



Assessment Model Review

Webinar and Discussion | August 21, 2020



Assessment Model Review – Presentation Outline

1. Background and Regulated Assessment Model Overview
2. Review Process and Proposed Changes
3. Analysis of Impacts
4. Shortcomings of Proposed Changes
5. Potential Alternative Solutions
6. Next Steps for AUMA and Members



- This presentation is laid out in sections in order to build up your knowledge of the Assessment Model for Regulated Properties, such as Wells and Pipelines
- explain the changes to the model as being contemplated by the Provincial Government
- identify the impacts of those changes
- the problems with those proposed changes
- Identify alternative solutions
- And lastly, what the next steps are for AUMA and its Members

Background and Purpose of the Assessment Model Review

- The Government of Alberta states 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.
- To-date the review has focused on the following properties:
 - Oil and gas wells and pipelines
 - Machinery and equipment (M&E) associated with well sites and facilities



- As many of you know, the Government of Alberta has been undertaking a review of the assessment model for regulated properties.
- At this time, this review only encompasses oil and gas wells, pipelines, and machinery and equipment that is associated with oil and gas wells and facilities.
- In January of this year, Municipal Affairs and the Associate Ministry of Natural Gas and Electricity initiated a confidential stakeholder engagement process as part of the review.
- During this time, all parties involved in the engagement process, including AUMA, were embargoed from sharing detailed information regarding the review.
- In late July, the parties were informed that the confidential portion of the process was complete, so we are now able to inform you about what the review has entailed to date.
- Earlier this week, we sent emails to all members providing initial details on how the Assessment Model Review could impact your municipality.
- RMA and its members have been very active in addressing the government and MLAs over the past couple of weeks and we expect they will continue their efforts in the coming weeks.
- AUMA has worked closely with RMA during the stakeholder process and is aligned with them on numerous concerns about what the province is proposing; however, we must discuss and solidify the views of AUMA members to ensure that the urban perspective is also heard by the province.
- It is common process for the province to review assessment policy on a regular basis, the current proposals on the table and the scope of engagement on this file are unique.
- The Government of Alberta 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.
- As mentioned, to-date the review has **only** focused on oil and gas wells, pipelines, and machinery and equipment (M&E) associated with well sites and facilities.
- The following pages provide background on regulated assessment and on the Assessment Model Review.

Overview of Regulated Assessment

- Some property in Alberta is assessed using regulated rates (versus a market-based system) because the property:
 - Seldom sells in the open market;
 - Crosses one or more municipal boundaries; or
 - Is of a unique nature.
- Regulated property includes farmland, machinery and equipment, and designated industrial property
 - Designated industrial property includes oil and gas wells, pipelines, railways, telecommunications, electric power systems, major industrial plants, and other similar property



- The following, explains how regulated assessment is different from market-based assessment.
- Most residential and commercial properties in Alberta are assessed using a market-based standard, where there is sufficient information available to determine how much that property would sell for on the open market between a willing buyer and seller.
- In contrast, there are other types of property in Alberta that are assessed using regulated rates because the property seldom sells in the open market, or it crosses a municipal boundary, or it has unique features that the province wants to deal with through a regulated assessment model.
- Properties that are assessed using a regulated model include farmland, machinery and equipment, and designated industrial property.
- Designated industrial property includes oil and gas wells, pipelines, railways, telecommunications systems, and electric power systems.
- Major industrial plants such as refineries and lumber mills are also considered designated industrial property.
- While most of these properties could be assessed at full market value by estimating future income to be generated from the property, the province at one point in time felt these properties should be assessed using a regulated approach so that they could achieve certain tax policy goals through adjustments to assessment.

How is Designated Industrial Property and Machinery and Equipment (M&E) currently assessed?

A. Take the cost to construct the property less any excluded costs.

B. Apply an assessment year modifier to bring the construction costs to current day value.

C. Less depreciation of the property per the provincial government's depreciation schedule policy.

D. Less any additional depreciation to reflect a specific loss in property value.



- The process to assess Designated Industrial Property and M&E is quite complex, but here is a quick break down.
- You start by taking the cost to construct the property and then remove any costs that are excluded under the province's assessment rules.
- Then you apply an assessment year modifier to bring the construction cost to current day value.
- This is similar to a price index and the rates are set each year by the Minister of Municipal Affairs.
- The next step is to calculate the depreciation of the property, which is prescribed in the Minister's Guidelines.
- Lastly, the assessor may deduct additional depreciation to reflect a specific loss in property value.
- Let's now move jump into the details of this current assessment model review.

