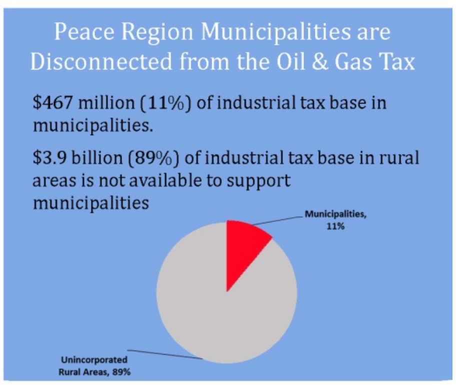
# Backgrounder

## April 8, 2015
## Fair Share Negotiations

### What is the disconnect between the oil & gas tax base and the municipalities?

With the announcement of the construction of Site C, a hydro-electric dam and the potential for massive LNG development the Resource Municipalities in Northeastern British Columbia are facing unparalleled economic growth over and above the ongoing expansion of Forestry, Mining and Agriculture.

The most significant challenge for Resource Municipalities will be how to pay for this expansion of municipal infrastructure and services to accommodate a growing population and vast transient work force.




Resource Municipalities' primary source of revenue is their industrial property tax base. Northeastern BC has always had a structural problem in that 90% of the industrial tax base and future oil and gas development takes place in the rural areas outside of municipal boundaries.

This situation has existed since the advent of the oil and gas industry in the 1950s and is the polar opposite to BC's mining and forestry municipalities that have always had the industrial tax base within their boundary to fully support the cost of all of their services and facilities.

The Fair Share Program was the Province's answer to this dilemma by providing municipalities with a grant in lieu of access to the vast rural oil and gas tax base. This temporary grant program expires in 2020 and Municipalities have no guarantee of any Provincial grants beyond that date.

The Province also created the Northern Rockies Regional Municipality which does incorporate the oil & gas tax base into their boundary and has reached a 22 year agreement ending in 2035 to provide infrastructure grants to the NRRM.

This dilemma of having no permanent access to the oil & gas tax base is threatening the Peace Region Municipalities' ability to support future resource development in NEBC.

### What is the position of Taylor and Fort St. John on Fair Share?

A permanent solution is required to address the disconnect that exists between the rural oil & gas tax base and the Resource Municipalities that service that industry.

The Province is attempting to impose unreasonable timeframes within which to discuss, let alone negotiate, a long term agreement to provide a permanent solution to the disconnect between Peace Region municipalities and rural oil & gas tax base.

The District of Taylor and the City of Fort St. John through the NEBC Resource Municipalities Coalition are prepared to enter negotiations with the Province but not under the framework and the restrictive and unreasonable time constraints that the Province is proposing.

## What would Taylor and Fort St. John propose?

As the Resource Municipalities are vital and integral to the Province's and industry agenda for Site C and natural gas production increases to meet LNG demand, a more reasonable expectation would be a structured negotiating process that would base any examination of future municipal support from the industrial tax base to be determined by:

- A full review of future resource development projects and the related population increases, as well as permanent and transient job projections.
- A comprehensive Peace Region infrastructure plan be developed in consultation with the industry and the Province to closely examine their needs in terms of housing and other services for workers, their families, and the transient work force.
- An examination, given the synergies and joint responsibilities between the Province and Resource Municipalities, of the impacts and plans for a number of key functions such as transportation, policing, environment and social issues.

A comprehensive infrastructure planning process is required for Northeastern BC given the vast hydroelectric and shale gas resources that are being developed. Working through the NEBC Resource Municipalities Coalition, economic planning has already been initiated and preliminary projections for future population and work force are available.

There has been a strong and widely held misconception surrounding the industrial grant in lieu received from the rural oil & gas tax base. It has been represented as Provincial revenue sharing and is advanced by all local government and regions in their quest for additional funding. This misunderstanding appears to be contributing to the Province's motivation to sever the connection of the grant in lieu to the property tax base and economic growth.

## Is the greater Taylor and Fort St. John area growing?

The District of Taylor and City of Fort St. John are two of the fastest growing municipalities in BC having grown over 30% since 2005 with a combined annual growth rate exceeding 3%.

Industry relies heavily on the services provided by municipalities – serviced land, housing, recreation and policing are a few examples. Beyond these services, the municipalities are home to health care, education and social services provided by other agencies. And finally, the region's municipalities also host support industries ranging from equipment servicing to leasing, accommodations, food services and skilled trades.

With advent of shale gas and the announcement of Site C there will be specific challenges confronting the District of Taylor and the City of Fort St. John.

