

# Assessment Model Review – Wells & Pipelines

## Background

The Ministry of Municipal Affairs and the Associate Ministry of Natural Gas and Electricity have been jointly leading a confidential stakeholder engagement process on assessment model changes for wells and pipelines since January 2020.

Stakeholders involved, in addition to AUMA, include:

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

The process was embargoed until late July, at which time AUMA and RMA, and their members, started speaking out about their concerns with the proposed changes.

The provincial government has stated that the goal of the review is to modernize the assessment model for oil and gas properties to enhance industry competitiveness, while ensuring municipal viability.

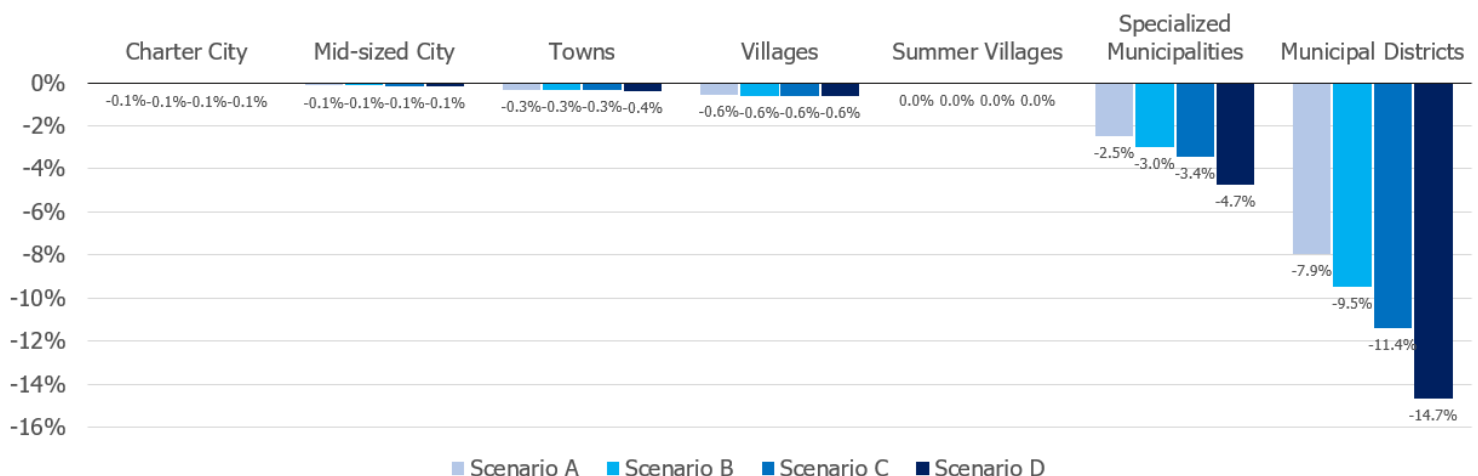
Four scenarios (labeled A, B, C and D) propose a mix of changes to the assessment of oil and gas wells, pipelines, and associated M&E including:

- Increased depreciation rates
  - Scenario D, which has the greatest negative impacts for municipalities, proposes:
    - to reduce the assessed value of a well by 85 % after 16 years; and
    - an overall 85% reduction in assessed value of pipelines when fully depreciated.
- Introducing adjustment factors applied to deep horizontal wells, SAGD wells, and/or pipes greater than 10 inches.
- Changing what types of construction costs are assessed.
- Changing the land assessment value based on the property's state of depreciation.

