

## 6.2 Bylaw No. 20/012 – Tax Rate Bylaw

Scheduled Delegate Submission from:

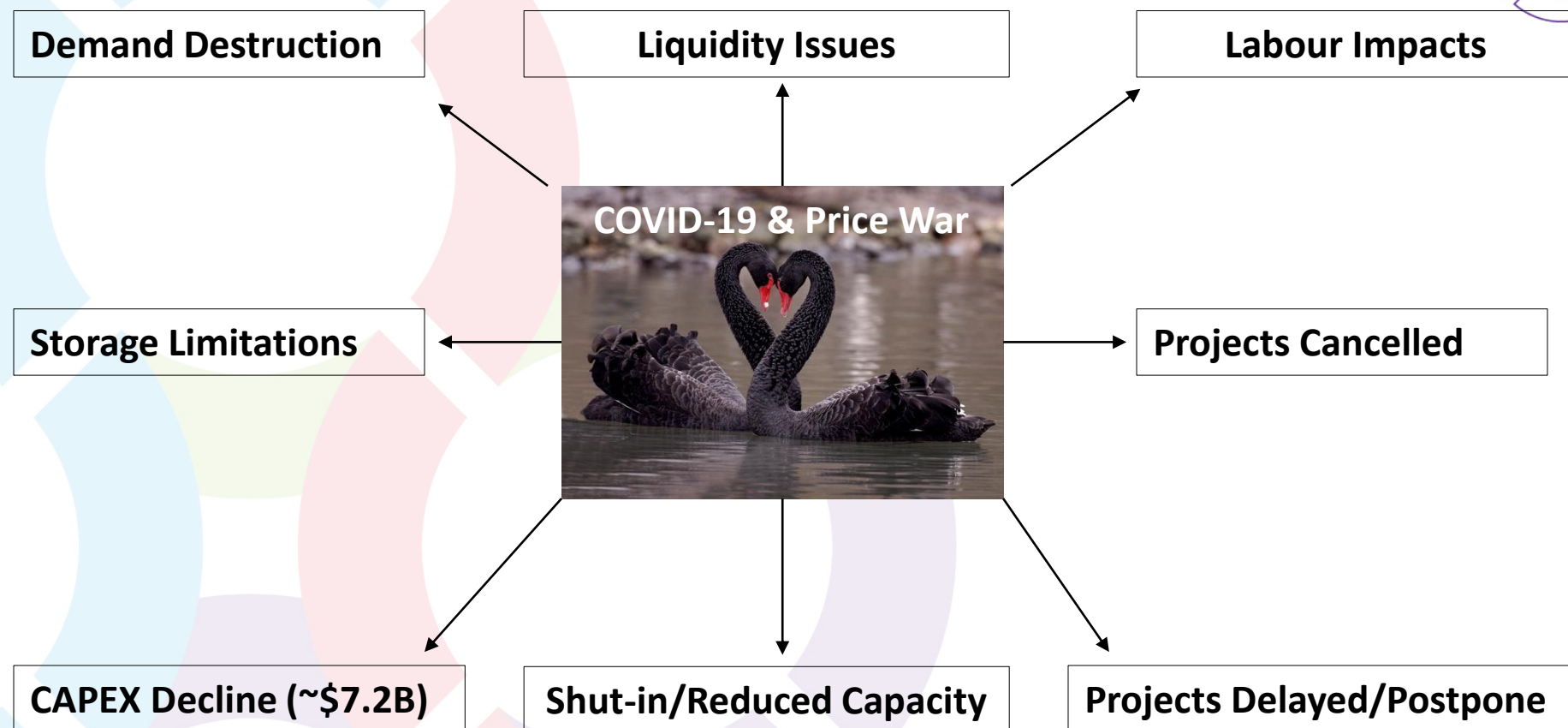
Karim Zariffa, Oils Sands Community Alliance

# Council Presentation

May 12, 2020



# State of the Oil Sands Industry



# Oil Demand Destruction



- ***“With 3 billion people in the world locked down, demand could fall about 20 million bpd.”***
  - Fatih Birol, Executive Director, International Energy Agency
- **Decline in demand = refiners slashing processing; producers shutting-in/cutting output/delaying new projects.**

# Oil Prices have hit 30 Year Lows



- **WTI April range price of US\$28 to US\$18**
- **WCS trading at single digit levels since late March.**
- **WTI Futures curve doesn't rebound till late 2020, rebound slightly through 2021**