Stakeholders involved in the 2020 review

Municipal

- Alberta Urban Municipalities Association
- Rural Municipalities Association

Industry

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



- A Technical Review of the assessment models was previously completed in 2018 and 2019 which focused on the Minister's Guidelines for M&E and wells and pipeline.
- Industry associations were part of that review.
- Certain municipal assessors were also part of the review, but they were told that they could not discuss the review with their municipality or the Alberta Assessors' Association.
- That technical review took about a year and a half, but the recommendations put forth by the committee were never implemented.
- AUMA was aware of the technical review but was not invited to participate in that work.
- Then in January of this year, both AUMA and RMA were invited to participate in a stakeholder engagement process on the assessment model.
- Four industry associations were also represented in the process.
- Again, this work was embargoed, so instead of being able to consult members, AUMA and RMA consulted experts in tax policy and data analysis to support our involvement in the review.

What is being proposed?

- Four scenarios propose a mix of changes to the assessment of oil and gas wells, pipelines, and associated M&E including:
 - > Change in use of the Construction Cost Report Guide
 - > Increased depreciation rates
 - > Adjustment factor applied to deep horizontal wells, SAGD wells, and/or pipes greater than 10 inches
 - > Change in land assessment value based on the property's state of depreciation
- Depending on the scenario, total loss of municipal tax revenues in the first year could be \$117 million to \$301 million.
- Currently under review by cabinet.



- During this review process, the province developed four scenarios.
- The 4 scenarios developed, were labeled as Scenario A, B, C and D.
- Each scenario proposed various technical changes to the assessment model with the underlying goal of reducing the amount of property tax that the oil and gas industry pays for its property.
- The scenarios propose a mix of changes including:
 1. Changing what types of costs are assessed,
 2. Changing the depreciation rates to reduce the value of assessment,
 3. Introducing adjustment factors for specific types of property such as deep horizontal wells, pipes that are over 10 inches in diameter, and steam assisted gravity drainage wells, or more commonly known as SAGD [SAG-D] wells; and
 4. Changing the land assessment value based on the property's age and where it stands on the depreciation schedule.
- Overall, if any of these scenarios were to be implemented, the total estimated loss in municipal tax revenue in just the first year would be between \$117 million and \$301 million.
- The majority of the loss in assessment is in rural municipalities, but there are impacts on urban municipalities too, which I'll talk about in a couple of minutes.
- We must be clear that AUMA was not involved in designing these scenarios.
- While AUMA and RMA would have liked to come to the table with solutions, and in fact we did bring other solutions forward, we found that our role was limited to questioning the intent and reasonableness of the proposed changes and seeking justification on why the principles of assessment were being violated to achieve specific taxation policy goals.

Proposals for Assessment of Wells

| | Current | Scenario A | Scenario B | Scenario C | Scenario D |
|-------------------------|------------------------------------|--|--|--|--|
| Base Costs | Per CCRG | CCRG costs are removed | CCRG costs are removed | CCRG costs are removed | CCRG costs are removed |
| Depreciation | 67% of asset value | Begin at 90% of asset value and reduce to 10% after 16 years | Begin at 75% of asset value and reduce to 10% after 16 years | Begin at 75% of asset value and reduce to 10% after 16 years | Begin at 75% of asset value and reduce to 10% after 16 years |
| Additional Depreciation | Production | None | None | None | 0.10 for zero production |
| Land Assessment | Rates ranging from 1,766 to 12,792 | No change | Reduced to zero when maximum depreciation is reached | Reduced to zero when maximum depreciation is reached | Reduce single pad wells by 70% and multi-pad wells by 88% |
| Adjustment Factor | None | Factor of 0.65 applied to deep horizontal wells | Factor of 0.65 applied to deep horizontal wells and 0.80 applied to SAGD wells | Factor of 0.65 applied to SAGD wells | Factor of 0.65 applied to SAGD wells |

Source: RMA's Assessment Model Review – Outcomes Summary Report, August 2020



- The next three slides provide a high-level overview of some of the proposed changes under each scenario.
- This table shows the proposed changes for the assessment of **Wells**.
- Focusing on Scenario D as it proposes the most significant impact to municipal finances.
- The most notable item is the proposal to change the depreciation schedule.
- Currently, when a new well is built, its value is automatically depreciated to 67% of its construction cost and then it remains at that level for the life of the asset.
- This measure was implemented in the late 80's or early 90's to adjust to an assessment shift and has remained there ever since.
- Scenario D proposes to change the depreciation schedule so that a new well will be assessed at 75% of its asset value at the beginning and then drops by 8 per cent in the first year, and then 4 per cent per year thereafter until year 16 when it reaches the maximum depreciation of 10 per cent of its value.
- Scenario D also proposes to reduce the current land assessment values for single pad wells by 70 per cent and reduce multi-pad wells by 88 per cent.
- The last point to mention is Scenario D proposes to add an adjustment factor that reduces the assessment of a SAGD well by an additional 35 per cent.

