Policy Forum: Taxation of Machinery and Equipment and Linear Property in Alberta

Brian Conger and Bev Dahlby*

PRÉCIS
Des municipalités de l’Alberta ont amassé 1,75 milliard de dollars de la taxation sur les machines et le matériel et les biens linéaires (MELP) en 2013. Les taxes sur les MELP sont des frais fixes qui réduisent les entrées de fonds et augmentent le coût des nouveaux investissements dans les projets de sables bitumineux, la mise en valeur conventionnelle ou non des ressources pétrolières et gazières, et les pipelines. La distribution de l’assiette fiscale relative aux MELP est fortement concentrée parmi quelques arrondissements municipaux et municipalités spécialisées, les 10 principales représentant 56 pour cent des 113,7 milliards de dollars de cotisations de péréquation en 2013. Quatre municipalités ont perçu plus de 10 000 $ par habitant en taxes foncières en 2013, dont le Municipal District of Opportunity, avec une population de 3 061 résidents, a reçu le montant le plus élevé, soit 21 329 $ par habitant. En plus des disparités des cotisations par habitant, certaines municipalités ont tiré profit de la présence d’investissements fixes, en un lieu déterminé, relatifs aux MELP pour imposer des taux non résidentiels par mille très élevés, afin de percevoir des revenus de taxe supplémentaires. Les politiques provinciales concernant la taxation sur les MELP devraient être revues, étant donné la concentration de recettes fiscales tirées des MELP dans quelques municipalités et de l’incidence négative que ces taxes peuvent avoir sur l’investissement dans l’industrie pétrolière et gazière.

ABSTRACT
Municipalities in Alberta collected $1.75 billion from the taxation of machinery and equipment and linear property (MELP) in 2013. MELP taxes are fixed charges that reduce cash flow and increase the cost of new investments in oil sands projects, unconventional and conventional oil and gas developments, and pipelines. The distribution of the MELP tax base is highly concentrated among a few municipal districts and specialized municipalities, with the top 10 municipalities accounting for 56 percent of the $113.7 billion in equalized MELP assessment in 2013. Four municipalities collected more than $10,000 per capita in municipal property taxes in 2013, with the Municipal District of Opportunity, population 3,061, receiving the largest amount, $21,329 per capita. In addition to the disparities in the per capita assessments, some municipalities have taken advantage of the presence

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of fixed, location-specific, MELP investments to impose very high non-residential mill rates, so as to collect additional tax revenues. Provincial policies regarding MELP taxation should be reviewed, given the concentration of MELP tax revenues in a few municipalities and the negative impact that these taxes can have on investment in the oil and gas industry.

**KEYWORDS:** TAX POLICY ■ RURAL DEVELOPMENT ■ PROPERTY TAXES ■ PIPELINES ■ OIL INDUSTRY ■ MUNICIPAL FINANCE

**CONTENT**

Introduction 488
Background 488
The Relative Importance of MELP to MDs and SMs 490
Disparities in Property Tax Revenues 493
MELP and Competition: Rich Municipal Districts, Poor Towns 493
Aggressive Mill Rate Setting 496
MELP as Benefit Taxation 496
Reform Options 498

**INTRODUCTION**

While public attention on the taxation of the oil and gas industry in Alberta has focused on the royalty regime, a longstanding issue that is gaining increasing importance is the taxation of machinery and equipment (M & E) and linear property (LP)—together referred to as MELP—by municipalities across the province. Although these are not industry-specific property taxes, they generally apply to refineries, pipelines, and associated industries of oil and gas producers. These property taxes have become a source of concern for the industry\(^1\) because they add to the costs of production and reduce competitiveness. They also raise important questions concerning the role of municipal governments in the taxation of non-residential property.

