

Recommendations

Based on the projections for growth and our assessment of current and anticipated gaps in essential services, a comprehensive package of recommendations has been prepared. The recommendations fall into five categories:

- Over-arching recommendations focused primarily on the need for better planning, distinct approaches for high growth areas, and addressing environmental concerns
- Addressing gaps in the Regional Municipality of Wood Buffalo/Fort McMurray region
- Addressing gaps in Cold Lake – Bonnyville and Peace River regions
- Addressing the urgent need to plan for developments in the Industrial Heartland
- Taking the next steps

In addition, a number of outstanding policy issues are identified for further consideration by the provincial government.

Part 1: Over-arching Recommendations

ISSUE 1: Alberta's future prosperity is closely tied to the wise development of its oil sands resources. Investments by the provincial government in infrastructure to support the continued growth and development of Alberta's oil sands will provide a substantial return to the provincial government and the provincial economy through increased revenues from taxes and royalties.

RECOMMENDATION 1: The Alberta Government should place a high priority on the development of infrastructure necessary to support continued growth and development of the province's oil sands resource. The returns from this investment can then be used to address future needs in Alberta.

ISSUE 2: There is a need to maximize the return from the province's bitumen resource through enhanced oil recovery and upgrading into higher value-added products such as synthetic crude oil, gasoline, diesel and petrochemical products. Capturing the full value of this non-renewable resource will significantly increase economic activity and future revenue for the benefit of all Albertans.

RECOMMENDATION 2: The Alberta Government should develop policies and encourage research to promote enhanced oil recovery and increased value-added opportunities for its bitumen resource.

ISSUE 3: The established funding formulae and other processes for the allocation of resources do not work well for funding very high growth areas (areas which have been or are expected to grow at rates in excess of over six percent over an extended period of time), especially those high growth areas that are relatively isolated. Where existing formulae and processes are tied to equal access to funding for all geographic areas, the results may not always be compatible with good business decisions.

RECOMMENDATION 3: Provincial priorities should be set in a way that supports investments necessary to achieve future revenues and meet the business needs of the Province.

ISSUE 4: In times of high growth, environmental issues are sometimes overlooked.

RECOMMENDATION 4: Sustainable development should be considered a business need of the Province.¹⁶

ISSUE 5: The provincial government’s planning system, as it relates to high growth areas, is inadequate.

RECOMMENDATION 5: Provincial government business planning for high growth areas should be separated from the regular government planning process. Additionally, there is a need:

- For planning to have a longer-term focus. The current three-year business planning process does not provide a sufficient time frame to address issues in high growth areas
- To ensure a coordinated decision-making process that considers all priority needs at the same time
- For one common population forecasting model, including demographics, designed to address planning needs in health, education, infrastructure, and other requirements. The results should be shared with municipalities, public agencies and the private sector
- To develop a set of reliable benchmark indicators for regional comparisons
- To develop one common data set where possible
- For government to involve municipalities, agencies and industry in the planning process. Industry needs to provide information regarding their development plans and the timing of development. In this regard, the RIWG approach is a positive approach to providing industry information in a coordinated fashion and should be encouraged in the other oil sands regions

ISSUE 6: High growth areas require specific attention during the budget process to ensure that their needs are addressed on a priority basis and in a comprehensive, integrated manner. Funding to address infrastructure and sustainable development issues in high growth areas must be a priority. And longer-term budget commitments are required for areas experiencing rapid and sustained growth.

Comparing the population of the Regional Municipality of Wood Buffalo to the population of Alberta indicates that for every one dollar per capita “taken off the top” of the Alberta budget and dedicated to the RMWB, it would reduce the per capita allotment to other Albertans by 2.43 cents, a small price to pay for future prosperity.

RECOMMENDATION 6: The resource allocation process for high growth areas should be separated from the regular government budgeting system.

¹⁶ Alberta defines “sustainable development” in the following way: *Alberta, a member of the global community, is a leader in sustainable developing, ensuring a healthy environment, a healthy economy, and a high quality of life in the present and future.* See “Alberta’s Commitment to Sustainable Resource and Environmental Management”, issued in March, 1999. The oil sands multi-stakeholder consultation defines sustainable development for the oil sands as “economic development that maintains the integrity of ecological and social systems upon which communities and societies are dependent.”

ISSUE 7: Management and coordination of infrastructure and services to support oil sands development would be improved by establishing an ongoing process for facilitating Cabinet-level review and decision making.

RECOMMENDATION 7(a): The role and mandate of the Oil Sands Ministerial Strategy Committee (Cabinet Committee) should be expanded to include:

- Management and direction of the provincial delivery of infrastructure and services to the Regional Municipality of Wood Buffalo
- Coordination of provincial, municipal and industry responsibilities for the planning, financing and delivery of infrastructure in the Industrial Heartland
- Monitoring other potential high growth regions
- Identification and resolution of any policy gaps and inconsistencies impacting oil sands development

RECOMMENDATION 7(b): The Chair should be a member of the Agenda and Priorities Committee of Cabinet and Treasury Board.

RECOMMENDATION 7(c): The Committee should be supported by a small Oil Sands Sustainable Development Secretariat (four to five people) headed by a Deputy Minister level appointment.

ISSUE 8: Extra retention allowances and benefits are offered to provincial government employees working in Fort McMurray. However, these allowances and benefits are not consistent between the provincial government and public sector agencies including the Northern Lights Health Authority, the public and separate school boards, and Keyano College. This issue is also impacting the RCMP. These inconsistencies are hurting morale and putting increased pressure on agencies to fund retention allowances and benefits out of existing budgets. Improved coordination between the province and its agencies is needed.

