

From: Benjamin Dachis

To: The Alberta Ministers of Municipal Affairs, Energy, and Treasury Board and Finance

Date: January 29, 2020

Re: **FIXING OIL AND GAS PROPERTY TAX PROBLEMS THROUGH REGIONAL GOVERNANCE REFORM**

There's a property tax revolt coming to Alberta. With oil and gas companies under financial distress, many cannot afford to pay eye-watering business property taxes to rural municipal governments. Residents are taking notice, threatening to [not pay](#) either.

To solve this problem, rural governments should look to service-sharing agreements with nearby urban centres to allocate the costs of services to those who benefit from them.

Many regional municipal and county governments in Alberta are rural and have few residents to tax; their main source of property tax revenues is oil and gas properties. But [multiple studies](#) find that property tax burdens on business exceed the benefits derived.

To offset the costs of services provided to non-residents, governments set disproportionately high taxes on oil and gas properties. The ratio of business taxes to residential tax rates (according to 2019 rates, available [here](#)) is more than six times in the Fort McMurray area, and more than 11 times in Clear Hills, the Peace River-area county that has the province's most skewed ratio.

Property taxes are a major driver of [competitiveness](#) differences between western Canadian provinces and US states, such as North Dakota and Pennsylvania – which do not levy property taxes and are now two main oil and gas investment competitors. In some cases, taxes have become such a high a cost for Alberta energy producers that their property tax arrears are triggering [bankruptcy](#).

How big is this problem? In 2016, urbanized municipalities in Alberta collected around \$700 per capita in residential taxes, and a little less than that in non-residential taxes. In rural Alberta, the municipal tax total from non-residential property taxes in 2016 was roughly \$3,000 per capita (see Figure), dwarfing the slightly more than \$600 per capita collected in residential property taxes.

The province recently [announced](#) property tax relief for some natural gas companies while keeping municipal governments whole. However, the solution throws provincial dollars at the problem without addressing the core issue.

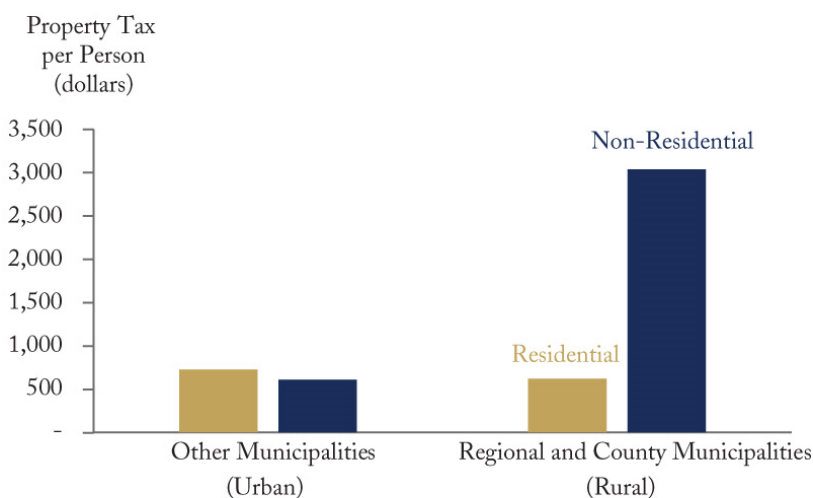
Obviously, municipal governments need revenues to finance local services from which oil and gas companies benefit – the roads used to reach well sites, for example. Alberta's [Well Drilling Equipment Tax](#), which uses depth of a well as a proxy for the weight of equipment heading to a site, is meant to cover the considerable damage caused by heavy trucks. It is a rather blunt (and therefore ineffective) instrument, and municipalities should instead charge [GPS-enabled tolls](#) based on the damage done by these heavy vehicles.

A broader solution is a change in municipal governance to address other expenses stemming from health, water utilities, and general urban costs that affect businesses and residents across municipal borders. Urban and rural municipalities should enter into [service-sharing](#) agreements, so that services for workers who live and pay tax elsewhere, and must be provided in rural areas, are partly paid for by residential taxes in urban jurisdictions. The result would be lower taxes in rural areas and better matching of those who benefit from government services with those who pay for them.

A cooperative regional model in which individual cities elect to take part in a special-purpose body that consolidates the activities of a group of utilities or other services is most likely to lead to savings. One example of this model is Aquaterra in Grand Prairie. [Aquaterra](#), which is owned by the City of Grand Prairie, the broader regional government, and nearby smaller towns, operates the combined water services for them all.

Rather than stop paying taxes, it's time for deeper reform of regional governance in Alberta to solve the problem of unpaid oil and gas property tax bills.

Property Tax in Alberta Municipalities, 2016



Source: Author's calculations from Alberta municipal financial statistics.

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