Proposals for Assessment of Pipelines

| | Current | Scenario A | Scenario B | Scenario C | Scenario D |
|-------------------------|--------------------|---|---|---|---|
| Base Costs | Per CCRG | CCRG costs are removed | CCRG costs are removed | CCRG costs are removed | CCRG costs are removed |
| Depreciation | 67% of asset value | Pipes <10" begin at 90% of asset value and reduce to 10% after 16 years and pipes >10" max after 26 years | Pipes <10" begin at 90% of asset value and reduce to 10% after 16 years and pipes >10" max after 26 years | Pipes <10" begin at 75% of asset value and reduce to 10% after 16 years and pipes >10" max after 26 years | Pipes <10" begin at 75% of asset value and reduce to 10% after 16 years and pipes >10" max after 26 years |
| Multi line adjustment | Not applicable | 0.80 factor applied to pipes >10" | 0.80 factor applied to pipes >10" | 0.80 factor applied to pipes >10" | 0.70 factor applied to pipes >10" |
| Additional Depreciation | Production | 0.95 for CFB Suffield | 0.95 for CFB Suffield | 0.95 for CFB Suffield | 0.95 for CFB Suffield |
| Land Assessment | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| Adjustment Factor | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| Age | Not applicable | Updated to reflect new information | Updated to reflect new information | Updated to reflect new information | Updated to reflect new information |

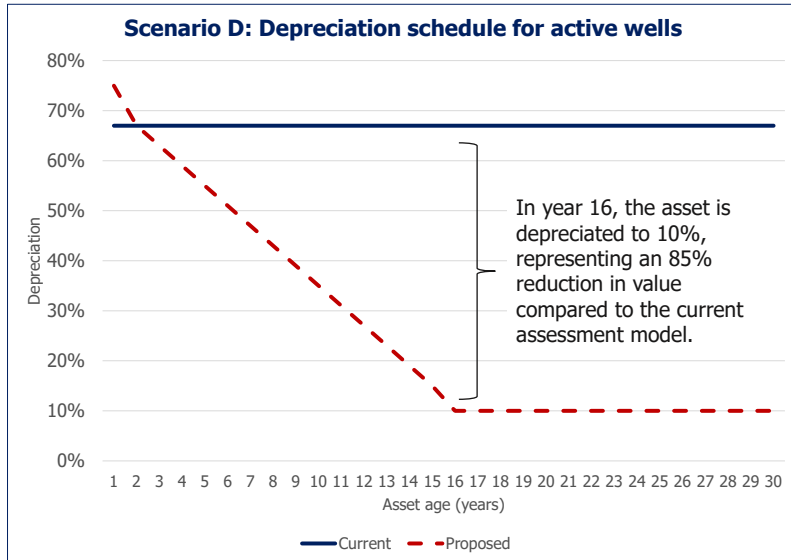
Source: RMA's Assessment Model Review – Outcomes Summary Report, August 2020



- This table outlines the proposed changes to the assessment of **Pipelines**.
- Again, Scenario D proposes to change the depreciation schedule to reduce assessment values and proposes different depreciation rates depending on the diameter of the pipe.
- Certain costs associated with the Construction Cost Reporting Guide, or CCRG, would be removed and an adjustment factor would be applied to pipes over 10 inches in diameter.

Example

Scenario D proposes to reduce the assessed value of a well by 85% after 16 years.



Source: RMA's Summary of Changes to Depreciation Report, August 2020



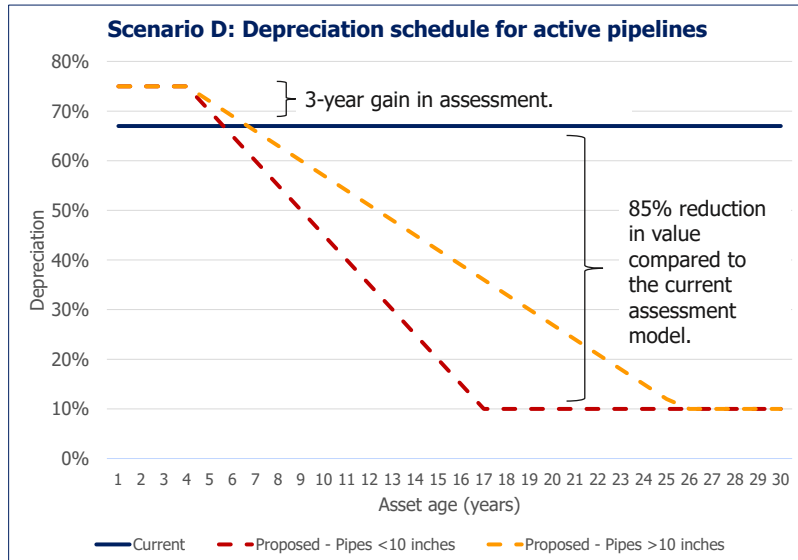
- For context, this graph shows how depreciation would change under Scenario D, which is the scenario that has the greatest impact on assessment values.
- Currently, an active well will be assessed at 67 per cent of its construction cost every year, no matter its age as long as the well is producing.
- As mentioned, Scenario D proposes to increase the starting rate of depreciation to 75 per cent of the asset value, but then drop by 8 per cent in year one, and then 4 per cent each year thereafter.
- Once the well has been active for 16 years, then it will reach its maximum depreciation and only be assessed at 10 per cent of its value.
- Overall, this results in an 85 per cent reduction in a well's assessed value after 16 years of operation.
- The Canadian Association of Petroleum Producers, or CAPP, reports that the average oil or natural gas well will operate for 20 to 30 years.