# OPEC+ and Other Cuts



- **OPEC+ announced on April 12 a 9.7M bpd cut (largest ever from the group) for two months to begin May 1, 2020.**
- **G20 producers cutting 5M bpd (US, Brazil and Canada cutting 3.7M bpd)**
  - In Canada production cuts of more than 400,000 barrels of oil equivalent per day have been announced\*
- **It is difficult for OPEC+ to policy cuts and measure adherence, US is relying on market mechanisms for cuts.**
- **The cuts are not nearly enough to make up for the massive drop in demand brought on by COVID-19, and only slowed the price skid.**

\*As of April 17, 2020

Source: Bloomberg

# Storage Limitations



- **Surpluses building everywhere in the petroleum supply chain:**
  - Jet Fuel unsold at major airports
  - Traffic congestion vanished in major cities
  - Gasoline demand down
- **Virtually every available gallon of storage space in world could be FULL by late April/early May (Source: IHS).**
  - Consequence: 1) Price Plummet, and 2) Major Shut-ins.
- **Crude storage in Western Canada has approximately 11 million barrels of capacity left.**

# RMWB Projects Deferred, Shut-in, or Canceled



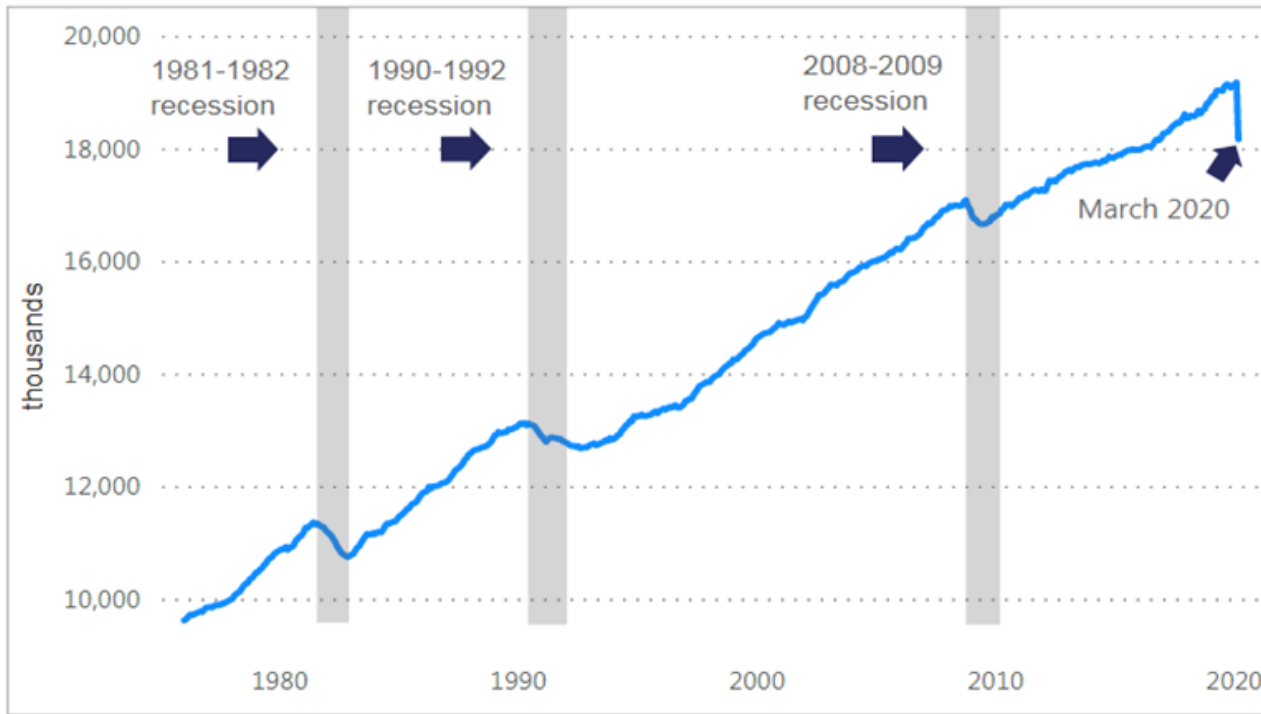
**Over \$7.2 billion in capital expenditure cuts have been announced in the Canadian upstream oil and gas sector.**

- **Syncrude is slowing the pace of the MLX project (\$1.4B)**
- **Suncor's Cogeneration Project (\$1.4B) deferred**
- **Athabasca's Hangingstone shut-in**
- **Meadow Creek In-Situ Project (\$5B) deferred**
- **Teck Frontier Project (\$20B)**
- **ConocoPhillips Surmont production cut of ~75 per cent (100,000 bpd)**



# Labour Impacts

- **March 2020**: In Canada, more than 1 million people lost their jobs. Alberta had 117,100 fewer jobs.



