

Heartland Incentive Bylaw Amendment



Strathcona County Competes Globally For Energy & Petrochemical Investment



International Site Locations

- United States (Gulf Coast, Pennsylvania)
- Middle East (Saudi Arabia, UAE)
- China and Southeast Asia

Canada Site Locations

- Ontario (Sarnia-Lambton)
- Alberta (Grande Prairie, Medicine Hat)
- British Columbia (Prince George, Kitimat)

Regional Site Locations

- Fort Saskatchewan
- Lamont County
- Edmonton
- Sturgeon County

Heartland Member Tax Exemption Incentives

Common Components

- New construction/expansion project in Energy value-chain
- *Incentive within range of 1% - 2.5% of capital costs*
- Capital costs greater than \$50 million CAD
- +250 construction workers or +15 permanent staff

Strathcona County Incentives:

- Heartland Incentive
- SIA Incentive

1% of capital costs
(Dec 8, 2020)
(June 15, 2021)

Fort Saskatchewan Incentive:

2.5% (Dec 8, 2020)

Sturgeon County Incentive:

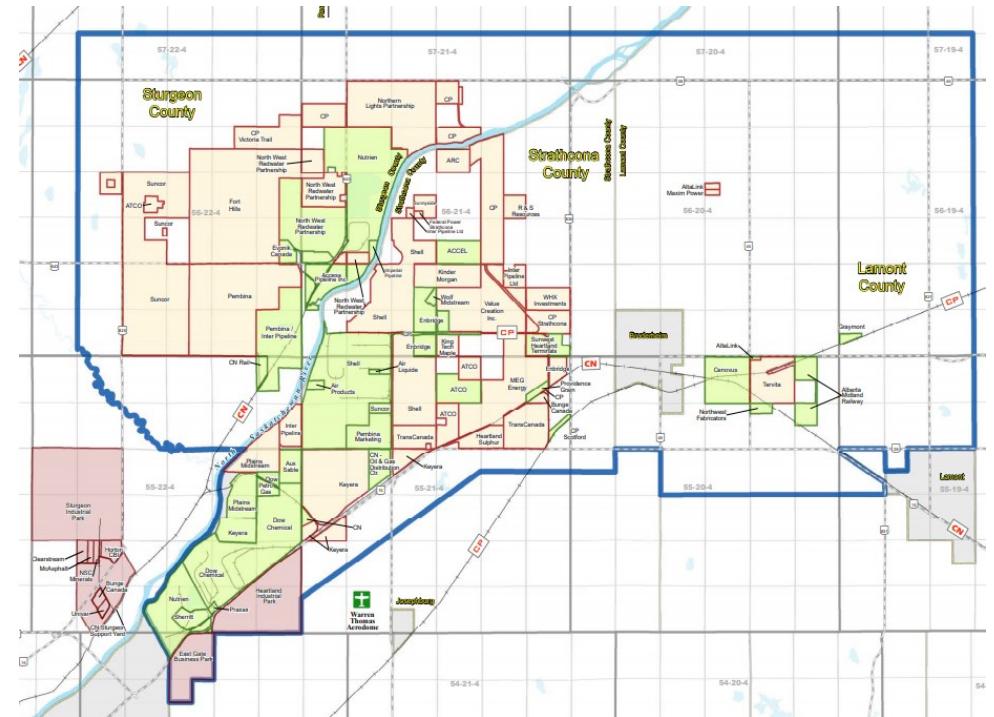
2.5% (June 14, 2021)

Lamont County Incentive:

under development

Edmonton Incentive:

Zero M&E tax



State of the Region: Announced Projects

Project	Value	Location	Status
Air Products Hydrogen Complex	\$1.3 Billion	Edmonton	FID in 2024
Dow Ethane Cracker Complex	\$8 to \$10 Billion	Fort Saskatchewan	FID unknown
Imperial Renewable Diesel Complex	Not yet announced	Strathcona County	FID in 2022
Shell Polaris CCS	\$1.2 to \$1.8 Billion	Strathcona County	FID in 2023
Mitsubishi Blue Hydrogen Facility	\$1.5 to \$3.0 Billion	Strathcona County	FID unknown
Suncor ATCO Clean Hydrogen Facility	\$3 to \$4 Billion	Not yet determined	FID in 2024
Itochu Petronas Ammonia Facility	\$1.6 Billion	Not yet determined	FID in 2022
Methanol Facility	\$1 to \$2 Billion	Not yet determined	FID unknown
Natural Gas Processing Facility	\$1 to \$1.5 Billion	Not yet determined	FID unknown

Corporate Financial Decision Drivers

Financial Modelling for Project Selection:

- IRR: internal rate of return (expected profitability)
- NPV: net present value (profitability vs. alternatives)
- Payback: how long it takes to recover the initial investment

Considerations

- A dollar today is valued higher than a dollar tomorrow (~10% depreciation/year)
- Cash flows in initial years are heavily weighted over future years
- **The first 5 years of a project are the most critical to project success**

Implication

- The sooner an incentive is awarded, the more valuable it is

Tax Incentive Scenarios

Revenues and impacts for incentivization of a \$3 billion Petrochemicals facility (estimated \$1.56B assessment)

	Industrial Heartland 1.0% incentive @ 25% annual exemption	Industrial Heartland 2.0% incentive @ 80% annual exemption
Total Incentive Amount	\$30 Million	\$60 Million
Time to Achieve Full Incentive (and Annual Taxes)	8.10 yrs	5.19 yrs
Annual Taxes Collected (After Incentive Ends)	\$14.34 Million	\$14.34 Million
Projected first 10 years of Taxes Collected*	\$113 Million	\$83 Million
Projected next 20 years of Taxes Collected*	\$287 Million	\$287 Million

*Highly simplified projections based on constant assessment and taxes, for illustrative purposes

Considerations and Long-Term Impacts

- Investment cycles are measured in decades, and have limited windows
- The lifetime revenues from one new attracted project more than offsets the increased incentive that is potentially granted to announced (but not yet FID) projects on existing sites.
- Petrochemical sites regularly experience additional phases and expansions (new revenue) beyond initial capital expenditure
- Cluster effects support new investment, but are not heavily weighted in financial decision models
- Petrochemical project economics favour immediate cost savings in initial start-up (cash in hand)
- Increases to the total incentive and annual exemption amount have a material impact on financial decision models (NPV, IRR, Payback)

Recommendation

An amending bylaw (Bylaw 3-2022) is attached for Council's consideration. Bylaw 3-2022 includes the following changes to the Industrial Heartland Incentive Tax Exemption Bylaw (62-2020):

- i) Increases the total incentive amount from "1.0% of capital costs" to "2.0% of capital costs", and;
- ii) Increases the maximum annual exemption from "25%" to "80%"
- iii) The amendments made pursuant to this bylaw do not apply to any Exemption granted under Bylaw 62-2020 prior to the coming into force of this bylaw

If Council wishes to make the presented changes, three readings of the amending bylaw would be required.