Rural Municipalities of Alberta

Summary of Alternative Industry Support Approaches

Assessment Model Review

August 2020

According to the Government of Alberta, the changes currently being recommended to the assessment model for regulated oil and gas properties are intended to enhance industry competitiveness while maintaining municipal sustainability.

RMA and its members have focused on the severe impacts that the proposed changes will have on municipal operations and viability due to reduced tax revenues, and the domino effects that the changes will have on other taxpayers within rural municipalities in the form of increased taxes or reduced services, and on neighbouring towns and villages in the form of reduced intermunicipal collaboration and increased provincial requisition or invoice amounts related to education, seniors housing, and policing.

This document shifts from the focus on municipal impacts to examine a variety of alternative approaches that would enhance industry competitiveness. The document shows that not only is manipulating the assessment model harmful for municipalities, the extent to which it supports industry is also unclear. More importantly, there is no evidence available to indicate that any benefits industry does receive will be reinvested in the province in the form of jobs or capital investment. This document will show that other support approaches are much more effective in ensuring industry and the province as a whole benefit, and municipalities are not unfairly targeted.

RMA and its members fully endorse supporting Alberta's oil and gas industry, but the assessment model is simply the wrong tool to do so.

Analysis Principles

To evaluate how effective various options are in balancing industry support with province-wide value, while not unfairly targeting municipalities, RMA has developed five principles that reflect an effective industry incentive, and that are used throughout the analysis:

Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency
All activities enacted to support oil and gas competitiveness should be equitably born through a partnership between the Government of Alberta and Alberta municipalities and reflect the relative powers and financial tools available to provincial and municipal levels of government to support industry.	All activities enacted to support oil and gas competitiveness should equitably benefit companies in the oil and gas sector and not be focused on large companies to the detriment of smaller entities.	Financial contributions to industry either through direct investment or tax reduction should be designed to elicit direct, observable action by industry in the form of capital project investment or employment creation.	Solutions cannot be only focused on short-term gains or impacts but rather should put in place mechanisms that will consider the potential for times of greater prosperity. Sustainability to municipalities means that the revenue over the taxable life of the asset justifies local infrastructure investments to support industrial development.	The goals, contributions, benefits and mechanisms in place to support industry must be reported in a manner that is understandable to provincial taxpayers and municipal ratepayers. Mechanisms have built-in means for review and revision to maintain alignment with overall objectives of equitability and fairness.

Option Evaluation

Each option explored below includes:

- an explanation of the option (what is it?),
- a qualitative assessment of the option's alignment with the principles stated above (how does it align with principles?),[1] and
- a narrative outlining the scoring (rationale).

The options below include approaches such as direct financial support to industry, tax policy to encourage industry growth, direct investment into industry by the Government of Alberta, and other approaches. Most options are already in practice in some form in other jurisdictions.

Also note that RMA is not in support of all options presented below but believe that all possible alternatives to manipulating the assessment model should at least be considered.

[1] The scoring provided is on a 1 to 5 scale for each principle with detailed descriptions of the scales provided on page 21. A higher score indicates a greater alignment with the principle.

Option 1: Assessment Manipulation (Current Process)

- ***What is it?***

The assessment model review is intended to modernize the assessment model to better support industry competitiveness without impacting municipal sustainability. This occurs through changes to how asset values are determined to support assessment reductions for industry.

In the proposed scenarios, reductions have predominantly occurred by implementing aggressive depreciation curves to linear property, removing some base costs from wells, adjusting land assessment values (primarily for older well sites), introducing assessment depreciation factors on deep horizontal wells and SAGD sites, and other changes to how assets are assessed, most of which reduce asset values.

- ***How does it align with principles?***

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score[2]	1	2	1	1	1	1.2

- ***Rationale***

The primary intent of the assessment model changes is to reduce tax burden on industry. The rushed engagement process, lack of transparency of information, lack of detailed technical review information provided, and substantially skewed municipal and corporate impacts clearly point to a process that prioritizes a reduction of industry's tax burden over all other factors, including municipal sustainability.