Source(s): Table 14-10-0287-01 (formerly CANSIM table 282-0087).

# OSCA's Request of RMWB Council



- **With the current state of the global economy and the likelihood of a long recovery for Alberta, OSCA and our members are recommending that the RMWB Council:**
  1. **Approve Administration's recommendation of a 26% reduction** in the rural non-residential mill rate instead of deferring designated industrial property taxes in 2020.
- **An immediate material reduction of taxes will help industry preserve liquidity**

# Rationale

**Preserve jobs and procurement spend**

**Municipal taxes are a fixed cost, unlike royalties or provincial taxes it does not change with changes in price.**

- **Government of Alberta (GOA) Relief**

- Reduced corporate taxes by 33 per cent.
- AER fees relaxed
- KXL \$7B commitment
- Orphan Wells support
- WCB Premiums

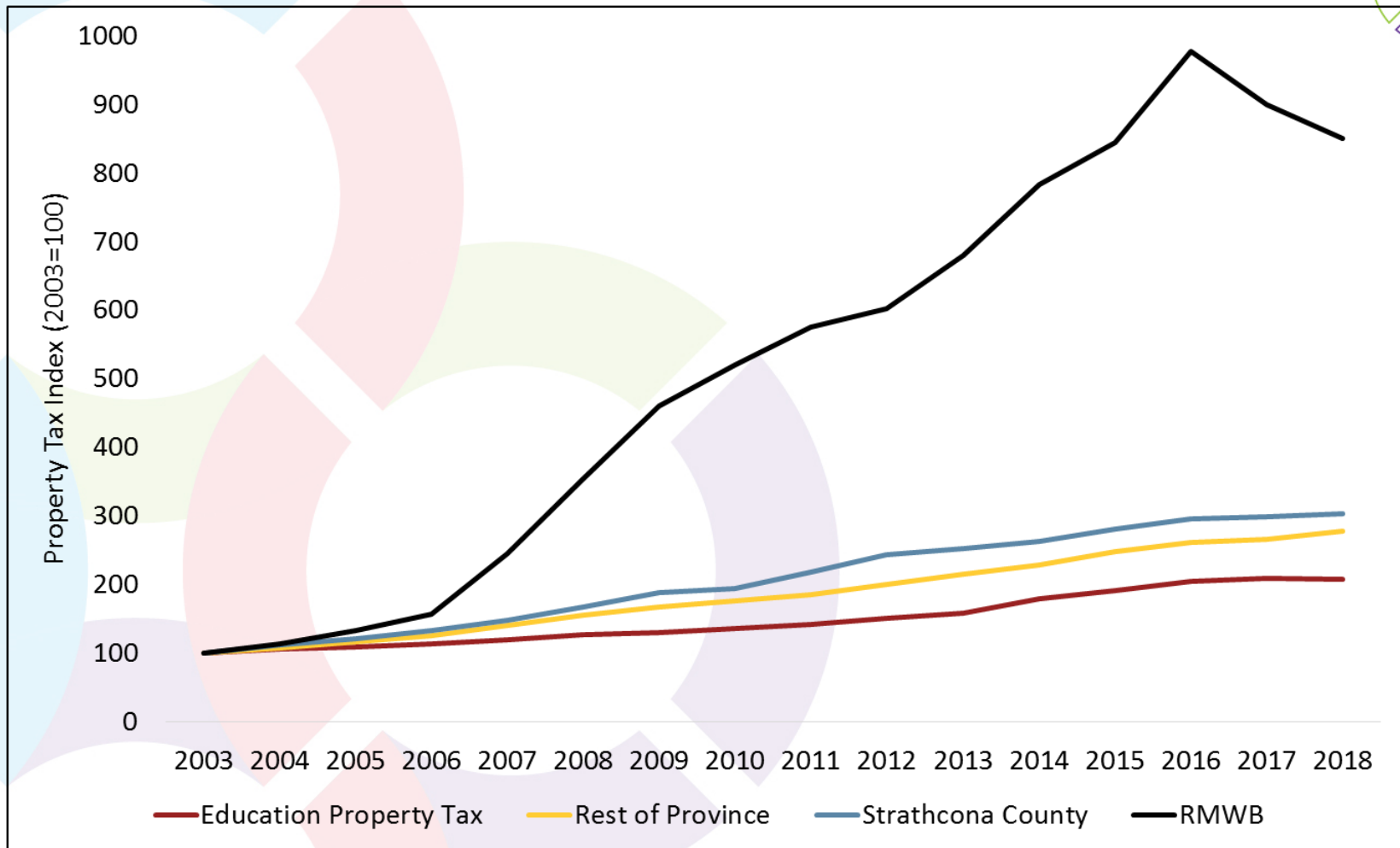
- **Government of Canada Relief to Oil and Gas \$2.4B**