## Impacts to Municipalities

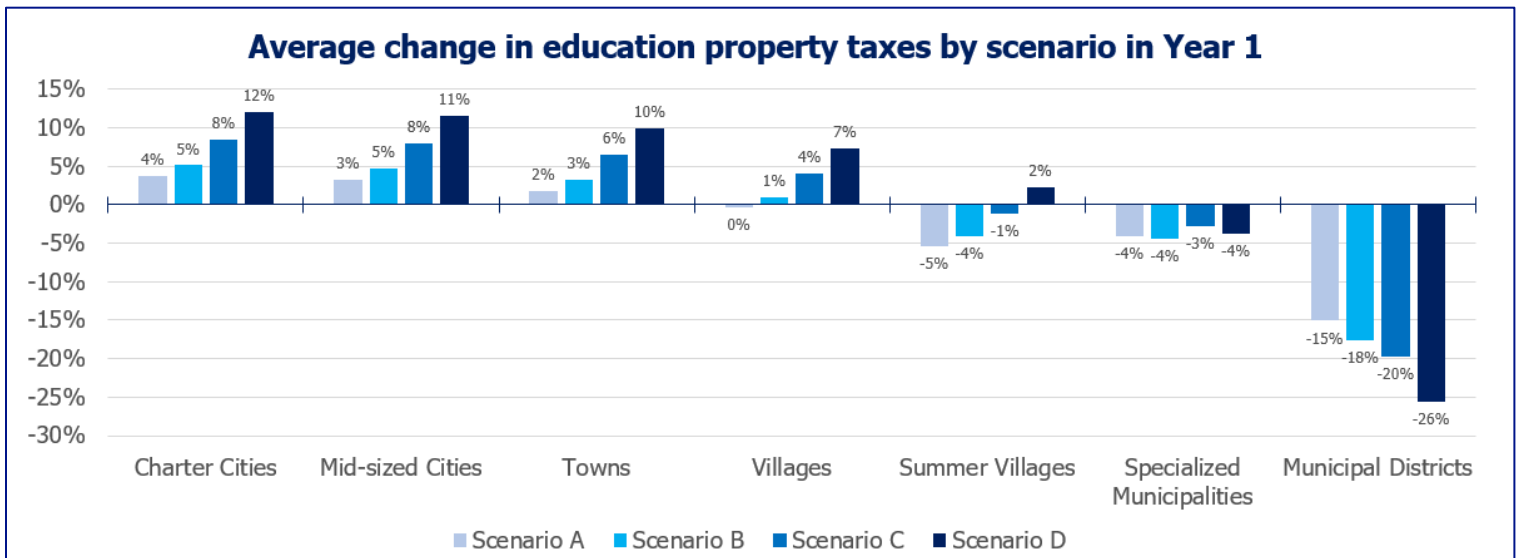
Depending on the scenario, total loss of municipal tax revenues in the first year will be \$117 million to \$301 million. After year 1, the steeper depreciation rates will lead to further declines in assessment in future years. The greatest losses in tax revenues will be in rural municipalities. Many municipalities will be forced to increase residential and/or non-residential taxes; and/or reduce service levels and staff. Some may also have to review their viability and consider amalgamation.

### Average Change in Assessment – Year 1



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If the province were to implement Scenario D, municipal districts would collect approximately \$70 million less in education property taxes in year 1, and this tax burden would then shift to residences and businesses in urban municipalities.



## Shortcomings of the Proposed Models

- Mainly benefits large oil and gas companies.
- No guarantee that the tax savings will be reinvested in Alberta through new jobs or capital investment.
- Tax reductions are permanent even if commodity prices change.
- Uses assessment methodology to meet tax policy goals, which violates the principles of property assessment.
- Puts the sustainability of cost-sharing agreements and viability of small communities at risk.
- Shifts a greater share of provincial education property tax onto other residences and businesses.
- Shifts a greater share of the new police costing model onto towns and villages with under 5,000 population.
- Province has not shared a forecast of the long-term impacts.

## Potential Solutions

- Abandon changes to the assessment model in favour of incentive-based tax reductions for companies investing in Alberta.
- Alberta Energy develop programs and incentives for oil and gas companies.
- Province shares in any tax reductions by reducing education property taxes.

## Who we are

The Alberta Urban Municipalities Association represents urban municipalities including cities, towns, villages, summer villages and specialized municipalities and more than 85% of Albertans. It is a dynamic and evolving association, advocating the interests of members to the provincial and federal orders of government and other stakeholders.