The scoring is based on the following conclusions:

- The process places the cost burden only on municipalities. There are no changes to education property tax requisitions to off-set decreased municipal revenues.
- The process does not effectively distribute benefits, as large companies benefit much more than smaller firms under all scenarios.
- The process will lead to no assurances of tangible economy-wide benefits, as there is no mandate for firms to invest savings in capital projects or increased employment.
- The aggressive depreciation curves do not provide a stable, predictable tax base for municipalities and will require those with room to sharply increase mill rates or reduce services.
- 'Baking' reductions into the assessment base through arbitrary depreciation, land value reductions and statutory factors is not transparent and such reductions are not likely to be removed during more prosperous times

Option 2: Municipal Tax Rebate Policy

- ***What is it?***

[2] Scoring scale explained in Appendix 1 – Principle Scoring Scales

Instead of adjusting assessments to reduce taxes on wells and conventional oil and gas, the Government of Alberta could apply a targeted tax reduction policy to specific asset classes, companies, etc. to encourage investment decisions that are beneficial for industry and broader economic development.

The Government of Alberta would implement a tax reduction policy on certain asset classes for a prescribed amount of time. This could be addressed in the *Matters Relating to Assessment and Taxation Regulation* through the inclusion of a new Part, which would set the specific incentives for a designated time period.

This option has recent precedent as it is comparable to the shallow gas tax relief granted in 2019 in anticipation of reduced schedule A rates for shallow gas wells.

How does it align with principles?

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	1	3	1	2	3	2.0

Rationale

The scoring is based on the following conclusions:

- Cost and benefit sharing scoring is dependent on targeted reductions for at-risk asset types but can be equitable if implemented properly.
- This option is a more transparent approach than using the assessment function.
- This alternative lacks the ability to target specific investment activity.
- There are no mechanisms to limit companies from using savings for non-investment activity, such as stock buybacks or executive bonuses, or investment into projects in other jurisdictions.
- This option would place a disproportionate burden on municipalities, resulting in a lack of equitable cost sharing.
- Depending on the targeting of the tax policy, there may be similar regional disparity issues between municipalities that are present in the assessment model review scenarios.
- The cost sharing score could be improved if the province provided a full or partial rebate on education property tax requisitions to proportionately offset losses in municipal revenue.

Option 3: Tax Rebate Policy on New Investment

What is it?

This option is similar to the option above, though it would specifically apply to new linear property and M&E assessment growth based on company investment. The new assessment would be provided a full or partial tax rebate for designated period to encourage investment.

This policy would provide similar incentives to the *Municipal Government (Property Tax Incentives) Amendment Act* and *Municipal Government (Machinery and Equipment Tax Incentives) Amendment Act*

but would be implemented for a set period of time, could be targeted to specific asset classes or project types to enhance tangibility, and would apply province-wide, rather than at a local level.

▸ ***How does it align with principles?***

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	3	3	4	2	3	3.0

▸ ***Rationale***

The scoring is based on the following conclusions:

- This alternative scores similarly to the previous option.
- The difference is that the tangibility score is increased, as rebates focus on new development.
- The establishment of a specific timeframe on the initiative further enhances its transparency and sustainability ensuring that it is implemented only for the period required for necessary support.
- The cost sharing score could be improved if the province was to provide a full or partial rebate on education property tax requisitions to proportionately offset municipal revenue reductions.

Option 4: Education Property Tax Requisition Adjustments

▸ ***What is it?***

The province has an opportunity to reduce its education property tax requisition to share the burden of supporting industry competitiveness through reduced tax levels. The province already excludes M&E assessment from the education property tax requisition and could expand this to linear property or implement more targeted exclusions.

It is important that an actual reduction, not a shift, of the education property tax burden occurs. The proposed assessment base reductions will substantially shift the education property tax burden onto urban municipalities. Any reductions applied under this option would need to include a province-wide reduction of the education property tax burden, instead of simply passing it on to other municipal types.

It is further critical to ensure a designated timeframe and review period for such a shift. There are multiple examples of M&E and power-generation linear property exemptions that were implemented to spur investment and were never revoked when investment was achieved. The tangibility of this alternative could be improved by outlining specific capital investments, or industry performance targets to achieve, and establishing set timelines for the program to end or require review and renewal

▸ ***How does it align with principles?***

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	5	3	1	3	3	3.0

▸ *Rationale*

The scoring is based on the following conclusions:

- This option has similar strengths and challenges to the tax rebate policy above, but scores higher on equitable cost sharing, as long as the province reduces (not shifts) the education tax burden.
- If shifted, this will have a substantial impact on municipalities and the remaining provincial tax base, including potentially compromising the viability of many small urban municipalities not directly impacted by this review.
- The overarching nature of the policy will make it less tangible to stakeholders, but this can be mitigated somewhat if a more targeted approach is developed.
- The set timeframe component significantly enhances the sustainability and transparency scoring.

