AGENDA ITEM #

REQUEST FOR DECISION

9.3

Subject:	**Assessment Model Review Presentation**
Meeting Date:	Tuesday, August 18, 2020
Prepared By:	Mike Haugen
Presented By:	Mike Haugen, CAO
Link to Strat Plan:	Level of Service

Recommended Motion:	That Council accept the presentation on proposed Assessment Model Review changes for information, as presented.

Background/ Proposal

Administration has prepared a report for Council regarding the proposed changes to the Assessment model for Oil and Gas Facilitates. During this presentation, Administration will utilize and review several documents including a presentation, the RMA Position Statement, and the RMA Assessment Model Review – Outcomes Summary. All of these are attached.

The Province previously completed a technical review of Oil and Gas Assessment. The current system has been in place since 2005. During that review, municipalities were not consulted and the resulting information has not been shared by the Province and remains under a communications embargo.

Since that time, the Province has worked primarily with industry to generate four possible scenarios for changes to the Oil and Gas Assessment Models. This process was largely industry driven and municipal organizations such as RMA and AUMA were included, though both report their concerns were ignored and their input muted. Both entities oppose all four scenarios.

For clarification, this issue is different than that natural end of life adjustments that occur each year. This issue is a fundamental change to artificially alter the assessment depreciation and assessment methods which would heavily impact municipalities across the Province, both rural and urban.

Last year, the Province altered assessment for Shallow Gas Producers. This change resulted in a $1.9 Million loss of revenue to the County. This loss is ongoing and was not a one-time event. As a result, the County budgeted to collect approximately $1.5 Million less in taxes in 2020 than was collected in 2019.

Existing provincial budget impacts include:

- $1.9 million reduction of tax revenues collected from shallow gas producers, as a result of provincial policy decisions.
- 25% reduction in provincial grants over the next five years amounting to a loss of $500,000 over a three-year period.
- Addition of Provincial policing costs, $160,000 in 2020 to $480,000 in 2023.

Kneehill County believes that supports for Oil and Gas are needed, however, the scenarios proposed by the Province will result increased taxes for the majority of County residents, farms, and businesses. Municipalities across the Province are echoing this sentiment to the point where municipally elected officials from across the Province held a demonstration at the legislature building.

	There is widespread concern about this issue as the Province conducted the work in secrecy, and has not made pertinent information – such as the technical review and long-term impact modelling, available. Of the scenarios proposed, Kneehill County stands to lose between \$3.5 and \$7.3 Million per year. To put that in perspective, all residential and farm taxes in the County amount to approximately \$2.8 Million per year. Industry is pushing for Scenario D, which would impact the County by approximately \$7.3 Million in the first year and escalate each year afterwards. In addition, industry is also pushing the Province to not allow increases on industry, the impact of which would be to drive any tax increases to residents and farms.
Discussion/ Options/ Benefits/ Disadvantages:	As part of the presentation, Administration will go through several related documents. Below are some pertinent points or summaries from those documents. While most properties are assessed based on their market values, designated industrial properties such as wells and pipelines are assessed based on several regulated factors linked to depreciation, size, construction costs, etc. The intent is still to reflect an accurate value of the property. By attempting to use the assessment system to enhance industry competitiveness, the 2020 review and subsequent changes to how these regulated properties are assessed has compromised the objectivity of the regulated assessment model, and will result in serious fiscal impacts to municipalities, while actually compromising the competitiveness of many small oil and gas companies. The proposed regulations represent a violation of assessment principles and transparency. The Assessment Model is contained in regulations and can be altered by the Minister of Municipal Affairs. The Government of Alberta has reviewed the current property assessment model for O&G companies and has proposed four new assessment model scenarios. The proposed scenarios would result in a reduction of assessment for Kneehill County between 12 and 24%, which would translate to a loss of total revenues between 11 and 22%. Kneehill County understands that all sectors, not just Oil and Gas have been hit by an economic downturn combined with a pandemic. As a County, we believe that restarting our economy is important and support efforts to do so. The proposed scenarios do not represent a successful effort to bolster the economy and actually harm small business and many small Oil and Gas Producers. The County would run out of reserve funds within three years under all proposed scenarios. The County maintains that tax exemption policies should not be built into the assessment system. Such policies should be implemented in a transparent and targeted manner by the Province. 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. The biggest benefits of the proposals are

for the largest companies that have international reach and can easily use the money to increase dividends to shareholders and move money elsewhere in the world.

Based on the Government of Alberta's proposed scenarios, the largest oil and gas companies operating in the province will receive a disproportionate share of benefits from changes to the assessment model. Small and locally-owned companies will, on average, receive significantly less benefit, and in many cases will face significant assessment increases.

Even under industry's most favourable scenario, 145 companies would face assessment increases. The only groups that win in every scenario are the largest oil and gas companies operating in Alberta, many of which have holdings worldwide and would be under no obligation to reinvest savings in the province.