RECOMMENDATION 8: Attraction and retention allowances and benefits for government employees and its agencies need to be consistent. The Alberta Government should increase funding to public sector agencies to address this issue.

ISSUE 9: Industry has, over the years, made a large contribution to the community of Fort McMurray. Recently, it has been suggested that industry, especially new oil sands developers, needs to make a larger contribution to the community, either through a surcharge applied to the sale of leases, by an increase in royalty rates, or by government dedication of a certain portion of royalty returns and lease sales to infrastructure development in the affected communities. On the other hand, it can be argued that it is the government's responsibility (provincial and municipal) to both provide major public infrastructure and to ensure that it has sufficient revenues to do so. Under this train of thought, mandatory contributions would not be established; it would be government's responsibility to decide how it obtained the necessary revenues to ensure the development of the necessary infrastructure.

RECOMMENDATION 9: Industry should be expected to continue its policy of contributing to the community in substantial ways. New companies seeking approval for new projects should be advised of this expectation.

ISSUE 10: Departments lack capacity to complete Environmental Impact Assessments (EIA's), to complete technical studies such as those involving instream flows, to focus on cumulative effects and to develop policy in a timely fashion. In addition, capacity to monitor and enforce environmental requirements is inadequate. One effect of this lack of resources will be the eventual inability on the part of the Province to deal with new applications for oil sands development in a timely way, and thus cause a delay in oil sands development itself. Another impact will be inadequate attention to cumulative effects and other issues raised by oil sands development.

RECOMMENDATION 10: A substantial increase in manpower (FTE's) should be provided to Alberta Environment and Alberta Sustainable Resource Development to focus on cumulative effects, EIA's, research, policy development, monitoring and enforcement in the oil sands areas. Some new resources should also go to Alberta Health and Wellness to support the EIA process.

ISSUE 11: Alberta Environment has not been able to provide timely advice and direction to industry relative to water use.

- Alberta Environment, tasked with “backstopping” the inability of the Cumulative Effects Management Association to obtain consensus on instream flow needs by December 31, 2005, has not yet formally released the July 10, 2006 draft of the Water Management Framework document entitled: *Instream Flow Needs and Water Management System for the Lower Athabasca River*, despite its discussion at a number of AEUB hearings. This document needs to be the subject of further consultation and then finalized before industry can collectively submit a plan for meeting the requirements of the framework by January 2007. Given the lack of a formal process to revise and complete the draft, it appears that this deadline will not be met.
- The development of an Instream Flow Needs (IFN) policy is of tremendous importance to the development of the oil sands area. Clear direction should be provided to the industry because “[c]urrently accepted IFN methods, which incorporate science and professional judgment, indicate a more restrictive withdrawal regime may be required to achieve protection of the River in Phase 2 with greater water withdrawals.”
- Little work has been done by the department to advise and direct industry (upgraders and other plants) who are planning to locate in the Industrial Heartland, about the availability of groundwater or withdrawals from the North Saskatchewan River.

RECOMMENDATION 11(a): The July 10, 2006 draft of the Instream Flow Needs policy should be released officially and every effort should be made to complete, publish and enforce a water management scheme that will protect the ecological integrity of the aquatic ecosystem of the lower Athabasca River, to be implemented on a phased-basis beginning no later than July 1, 2007.

RECOMMENDATION 11(b): Alberta Environment should assign urgent priority to defining the water supply (both surface and groundwater) available for use in the Industrial Heartland area.

ISSUE 12: The Cumulative Effects Management Association could be more effective in addressing environmental issues around oil sands development. Although consensus based decision making processes, such as those used by CEMA, can contribute to better decisions, they can also delay important decisions when parties cannot agree.

RECOMMENDATION 12: The provincial government should initiate an independent evaluation of the operations of the Cumulative Effects Management Association with a view to enhancing its efficiency and timeliness in developing recommendations. The review should address governance issues, types of decisions which need not be the subject of consensus, the adequacy of the regulatory backstop, and the resources required for CEMA to be more effective.

ISSUE 13: The decision-making context within which decisions are being made in the oil sands areas are unclear, outdated or incomplete. There are a large number of complex policy exercises underway which bear on development in the oil sands.

RECOMMENDATION 13: Priority should be assigned to completing current initiatives related to land use and cumulative effects planning, such as the Land Use Framework, the Integrated Land Management Program, the updating of the Regional Sustainable Development Strategy and associated regional planning tools, as well as the completion of the vision and strategies for oil sands development. Discussions concerning the requirements for reclamation should be concluded and policies clarified in a timely manner.

ISSUE 14: Air emissions in the oil sands need to be addressed, including the production of greenhouse gases (GHGs). Industry has been making progress in the reduction of GHGs per barrel of bitumen produced, but the total production of GHGs increases as total production rises.

RECOMMENDATION 14(a): The Alberta government should continue to support projects related to carbon dioxide capture, transport and storage and in the use of carbon dioxide to enhance conventional oil recovery rates.

RECOMMENDATION 14(b): The Alberta government should develop a policy framework related to managing CO₂ emissions from oil sands projects as part of an overall initiative to address CO₂ emissions and enhanced oil recovery.