- Help laid-off service company workers with support for orphan wells and methane reduction.

- **Oil sands Operators**

- Since 2014 have reduced operating costs by 35-40 per cent (Source: IHS).

# In comparison, RMWB taxes have increased



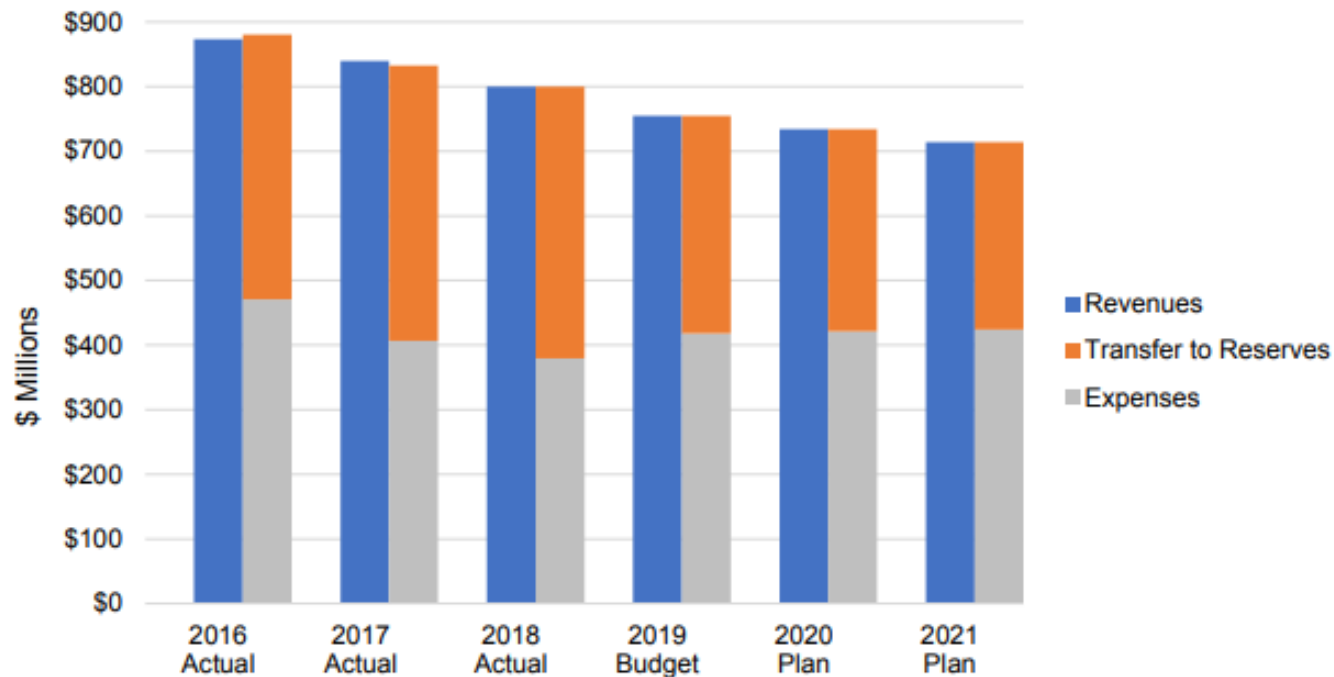
## Example: Project in RMWB

- New SAGD 35,000 bpd project built in RMWB will pay ~\$290 million in property taxes over its life.
- This exceeds anticipated provincial corporate income tax revenue of \$250 million or climate policy costs of up to \$180 million.
- In comparison: same project built in Saskatchewan pays ~\$115 million (60% less than in RMWB).

