Municipal Taxation in the Regional Municipality of Wood Buffalo

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Presenter: Reegan McCullough,
Executive Director, OSCA

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Municipal Tax Priorities

1. Link the Urban and Rural-Industrial Mill Rates
2. Edmonton Normalization Factor
3. Revenue Neutral
4. Building a Sustainable Community

Link the Mill Rates

- The past decade has seen significant annual increases to non-residential mill rates as residential mill rates decrease or remain the same
- Municipal mill rates for residential and non-residential property should be linked to provide accountability to the system

RMWB Property Tax Revenue

- In 2012, the RMWB collected $496 million in property tax revenue
- 91.2% was collected from the Rural Non-Residential Class (industry)
- RMWB maintains the lowest property tax rates in the Residential and Urban Non Residential class compared to other municipalities
- In comparison to other Alberta municipalities, the RMWB rural non residential tax rates are not competitive

4

Rural Alberta Tax Rate Ratios

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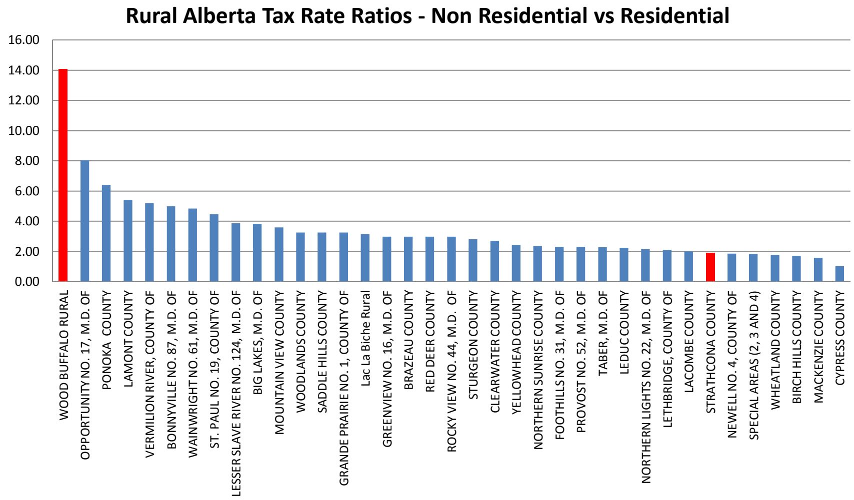

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Tax Rate Ratio (Rural Non-Residential to Urban Residential)

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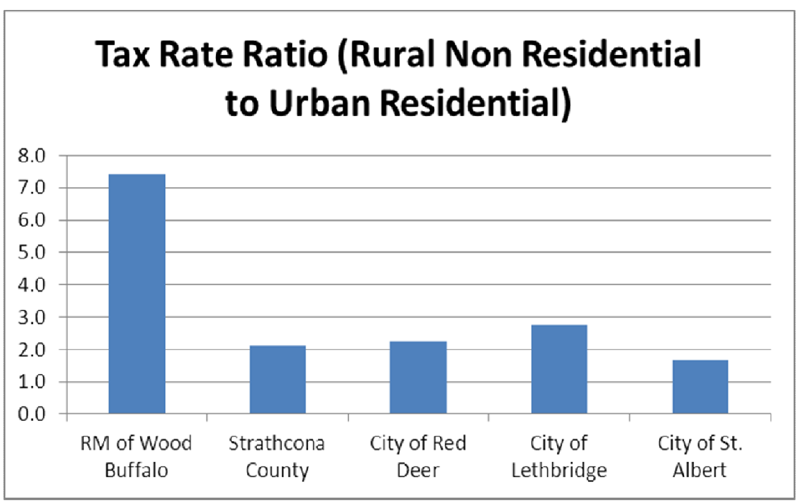

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% of Taxes from Rural Non Residential

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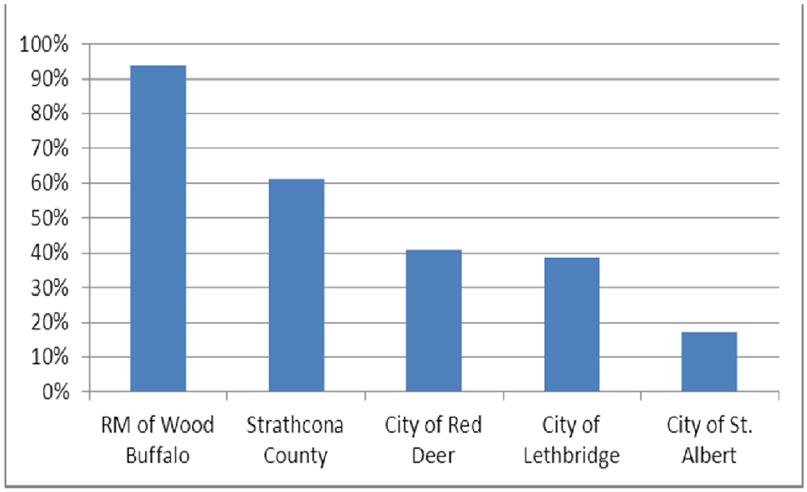

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RMWB Municipal Non Res Mill Rates Rural vs. Urban