**BACKGROUND**

In Alberta, municipalities include cities, towns, villages, and summer villages; rural municipal districts (MDs); and specialized municipalities (SMs) that combine urban and rural communities under a single municipal council. In total there are 18 cities, 107 towns, 93 villages, 51 summer villages, 64 MDs, and 5 SMs.\(^2\) In addition to these

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2. The 5 SMs are the Municipality of Crowsnest Pass, the Municipality of Jasper, Mackenzie County, Strathcona County, and the Regional Municipality of Wood Buffalo. The latter 2 are especially significant because they incorporate the urban service areas of Sherwood Park and Fort McMurray that would otherwise qualify as cities. Because of their importance in levying property taxes on M & E and LP, we have lumped the SMs and the MDs together in the analysis of property taxes in this article.
municipalities, there are several other local authorities including 8 improvement districts, which are directly administered by the Ministry of Municipal Affairs; 3 special areas, governed by a single Special Areas Board appointed by the lieutenant governor in council; 8 Metis settlements, governed by the Metis Settlements General Council; and 48 First Nations (Indian) reserves on federal lands. Hamlets and urban service areas are not considered municipalities, since they are legislatively subordinate to their respective municipalities.

As stated in Alberta’s Municipal Government Act (“the MGA”), a municipality has three purposes:

(a) to provide good government,
(b) to provide services, facilities or other things that, in the opinion of council, are necessary or desirable for all or part of the municipality, and
(c) to develop and maintain safe and viable communities.3

Municipalities have the authority to levy various taxes, of which property taxes constitute the primary source of municipal own-source revenues. The MGA sets out two types of valuation standards for property taxes: a regulated procedure and a market-value-based procedure. Railways, farmland, M & E, and LP are defined as “regulated” property and valued using regulated rates provided annually in the municipal affairs minister’s guidelines. For all other types of property (such as residential, commercial, and industrial properties), market-value standards apply. Municipalities are responsible for preparing assessments for all property, with the exception of LP assessments, which are the responsibility of Municipal Affairs.

M & E property includes materials, devices, fittings, installations, appliances, and apparatus that form an integral part of manufacturing, processing, coal and oil sands excavation and/or transportation (that does not fit within the definition of LP); telecommunications; and electric power systems. M & E is assessed at 77 percent of its value. LP includes electric power systems whose rates are controlled or set by the Alberta Utilities Commission; street lighting and telecommunications systems; and pipelines.

Municipalities set two different mill rates on the assessed value of their property—a residential rate that applies to residential property and farmland, and a non-residential rate that applies to M & E, LP, railways, and other non-residential property. All municipalities in Alberta impose a higher mill rate on non-residential property than on residential property.4 In addition to these municipal property taxes, the provincial

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3 Section 3 of the Municipal Government Act, RSA 2000, c. M-26, as amended.
4 This is true in the cities as well as the MDs and SMs. For a discussion of the ratio of non-residential to residential mill rates in Edmonton and Calgary, see Melville McMillan and Bev Dahlby, “Do Local Governments Need Alternative Sources of Tax Revenue? An Assessment of the Options for Alberta Cities” (2014) 7:26 SPP Research Papers 1-32 (http://policyschool.ucalgary.ca/?q=content/do-local-governments-need-alternate-sources-tax-revenue-assessment-options-alberta-cities).
government levies an education property tax, which the municipalities collect and “relinquish” to the province. In 2014, the education property tax mill rate was 2.53 for residential and farmland property and 3.72 for non-residential property.

While this article focuses on the taxation of MELP in Alberta, assessments are made on a variety of oil and gas industry properties in the western provinces. In British Columbia, this includes the assessment of pipelines and industrial improvements related to the production, processing, or refinement of petroleum or natural gas. In Saskatchewan, regulated property assessment includes, among other things, resource production equipment, heavy industrial property, and pipelines. In Manitoba, assessable improvements include plants, machinery, equipment and containers that are used in the retail marketing of oil and oil products, and pipelines. While M & E is taxed in all of the western provinces, the Canadian Association of Petroleum Producers claims that M & E assessments in British Columbia and Saskatchewan are around 25 percent of comparable property assessment in Alberta.