Option 5: Oil & Gas Royalties Reduction

▸ *What is it?*

Royalties are paid across a wide range of producing conventional oil and gas projects, as well as oil sands facilities in the province. Royalty payments make up a substantial amount of industry's tax burden, and are a much more substantial component of marginal effective tax rate (METR) than local property taxes. Royalty rates are largely market driven, and each project pays an individual rate based on production factors. A royalty reduction program could target specific projects and asset classes that most require competitiveness improvements.

Royalty rates for projects under the Oil Sands Royalty Framework, and for crude oil and gas projects under the Crude Oil and Gas Royalty Framework include reduced royalty structures for projects that have not paid off their initial investment, before increasing once those investments have been realized. This structure has been important for spurring investment, with the trade-off of long-term government revenue.

Note: The *2019 Royalty Guarantee Act*, which specified no major changes to the current oil and gas royalty structure would be made for at least 10 years, was conducted in the spirit of ensuring royalties would not increase, but certainly temporary, emergency exemptions could be made within the Act. Further to this point, the Act amended the *Mines and Minerals Act* to allow government to provide incentives related to royalties.

▸ *How does it align with principles?*

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	**5**	**3**	**2**	**3**	**4**	**3.4**

▸ *Rationale*

The scoring is based on the following conclusions:

- This option balances cost sharing by having the province take on a higher burden more in line with METR calculations.
- It scores highly on transparency, with clear review cycles in place.
- It still suffers from a low tangibility score, as it is difficult to target royalty reductions to increased investment outside of a few larger industry targets for capital investment (i.e. royalty reductions could be put in place for X number of years, or until X amount of capital investment occurs).

Option 6: Additional Mill Rate Categories

What is it?

This option would require MGA changes, but would introduce new tax tools and flexibility to municipalities to absorb some of the proposed assessment base loss, or to reduce taxes for some assessment classes if they have been hesitant to utilize the *Municipal Government (Property Tax Incentives) Amendment Act* or *Municipal Government (Machinery and Equipment Tax Incentives) Amendment Act* measures. Introducing more mill rate categories is a similar approach to that in British Columbia, which has nine categories, and would provide additional non-residential tax classes to balance the tax burden. For example, BC has non-residential classes for utilities, major industry, light industry, and business/other.

Additional mill rate categories would allow municipalities greater flexibility to increase, or decrease, mill rates on certain asset classes and to more fairly distribute their local tax burden to different tax classes.

How does it align with principles?

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	**3**	**4**	**1**	**3**	**3**	**2.8**

Rationale

The scoring is based on the following conclusions:

- Equitability in cost sharing is enhanced through a mitigation factor to provide additional tax flexibility for municipalities needing to deal with revenue shortfalls.
- Conversely, this option does not provide any tangible incentives for municipal participation.
- Equitability in benefits sharing is also enhanced by providing further tax flexibility to industry.
- This option has scores high in transparency, though it is difficult to provide specific outcomes from different tax classes.
- The tangibility factor is low, as it is difficult to tie mill rate changes to direct investment.

Option 7: Property Tax Incentives Expansion

What is it?

The *Municipal Government (Property Tax Incentives) Amendment Act* and the *Municipal Government (Machinery and Equipment Tax Incentives) Amendment Act* have been implemented by the province to provide additional tax reduction flexibility to municipalities when attracting new investment.

The acts allow for municipalities to decide if, and how, to implement the tax incentives by passing a single bylaw that will offer incentives to reduce, exempt or defer the collection of property taxes for non-residential and machinery and equipment properties for up to 15 years, with the option for renewal.

This approach could be expanded to introduce additional legislation to allow for property tax incentives on linear property, or for targeted sites and assets classes, with similar terms and mechanisms included in the previous acts.[3]

▸ *How does it align with principles?*

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	2	2	4	1	4	2.6

▸ *Rationale*

The scoring is based on the following conclusions:

- This policy places pressure on municipalities to bear the burden of tax reduction to incent development.
- This option scores low on equitable benefits sharing as there is a substantial risk that larger companies will benefit more by having more leverage in property tax incentive negotiations with municipalities.
- It provides a greater tangibility than previous alternatives, as it is directly tied to new investment.
- The option contains requirements for municipal council decision on each instance of use, providing significant transparency.
- It scores low on sustainability as it will have a long-term impacts on municipal financial well-being and could exacerbate existing regional disparities, as large municipalities will be able to leverage their sizeable assessment base to offer greater incentives compared to municipalities with limited fiscal capacities.