# Opportunity for RMWB Council to the Support Local Economy

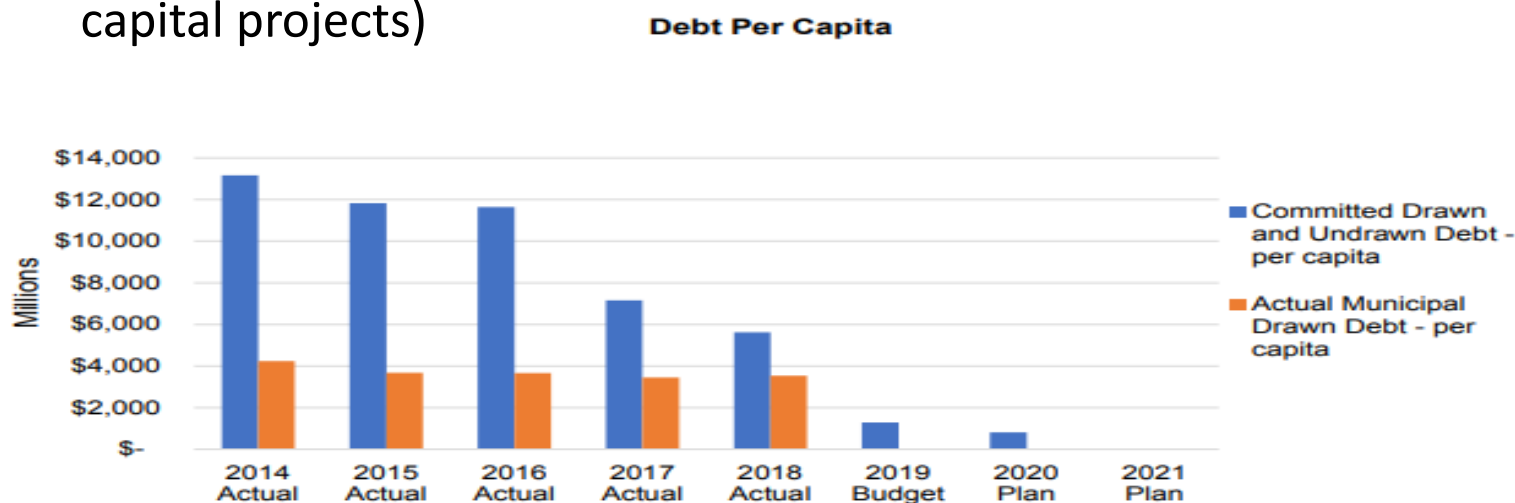


Consolidated Summary



# RMWB is Debt Free

- **2019 RMWB paid \$310 million to clear debt (proposed to cover future capital projects)**
  - RMWB is debt free (Source: Alberta Capital Financial Authority)
- **2019 RMWB transferred \$60 million to reserve (committed undrawn debt-savings for future capital projects\*)**
  - 2020 Budget plan to save an additional \$96 million in reserve (for future capital projects)



\*Undrawn debt: Municipalities set aside a small portion of their revenues (undrawn debt) over multiple years to pay for major/large scale infrastructure projects.” RMA Understanding Municipal Financial Reserves November 2019.

# Bank/Reserves Fund Capital Projects till 2025



- **RMWB has Uncommitted/Unrestricted Reserves \$234 million**
- **RMWB has a Capital Reserve of \$650 million, an emerging issues reserve of 112 million and operating reserve of 50 million (total committed reserves= \$813 million)**
- **Funding is sitting in reserves for multi year capital projects till 2025**
  - Including Rural Water and Sewer, downtown revitalization and Flood Mitigation projects



# Conclusion

---

- **The Covid-19 situation is extraordinary, requiring extraordinary measures.**
- **The RMWB has reserves in place to pay for future capital projects**
- **The RMWB is debt free**
- **RMWB has the ability in the 2020 budget to reduce rural non-residential taxes by 33% using reserves, without affecting services.**
- **Federal and Provincial Governments have stepped up to support;**
- **The RMWB Council's opportunity to make a meaningful contribution to support the local economy.**

An abstract geometric composition on the left side of the slide. It features several overlapping, semi-transparent colored arcs and lines in shades of light blue, light red, light green, and light purple. These elements are arranged in a way that suggests a circular or semi-circular structure, possibly representing a stylized letter or a decorative motif. The lines are thin and follow the curves of the arcs.

**Questions**