**The Relative Importance of MELP to MDs and SMs**

Table 1 shows the total property taxes collected from the six categories of property by seven types of local authority in Alberta in 2013. Residential property contributed 46.4 percent of total property taxes, with 70 percent of these taxes being collected by cities. Property taxes levied on MELP contributed 22.7 percent of total property taxes, just less than the total collected from commercial and other industrial property (referred to as “non-residential land and improvements” by Municipal Affairs) at 29.8 percent. About 90 percent of MELP property taxes were collected from the MDs and SMs. Overall, MDs and SMs represented 18.4 percent of the province’s population and collected 34.5 percent of total property taxes. By contrast, cities collected 55.8 percent of the property taxes while representing 67.9 percent of the population.

Table 2 shows the per capita property taxes by type of municipality. These figures indicate the substantial variation in property tax revenues that accrue to the different types of municipalities in Alberta. Both the improvement districts and the special areas collected over $10,000 per capita in 2013. The MDs and SMs collected the third-highest level of property taxes at $3,851 per capita, which was more than twice the per capita property taxes collected in the cities. Much of this variation occurs because the MELP taxes mainly accrue to MDs and SMs.

It should not be surprising to learn that the distribution of MELP is highly concentrated among a few MDs and SMs. Of the $113.7 billion in equalized MELP assessment

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5 This rate is based on uniform or “equalized” property assessments in the municipalities.
6 Supra note 1, at 27.
7 All of the municipal data used in this article were obtained from the Alberta Municipal Affairs website, “Municipal Financial & Statistical Data” (www.municipalaffairs.alberta.ca/municipal _financial_statistical_data.cfm).
### Table 1: Total Property Tax Revenues Collected by Municipal Governments, Alberta, 2013

<table>
<thead>
<tr>
<th>Type of local authority</th>
<th>Residential land and improvements</th>
<th>Commercial and industrial&lt;sup&gt;a&lt;/sup&gt; (excluding M &amp; E)</th>
<th>Machinery and equipment</th>
<th>Linear property</th>
<th>Railway</th>
<th>Farmland</th>
<th>Total property taxes and grants in place</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>$2,499,658,959</td>
<td>$1,716,015,895</td>
<td>$11,265,642</td>
<td>$60,222,956</td>
<td>$542,036</td>
<td>$1,366,366</td>
<td>$4,289,503,922</td>
<td>55.8</td>
</tr>
<tr>
<td>MDs and SMs</td>
<td>585,273,567</td>
<td>401,953,963</td>
<td>752,150,278</td>
<td>843,693,344</td>
<td>3,707,604</td>
<td>70,801,989</td>
<td>2,656,255,938</td>
<td>34.5</td>
</tr>
<tr>
<td>Towns</td>
<td>432,062,913</td>
<td>156,009,357</td>
<td>7,469,897</td>
<td>12,079,446</td>
<td>241,335</td>
<td>639,281</td>
<td>608,425,881</td>
<td>7.9</td>
</tr>
<tr>
<td>Villages</td>
<td>31,798,722</td>
<td>7,220,760</td>
<td>840,863</td>
<td>1,756,395</td>
<td>60,361</td>
<td>31,412</td>
<td>41,707,662</td>
<td>0.5</td>
</tr>
<tr>
<td>Summer villages</td>
<td>17,288,958</td>
<td>120,239</td>
<td>73</td>
<td>72,543</td>
<td>619</td>
<td>285</td>
<td>17,482,717</td>
<td>0.2</td>
</tr>
<tr>
<td>Improvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>districts</td>
<td>1,256,198</td>
<td>7,568,167</td>
<td>9,084,588</td>
<td>12,496,019</td>
<td>150,429</td>
<td>0</td>
<td>30,555,401</td>
<td>0.4</td>
</tr>
<tr>
<td>Special areas</td>
<td>1,221,602</td>
<td>2,515,801</td>
<td>6,874,810</td>
<td>32,509,498</td>
<td>8,130</td>
<td>2,927,263</td>
<td>46,057,104</td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td>$3,568,560,919</td>
<td>$2,291,404,182</td>
<td>$787,686,151</td>
<td>$962,830,201</td>
<td>$4,710,514</td>
<td>$75,766,596</td>
<td>$7,689,988,625</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Percentage of total: 46.4  29.8  10.2  12.5  0.1  1.0  100.0