Option 8: Mill Rate Ratio Adjustment

▸ *What is it?*

Currently, the province has mandated a 5:1 maximum ratio of non-residential mill rates to residential mill rates for municipalities. A number of municipalities (several of which have large industrial tax bases)

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[3] Though the measures have been introduced as voluntary tools, many municipalities, and both associations, have expressed concern about the Acts as potential 'races to the bottom,' by fostering unhealthy and unsustainable competition between municipalities over the long-term. Expanding these tools to include LP could have additional serious, long-term implications to municipal sustainability and poses a real threat to municipal collaboration efforts.

are in the process of reducing their ratio to comply with the 5:1 requirement. The province could implement additional mill rate adjustment tools to ensure more balance between classes.

One option would be to adopt a sliding scale ratio that is weighted based on the size of a municipality's equalized M&E and linear property assessment base. Municipalities with large assessment bases would have additional mill rate restrictions, while not imposing harsh inflexibility on municipalities that require additional tax tools to remain viable. For example, this model could mandate a sliding scale of ratios between 4:1 for the largest assessment bases, to 6:1 for smaller ones. There is a risk that any reductions to the mill rate ratio could further limit municipalities' tax flexibility; a sliding scale ratio provides a balance between industry competitiveness and municipal flexibility. Any other changes outside of the proposed model could limit municipalities' ability to absorb other competitiveness initiatives.

Another mechanism to achieve this policy is to adopt a model similar to Ontario, which provides average mill rate levels and acceptable ranges above and below those averages that municipalities can fall into. However, this model depends on introducing additional tax classes (see policy option *Additional Mill Rate Categories* above). Ontario has multiple non-residential assessment tax rate classes for commercial, industrial, and pipelines, and municipalities have the ability to introduce additional classes, and each have acceptable ranges provided to guide municipal rate setting.

- ***How does it align with principles?***

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	2	3	1	2	3	2.2

- ***Rationale***

The scoring is based on the following conclusions:

- This policy will place a substantial burden on municipalities but is specifically designed to place it on those that should be able to best absorb the impact.
- This option has a relatively high benefits equity score, as it ensures all firm sizes receive benefits from the changes.
- As with other broad class-based policy alternatives, it is impossible to target for investment benefit, reflecting the low tangibility score.
- Sustainability scoring is deemed lower as it would take a conscious council decision to adjust, though transparency would be elevated due to the public nature of these decisions.

Option 9: Downtime and Production Consideration Tax Rebates

- ***What is it?***

This option would introduce a downtime allocation for under-utilized properties due to market factors. This tool is used in Saskatchewan, where it provides an assessment reduction for "oil and gas well resource production equipment to account for loss in value due to under-utilization of the resource production equipment." The downtime allowance is relatively minor (10% plus additional considerations

for depreciation). Saskatchewan also has a Production Adjustment Factor which applies an additional 0.75 factor for qualifying properties due to under-utilization.

In the proposed changes found within the current review, underutilized end of life wells are addressed with additional depreciation and reduced land value. This would artificially depreciate properties and land without a clear understanding of what is "typical" and how the subject property compares to the typical property.[4] Wells with low production volumes may also receive additional depreciation under Schedule D of the *Linear Property Minister's Guidelines*.

It is difficult to understand why pipelines would receive additional depreciation related to productivity when there is currently a shortage of pipeline capacity in the province. One of the core principles of regulated assessment for wells and pipelines is that the data used to prepare assessments is obtained from the records of the Alberta Energy Regulator (AER). It is our understanding that the AER does not have a data element which would record pipeline through put.

Before considering <u>any type</u> of productivity factor for M&E located in facilities, considerable research is required to gather information on the following:

- The historic production levels for various types of facilities
- The change in production levels as the facility ages and the reservoir depletes
- Typical production levels and how a particular facility compares to the typical facility
- If individual facilities gone through a de-bottlenecking process
- The impact of lower commodity prices on the level of production of a facility (is the lower productivity related to aging equipment or are there business reasons)?

How does it align with principles?

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	2	2	2	2	1	1.8

Rationale

The scoring is based on the following conclusions:

- This option places substantial burden on municipalities and will disproportionately impact already-struggling areas of the province based on its focus on gas and conventional oil well sites.