[REFERENCE: <https://www.capp.ca/explore/life-cycle-of-a-well/#:~:text=The%20average%20life%20span%20of%20an%20oil%20or%20natural,is%2020%20to%2030%20years.>]

- This means that industry would only pay 10 per cent of a property's value for many years of its remaining operating life.

Example

Scenario D proposes different depreciation schedules based on size of pipeline, but the overall impact is an 85% reduction in assessed value of pipelines when fully depreciated.

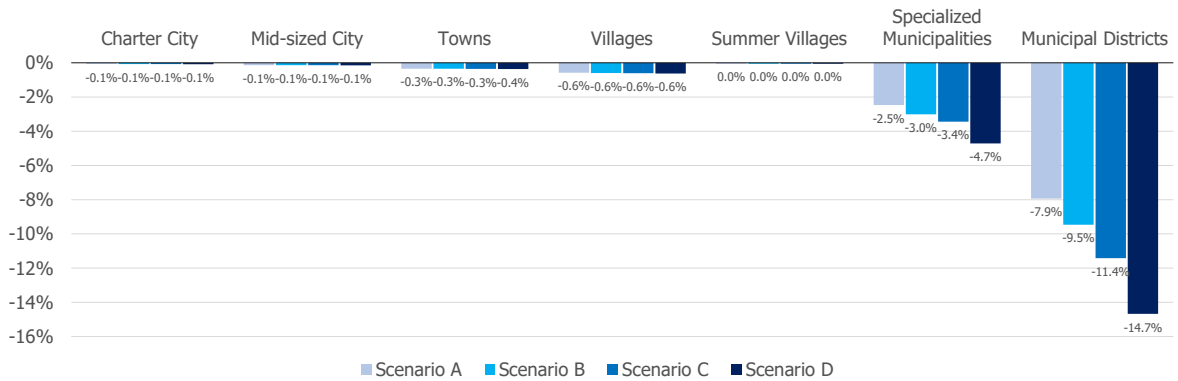


- This graph shows the proposed change in depreciation schedules for pipelines.
- Similar to wells, pipelines are currently depreciated at a flat rate of 67 per cent of asset value per year.
- Scenario D proposes to increase the starting rate to 75 per cent for the first four years and then drop each year thereafter depending on whether the pipe is smaller or larger than 10 inches in diameter.
- The outcome still results in an 85 per cent reduction in value compared to today's model.
- What is interesting to note is that industry is proposing to depreciate a pipeline to 10 per cent of asset value after only 16 or 26 years, but a 2016 story by Enbridge states that pipelines actually have an indefinite lifespan if they are property operated, monitored and maintained.

[REFERENCE: <https://www.enbridge.com/stories/2016/september/line-5-segment-well-built-well-maintained-pipeline>]

- As such, a pipeline could continue to operate for many years but only pay a fraction of the property tax that any other type of property would pay based on its value.

Average Change in Total Assessment in Year 1



- After year 1, the steeper depreciation rates will lead to further declines in assessment in future years.



Note: Figures are based on 2018 equalized assessment.

- When looking at the big picture, here is how assessment would change in the first year if one of the scenarios is implemented.
- The light blue bars represent Scenario A with the darkest blue representing Scenario D.
- The reduction in assessment values for most cities, towns, villages and summer villages would be minimal because the vast majority of wells and pipelines are located within rural municipalities.
- The graph shows that the average municipal district would see a loss of between 8 to 15 per cent in assessment, depending on the scenario.
- A reminder that this only represents the changes in year 1.
- Unfortunately, the province has not provided any forecasts of the long-term impacts, but it is understood that there would be further reductions associated with the depreciation rates.