MD and SM shares of taxes (%): 16.4  17.5  95.5  87.6  78.7  93.4  34.5

M & E = machinery and equipment.
MD = municipal district.
SM = specialized municipality.

<sup>a</sup> In the Municipal Affairs municipal financial return coding, this is referred to as “Non-Residential Land and Improvements.”

<table>
<thead>
<tr>
<th>Type of local authority</th>
<th>Residential land and improvements</th>
<th>Commercial and industrial&lt;sup&gt;a&lt;/sup&gt; (excluding M &amp; E)</th>
<th>Machinery and equipment</th>
<th>Linear property</th>
<th>Railway</th>
<th>Farmland</th>
<th>Total property taxes and grants in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>981</td>
<td>673</td>
<td>4</td>
<td>24</td>
<td>0</td>
<td>1</td>
<td>1,683</td>
</tr>
<tr>
<td>MDs and SMs</td>
<td>848</td>
<td>583</td>
<td>1,090</td>
<td>1,223</td>
<td>5</td>
<td>103</td>
<td>3,851</td>
</tr>
<tr>
<td>Towns</td>
<td>928</td>
<td>335</td>
<td>16</td>
<td>26</td>
<td>1</td>
<td>1</td>
<td>1,307</td>
</tr>
<tr>
<td>Villages</td>
<td>815</td>
<td>185</td>
<td>22</td>
<td>45</td>
<td>2</td>
<td>1</td>
<td>1,069</td>
</tr>
<tr>
<td>Summer villages</td>
<td>3,677</td>
<td>26</td>
<td>0</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>3,718</td>
</tr>
<tr>
<td>Improvement districts</td>
<td>585</td>
<td>3,527</td>
<td>4,233</td>
<td>5,823</td>
<td>70</td>
<td>0</td>
<td>14,238</td>
</tr>
<tr>
<td>Special areas</td>
<td>272</td>
<td>559</td>
<td>1,528</td>
<td>7,226</td>
<td>2</td>
<td>651</td>
<td>10,237</td>
</tr>
</tbody>
</table>

<sup>a</sup> In the Municipal Affairs municipal financial return coding, this is referred to as “Non-Residential Land and Improvements.”

in 2013, the top 10 municipalities accounted for 56 percent of the total. Indeed, two
SMSs in particular had 28 percent of the total: the Regional Municipality of Wood
Buffalo, which includes Fort McMurray with a population of 116,407, had $22.2 bil-
lion; and Strathcona County, where Sherwood Park is located with a population of
92,490, had $9.8 billion. Although these two municipalities had the largest concen-
trations of MELP, they were not among the highest in per capita terms.

**DISPARITIES IN PROPERTY TAX REVENUES**

Set 1 in table 3 shows the top 10 municipalities in terms of MELP equalized assessment
per capita, led by the MD of Ranchland (population 104) at $1.8 million in MELP per
capita. Not surprisingly, a high per capita MELP translates into high per capita mu-
nicipal tax revenues. Set 2 in table 3 shows the top 10 municipalities in terms of per
capita net municipal taxes. The 6 municipalities that had the highest per capita
MELP assessments in 2013 also had the six highest per capita property taxes, although
the rankings are not preserved between these two measures. Here the leader is the
MD of Opportunity (population 3,061), which received $21,329 per capita in prop-
erty taxes in 2013.