ISSUE 15: Time has not permitted a full examination of issues involved in development of Crown Consultation Guidelines now being negotiated with the First Nations of the Athabasca Tribal Council (ATC). However, as a result of discussions with Alberta Aboriginal and Northern Development (AAND), it appears that good progress is being made in the development of guidelines specific to the oil sands region. A consultation committee (the Protocol Working Group) representing Environment, Energy, Sustainable Resource Development, Community Development and AAND, as well as the five ATC First Nations, has been formed, a terms of reference adopted, and a process to define the roles, work plans and jurisdictions of the parties has been completed. Bilateral

meetings with First Nations are ongoing, with the parties at the point of collaborative drafting of guidelines.

In terms of negotiations underway to develop a long-term benefits agreement (which would include the development of Crown consultation processes and the continuation of existing stakeholder consultations between industry and the Athabasca Tribal Council), an agreement in principle has been reached (April, 2004) which was approved by Agenda and Priorities Committee of Cabinet. Conclusion of the final, formal agreement remains subject to ongoing negotiations on the size of the trust fund to be established to provide First Nations with compensation for irreparable impacts of development on their aboriginal and treaty rights as part of the agreement.

While the legal obligations of the Crown to develop a formal consultation process with Métis in the oil sands area are unsettled in Alberta, industry has been involved in both short term assertion agreements and long-range consultation agreements with Wood Buffalo Métis Organizations.

Negotiations involving Canada, Alberta, the Fort McKay First Nation and Shell Canada Limited are underway to use Alberta's regulatory regime to regulate Shell's mining of 8,000 acres of surface mineable oil sands on Fort McKay Reserve lands. These negotiations were made possible by the passage of the federal First Nations Commercial and Industrial Development Act. Good progress has been made, and it is hoped that agreement will be reached on necessary documents by some time in 2007.

RECOMMENDATION 15: The provincial government should continue to support negotiations currently underway in an effort to provide certainty in the business environment surrounding the development of the oil sands in the Athabasca Oil Sands Region, to enhance the ability of First Nations and Métis to participate in the benefits of development, and to ensure fairness for all parties involved in that development.

ISSUE 16: Several proposed new oil sands projects are located a substantial distance north of Fort McMurray. This requires lengthy commute times or the development of permanent camps to house operational staff. A new town has been identified by oil sands operators as an option to house employees. On the surface, this concept would appear to be a very impractical and expensive option.

RECOMMENDATION 16: The Alberta Government, in conjunction with the Regional Municipality of Wood Buffalo and industry, should undertake a feasibility study to determine the need for and the costs associated with development of a new town north of Fort McMurray.

Part 2 – Addressing Gaps in the Regional Municipality of Wood Buffalo/Fort McMurray Area

ISSUE 17: Sufficient land has been identified to meet housing requirements to 2011 and well beyond. The current issue is not about the province's ability to release new lands in a timely fashion. The issue is about how quickly planning can be completed to enable

that land to be sold and developed so that new housing can be built as quickly as possible.

There has been criticism in the past about the slowness of the province to release land for housing. However, the delay in increasing the amount of land for housing is now the result of delays in the municipal planning and approval processes. For example, the area structure plan for the Saline Creek Plateau has yet to be completed and a number of issues such as the Rotary Club lease, which could provide additional land for housing, have not been resolved within the municipality.

RECOMMENDATION 17(a): The capacity to undertake municipal planning processes must be enhanced. Any inability of the municipality to make timely planning decisions will further delay the development of sufficient housing stock to meet population growth. The province needs to assist the Regional Municipality of Wood Buffalo to put sufficient experienced planning resources in place to increase the capacity to complete area structure plans in a timely manner.

RECOMMENDATION 17(b): If the area structure plan for Saline Creek is not completed in a timely manner, the province may wish to consider other options to speed up its completion. Effective, but somewhat unpalatable, options could include establishing deadlines, taking over the planning process itself and exempting the land from municipal approval requirements pursuant to section 618(4) of the Municipal Government Act. Alternatively, the province may choose to use its regulation-making authority under Section 694(5) of the Municipal Government Act to direct the municipality to take certain actions.

RECOMMENDATION 17(c): The province needs to ensure that provincially-owned land is released in a timely fashion to meet housing needs well in advance of actual requirements. In this regard, the Draft Land Release Strategy needs to be updated by the province and approved.

RECOMMENDATION 17(d): To ensure timely development, the province needs to continue the practice of placing conditions regarding the pace of development on land sold by the province.

RECOMMENDATION 17(e): The Regional Municipality of Wood Buffalo should complete area structure plans well in advance of the need for development. The municipality also needs to ensure timely issuance of permit approvals.

RECOMMENDATION 17(f): The municipality is faced with the need to provide up front investment for offsite infrastructure for the development of the Saline Creek area. Detailed estimates are not available; however, this could amount to \$125 million, or more. The province should provide the municipality with a means of bridging the up front costs until they are recovered from developers. In the case of the Saline Creek area, the provincial government should pay for the offsite servicing costs and recoup the funds as developers pay offsite levies to the municipality. This option would be open only to the Regional Municipality of Wood Buffalo as a high growth area. (The concept was previously employed under the now defunct Alberta Home Mortgage Corporation.)

ISSUE 18: Existing federal-provincial affordable housing programs appear to be adequate to meet affordable housing needs in Peace River and Cold Lake – Bonnyville. However, existing programs are not capable of meeting the affordable housing needs in Fort McMurray. A significant injection of capital is required to fund affordable housing in Fort McMurray during the 2006 – 2011 time period. None is budgeted at the present time.