These two communities jointly service a population of 30,000 people which is approximately 50% of the total population in the Peace Region.

| Greater District of Taylor, City of Fort St John and Area C Community | | | |
|---|---|---|---|
| **2005** | **2015** | **Growth** | **Annual Growth Rate** |
| 23,007 | 29,972 | 30.30% | 3% |

The Peace Region and will bear the brunt of the impacts of Site C and a majority of future LNG developments as this is the primary oil & gas service center in the Peace Region.

The District of Taylor and City of Fort St. John area requires a permanent and predictable connection to the industrial tax base if we are going to have the capacity to immediately implement the planning and engineering for major expansion of its municipal infrastructure services and facilities.

### How much will the municipalities lose?

| | 2015 Loss by Municipality/ Rural Area | Loss by Municipality/ Rural 2015-2019 |
|---|---|---|
| Fort St John | $ 2,674,828.00 | $ 32,763,371.09 |
| Dawson Creek | $ 1,807,864.00 | $ 20,907,872.51 |
| Chetwynd | $ 469,313.00 | $ 4,671,527.12 |
| Hudson Hope | $ 32,322.00 | $ 677,951.65 |
| Pouce Coupe | -$ 31,973.00 | $ 593,401.89 |
| Tumbler Ridge | $ 731,343.00 | $ 5,294,681.81 |
| Taylor | $ 149,779.00 | $ 1,753,960.59 |
| Peace River Rural | $ 195,447.00 | $ 3,370,557.20 |
| | | |
| **Annual** | **$ 6,028,923.00** | **$ 70,033,323.86** |
| | | |

### How does industrial tax compare to other Northern Resource Municipalities?

We have selected four industrial communities from Northern BC that have an incorporated industrial tax base with a combined population of 29,103 in order that we can compare the level of industrial tax base support to the Greater Taylor / Fort St John area.

| | Greater Taylor / Fort St John area | Four Industrial Municipalities in Northern BC |
|---|---|---|
| **Population** | 29,922 | 29,103 |
| **Total Industrial Tax Revenue** | $27.81 Million | $35.5 Million |
| **Per Capita Industrial Tax Revenue** | $929 | $1219 |
| **Reliance on Fair Share Grant** | 82% | 0% |

| Comparision to Four Resource Communities with a Population of 29,103 | | | |
|---|---|---|---|
| **Combined Population 29,103 - Total Industrial Revenue $35.5 million - Per Capita Industrial Tax Base Support $1219** | | | |
| | Population | Taxes from 2,4 & 5 | Per Capita |
| Kitimat | 8363 | $15.7 million | $1,877 |
| Quesnel | 9935 | $9.5 million | $956 |
| Trail | 7307 | $7.8 million | $1,067 |
| MacKenzie | 3498 | $2.5 million | $714 |
| | **29103** | **$35.5 million** | **$1,219** |

### How much has the Province taken out of the NEBC area in the past 10 years?

The growth of the oil & gas industry over the past 30 years has been significantly magnified by the advent and discovery of vast shale gas reservoirs in the past 10 years. The result is that natural gas (LNG) is viewed by both the Province and Industry as the resource opportunity that will lead the Province's economic development over the foreseeable future.

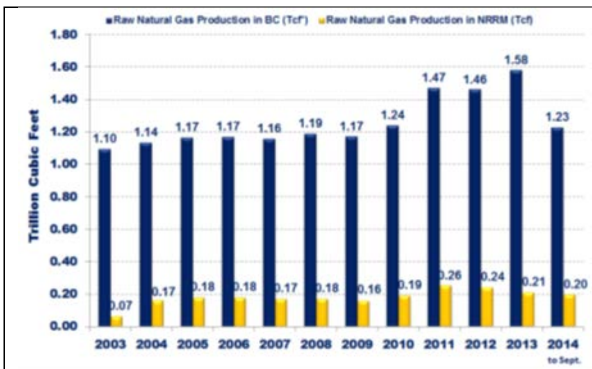
In promoting the LNG opportunity, and to garner public support outside of the north the Province has indicated that paying off the Provincial debt and other Provincial funding priorities will benefit significantly from development of natural gas in Northeastern BC.

Since 2003 the industry has invested over $60 Billion in developing the shale gas resources in Northeastern BC and projections for increased natural gas production through LNG exports foretell doubling and tripling of the existing production levels. As a result of this industry investment the rural property tax base has more than doubled.