There is a clear geographic pattern for the top 10 municipalities in per capita
property tax revenues. Six are located north or northwest of Edmonton and corre-
pond to areas of oil and gas industry activity. Another area of concentration is
south-central Alberta, near the Saskatchewan border. The MDs of Provost and
Wainwright, and Flagstaff County are municipalities where interprovincial pipe-
lines are located. The MD of Ranchland, located in the southwest corner of the
province on the border with British Columbia, does not follow this geographic
pattern. The aggregate population of these 10 MDs is 29,637, roughly the size of the
City of Spruce Grove (29,526).

Of course, the relationship between MELP assessments and total property tax rev-
enues is not a simple mechanical one, because it depends on both the residential and
the non-residential tax rates that the municipalities adopt. Figure 1 shows that there
is a strong relationship between a municipality’s per capita MELP assessment and its
per capita tax revenues. While the presence of the large outliers somewhat clouds
the relationship, a simple regression model indicates that an additional $1,000 of
MELP assessment translates into an additional $11.51 of property tax revenues.8

**MELP AND COMPETITION: RICH MUNICIPAL
DISTRICTS, POOR TOWNS**

The extraordinary levels of MELP in some MDs and the relatively low per capita prop-
erty assessments in the towns that fall within their boundaries have raised concerns
about the towns’ financing of services and facilities that are used by rural populations.9

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8 The 95 percent confidence interval is $9.74 to $13.28.

(Edmonton: AUMA, 2009), at 16.
<table>
<thead>
<tr>
<th>Municipality (population)</th>
<th>Per capita MELP equalized assessment</th>
<th>Municipality (population)</th>
<th>Per capita net municipal property taxes</th>
<th>Municipality (population)</th>
<th>Ratio of non-residential to residential mill rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranchland (104)...........</td>
<td>1,842,999</td>
<td>Opportunity (3,061) .......</td>
<td>21,329</td>
<td>Clear Hills (2,829)........</td>
<td>11.25</td>
</tr>
<tr>
<td>Greenview (5,299)........</td>
<td>1,167,337</td>
<td>Greenview (5,299)...........</td>
<td>11,232</td>
<td>Opportunity (3,061) .......</td>
<td>8.66</td>
</tr>
<tr>
<td>Opportunity (3,061) ......</td>
<td>787,246</td>
<td>Saddle Hills (2,288) .......</td>
<td>11,103</td>
<td>Wetaskiwin (10,866) ......</td>
<td>8.44</td>
</tr>
<tr>
<td>Provost (2,288)............</td>
<td>735,072</td>
<td>Northern Sunrise (2,525) ...</td>
<td>11,048</td>
<td>Ponoka (8,856).............</td>
<td>6.40</td>
</tr>
<tr>
<td>Saddle Hills (2,288) .......</td>
<td>726,671</td>
<td>Ranchland (104)............</td>
<td>9,964</td>
<td>Two Hills (3,160)..........</td>
<td>6.24</td>
</tr>
<tr>
<td>Northern Sunrise (2,525) ...</td>
<td>668,592</td>
<td>Provost (2,288)............</td>
<td>7,765</td>
<td>Westlock (7,644)..........</td>
<td>5.74</td>
</tr>
<tr>
<td>Yellowhead (10,469)........</td>
<td>589,036</td>
<td>Wainwright (4,138).........</td>
<td>6,698</td>
<td>Lamont (3,872).............</td>
<td>5.67</td>
</tr>
<tr>
<td>Cypress (7,214)............</td>
<td>474,399</td>
<td>Flagstaff (3,244)...........</td>
<td>5,744</td>
<td>Jasper (5,236)...............</td>
<td>5.10</td>
</tr>
<tr>
<td>Newell (7,138).............</td>
<td>404,152</td>
<td>Big Lakes (3,861)...........</td>
<td>5,743</td>
<td>Bonnyville (10,101)........</td>
<td>5.06</td>
</tr>
</tbody>
</table>

MELP = machinery and equipment (M & E) and linear property (LP).
MD = municipal district.
SM = specialized municipality.