RECOMMENDATION 18(a): For the 2007-08 and 2008-09 fiscal years a total of \$45 million per year should be allocated to provide 600 affordable housing units in Parcels D and F.

RECOMMENDATION 18(b): Timely decisions about the extent of affordable housing in Saline Creek, Willow Square and other areas need to be made and budgeted for following an evaluation of the effect of the provision of the 600 units in parcels D & F.

RECOMMENDATION 18(c): Alberta Infrastructure and Transportation needs to include provisions for land for affordable housing when the province sells the land in Saline Creek and other areas in the future.

ISSUE 19: There is a need to enhance the existing WBHDC partnership with essential service employers until such time as sufficient affordable housing comes on stream to meet the needs of newly arrived essential service workers in Fort McMurray.

RECOMMENDATION 19: Because of the importance of attracting new employees in the health, education and policing areas, a one year rent subsidy should be offered for those essential service employees who qualify for affordable housing. A budget of \$1 million per year for three years is required, with priority to be based on lowest disposable income.

ISSUE 20: As a result of rapid population growth over a seven year period, all major infrastructure systems in Fort McMurray need significant expansions. The water treatment plant, the waste water treatment plant and the solid waste facility are currently at or over their designed capacity and need major expansions immediately. These facilities will need funding over the next five years that will likely exceed \$300 million.

The municipality is expecting a total of \$50 million in grant funding to assist with basic infrastructure needs over this period. As well, a \$136 million loan (interest free for four years) has been committed by the province to assist with the construction for the waste water treatment facility. However, this still leaves a funding requirement of \$115 million for needed municipal infrastructure.

Although there are a number of opportunities for the Regional Municipality of Wood Buffalo to increase its tax revenue, the ability of the municipality to fund these infrastructure projects over the next five years is highly questionable. Existing funding approaches are not adequately addressing infrastructure needs in an appropriate and timely manner. It may be unreasonable in any event to expect the municipality to fund the full cost of basic municipal infrastructure required to support the massive oil sands projects which benefit the entire province.

In addition, Fort McMurray's master plans are no longer relevant and are in urgent need of updating. The municipality must immediately develop new master plans for transit, recreation, utilities, transportation and municipal infrastructure to help keep short-term remediation activities in line with long-term planning.

RECOMMENDATION 20(a): The Government of Alberta should provide expertise and resources to the Regional Municipality of Wood Buffalo to ensure timely completion of master plans needed to do proper long-term municipal planning.

RECOMMENDATION 20(b): The Government of Alberta should provide direct funding to the Regional Municipality of Wood Buffalo for basic municipal infrastructure through mechanisms such as conditional grants or loans which would require full or partial repayment (depending upon the extent of future municipal tax revenues) if and when potential municipal tax revenues materialize. Criteria should be developed to determine the circumstances in which these loans or grants would be forgiven or repaid. The criteria should be linked to the municipality's future repayment ability and should be conditional on the demonstration by the municipality that their tax policies and bylaws were appropriate, based on the circumstances facing the municipality.

ISSUE 21: The quantity and quality of health services available to residents of the Regional Municipality of Wood Buffalo are significantly below what can be called a reasonable expectation of residents in other regions of the province, according to most benchmarks. Satisfaction surveys show Northern Lights Health Region residents have the lowest satisfaction levels in the Province.

The unacceptable level of health service in the health region is in part because:

- Funding formulae for health care do not provide adequate funds to meet the needs of a high growth area such as Fort McMurray.
- The need for new health facilities is not adequately recognized in either municipal or provincial planning processes.
- Alberta Health and Wellness and the Northern Lights Health Region need to agree on an appropriate vision for health care services in the region.
- Issues related to the attraction and retention of staff in the region have an especially large impact on the provision of health services.

RECOMMENDATION 21(a): Alberta Health and Wellness should become more directly involved in working with the Northern Lights Health Region to develop a vision and plan for medical services in the region that meet the needs of the residents.

RECOMMENDATION 21(b): A significant infusion of resources, both operating and capital, is required to avoid further deterioration and possible collapse of the system as growth continues in the area. A number of steps should be taken now to improve health care delivery in the short term, pending completion of a longer term vision and plan:

- Development and funding (capital and operating) of a continuing care and supportive living facility located outside the hospital which will free up space in the existing hospital for active care treatment.
- Creation and funding of adequate isolation rooms to deal with possible pandemics.
- Priority attention needs to be directed to the attraction and retention of health care workers in the Northern Lights Health Region. The provincial government should design and fund temporary salary and wage market modifiers for a three- to five-year trial period that would provide additional compensation to physicians, nurses and other specialized health care workers who are willing to locate in Fort McMurray.
- Immediate funding outside the current funding formula should be established to bring the standard of health care service in Northern Lights Health Region to acceptable levels. The requirement for a recovery (deficit elimination) plan to address the current deficit should be suspended until acceptable service levels are reached.
- Alberta Health and Wellness and Northern Lights Health Region need to engage in a process to reconcile health care registration numbers with municipal census data on an annual basis and adjust base funding for the region accordingly.
- Area structure plans should reserve land for future medical sites in accordance with the agreed upon vision.
- Immediate funding should be allocated to build a parkade at the current hospital site. Access for helicopter cases (medivac) would be improved by a heli-pad on top of the parkade.
- Given the high turnover of senior staff and the complex process for obtaining capital approvals, ways should be found to expedite relatively simple capital requests, such as the parkade and the interim ambulatory care re-development program.