[4] The existing Alberta legislation already contains many provisions which recognize productivity concerns. In determining the Schedule A Base Cost, the CCRG allows for excluded costs due to lower than typical labour productivity issues. For M&E that is disconnected, it no longer meets the definition of machinery and equipment (i.e. it is no longer used or intended to be used and may no longer be an integral part of the operational unit). When this occurs the assessment of the machinery and equipment in question is reduced to zero. Take for example the equipment on the surface at a well site, if the equipment is disconnected, the assessment of the equipment goes to zero. If there is a compressor site with 6 compressors and 2 of them are out of service, then the assessment of those two compressors goes to zero.

- There is concern with the equity of benefits sharing, as anecdotal observations have noted many larger, mature producers have high concentrations of these types of assets and have advocated for these types of reductions in the past.
- It also scores very low on transparency, as the calculations and baselines used are highly complex and difficult to understand and would require significant additional study to determine.
- This complexity also leaves room for manipulation. As noted above, the assessment would have to be based on technical research to determine fair productivity factors.
- The option ranks low on tangibility as it is difficult to tie to direct investment. As with other alternatives above, the cost sharing score could be improved if the province provided a full or partial rebate on education property tax requisitions to offset losses in municipal revenue.
- Overall, this alternative would not be preferred. Even cost sharing measures from the province would not lift this alternative to a viable option moving forward.

Option 10: Income Tax Reduction / Tax Credits

What is it?

Corporate income tax relief has already been provided by the current government through a reduction in the corporate tax rate by 1% per year, from 12% (spring 2019) to 8% (originally by January 2022, since accelerated to 2020). In total, there are an estimated savings of $4.3 billion over the course of the reduction.[5] While these measures are substantial, further adjustments (or targeted reductions in the form of tax credits) could have a more substantial impact on industry competitiveness.

In a comparison of income tax reductions versus tax credits, the latter is far more tangible and can be tied directly to investment, employment or other valued economic outcomes. A hybrid model of a universal reduction, with more targeted tax credit policies, could provide general cost relief to industry as well as more targeted economic benefits. Further, recent analysis by the Parkland Institute shows the criticality of ensuring savings are not passed through to shareholders through buybacks, dividend increases, or arbitrary debt reduction. Again, tax credits are a more useful tool to ensure savings are only realized by firms actively investing in the province.

How does it align with principles?

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	5	4	5	3	4	4.2

Rationale

The scoring is based on the following conclusions:

- This option is a strong alternative that scores highly across most categories.

[5] "The Future of Alberta's Oils Sands Industry", Ian Hussey, Parkland Institute, March 2020, pg. 3.

- It reasonably balances the provincial burden with municipalities.
- It provides tax credits that can be specifically targeted to firms in distress.
- It directly encourages capital investment.
- It results in strong transparency and tangibility scores.

Option 11: Environmental Remediation

What is it?

This option would increase the amount of direct investment into environmental remediation, particularly for end-of-life sites. This is already in place through the Orphan Well Association (OWA) for bankrupt companies, which has received substantial additional investment through a $100 million loan from the Government of Alberta to the OWA, and Bill 12: *Liabilities Management Statutes Amendment Act*, which increases the jurisdiction of the OWA to work with active firms on remediation efforts.

An expansion of this approach would utilize the new authorities outlined in Bill 12 and add additional funding, encouraging the OWA to work with active firms. Alternatively, the province could provide additional direct funding or tax credits for remediation work outside of the OWA mandate. A more dramatic version of this option would be for the province to assume partial or full environmental liabilities and clean-up costs for certain asset classes and sites to increase industry competitiveness.

How does it align with principles?

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	**5**	**2**	**4**	**4**	**3**	**3.6**

Rationale

The scoring is based on the following conclusions:

- This is a strong alternative in terms of cost sharing and tangibility, as it can be directly tied to remediation projects.
- It works to resolve a tangible risk issue for the province and municipalities.
- The benefit to industry could be skewed towards larger firms who are in a strong financial position to deal with environmental liabilities, unless the program was directly targeting smaller, financially stressed firms.
- Being tied directly to measurable projects enhances the option’s transparency, though limited to broad public understanding of the issue.

Option 12: Incentive Based Grants / Shared Investment

What is it?

A program of direct government investment into capital projects through shared investments, or project-specific grants to encourage new capital development and job creation. This would likely entail shared grants and/or supporting infrastructure investments for new potential projects between the province and the hosting municipality to ensure proportional investment for shared benefits. A recent example of this process is the Inter Pipeline Heartland Petrochemical Complex, where Inter Pipeline quotes approximately $250 million in funding support from the federal and provincial governments.[6]

These types of direct investments can be made with specific job or investment targets, ensuring benefits can be realized for the province, and municipalities, for the money invested.

