Edmonton

'It's going to hurt': Tax break for oil and gas firms would drain rural budgets, communities warn

Alberta's rural councils anxious about taxation proposals being reviewed by gov't

Wallis Snowdon · CBC News · Posted: Jul 30, 2020 8:00 AM MT | Last Updated: July 30

Proposed tax changes are the result of a year-long, government-led review to provide relief to Alberta's struggling oil and gas operators. (Getty Images) comments

A plan to give oil and gas companies a break on municipal property taxes would deal massive blows to the revenues of Alberta's rural governments, warns a group representing the province's counties and municipal districts.

If the overhaul to the provincial rate assessment model is pursued, rural councils would be forced to balance their budgets through steep residential tax hikes or deep cuts to municipal services, said Al Kemmere, president of the Rural Municipalities of Alberta (RMA).

Some rural municipalities simply may not survive, Kemmere said.

"Nobody lives in a Cadillac world here," Kemmere said. "Rural Albertans often get by with the marginal, but when you reduce like this, it's going to hurt.

"Municipal viability hangs on this, in a lot of cases. Under this new model, will the municipality be viable within the next five years?"

The proposed changes are the result of a year-long, government-led review to provide relief to Alberta's struggling oil and gas operators.

Consultations, led by a committee made up of industry and government representatives, began in December, and a report outlining four possible linear taxation models was given to the governing United Conservative Party's caucus last week, Kemmere said.

Doubling residential tax rates 'just not doable'

The province says no policy decisions have been made and it continues to consult with municipalities.

At issue are property assessment practices for oil and gas operations. The current system evaluates them on replacement cost — not market value — a practice industry and government officials say overvalues industry assets and inflates tax bills.

The four model scenarios look at factors such as asset depreciation, base costs, land assessment and other adjustments.

According to an RMA report, the proposed reforms would result in revenue cuts ranging from seven to 20 per cent annually. Some of the 69 counties and municipal districts represented by the RMA stand to lose up to 40 per cent of their tax base, Kemmere said.

To deal with pending revenue loss, some regions are looking at increasing the residential mill rate by up to 50 per cent, but rate increases could be significantly more for communities that rely more heavily on tax revenues from oil and gas companies.

"To collect what we're losing, it's almost a non-realistic approach," Kemmere said. "We've got some members that are going to have to double their present tax rates within the residential sector. And that's just not doable."

People from a variety of rural municipalities converged on the Alberta Legislature Thursday to protest changes to oil and gas funding models. (Wallis Snowdon/CBC)

'Drastic cuts'

In Northern Sunrise County, the residential mill rate would have to be hiked by 200 to 500 per cent, or the county's workforce — and corresponding services — cut by up to 80 per cent, its council said in a news release.

The council hopes to join with other rural municipalities for a Thursday protest outside the legislature.

Camrose County, southeast of Edmonton, is looking at increasing the residential mill rate by up to 56 per cent, the non-residential mill rate by 32 per cent, reducing the county workforce by one-third, or a combination of those measures, said Reeve Cindy Trautman.

> "This is a rural issue. There is no county in Alberta that will not be affected."
>
> *- Camrose County Reeve Cindy Trautman*

Reductions in services such as bylaw enforcement, road maintenance, waste and transportation are also being considered, she said.

Each of the four proposed scenarios would reduce county tax revenues in Camrose by about nine per cent, Trautman said. Up to $2.9 million would be cut from overall revenues in the first year alone.

"Even at the lowest rate we will have to make some drastic cuts," she said.

"This isn't a Camrose County issue. This is a rural issue," she said. "There is no county in Alberta that will not be affected."

- **Cash-strapped rural Alberta 'can't wring money' from struggling oil and gas firms, premier says**

Years of low oil prices have left many small oil and gas producers in dire straits and rural communities are already struggling with unpaid taxes from the sector. A survey released by the RMA in January said the oil and gas sector owes $173 million in unpaid taxes to rural municipalities, double the amount in a similar report last spring.

Trautman said Camrose County has $1.1 million in unpaid industry taxes on the books. A number of companies operating in the area have gone bankrupt or are in the process of dissolving.

"We want everyone to succeed but we don't want counties to be taken down because of it," Trautman said. "It feels like another download onto the county."

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'Everyone needs to sacrifice a little bit'

Ben Brunnen, vice-president of oilsands with the Canadian Association of Petroleum Producers, said some municipalities will see increased revenue from the rate changes, a fact also noted in the RMA analysis of the scenarios.

Communities that don't immediately benefit would still reap the rewards in the long term through new jobs, increased investment — and by saving companies from bankruptcy, he said.

- **Unpaid taxes from oil and gas companies have more than doubled to $173M in rural Alberta**

"If we don't do something to arrest the trend of industry bankruptcies and financial insolvencies, there's not going to be a long term or an industry in some of these communities, so the assessments are going to go to zero," Brunnen said.

"It's one of those scenarios where everyone needs to sacrifice a little bit."

Kemmere said that the proposed changes could hurt small oil and gas operators, noting that the reforms seem to favour large companies.

"This is putting money into the big businesses who often have offshore or out-of-the-province shareholders that are potentially going to put that in their pocket," he said.

One of the UCP's first steps to provide tax relief to Alberta's oil and gas operators was an immediate 35 per cent cut in municipal taxes on shallow gas wells and pipelines, announced in July 2019. During that first year, the province compensated municipalities for their losses.

No further compensation will be provided by the Alberta government.

Consultation ongoing

In a statement to CBC News, a Municipal Affairs spokesperson said consultations about the taxation reforms and assessment of oil and gas properties and assets are ongoing.

"We know that any potential solution needs to find a balance between the well-being of our municipalities and the viability of the companies that invest and create jobs in those municipalities," reads the statement.

"Alberta's assessment model for linear taxation has not been updated since 2005. That said, the government is consulting with municipalities and industry to determine the best path forward."

Trautman said consultation with individual communities has been limited. Details of the taxation schemes were provided to local governments late last week, she said.

Camrose received notice on Thursday to prepare for a possible rate change this fall, leaving local governments scrambling to contend with the potential budget shortfalls, she said.

"Because our tax notices were sent already, there's no opportunity to make it up. We're very reluctant. We don't want to pass this on to ratepayers if at all possible."