Projected Impact on Municipal Districts/Counties

| | Scenario A | Scenario B | Scenario C | Scenario D |
|--|------------|------------|------------|------------|
| Average change in total revenue | -7% | -8% | -10% | -13% |
| Highest gain in total revenue | 13% | 11% | n/a | n/a |
| Highest loss in total revenue | -31% | -32% | -32% | -34% |
| % of municipal districts that lose more than 5% of total revenue | 56% | 66% | 77% | 84% |

- The loss in revenue will force rural municipalities to:
 - Increase residential taxes and/or non-residential taxes;
 - Reduce service levels and staff;
 - Reduce costs in other areas, or a combination of all approaches.
- Risk to viability for some municipal districts.

Note: Based on figures provided by AB Municipal Affairs and RMA and own calculations using 2018 equalized assessment and 2019 property tax rates.



- Over the past two weeks, many municipal districts put out news releases talking about the how much revenue they could lose if the proposals went forward.
- Each municipal district is impacted differently depending on the amount of wells and pipelines within their boundaries, and it also depends on the type of wells and size of pipelines because the proposals suggest different treatment for SAGD wells vs. deep horizontal wells.
- Under Scenario A and B, five municipal districts would actually see an increase in assessment, resulting in an increase in revenue.
- However, the vast majority of municipal districts would experience a decline in assessment values and property tax revenue.
- In some cases, a few municipal districts would lose over 30 per cent of their revenue.
- In general terms, the average municipal district would experience a revenue loss of approximately 7 to 13 per cent, depending on the scenario.
- These are big numbers that would force municipal districts to consider major changes such as:
 - Significant increases to residential or non-residential tax rates,
 - Reduce staff and service levels, or a combination of both.
- For context, industry is advocating for Scenario D, and if implemented, RMA has communicated that the average municipal district would need to increase their residential mill rate by over 200 per cent or their non-residential mill rate by over 35 per cent to recoup the lost revenue.
- RMA has even suggested that some municipal districts might not be viable if Scenario C or D were to be implemented.
- AUMA supports RMA and its members, with the position that amending the Assessment Model is an improper method to support the Oil and Gas industry, it is to be remembered that while a 200 per cent increase in residential tax rates would be excessive in the short term, urban municipalities have long noted the significant difference in residential rates between urban and rural municipalities.
- In 2018, the average municipal district's residential mill rate was half the amount of the average rate for a town or village.
- When you consider that rural residents can access all the same recreation and social programs that are offered in urban municipalities, and if a fair cost-sharing agreement is in place, then rural residential tax rates should likely be more equitable with urban tax rates.

Average Change in Total Revenue for Urban Municipalities

| | Scenario A | Scenario B | Scenario C | Scenario D |
|----------------------------|------------|------------|------------|------------|
| Charter Cities | -0.05% | -0.06% | -0.06% | -0.06% |
| Mid-Sized Cities | -0.07% | -0.07% | -0.07% | -0.08% |
| Towns | -0.17% | -0.17% | -0.18% | -0.18% |
| Villages | -0.23% | -0.24% | -0.25% | -0.26% |
| Summer Villages | -0.03% | -0.03% | -0.03% | -0.03% |
| Specialized Municipalities | -1.97% | -2.47% | -2.87% | -4.06% |

Notable losses in total revenue

| | | | | |
|--------------------|--------|--------|--------|--------|
| Town of Sundre | -0.84% | -0.96% | -0.96% | -0.99% |
| Town of Swan Hills | -1.24% | -0.93% | -1.28% | -1.39% |
| Village of Chauvin | -2.63% | -2.62% | -2.64% | -2.67% |

Note: Based on figures provided by AB Municipal Affairs and RMA and own calculations using 2018 equalized assessment and 2019 property tax rates.



- As for urban municipalities, the direct impact on revenue looks quite different.
- In most cases, cities, towns, villages and summer villages will see revenue losses of 0.1 per cent to 0.3 percent.
- The losses are more severe for municipalities such as Sundre, Swan Hills, and Chauvin where losses could range between 0.8 to 2.7 per cent.
- In Chauvin's case, to recoup their revenue, they would be looking at a 19 per cent increase to their residential mill rate or over 50 per cent for their non-residential mill rate.
- Calgary could lose up to \$2.3 million in tax revenue and Edmonton would lose over \$3 million.
- Other notables are the Town of Drayton Valley would lose up to \$245,000 and the Town of Sundre would lose up to \$95,000.