For example, Grande Cache (population 4,319) raised $1,217 per capita and Valleyview (population 1,972) raised $980 per capita, while the surrounding MD of Greenview (population 5,299) raised $11,103 per capita in 2013. Similarly, Manning (population 1,164) raised $1,014 per capita, while the MD of Northern Sunrise (population 2,525) raised $11,048.10

The disparities between the property revenues of some MDs, rich in MELP, and the towns that often provide recreation and other services for rural residents have become a point of contention. For example, in 2012 the disparity in the assessment bases of the town of Edson and Yellowhead County motivated the town to consider dissolving into the county and becoming a hamlet, or possibly forming a new SM with the county, after which the former urban and rural municipalities would be governed by a single local government. After months of deliberation, the result was the enactment of revenue-sharing agreements between the county and the towns of Edson and Hinton, in recognition that

the urban centres (Edson & Hinton) contribute to the quality of life in the region by providing a service hub for some of the social, recreational and cultural support that is

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10 Opportunity and Saddle Hills only contain hamlets, while Ranchland does not contain any urban settlements. Property tax data for Fox Creek, which is also located in Greenview, were not available for 2013.
required in the region and is vital to the industrial sector for its continued operations and growth.\textsuperscript{11}

This agreement ensures that rural residents have access to the towns’ programs and facilities in exchange for 85 percent of non-residential assessment from the previous year from a determined catchment area. The agreement with Hinton extends beyond programs and facilities to include connecting parts of the county to the town’s water and sewer utility service. In 2012, these agreements amounted to $1.7 million for Hinton and $4.1 million for Edson.

**AGGRESSIVE MILL RATE SETTING**

Another concern is that the municipalities with substantial MELP assessments can take advantage of the presence of these fixed, location-specific, investments to impose high non-residential mill rates to collect additional tax revenues. The average ratio of the municipal non-residential mill rate to the residential mill rate in 2013 was 3.31. Set 3 in table 3 shows the 10 municipalities with the highest ratios of non-residential mill rates to residential mill rates in 2013. The two highest ratios, Clear Hills County at 11.25 and the MD of Opportunity at 8.66, were among the 10 MDs and SMs that had the highest per capita property tax revenues. However, the other 8 municipalities with the highest ratios were not among the municipalities with the highest per capita assessments or the highest per capita property taxes.

To test whether MELP assessments have an effect on the tax rate-setting behaviour of the municipalities, we have regressed the residential and non-residential mill rates on four measures of the per capita equalized assessments using cross-section data for 69 municipalities in 2013. These results, which are shown in table 4, indicate that a higher residential property assessment is associated with a lower residential mill rate, but it does not have a significant effect on the municipalities’ non-residential mill rates. Higher M & E assessments are associated with both lower residential and lower non-residential mill rates. LP and other property assessments do not have a significant effect on property tax rates. These regression results should be supplemented by a more detailed econometric analysis using panel data, but they indicate that at least part of the benefit of higher M & E assessments takes the form of lower residential property taxes.

**MELP AS BENEFIT TAXATION**

The extraordinary amounts of MELP tax revenues that accrue to a few municipalities and the negative impact that these taxes can have on investment in oil and gas production, distribution, and refining means that provincial policies regarding MELP

\textsuperscript{11} Yellowhead County, “Yellowhead County Revenue Sharing,” January 28, 2013, at 1 (www.yellowheadcounty.ab.ca/images/pdfs/Fact_Sheets/Fact_Sheet_Yellowhead_County _Revenue_Sharing_2013.pdf).
taxation should be reviewed. The need to reform MELP taxation should be considered in the context of the $7 billion “gap” in the projected finances of the provincial government in 2015-16 if the West Texas Intermediate price of oil remains at $50.00 per barrel. Reducing the MELP tax burden may help to preserve employment in the industry because MELP taxes do not vary with firms’ profitability. MELP taxes are fixed charges that reduce cash flow and increase the cost of new investments in oil sands projects, unconventional and conventional oil and gas developments, and pipelines.

