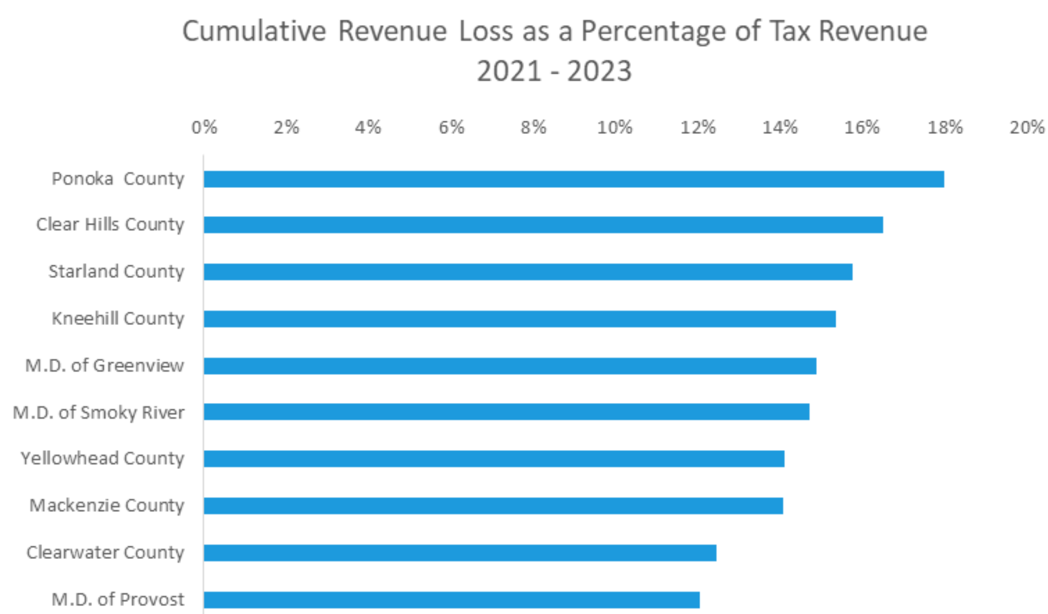
Cumulative Impacts

In total, the GOA's subsidization of the oil and gas industry at the expense of municipal taxes have led to RMA members losing out on more than $331 million in tax revenues from 2021 to 2023. These impacts are widespread and impact every municipality in the province, but certain regions have been hit harder by these policies.

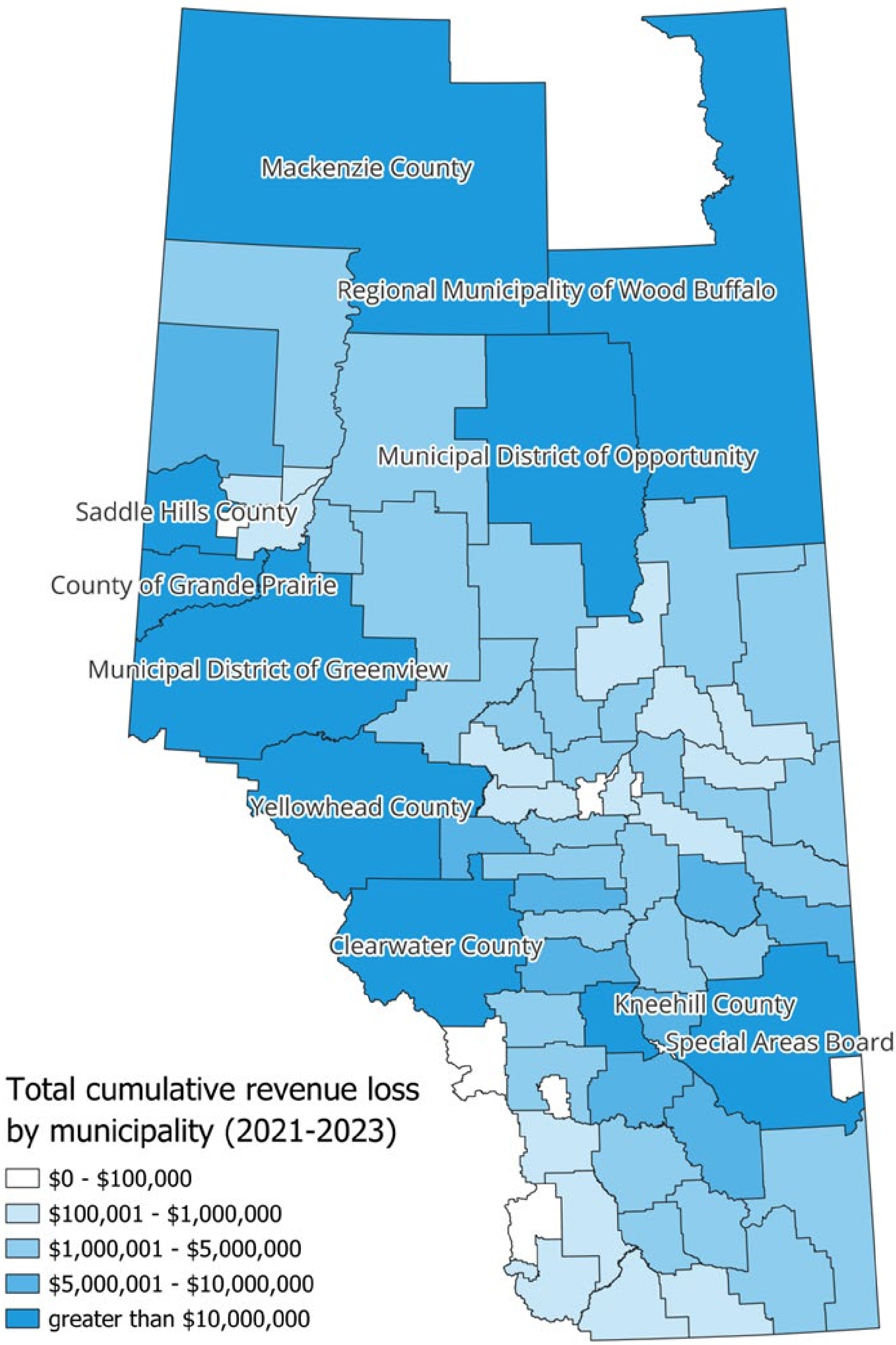
Overall, the impacts of subsidization are greatest for municipalities in the northern and western regions of Alberta, with significant impacts also seen in southeastern areas. However, it is important to consider that impacts can be measured in different ways. Many of the municipalities most impacted in terms of dollars lost also host significant development and have relatively large overall budgets. Some municipalities have lost les in terms of dollars, but their losses represent a much larger portion of overall budgets or tax revenues.