ISSUE 22: Performance indicators for all three oil sands regions, including the Athabasca oil sands area, show that the provision of education services is generally satisfactory and comparable to provincial averages. The one exception is Northland School Division which is substantially below provincial standards with respect to some key indicators (e.g. completion of high school in three years).

- While most school facilities are operating at full capacity, capital planning for immediate future requirements appears to be adequate including funding of three

new schools and some major modernizations and portables for the urban service area.

- New housing coming on stream will mean increased growth in enrolment during the next five years which will require capital and operating resources to address.

RECOMMENDATION 22(a): The province should ensure that the school boards' future planning and Alberta Education's vision as outlined in *Schools for Tomorrow* are coordinated.

RECOMMENDATION 22(b): Operating and capital funding should be provided by the province to meet the projected future growth of student enrolments, which may come quickly from the increased availability of housing.

ISSUE 23: The 2005 RIWG reports significantly underestimate the cost for transportation infrastructure.

- Total government commitments to date have exceeded the RIWG requests in dollar value. However, of the transportation projects committed by the government, a substantial portion remains unfunded.
- Some improvements within the urban service area, including four major interchanges, and the twinning of Highway 63 are not yet fully funded.
- Industry believes there has been a commitment by the provincial government to fund 25 percent of the East Athabasca Corridor Road. However, a written commitment has not been located.
- There has been little discussion about the coordination of public and private airports in the region.

RECOMMENDATION 23(a): Alberta Infrastructure and Transportation should establish as its priority the required transportation improvement projects north of the Highway 63 and 881 intersection.

RECOMMENDATION 23(b): Until such time as Highway 63 south of the 881 intersection can be twinned, passing lanes and staging areas need to be developed to increase safety on this section of highway.

RECOMMENDATION 23(c): Alberta Infrastructure and Transportation should consider a longer timeframe for the twinning of Highway 63 south of the 881 intersection in favour of earlier work on the four major interchanges within the urban service area.

RECOMMENDATION 23(d): The \$150 million east Athabasca corridor road requested by RIWG should be considered an industrial road used principally for industry access to oil sands projects and therefore should be funded entirely by industry.

RECOMMENDATION 23(e): Alberta Infrastructure and Transportation should set target completion dates for major provincial highway projects within the Regional Municipality of Wood Buffalo to assist the municipality in coordinating their own municipal road projects.

RECOMMENDATION 23(f): An airport master plan should be developed for the Regional Municipality of Wood Buffalo to coordinate future development of private and public airports.

ISSUE 24: Homelessness and lack of affordable housing are serious social issues in Fort McMurray. The community is not seeking capital for new or additional shelters. However, additional funding for operating expenses and to provide additional capacity at Marshall House is required.

RECOMMENDATION 24(a): Alberta Seniors and Community Supports should provide funding for Marshall House's proposed operating expenses.

RECOMMENDATION 24(b): If the pilot project to help the homeless with the skills and services they need to become more independent and the transition to other housing options is successful, Alberta Seniors and Community Supports should consider ongoing support for the program as a way to address the homeless issue.

ISSUE 25: The lack of affordable, quality child care in Fort McMurray is impacting labour supply for both the service sector and the essential services sector.

RECOMMENDATION 25: The provincial government should work with the municipal government, community groups and industry to provide more affordable quality child care in the region. Consideration should be given to enhanced child care subsidies for low income families as a mechanism to promote affordable child care in high growth areas such as Fort McMurray.

ISSUE 26: The rapid rate of population growth, the prosperity gap between those working in the oil sands and those working in other areas, the lack of affordable housing coupled with the difficulty social agencies find in attracting and retaining staff, has all contributed to difficulties faced in delivery of family and social service programs in the Fort McMurray area.

RECOMMENDATION 26: Initiatives related to issues such as affordable housing, child care shortages, health care issues and workforce shortages should be continued with a view to reducing family stress and the accompanying need for support services.

ISSUE 27: Policing services in the Regional Municipality of Wood Buffalo are considered adequate, although some capital improvements remain to be dealt with and some staffing increases would be helpful.

- The municipality is in the process of constructing a new \$52 million RCMP headquarters in Fort McMurray to be opened in early 2008. This building will not include remand facilities.
- The existing downtown cell block needs to be replaced. A new remand centre has been proposed, at a cost of \$104 million; however, the provincial government has not yet assigned this facility a priority in the capital plan.

- Generally speaking, staffing levels meet the provincial average number of officers to population ratio. However, like other essential service providers in Fort McMurray, attracting and retaining personnel is a problem for the RCMP.
- A proposal to increase the pay grids for new recruits has been submitted to the Federal Treasury Board but it has not yet been approved
- Drug-related offences continue to be a serious issue in Fort McMurray.

RECOMMENDATION 27(a): The provincial government should continue to pressure the federal government to increase pay scales for RCMP officers in the Regional Municipality of Wood Buffalo as a means of improving recruitment and retention.

RECOMMENDATION 27(b): The provincial government should provide funding to support a province-wide program, with full time staff, to provide tactical teams that can deal specifically with drug problems in the Fort McMurray region and in other parts of the Province. The program should initially be available to Fort McMurray on a regular basis and should eventually result in a team or teams deployed in Fort McMurray.

RECOMMENDATION 27(c): The provincial government should commit funding to share the costs of construction of a combination storefront policing/cell block/remand centre in downtown Fort McMurray.