There has been absolutely no link established between the assessment model proposals and making Alberta's oil and gas industry more competitive.

"Industry competitiveness" was never defined during the review process, and the industry stakeholder representatives involved in the review (Canadian Association of Petroleum Producers [CAPP], Canadian Energy Pipelines Association [CEPA] and the Explorers and Producers Association of Canada [EPAC]) have provided no evidence as to how reduced property assessments would enhance competitiveness in comparison to other industry cost drivers.

No multi-year impact analysis has been shared for the scenarios. All data focuses only on the first year of implementation. Steeper and artificial depreciation will make impacts more severe as assets age.

The age lives of machinery and equipment are set between 15 – 20 years at which time the equipment is fully depreciated; these artificially shortened age lives contrast with the actual life of a facility at 40 – 60 or more years.

Pipelines and wells are already assessed at 67% of value throughout their working life. The new model would fully depreciate wells and pipelines within 16-26 years despite their working lifetimes being significantly longer.

The tax burden will simply be shifted away from the oil and gas industry and on to all other businesses and residents. Most municipalities will simply have no other choice.

The potential losses to Kneehill County are equivalent to eliminating almost 90% of the County workforce.

Our residential and agricultural ratepayers are also hurting, and the proposed changes do nothing to address their plight. In fact, even after significant cuts to service and infrastructure, including job and contract losses, these taxpayers will still see significant increases to their tax bills. At a time when they can least deal with it.

The proposals allow for reductions when economies are down, but does not allow for increases when the economy picks up. This benefits only one side.

	If Kneehill County were to lose $7.3 Million in revenue, the County could increase residential and farmland taxes by 40% and business taxes by 44% and would still face a loss of over $1 Million dollars. If the County wanted to recoup the losses completely, taxes would have to increase almost 50% for all residents, farms, and businesses within the County. If the County were to recoup this just from residents and farms to help business, tax increases for 2021 would be approaching 300%. If the County was able to make service cuts of $3.5 Million, in addition to terminating the employment of many staff and contractor/service providers, remaining residents, farms, and businesses would still face tax increases of 35-40% starting next year. To make this worse, given the artificial depreciation of Oil and Gas Facilities over just 16-26 years means that additional revenue would be lost in future years, necessitating additional cuts and tax increases. This comes at a time in which the Province has placed additional costs on municipalities through ICF Agreements and Policing Costs. Kneehill County has been forced to absorb hundreds of thousands of dollars in additional costs and the scenarios proposed drastically reduce the County's ability to pay those costs. This all comes following Kneehill County losing $1.9 Million in revenue as a result of the Province's Shallow Gas Relief Program. Even with modest tax increases this year, the County still made cuts and collected around $1.5 Million less than in 2019. It would also reduce our ability to share with our urban partners. The County would likely have to withdraw from assisting with funding recreational facilities such as pools and arenas and services such as volunteer fire departments. This would place additional burden on our urban partners who would also be subjected to increases in Education Tax, Policing Costs, and Seniors Housing Costs, as a result of rebalancing equalized assessment throughout Alberta. The AUMA estimates that under these scenarios, Towns would see educational funding increases of 2-10% and Villages would see increases of 0-7%. Prior to this assessment review, cuts made by the Government of Alberta have resulted in a reduction of 7% of total County tax revenues, a loss of grant funding, and additional costs to be paid for by the municipality. The County recognizes that massive increases to tax rates are not a viable option to mitigate the impact of these proposed models. It also recognizes that in order to reduce expenses by 13 to 26% that significant reductions in service levels would have to be made. If any of these models are put into place the County will be required to do some combination of tax rate increases and service level reductions.
Financial Implications:	While there are extreme financial implications associated with the proposed changes, there are no financial implications associated with the presentation or recommended motion.
Council Options:	1. Council may opt to accept the presentation for information. 2. Council may opt to direct Administration towards actions related to the report.

REQUEST FOR DECISION

Recommended Engagement:	☒ **Directive Decision (Information Sharing-One way communication)** Goal: To educate and inform citizens Tools: ☐ Individual Notification or ☒ Public Notification ☐ **Consultative Decision (Consulting the Public – Two way communication)** Goal: To seek feedback, test ideas, develop concepts and collaborative solutions Tools: ☐ Public Hearing ☐ Open House ☐ Focus Group ☐ Other- ☐ **Collaborative Decision (Active Participation- Share or delegate decision making)** Goal: To share or delegate decision making Tools: ☐ Participatory Decision Making ☐ Inter-Municipal Agreement ☐ Other-
Attachments:	1. Assessment Model Review PowerPoint Presentation 2. RMA Position Statement 3. RMA Assessment Model Review – Outcomes Summary
Follow-up Actions:	NA

Director Approval:
Name, Title

CAO Approval:
Mike Haugen, Chief Administrative Officer