- ***How does it align with principles?***

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	4	4	5	4	4	4.2

- ***Rationale***

The scoring is based on the following conclusions:

- A very strong option that scores highly across the board.
- This option provides a proportional cost sharing burden between the province and municipalities.
- It has extremely strong linkages to direct investment outcomes
- The projects could continue to be targeted to benefit those in industry with need.
- Results in higher scoring than any other alternative.

Option 13: Direct Infrastructure Investment Program

- ***What is it?***

This option is similar to that above but involves the development of an infrastructure investment program targeted to industrial development focused infrastructure programs. Municipalities in Alberta, and particularly rural municipalities, have a long and successful history of making public infrastructure investments to support industrial development. This program would provide matching capital grants to municipalities looking to support industry through infrastructure development. Similarly, these funds could be used for larger provincial infrastructure projects for highways, bridges, etc. to support industry.

A critical element required for this program's success is the selection of funded projects through collaboration by the Government of Alberta, industry and municipalities to priority areas to ensure equity in project funding disbursement.

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[6] http://www.interpipeline.com/files/pdf/fact-sheets/q4_2019/IPL_-_Heartland_Complex_-_Fact_Sheet_-_Q4_2019_-_FINAL.pdf

Both this policy, and the incentive-based grants/shared investment policy above, will reduce the overall cost of development, improving industry's METR calculations.

Tying approvals of infrastructure funding to new "shovel ready" projects would support better tangibility of this alternative, and more closely link funding to direct capital investment.

- ***How does it align with principles?***

	Equitable in Cost Sharing	Equitable in Benefits Sharing	Tangibility	Sustainability	Transparency	Avg Score
Score	5	3	4	4	4	4.0

- ***Rationale***

The scoring is based on the following conclusions:

- Another strong scoring option that scores highly in all criteria.
- The option is less directly tied investment and job creation outcomes, so it scores lower on the tangibility factor.
- Industry benefits, though equitable, are not as closely linked to investment.
- The matching nature of the grants could provide a proportional cost sharing burden between the province and municipalities.

Other Policy Areas for Consideration

Removal of Production Quotas

The province has implemented, continued and extended oil production limits through 2020, though with possible earlier termination. The limits are carefully monitored and updated monthly. Some exemptions are in place for new conventional wells and for operators with approved monthly special exemptions. While there are concerns about lifting the production limits including reduced pricing from additional supply and transport capacity, there may be an opportunity to increase quotas to allow for more production.

Industry Promotion

The Government of Alberta implemented the Canadian Energy Centre, as a provincial corporation partly funded by industry, to promote the oil and gas industry. An expansion of this program could include additional funding and promotion, and focused coordination with municipal economic development efforts to promote the industry and show the benefits of local industry investment.

Technology Development

Continued improvements in technology to enhance industry efficiency and cost avoidance support long-term industry competitiveness. Alberta has history of supporting various industry clusters though expert advice, training, skill development and innovation programs that have secured advantages for industries as diverse as nanotechnology and oil sands extraction. In the early 2000s, TR Labs was an ICT research consortium that fuelled the growth of Telus and Shaw Communications through shared research investments with the Government of Alberta. The province could use a similar approach to support innovation in the energy sector.

Supplemental Policy Areas for Consideration

There several other policy areas and initiatives that should be considered and potentially implemented in addition to the policy alternatives above. We have not evaluated these based on the high degree of 'unknowns' involved at this time. These areas are:

- Consideration and implementation of industry-related red tape reduction initiatives.
- The ongoing Alberta Energy Regulator review process, with a focus on streamlining the regulatory system. Potential for reduced compliance and reporting requirements for companies with a strong history of adherence to environmental and operational requirements.
- Legislative changes to allow higher priority on municipal tax collection, and MGA adjustments to introduce additional tax collection tools

Scoring Overview

The following table shows an overview of the policy alternative scoring, including a view of overall total, average scores for each alternative.