Part 3 – Addressing Gaps in Cold Lake – Bonnyville and Peace River Areas

ISSUE 28: The Cold Lake and Peace River oil sands areas will need to be monitored closely in the future. Announcements of major in-situ projects or upgraders in these regions could have a substantial impact on the ability of the region to provide the necessary infrastructure to support these developments.

In the Cold Lake and Peace River regions most of the tax revenue from oil sands development flows to the rural municipality in which the development is occurring. The rural municipality's responsibility for the provision of infrastructure is largely limited to the road network. However, urban centres such as the Town of Peace River, the Town of Bonnyville and the City of Cold Lake experience significant infrastructure demands, for which there is little new revenue outside of some additional residential taxation. The lack of cost and revenue sharing agreements is causing urban/rural tensions.

The Resource Road Program could be an important contributor to the development of the oil sands in the Cold Lake and Peace River regions. The program provides approximately \$17 million in cost shared grants to rural municipalities for upgrading local roads that are impacted by resource development. Eligible projects include construction or re-construction of local roads and bridges and improvements required to an intersection of a local road and a provincial highway. The province recently announced an increase of \$34 million in funding for the program in 2007-08. However, the program is expected to end in fiscal 2008-09.

RECOMMENDATION 28(a): The Oil Sands Ministerial Strategy Committee and the Oil Sands Sustainable Development Secretariat should be charged with careful monitoring of growth and growth trends in the Cold Lake – Bonnyville and Peace River areas. Should population forecasts indicate that levels of ‘high growth’ (at least six percent per year) will be sustained over at least three years, government planning and budgeting for these areas should be done in the same way as recommended for the Athabasca oil sands area.

RECOMMENDATION 28(b): The provincial government should deal with issues related to rural/urban revenue and cost sharing in the Cold Lake/Bonnyville and Peace River areas. As growth continues, these will become ever larger issues.

RECOMMENDATION 28(c): The provincial government should review the criteria and funding under the Resource Road Program to ensure it meets the needs of the Peace River and Cold Lake – Bonnyville regions. The province should also extend the program beyond its current 2008-09 end date.

Part 4 – Addressing Gaps in the Industrial Heartland

ISSUE 29: The industrial heartland will see approximately \$25 billion in investments, the bulk of which will occur over the next five years, for upgrading bitumen into synthetic crude oil. Construction of these upgraders is projected to increase the region’s labour force over the next five years to about 15,000-20,000 in 2011 with even higher peaks expected from 2012 to 2015. Development in this area is occurring much more quickly than previously anticipated and a transportation plan to accommodate the influx of labour is needed soon.

To date, Alberta Infrastructure and Transportation has not participated directly in planning the roadway system in the industrial heartland and has no money budgeted in its current three-year capital plan for financial support of extraordinary requirements for road construction. Industry complains that the Province is not sufficiently engaged.

RECOMMENDATION 29: Alberta Infrastructure and Transportation should immediately join with the respective municipalities and industry to develop a comprehensive transportation and utility plan for the Industrial Heartland, including identification of any needed funding. This needs to be done on an urgent basis.

Part 5 – Next Steps

ISSUE 30: As a result of the short timelines involved with this project, no attempt to develop a consensus on the recommendations has been made. Similarly, detailed costing of recommendations has not been possible.

RECOMMENDATION 30: To follow up on this report, a short-term action plan for sustainable development coordination should be developed and should include:

- Appointment of an Acting Oil Sands Sustainable Development Coordinator pending recruitment of a full-time coordinator
- Vetting of this report with departments, with affected municipalities and with industry
- Development of a more accurate costing of recommendations
- Review of these recommendations in the light of Premier Stelmach's pledge to provide additional annual funding to municipalities
- Development of a practical and fiscally responsible timing and phasing of the actions resulting from this report.
- Preparation of a Ministerial Request for decision on budgets and timing
- Approval by the Cabinet Committee and Cabinet

Part 6 – Costing of recommendations

Time did not permit a detailed costing of recommendations, and such a detailed costing will need to be done in the near future.

The majority of recommendations have operating cost implications, at least for the next five years. Only five of those have been costed (recommendations 7, 12, 16, 19 and 24), amounting to about \$8.9 million over five years. The others must be costed by the appropriate departments which have the necessary expertise and information to do so. The operating cost implications of the remaining recommendations may be significant.

Of the capital requirements, we have identified some \$790.7 million in projects which will require additional capital commitments¹⁷ for the Rural Municipality of Wood Buffalo, excluding any capital costs required for health services.¹⁸ Of that amount, some \$364.7 million will be subject either to cost sharing with the municipality (combination remand center, storefront policing center) or to recovery from the municipality depending on future revenues of the municipality. An additional \$92 million remains uncommitted after 2011, all of which may be recoverable. On an annual basis, these costs (excluding health care capital requirements) would be in the order of \$160 million per year, less "recoverables," which could be as high as \$75 million per year.

¹⁷ Provincial transportation projects involving the urban service area account for some \$336 million of this total.

¹⁸ The most significant capital costs are likely to occur near or after 2011. Municipal Affairs, in its strategic update submission, included some \$119.7 million.

Overall, the average annual additional commitment necessary for capital spending could be in the order of \$85 million, excluding capital funding for health services which cannot be determined until longer-term plans are developed in collaboration with Alberta Health and Wellness.