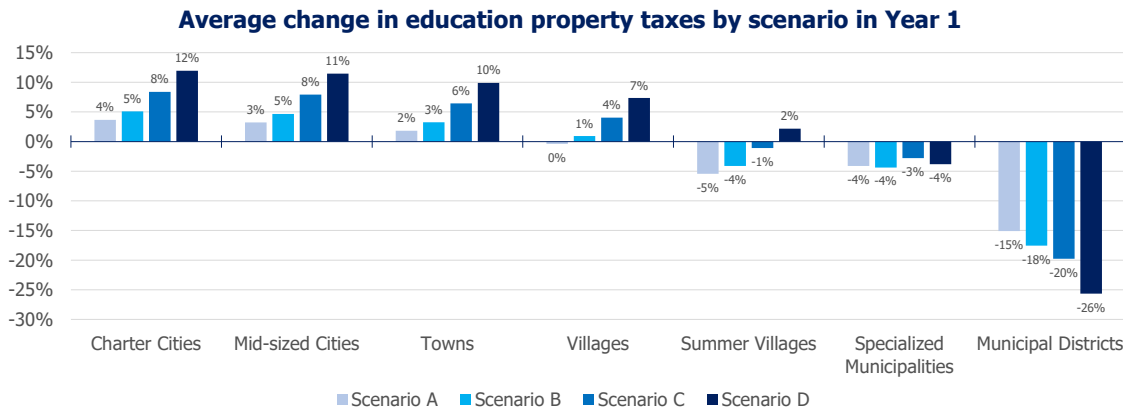
Projected Impact on Urban Municipalities

- A proportion of provincial education property taxes will shift onto urban property owners.
- Urban municipalities under 5,000 population will be responsible for a greater portion of costs under the new police costing model due to the program's link to assessment.
- Risk to the sustainability of cost-sharing agreements and viability of small communities.



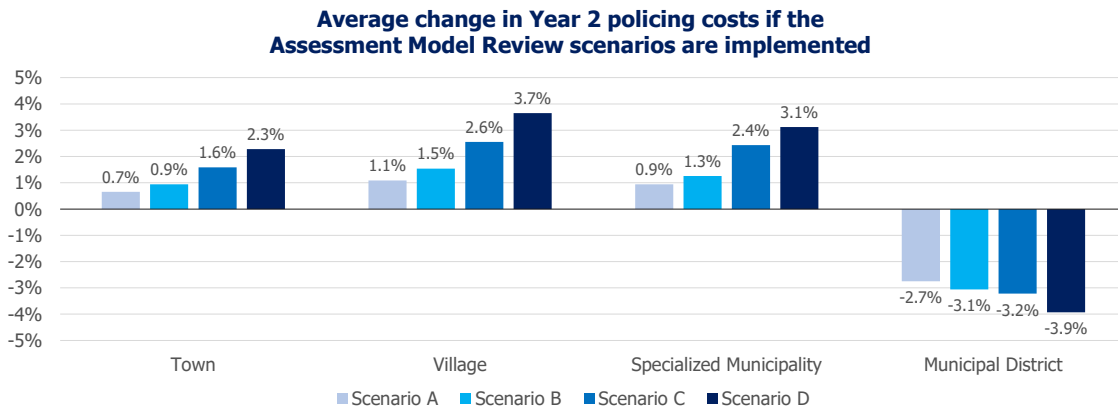
- The far bigger issues for urban municipalities are the indirect outcomes for programs that are linked to assessment.
- Since education property taxes are based on assessment, the reduction in assessment in rural municipalities could mean that urban municipalities become responsible for a greater portion of provincial education property taxes (detailed on next page).
- The new police costing model is also linked to assessment values so the reduction in rural assessment would result in a slight cost increase in police costs for towns and villages that are under 5,000 population.
- Lastly, AUMA is aware that many rural municipalities are approaching their neighbouring town or village and warning that if the province implements any of these scenarios, then any current cost sharing agreements with urban neighbours could be at risk.
- This is problematic as ICF agreements are not about revenue sharing, these are cost-sharing agreements.
- If there is a cost to deliver a service and it is being used by both urban and rural residents, then there should be no reason why a cost-sharing agreement becomes invalid.
- We encourage members to be diligent in using the existing legislative tools to ensure that you create or maintain a fair cost-sharing agreement for the benefit of your residents and businesses.

Education property tax will shift from rural to urban municipalities



- Currently, the province collects approximately \$2.6 Billion in total education property taxes, and of that amount \$940 million is from non-residential properties.
- If the province were to proceed with amending the Assessment model as indicated, then rural assessment values will drop.
- What isn't clear is whether the province is willing to take a corresponding reduction in education property taxes.
- If the province still wants to collect at least \$940 million in education property taxes from non-residential properties, then property owners in urban municipalities will be forced to pick up the tab.
- Under Scenario D, municipal districts would collect approximately \$70 million less in education property taxes, and this tax burden would then shift to urban municipalities.
- \$50 million would shift onto Calgary and Edmonton non-residential taxpayers and the remaining \$20 million would be spread over all other municipalities.
- The graph shows us what the outcome would be for the average municipality.
- For example, under Scenario D, the average municipal district would see their education property taxes reduce by 26 per cent in that year.
- However, the average town would see their education property taxes increase by 10 per cent and the average village would increase be 7 per cent.
- This is very concerning and would present significant political challenges for municipal elected officials to explain why property taxes are increasing to that degree.