The specific policy driving the loss in revenue varies geographically as well. The removal of the WDET had the greatest impact in northwestern Alberta while the 35% reduction in assessment for shallow gas wells had the greatest impact in southeastern Alberta. While the policy driving the loss in revenue may change, our results show that cumulatively every corner of the province is impacted. This suggests that the overall subsidization approach was not targeted to sub-sets of the larger sector that may be facing specific economic challenges or barriers. In fact, the removal of the WDET could be argued to specifically benefit companies with the financial means to expand by drilling new wells. To RMA's knowledge, the GOA has not evaluated any of the subsidization policies to determine if, how, and to what extent they did or did not drive industry growth. This means that although their negative impacts on municipalities are well known by RMA members, there is no data or evidence available that they led to any new activity that would not have occurred regardless.





A different way to view the cumulative loss in revenue is as a percentage of the total tax revenue during the same period. As can be seen, the most impacted municipalities have lost more than 10% of their tax revenue. Additionally, while there are some similarities to the total impact graph, many of the most impacted municipalities as a portion of total tax revenue are not included in the first graph. This demonstrates that while the dollar value of lost revenue may be lower in some municipalities, there are still significant impacts on their budget decisions as it represents a substantial portion of their tax revenue. From an equity perspective, it is important for the GOA to consider if their policies are placing a disproportionate burden on municipalities with less ability to generate revenue.


Mackenzie County
Regional Municipality of Wood Buffalo
Municipal District of Opportunity
Saddle Hills County
County of Grande Prairie
Municipal District of Greenview
Yellowhead County
Clearwater County
Kneehill County
Special Areas Board
Total cumulative revenue loss by municipality (2021-2023)
$0 - $100,000
$100,001 - $1,000,000
$1,000,001 - $5,000,000
$5,000,001 - $10,000,000
greater than $10,000,000

Get Involved

RMA is encouraging members to speak with their local MLA to educate them on the policies detailed in Below the Drill and the impact they have in your municipality. It is likely that many MLAs are not aware of the impact of these policies, and they can be key allies in putting pressure on Cabinet to stop viewing municipal tax revenues as a source of money to subsidize industries. In addition to sharing the total loss in municipal revenue as a result of these policies, it will be helpful for members to share with MLAs what the loss in revenue has meant locally. Were service levels decreased? Were projects deferred to a later date? Did other ratepayers face increased taxes? These examples are critical to helping MLAs understand the impact of these policies.