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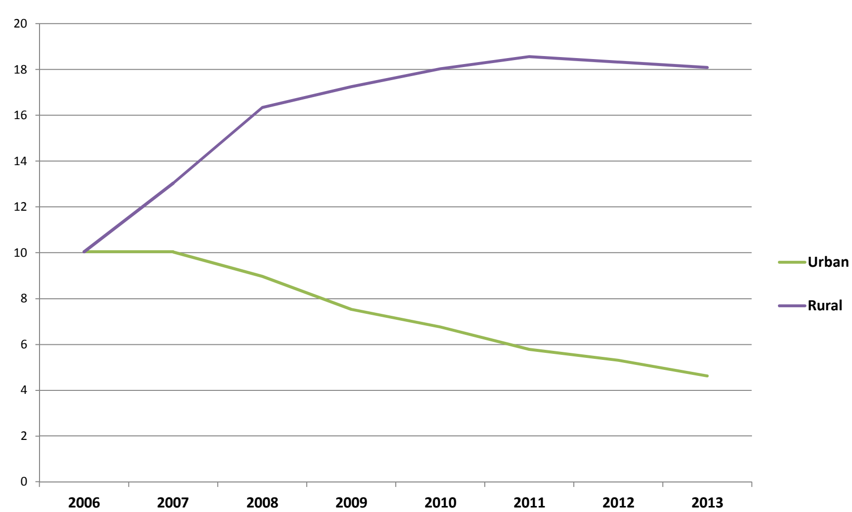

Recommendation: Link the Mill Rates

1. Link the mill rates at current level now
2. Work towards a mill rate ratio between non-residential and residential property classes of 3.4, as is the case in similar municipalities
3. Redefine Revenue Neutral to consider the new assessment growth from new capital projects as part of the revenue neutral equation

What is the Edmonton Normalization Factor?

- The intent was to normalize construction costs in remote rural Alberta to the Edmonton Area to create a fair and equitable assessment regardless of location in Alberta
- This methodology was established in the Special Purpose Assessment Guide (SPAG) which was carried over with its replacement by the Construction Cost Reporting Guide (CCRG) in 2001
- Assessors, Municipal Affairs and Industry stakeholders worked together in creating both the SPAG and CCRG documents
- The CCRG does not specifically state that all machinery and equipment construction costs are normalized to the Edmonton Area where the SPAG did
- The intent was that past practices would continue and RMWB assessors have followed this to date

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Cost differences within NA

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Edmonton Normalization Factor

- RMWB has indicated their intention to move away from typical Edmonton-area construction cost normalization on assessments
- This would result in an erosion of competitiveness
- Oil sands projects require significant investment of which only large multi-national companies are in a position to compete
- Oil sands projects are in direct competition with investment opportunities the world over

Regulated Assessment Calculation

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- Alberta Municipal Affairs Assessment Services Branch currently uses the Edmonton area as the calculation of the base costs used in their Regulated Assessment manuals that fall within the Minister's Guidelines
- This can be seen in cost reviews recently completed

13

Potential Impact

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- Average estimated increase of construction costs from Edmonton to Fort McMurray is 20-30%
- Does this translate to a 20-30% increase to overall assessment base?
- Unexpected change in operating expenses will result in lengthy and expensive litigation
- Multi National Companies will invest where highest rate of return is possible and not limited to Alberta
- Alberta's oil sands is a long term investment taking many years for return on equity

14

Revenue Neutral

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- Within the assessment base it is possible that Company A could see a 40% assessment base increase, Company B 20% and C a 10% increase
- This would translate into a 20% reduction in Mill Rate for Revenue Neutral to the RMWB
- However, the difference would be a 20% increase in tax for Company A, Revenue Neutral for Company B, and a 10% reduction for Company C
- Therefore, not revenue neutral from an individual company point of view

This begs the question:

- *If the change in methodology (and interpretation) to the long agreed upon calculations are revenue neutral … why bother?*

15

Recommendation

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- Consider the Edmonton Normalization Factor as part of a holistic review of the entire tax equation within the Municipal Government Act Review (MGAR)
- Creation of a government/industry working committee to consider the Edmonton Normalization Factor as it relates to the whole tax equation within the context of the MGAR

Building a Sustainable Community

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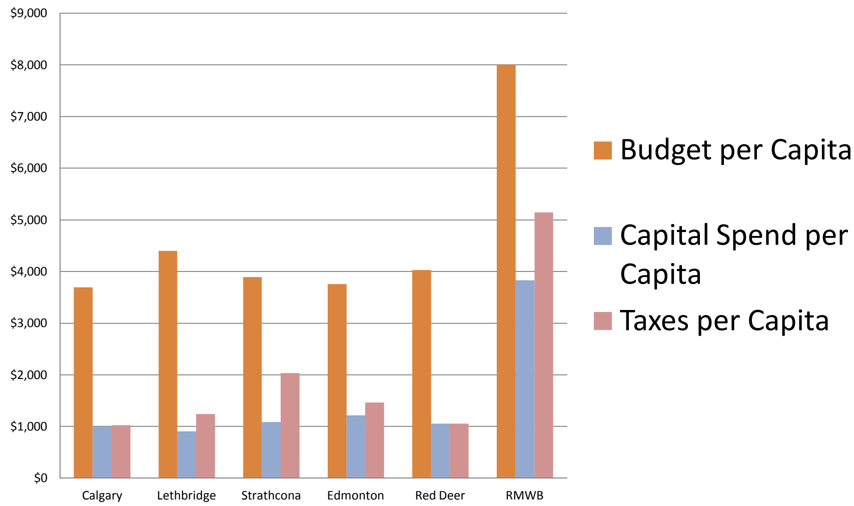

Recommendation

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- Create a competitive property tax system that will ensure quality of life for citizens that is comparable to similar municipalities while not hindering economic growth in the region