Policing costs will shift from rural to urban municipalities



- Another indirect outcome of the assessment review model is that a reduction in rural assessment values would force towns and villages under 5,000 population to pay more under the new police costing model.
- This is because the base amount under the police costing model is calculated based on 50 per cent population and 50 per cent assessment.
- For example, under Scenario D, the average municipal district would pay 3.9 per cent less in policing costs in 2021 but the average village would pay 3.7 per cent more.
- For most villages, this only amounts to a few hundred dollars, but you should still be aware of this potential outcome.

Shortcomings of the Proposed Models (1 of 2)

1. Mainly benefits large oil and gas companies.
2. No guarantee that the tax savings will be reinvested in Alberta through new jobs or capital investment.
3. Tax reductions are permanent even if commodity prices change.
4. Adds to the lack of transparency of how the oil and gas industry is supported through government policy.



- Beyond the financial impacts that have been noted, there are additional shortcomings of the proposed assessment model changes:
 1. The Assessment changes mainly benefit large oil and gas companies and smaller operators will see no change in assessment or in some cases an increase in their assessment.
 2. There is no guarantee that any, or all of the tax savings will be reinvested in Alberta through the creation of new jobs or capital investment.
 3. Much of Alberta's oil and gas property is owned by international companies and so any tax reduction in Alberta could end up being invested in other parts of the world or help support annual shareholder returns.
 4. Another shortcoming is that the tax reductions would be permanent even if commodity prices return to more profitable levels.
 5. The proposals also add to the lack of transparency that already exists around how the oil and gas industry is supported through government policy.

Shortcomings of the Proposed Models (2 of 2)

5. Uses assessment methodology to meet tax policy goals, which violates the principles of property assessment.
6. Shifts a greater share of provincial education property tax onto urban municipalities.
7. Shifts a greater share of the new police costing model onto towns and villages under 5,000 population.
8. Province has not shared a forecast of the long-term impacts.



5. Further, this review focuses on using assessment methodology to meet tax policy goals.
 - This violates the principles of property assessment which is to assess property based on its true value.
6. As noted, our analysis shows that these assessment model changes will likely shift a greater share of education property tax onto urban municipalities.
7. Towns and villages that are part of the new police costing model would also be faced with a cost increase due to the model's linkage to equalized assessment.
 - AUMA has raised this concern with Alberta Justice and Solicitor General.
8. Lastly, the province has not provided any information about the potential long-term impacts of changing the assessment model. The assessment and tax revenue changes reflected in this presentation are only for year 1 – one can only imagine the further reductions in subsequent years.
 - The province's approach is short-sighted and looks to implement a permanent solution to a problem with an unknown future.

Limited Benefit for Small Oil and Gas Companies

Scenario D

| Companies with Property Valued at | % of Oil & Gas Companies with Property in AB | % of Total Assessment Base | Average Tax Savings | % of Total Savings | % of Companies with Tax Increases |
|-----------------------------------|--|----------------------------|---------------------|--------------------|-----------------------------------|
| Over \$500 million | 3.6% | 62.1% | (\$7,184,488) | 71.7% | - |
| \$100-\$500 million | 8.4% | 26.6% | (\$868,011) | 20.2% | 6% |
| \$20-\$100 million | 13.1% | 8.8% | (\$176,215) | 6.4% | 8% |
| \$1-20 million | 30.3% | 2.3% | (\$18,828) | 1.6% | 16% |
| Under \$1 million | 44.7% | 0.2% | (\$819) | 0.1% | 29% |

- Small companies are more likely to have offices in small urban municipalities – they would not benefit from the proposal and in some cases would actually experience an increase in their property taxes.

Source: RMA's Assessment Model Review – Outcomes Summary Report, August 2020



- As mentioned, the proposed changes mainly only benefit the largest oil and gas companies.
- This table shows what companies benefit under scenario D.
- The biggest players that have over \$500 million in assessable property represents 27 companies that operate in Alberta.
- Those 27 companies have 62 per cent of the oil and gas assessment base but would receive 72 per cent of the tax savings under this scenario.
- If you combine the bottom two rows, then you are talking about 75 per cent of the oil and gas companies operating in Alberta.
- They make up 2.5 percent of the assessment base but would only receive 1.7 per cent of the tax savings.
- Furthermore, when looking at the right column, you see that up to 1 in 3 of those companies would actually see the value of their property increase under Scenario D.
- This is not the kind of outcome we want for small oil and gas players who likely need the most support to remain competitive in this environment. These are also the oil and gas companies that work and live in our communities.