In this time frame the Province has received $20 billion from land sales and royalties in Northeastern BC.

| Provincial Oil & Gas Revenues from NorthEastern BC 2003 to 2014 (in billions) | | | | |
|---|---|---|---|---|
| Year | Total Oil & Gas Royalties | Land Sale Bonuses ($Millions) | Provincial Rural Property Tax Revenue | Total Provincial Revenue 2003-2014 |
| 2003 | $1,329 | $647 | | $1,976 |
| 2004 | $1,500 | $232 | | $1,732 |
| 2005 | $2,050 | $534 | $9.13 | $2,593 |
| 2006 | $1,319 | $630 | $10.11 | $1,959 |
| 2007 | $1,273 | $1,047 | $10.00 | $2,330 |
| 2008 | $1,460 | $2,663 | $10.89 | $4,134 |
| 2009 | $491 | $893 | $11.63 | $1,396 |
| 2010 | $402 | $844 | $11.93 | $1,258 |
| 2011 | $408 | $223 | $12.99 | $644 |
| 2012 | $248 | $139 | $14.46 | $401 |
| 2013 | $539 | $225 | $15.80 | $780 |
| 2014 | $427 | $383 | $16.83 | $827 |
| | | | | |
| TOTAL | $11.46 Billion | $8.46 Billion | $124 Million | $20.03 Billion |

*British Columbia Oil and Gas Industry Statistics (2003-2014) - Provided by the Ministry of Natural Gas




| Natural Gas Production Currently and with LNG | | |
|---|---|---|
| | | Total Gas Production |
| McMahon Gas Plant | 750 mcf/day | |
| Total NEBC Production Today | 3.5 bcf/day | **3.5 bcf/day** |
| Petronas (Lelo Island - Port Edward) | | |
| 2 Trains | 2.0 bcf/day | 5.5 bcf/day |
| Expansion to 3 Trains | 3.6 bcf/day | **7.1 bcf/day** |
| Shell (Kitimat) | | |
| 2 Trains | 1.7 bcf/day | 7.2 bcf/day |
| Expansion to 4 Trains | 3.5 bcf/day | **10.6 bcf/day** |

Petronas or Shell will double today's BC Gas Production

## When does the Fair Share MOU expire?

The Resource Municipalities in Northeastern BC face the expiry in 2020 of their existing MOU grant in lieu of taxes which is the same time frame that BC Hydro's Site C hydro-electric dam, estimated to cost $8 billion, will be in full construction and two or more LNG plants will be completed driving vast increases in employment and population levels as BC's Upstream Natural Gas Production in Northeastern BC.

The Minister of Community, Sports and Cultural Development advises that the existing Fair Share MOU is to be reopened and replaced by a proposed 15 year agreement starting in 2015 and terminating in 2030. They also contended that the direct linkage, or index, to the growth of the rural oil & gas tax base must be removed as it is unaffordable to provincial tax payers.

The existing MOU anticipates that it would take a year or more to negotiate a new agreement to start in 2020. The Minister however has appointed a negotiator and advised municipalities and the regional district that this new 15 year agreement must be in place by April 30, 2015; a period of less than 6 weeks.

## What is the history of Fair Share?

The oil & gas industry started in the 1950s with the construction of the Westcoast Pipeline to the lower mainland. The advent of BC's oil & gas industry paralleled, to a large degree, the growth of BC's northern forest industry, mining, hydroelectric development and agricultural expansion.

As Resource Municipalities in the north expanded to service and house the work force employed in the various industries, the vast majority of the industrial tax base was incorporated in the respective municipalities and gave them the financial capacity to expand their infrastructure and services to house the industrial work force and their families.

The only region that was uniquely different was Northeastern B.C. and the oil & gas industry development where over 90% of the industrial tax base is located in rural and remote areas and not included in the property tax base of the resource municipalities.

This disconnect has historically been a structural problem that has severely limited the financial capacity of the resource communities. This dilemma has existed for over 50 years. Local municipal councils continuously lobbied the Province from the 1950s through to the early 1990s to address this structural challenge.

In the early 1990s, based on documented research and analysis confirming this disconnect from the oil & gas tax base, the Resource Municipalities and Regional Districts were able to mount a united campaign convincing the Province to provide grants in lieu of direct access to the oil & gas tax base. In 1994 the Province approved a grant-in-lieu of $4 million per annum to be shared by 7 municipalities and 4 electoral areas. In 1997 the grant-in-lieu was increased to $12 million per annum again to be shared among the 7 municipalities and 4 electoral areas. Finally, in 2005 an agreement was reached with the Province that resulted in an acknowledgement that the 7 municipalities and 4 electoral areas should have the equivalent of an industrial property tax base. The 2005 Agreement provided that the grant of $20 million would be annually adjusted or 'indexed' to the changes in the rural oil & gas tax base.

In 2005, the 7 municipalities and 4 electoral areas finally achieved support from the oil & gas tax base similar to what municipalities in the balance of British Columbia had enjoyed for the previous 50 years.