Option #	Policy Alternative	Scoring Factors					
		Cost Sharing	Benefits Sharing	Tangibility	Sustainability	Transparency	Total Score
1	Assessment Manipulation (Current Process)	1	2	1	1	1	**1.2**
2	Municipal Tax Rebate Policy	1	3	1	2	3	**2.0**
3	Tax Rebate Policy on New Investment	3	3	4	2	3	**3.0**
4	Education Property Tax Requisition Adjustments	5	3	1	3	3	**3.0**
5	Oil & Gas Royalties Reduction	5	3	2	3	4	**3.2**
6	Additional Mill Rate Categories	3	4	1	3	3	**2.8**
7	Property Tax Incentives Expansion	2	2	4	1	4	**2.6**
8	Mill Rate Ratio Adjustment	2	3	1	2	3	**2.2**
9	Downtime and Production Tax Rebates	2	2	2	2	1	**1.8**
10	Income Tax Reduction / Tax Credits	5	4	5	3	4	**4.2**
11	Environmental Remediation	5	2	4	4	3	**3.6**
12	Incentive Based Grants / Shared Investment	4	4	5	4	4	**4.2**
13	Direct Infrastructure Investment Program	5	3	4	4	4	**4.0**

Ranked Scoring

The ranked scoring of all alternatives is included below. Based on their alignment with the principles summarized earlier in the report, the ranking shows the preferred order of alternatives to RMA.

Note: Any alternative that has individual scoring factors at a "1" or "2" (red font below) should be considered to have significant challenges that would require substantial mitigation efforts to address their respective weaknesses.

Rank	Alternative	Average Score
1 (tie)	Incentive Based Grants / Shared Investment	**4.2**
1 (tie)	Income Tax Reduction / Tax Credits	**4.2**
3	Direct Infrastructure Investment Program	**4.0**
4	Environmental Remediation	**3.6**
5	Oil & Gas Royalties Reduction	**3.2**
6 (tie)	Education Property Tax Requisition Adjustments	**3.0**
6 (tie)	Tax Rebate Policy on New Investment	**3.0**
8	Additional Mill Rate Categories	**2.8**
9	Property Tax Incentives (Municipal Government (Property Tax Incentives) Amendment Act and Municipal Government (Machinery and Equipment Tax Incentives) Amendment Act) Expansion	**2.6**
10	Mill Rate Ratio Adjustment	**2.2**
11	Municipal Tax Rebate Policy	**2.0**
12	Downtime and Production Tax Rebates	**1.6**
13	Assessment Manipulation (Current State)	**1.2**

Conclusions

Conclusion 1: Municipal participation in a competitiveness enhancement program will provide limited impact to industry with catastrophic impact to municipalities.

There are significant impacts on the first year of implementation of any of the proposed scenarios presented in the assessment model review. The data cannot identify an option that would provide competitive enhancement to industry and not present disastrous impacts to rural municipalities.[7]

Under all scenarios, the average rural municipality may be required to shift revenue requirements onto other taxpayers. Another alternative would be substantial reductions in service levels to residents to allow for dramatic cuts in municipal workforce. Similar impacts would likely result from other municipally focused approaches in this report, including tax rebates, and property tax incentive expansions, although these approaches are more targeted and transparent that the assessment model manipulation.

Conclusion 2: Policy options utilizing assessment base reductions are not targeted and are too complex to be transparent.

One of the most significant challenges of basing industry support on changing the assessment value of M&E and linear property is the inability to address specific changes in the oil and gas sector. Inflated construction-based cost estimates may be a useful proxy for value when the cost of construction increases over time, but there are many instances of technology, innovation or market forces disjointing the construction costs from the actual value of many assets. The attempt to reconcile this disparity through broad asset grouping produces less accurate assessments and unintended impacts to municipalities and industry. As well, such exercises - at a time when the public is demanding more transparency from all orders of government – exacerbates the lack of understanding of the assessment process and confounds government's ability to explain the equitability of tax systems.

Conclusion 3: Targeted competitive measures are required to support junior firms who are particularly in need.

The analysis of the scenarios has led RMA to question the extent to which they will support the oil and gas companies that are most struggling. Notably, all scenarios disproportionately drive tax savings to large companies at the expense of the smaller players in the industry who anecdotally seem to be the hardest hit by recent economic trends.

In fact, smaller companies are negatively impacted in most of these scenarios and may face significant business risk as a result of the proposed scenarios due to property tax increases. Even the most

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[7] Scenario A does provide the most manageable impact but based on our analysis would require most industry participants to pay more in non-residential tax, defeating the purpose of the changes. Scenario A is not considered in the statement of Conclusions.

aggressive, Scenario D, has relatively minimal positive impact on junior companies, especially in comparison to the relative harm to the municipalities they are operating in.

This pattern is more concerning based on recent research showing the relative financial well-being of large oil and gas producers, and their recent pattern of passing savings along to shareholders at the expense of capital investment and job creation. These proposed changes may have substantial negative impact on competitiveness and employment in Alberta, and potentially exacerbate the already critical issues related to unpaid property taxes and orphan wells.