Part 7 – Outstanding policy issues

The difficulty the oil sands area has experienced in securing appropriate and timely services and infrastructure during periods of high growth is due in part to policy anomalies that may impact on the municipalities' ability or the province's ability to plan and pay for needed responses to growth pressures. Some of these anomalies are unique to the oil sands area; others are over-arching issues that apply across the province.

Most of these policy issues can be resolved in the next three to five years. Some may require changes to statutes or to regulation, and these will take some time to affect. Others may require a simple change to government policy or simple regulation change by Ministerial order or by Order-in-Council, and could be done reasonably quickly following the necessary study and review by Caucus, Standing Policy Committees and Cabinet. For example, a policy that declares that, "*the spending necessary to ensure the continued growth of government revenues from oil sands production in the future is a business decision necessitating required investment in some priority over other demands for government spending*" requires no legislative change. Such known policy positions can, by themselves, instil confidence in private sector investors and encourage those who provide services and infrastructure to ensure that the decisions they must make are timely and appropriate.

In the interests of avoiding any unintended adverse impact on the collective ability of the province and the municipality to respond to growth pressures, it is recommended that the Oil Sands Ministerial Strategy Committee review the following policy issues and consider changes that would encourage, rather than inhibit, a business-like approach to ensuring the future productivity of the oil sands.

Rural-urban cost and/or revenue sharing issues

New and rapid growth near urban centers has the potential to both inhibit the coordination of service and infrastructure development and to create considerable disharmony. This isn't an issue in the Regional Municipality of Wood Buffalo because the rural and urban jurisdictions have been amalgamated. But in the Cold Lake – Bonnyville area, most of the tax revenue from oil sands development is payable to the M. D. of Bonnyville whose responsibility for the provision of supporting infrastructure is largely limited to the road network. Yet the City of Cold Lake is experiencing significant infrastructure demands for which it has little new revenue outside of new residential taxation.

A similar situation exists on the northern boundary of the City of Edmonton. New upgraders being planned for the Industrial Heartland will pay property taxes to rural municipalities outside of Edmonton, yet Edmonton feels it will experience increased demands for roads, residential development, sewer and water, recreational facilities and

other amenities necessary to sustain a growing workforce that will, at least in part, be housed in Edmonton.

Other rural-urban tensions can be found across the province, including tensions between the town of Peace River and the Northern Sunrise County and the M.D.s of Smoky River and Big Lakes.

This is a long-standing issue and it has not always been resolved amicably between municipalities, although efforts continue.

In these situations, the provincial government may want to consider alternative ways to encourage faster, more definitive resolution of inter-municipal cost sharing and/or revenue sharing issues. The options range from a mandated level of cooperation, complete with mediation or arbitration, to the appointment of special coordinators with clear legal authority to compel a solution to the outstanding issues.

Federal government responsibility

For 2006, CERI estimates that total government revenues resulting from oil sands development will amount to over \$6.8 billion, of which nearly 43 percent will flow to the federal government. Only 25 percent of those revenues will flow to the provincial government. That relative share of revenues stays about the same to 2011. By 2020, it is estimated that the gap will begin to narrow to 38 percent to the federal government and 33 percent to the provincial government.

Nonetheless, the fact remains that the federal government receives more revenues from oil sands development than does the provincial government. Yet the principal responsibility for investing in oil sands infrastructure to ensure that return has rested on the provincial government and the municipalities.

In the Athabasca oil sands, for example, the federal government has been quick to involve itself in regulatory matters through the environment and fisheries jurisdictions, but it has not been nearly so quick to involve itself in contributing to the necessary infrastructure. The recent announcement that the federal government will provide \$150 million in funding to assist with the twinning of Highway 63 is a welcomed, but likely insufficient, change in federal policy, given the returns it receives on Alberta's investment.

In a submission to the AEUB during the Kearsley hearing, the Regional Municipality of Wood Buffalo estimated that 12 percent of its capital budget came from provincial grants and one percent from federal grants. The municipality can expect about \$1.9 million from the federal government in support of public transit security and \$8.9 million as part of the federal government's "new deal" for municipalities. Phase 2 of the Canada-Alberta Affordable Housing Program commits at least \$63 million over two years (for the entire province). According to the August 24, 2006 Canada/Alberta press release \$31 million has been announced for 319 affordable housing units - again for the entire province. Given the municipality's identified needs of some \$800 million in infrastructure over the next few years, it is clear that the federal government could usefully play a larger funding role in this area.

The provincial government may wish to consider developing a comprehensive, concentrated approach to convince the federal government that they should accept a greater responsibility for ensuring that revenues to both jurisdictions continue to grow in the next five years.

Sources of revenue for municipalities

In 2006, the main sources of revenue for municipalities continue to be property taxes, which fall into four assessment classes: residential, non-residential, farm land, and machinery and equipment.

In the oil sands regions, a considerable and growing portion of the municipal assessment base is comprised of machinery and equipment assessment. Municipalities have a growing concern that the Municipal Government Act does not allow a municipality to assess and tax machinery and equipment until the facility has been completed or is in operation. For a municipality, this means that there is potentially a large amount of additional taxable income available in the long term but not in the short term. However, most of the municipal infrastructure to support industrial growth must be constructed before the completion of the industrial facility.

The Oil Sands Ministerial Strategy Committee may wish to review these provisions in the context of the additional revenues required by high growth areas such as Fort McMurray.