On the other hand, providing direct and tangible benefits from resource development projects to local communities is important in gaining local acceptance or the “social licence to operate.” While environmental concerns should be addressed through strictly enforced regulations, resource development projects often impose costs on MDs and SMs, in particular in terms of road repairs, and residents may be disturbed by noise, road congestion, and other nuisances. These may be soft costs, but they are real. Employment opportunities, contracts for local businesses, and higher property taxes are local benefits that help to offset the negative impacts of oil and gas and pipeline projects. The tangible local benefits of oil and gas development are among the reasons why the industry has been able to flourish in Alberta, while similar developments in other countries, such as hydraulic fracturing in the United Kingdom, have encountered significant local resistance. However, the amount of MELP taxes raised in some municipalities goes well beyond what is necessary to
provide adequate local benefits, and some of the costs associated with resource development projects could be addressed in other ways.

**REFORM OPTIONS**

The first question that should be addressed is, “Should municipal governments impose taxes on non-residential property?” A standard response is that businesses benefit from locally provided infrastructure and services and that non-residential property taxation is consistent with the benefit principle of taxation. However, the non-residential property tax burden may be much higher than any reasonable estimate of the benefits that accrue to commercial and industrial property, and user charges are feasible alternatives for the use of roads, water and sewer services, and fire protection.

Modern technology would enable MDS and SMS to track and charge commercial vehicles for the use of roads, providing funds for their construction and maintenance. The provincial government could take the lead in mandating the use of geographic information system (GIS) technologies by commercial vehicles that would enable the provincial and municipal governments to charge for the use of highways and roads. The province could also provide supplementary infrastructure funds for rural road construction in areas of intense resource development.

Excessive taxation of non-residential property, from the perspective of the benefit principle, at the municipal level is likely because the burden is largely borne by non-residents—firms’ shareholders and customers. Especially in the case of MELP, which are often location-specific investments, property taxes reduce net returns from all projects and render some projects uneconomic. The resulting reduction in investment and economic activity also means that some of this burden is likely shifted to non-resident workers in the industry. As well, non-residential property taxes, such as those levied on MELP, are deductible under federal and provincial corporate income taxes. This implies that roughly 15 percent of local MELP taxation is borne by all taxpayers across Canada, and 10 percent is borne by all residents of Alberta.

Given the negative fiscal externalities created by municipal taxation of non-residential property, a number of reform options should be considered. First, a uniform system of non-residential property assessment could be implemented by a provincial agency. Currently, each municipality is responsible for assessment of non-residential property, with the exception of LP, leading to variations in assessment practices and effective tax rates, and high compliance and administration costs. Furthermore, the provincial government could establish a uniform mill rate for MELP assessments based on a uniform assessment procedure. This would also reduce variations in effective property tax rates across the province. This reform could be combined with a system of user charges for municipal roads, so that those

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municipalities with a heavy utilization of rural roads by commercial vehicles would have a source of funding for maintenance and repair. Since the uniform rate would be less than the very high mill rates on non-residential property that are imposed in some municipalities, transition payments to some MDs and SMs with high MELP assessments could be made over a five-year period.

A less radical option would be to place a limit on the mill rate that all municipalities, including cities, towns, and villages, can levy on non-residential property. Some transition payments could be made to municipalities that currently levy mill rates above the threshold rate. Over time, more of the municipal own-source revenue would have to come from residential property, bringing the system of municipal finances more in line with the benefit principle. This could be part of a general reform of property taxation in Alberta, in order to improve the transparency of municipal financing and the accountability of municipal government.