Conclusion 4: Many tax/assessment incentive programs have a risk of making regional disparities between municipalities worse.

Similar to the impact on industry, not all municipalities have been impacted by the current economic downturn in the same way. Some rural municipalities, mostly larger centres with a high degree of oilsands and refining activity, have seen continued industrial development and a healthy, expanding tax base. Others who rely on older, largely conventional oil and natural gas industrial bases have seen contraction, unpaid property taxes and a lack of new development. These factors have already created substantial regional disparities between the 'have' and the 'have-not' rural municipalities. The proposed assessment model changes will certainly exacerbate these impacts, and many of the other potential tax/assessment incentive policy options explored in this analysis could as well. It is important to craft any changes to industrial competitiveness in a way that does not unduly burden already struggling municipalities any further.

Principle Scoring Scales

- **Equitable in Cost Sharing**

1	2	3	4	5
Municipalities are mandated to solely support industry in an arbitrary manner that places unrealistic or unsustainable risk to their survival.	Municipalities solely support industry incentives, but the program is designed to target specific industry areas and asset types to limit the impact on municipalities.	Municipalities solely support industry incentives, but the program is designed to scale contributions to municipalities who are best financially able to absorb it to reduce regional disparities.	Industrial tax relief is jointly funded by the GOA and municipalities, but reductions are not calculated base on relative industry tax payment. Municipalities forego a substantially greater proportion of industry tax payments.	Industrial tax relief is proportionally balanced between the GOA and municipalities to reflect the relative tax payments of industry to represent a fair partnership.

- **Equitable in Benefits Sharing**

1	2	3	4	5
Only the largest industrial players benefit under this program.	The large industry players receive a disproportionately higher share of relief/benefit than smaller industry players.	There is an equitable division of benefit across all sizes of industry firms.	The program is structured in a 'needs-based' fashion to ensure that the most challenged industry participants receive the majority of the benefits.	Programs create substantial economic growth that industry, all levels of government and communities benefit from in a fair manner.

- **Tangibility**

1	2	3	4	5
A pure 'trickle down' approach is employed. Tax reduction or benefit with only a hope that companies will use the resources to invest in Alberta-based projects and/or jobs.	Benefits and/or reductions are provided 'up front' but accompanied by a formal agreement as to an understanding of activities that will be undertaken by industry members.	All benefits and/or reductions are put in place before investment or job creation are undertaken but are tied to contractual understanding that they will be forfeited if specific activities are not	Some benefits and/or reductions are put in place before investment or job creation activities commence. Some are delayed until evidence is provided. Concessions are governed by formal agreements that allow for	Tax reductions or benefits are tied to investment or job creation in Alberta. Payments or benefits are only enjoyed after concrete proof of company action is provided.

		undertaken under an agreed upon timeframe.	government repatriation if they do not occur over an agreed upon timeframe.	

- **Sustainability**

1	2	3	4	5
Solutions only address the immediate crisis in oil pricing by providing financial relief to companies. They do not consider impacts to industry or municipalities in subsequent years of operation or incentivize long-term growth or economic development.	Concerns and potential implications of decision for the mid-term are captured and incorporated through anecdotal discussion and applied in a cursory manner when designing and delivering solutions.	Evidence-based analysis is conducted to determine the ramifications of reductions and benefits over a complete business cycle to ensure there is a clear, shared projection of mid-term results.	Impacts of decisions are viewed in a timeframe beyond the current business cycle. Long-term impacts should be projected with the best available evidence to mitigate unintended consequences.	Long term analyses of program impacts are considered through not just a financial lens but through a view of environmental and social impacts as well to provide a holistic assessment of impacts.

- **Transparency**

1	2	3	4	5
Proposals are undertaken with limited public discourse or documentation. Albertans may understand the programs at a high-level but do not have ready access to the details or analysis that shaped them.	Documentation of initiatives are available to the general public, but limited efforts are put in place to support Albertans' understanding of the reasons or projected consequences of these courses of action.	Programs are announced with full details and reasons for action provided but lack publication of projected outcomes. Transparency plans do not account for formal review or reporting of project progress.	Programs are announced with full details, reasons for action and projected outcomes. Transparency plans account for formal review and reporting of project progress.	Measurable actions are planned to ensure Albertans understand the scope, rationale and implications of the solution. Mechanisms are in place to gather and apply public sentiment to adjust the benefit and/or reduction programs, if conditions change in the future.