In addition, the Committee may wish to consider the following legislative and policy issues:

- **Section 291 of the Municipal Government Act** – This legislation prevents municipalities from assessing and taxing new plant construction until the facility is actually complete or in operation.
- **Assessment levels for machinery and equipment** – This regulation means that machinery and equipment assessment in a new plant must reflect 77 percent of its value.
- **Immediate Depreciation** – Schedule C of the Minister’s Guidelines requires that machinery and equipment in a newly-constructed facility be immediately assigned a depreciation of 25 percent.
- **Excluded costs** – As much as 15 to 25 percent of the cost of a facility is not included for assessment purposes, mainly due to exclusions for distance from urban sources of labour and materials.
- **Equal tax treatment of machinery and equipment within the same service area:** Under section 354 of the Municipal Government Act, a municipality may not establish different tax rates for machinery and equipment, non-residential and linear properties within the same urban service area. (In the case of Regional Municipality of Wood Buffalo, which is an amalgamated municipality, it could establish different rates between urban and rural service areas, but it has not chosen to do so.) However, all machinery and equipment, non-residential and linear properties within the urban service area of Fort McMurray would need to have the same tax rate, and all

machinery and equipment, non-residential and linear properties within the rural service area would need to have the same rate.

A number of resolutions have been adopted by the Alberta Urban Municipalities Association calling for the repeal of legislation establishing the 77 percent assessment level and the 25 percent depreciation requirement. A resolution has also been passed to abolish Section 354(3.1) of the Municipal Government Act.

The effect of these provisions means that only about 45 – 50 cents of every dollar of capital investment in oil sands projects is assessable. The Oil Sands Ministerial Strategy Committee may wish to review these provisions in the context of the additional revenues required by high growth areas such as Fort McMurray.

Issues around changing these provisions include a concern about inter-provincial competition for tax breaks and the need for equal treatment for all industries across the entire province. However, it should be noted that oil sands development is a unique industry not present in all parts of Alberta or in all provinces. This might be sufficient rationale to make changes to the legislation specific to the oil sands industry.

In addition, the Oil Sands Ministerial Strategy Committee may wish to consider other ways of supplementing municipal revenues, including:

- Dedicating a certain portion of lease and royalty payments received from oil sands projects to the municipality where development occurs to finance the infrastructure required by new growth. There is some support for this idea from some of the operators in certain areas. This may be a reasonable suggestion in those areas where the industry is reasonably mature; it might not work so well where there are long periods of time between when the infrastructure is required and when the plants actually start to pay royalties.
- Requiring, or at least encouraging the pre-payment of property taxes where section 291 of the Municipal Government Act prevents immediate access to a new tax base.
- Considering the future of education property tax. A number of municipal leaders have suggested government should pass back some or all of the education tax collected by the province. Note that the education tax on machinery and equipment was entirely eliminated when industries in the province invested over \$2 billion per year in specific target years.
- Reviewing the royalty structure. Such review would likely include questions around the level of taxation, the choice of whether or not royalties should be taken in kind, and election options. Presumably this review would also include consideration of how any change in royalty revenues might be distributed.

Cumulative effects on the environment

The current process for examining development proposals by industry involves the preparation of an Environmental Impact Assessment (EIA) and its submission to a hearing by the Alberta Energy and Utilities Board. As part of its consideration of the public interest, the AEUB examines both environmental and economic impacts of the proposed development. The AEUB also has authority to consider social issues.

The current process has been stressed to some extent by the rapid pace of development and questions have begun to surface about the effectiveness of the process insofar as it relates to cumulative effects. Some of these issues include:

- **Quality of analysis** – As the agency in charge of managing the EIA process, Alberta Environment has found itself under increasing pressure to ensure the delivery of a quality product in a timely manner. These two objectives are somewhat incompatible in the face of rapidly appearing new applications. In the past, Alberta Environment could expect four – five EIA's per year; currently the department has some 39 EIA's on its plate and without additional resources it seems likely that quality will suffer if the predominant objective is speed.

Similarly, the consultant community used by proponents to prepare EIA's and assist in the application process is under similar stresses.

The AEUB itself is likely facing similar pressures. There have been four major hearings on oil sands applications in the last six months which will require a great deal of analysis and thoughtful consideration before decisions can be rendered. Decisions are expected to be rendered in a timely manner. These hearings are in addition to other ongoing responsibilities of the AEUB not necessarily related to oil sands issues, which are also facing increasing pressure as a result of Alberta's rapidly growing economy.

- **Decision-making context** – The process of examining, one by one, applications involving significant development activities, and the complexities and impacts that go along with those activities, is seen to be effective in dealing with single or individual applications. However, the jury is still out on whether or not this process can be effective in measuring and dealing with cumulative effects of a large number of single or individual applications more or less at the same time.

There likely are a number of ways in which a better prediction of cumulative effects might be obtained, including some through the regulatory process. One suggestion has surfaced which would "batch" a number of applications so that the AEUB could consider all impacts of a number of applications within one hearing. While this may result in conflict between applications if not all proponents are ready to proceed at the same time, it is an option which deserves further study. Another option would see the government providing direction to the AEUB that would have it make decisions within an overall or regional plan which defines the maximum allowable environmental or economic impacts over a specified period of time.

- **Policy making** – While the AEUB's legislation allows it to consider and presumably make recommendations and/or decisions on social issues, concerns have been raised about the potential conflict between appointed officials tempted or attempting to make social policy decisions and those who have been elected to make those same social policy decisions. It may be useful for government to better define the line between such responsibilities.