Potential Solutions

Short-term

1. Abandon changes to the assessment model in favour of incentive-based tax reductions for companies investing in Alberta.
2. Programs and incentives from Alberta Energy.
3. Province should share in any assessment loss by reducing education property taxes.

Long-term

1. Review the entire Provincial and Municipal Tax regime to strike the correct competitive and government resource requirements



- Up to this point, we have identified a broad spectrum of concerns that AUMA has with the Assessment Model Review process and the proposals being pushed by industry and the province.
- That said, AUMA recognizes that current oil and gas prices are creating an extremely challenging environment for industry and that tax supports may be needed.
- However, changing the assessment model is not the appropriate method to support industry.
- To maintain a transparent system, property should be assessed based on its true value, and then if there is a desire to provide tax incentives, those should be addressed through taxation tools, not the assessment system.
- Adjusting the assessment model on a permanent basis offers no ability to measure whether the changes are meeting the policy goals.
- There are other approaches that can be taken to address the effects of the currently low price of oil and provide companies of all sizes with financial supports, while also promoting investment in Alberta.
- In the short-term (say the next 1 to 3 years), there could be incentive-based tax reductions for companies investing in Alberta's communities.
- For example, assess the property at its true value, but offer a reduced tax rate for a temporary period based on requirements that the savings are reinvested in Alberta.
- The experts from Alberta Energy should have a role in putting programs in place that support the oil and gas industry.
- Also, if the province is committed to changing the assessment model, then AUMA would expect the province to share in the loss by reducing the amount of education property taxes collected from non-residential properties.
- If it is desired to put a program in place to provide incentives to the oil and gas industry, we would assert that those incentives be:
 - contingent on proof of investment in Alberta;
 - available to companies of all sizes (equitable to both large and small companies); and
 - be time limited.
- If a reduction in property taxes is considered essential, then the approach should be readily identifiable as a tax policy incentive, not buried in the assessment methodology.

- At the end of the day, the province needs to consider how a change to oil and gas assessment is going to impact municipalities.
- For rural municipalities, the current proposals would have a direct hit to their top line revenue.
- For most urban municipalities, the impact is more indirect with increases to education property taxes, policing costs, and possibly a restructuring of cost-sharing agreements.

Next Steps

- AUMA's Board and Administration will be meeting with:
 - RMA
 - Canadian Association of Petroleum Producers (CAPP)
 - Explorers and Producers Association of Canada (EPAC)
 - Alberta Assessors' Association (AAA)
 - Alberta Chamber of Commerce
 - Minister of Energy
 - Associate Minister of Natural Gas and Electricity
- Prepare and distribute materials for members
 - Template letter(s) to MLAs
 - Information / summary for MLAs and media
- Member action
 - Draft and send letters
 - Meet with MLAs
 - Make statements to media



- As mentioned throughout this document, AUMA stands beside and supports the same position as RMA, specifically that;
 - Amendments to the Regulated Assessment model, in a non-holistic way is absolutely the wrong way to tackle the Oil and Gas competitive industry issue
 - And the 2nd review objective, to ensure Municipal Viability is maintained – is miserably not achieved
- AUMA believes that the Associations and urban rural neighboring communities must collaborate and work together to communicate to its residences and businesses, the dramatic and drastic effects these potential Assessment model changes will have to their communities.
- **BUT** – AUMA is clearing stating that some of the suggestions that cost-sharing agreements are at risk, is disingenuous when it is well known that ICFs are legally mandated and that there are urban services that rural residents and businesses use on a daily basis.
- It must be reiterated to and stressed - that ICFs are about cost-sharing, not revenue-sharing so despite any changes in revenue sources, there are options available to ensure those agreements continue as planned without any impact on urban municipalities.
- Beyond those concerns, our primary goal is to identify alternative solutions.
- AUMA will be meeting with representatives from CAPP and EPAC to discuss solutions that benefit industry and minimize detrimental impacts to municipalities.
- We would like to meet with the Alberta Assessors' Association as well to learn more about their positions on the proposed model changes, and what they have communicated to the province.
- We are also arranging meetings with the Minister of Energy and the Associate Minister of Natural Gas and Electricity to propose alternative approaches to supporting the oil and gas industry that would not threaten municipal viability and intermunicipal cooperation.
- We would like you to make your voice heard too.
- Contact your MLAs and the relevant Ministers and share your views. You may even want to reach out to the media and make a statement.
- AUMA staff will be providing members with template letters and a concise summary document on the Assessment Model Review to provide to MLAs and the media.
- While some members may have already contacted their MLAs, we hope that with these tools more of you will reach out to MLAs, Ministers and the media and communicate your views on how the proposed

assessment model changes will impact your municipality, your neighbours, or all municipalities.

Thank you

- Further input or questions can be emailed to advocacy@auma.ca.

