CITY OF
FORT SASKATCHEWAN

Request for Decision
Regular Council Meeting – December 8, 2020

Heartland Incentive Bylaw

Motion:

1. That Council give first reading to Heartland Incentive Bylaw C28-20.

2. That Council give second reading to Heartland Incentive Bylaw C28-20.

3. That Council give unanimous consent for third reading to Heartland Incentive C28-20.

4. That Council give third reading to Heartland Incentive Bylaw C28-20

Purpose:

The purpose of this report is to provide Council with information and to request approval of the Heartland Incentive Bylaw C28-20.

Background:

In 2018, Alberta's Industrial Heartland Association (AIHA), the Chemistry Industry Association of Canada (CIAC), along with other industry associations developed comparisons that showed Canada's share of North American petrochemical investment had fallen from its traditional level of 10%, to 2% and was continuing to decline. This drop represented an opportunity loss of approximately $20 billion. The reason for this decline was due to increased cost competitiveness from jurisdictions within the US, specifically the US Gulf Coast.

In 2019, the Provincial Government introduced Bills 7 and 29, which amended the *Municipal Government Act (*MGA) to permit municipalities to offer multi-year property tax incentives to attract non-residential development. The province also committed to develop a new incentive program to attract petrochemical development to the province.

In May 2020, in response to Bills 7 and 29, AIHA adopted a regional incentive policy. The purpose of this policy is to establish guidelines and limitations on the creation of municipal property tax incentives to avoid inter-municipal competition with neighbouring municipalities. The policy does not commit the City to offering incentives, rather it sets a series of ground rules to follow should a municipality decide to proceed with the creation of an incentive program.

In October 2020, the provincial government officially launched the Alberta Petrochemical Incentive Program (APIP), a grant program intended to attract new or expanded petrochemical facilities. The municipal tax abatement is intended as a supplement to APIP to help improve project economics and overall regional competitiveness.

Summary Analysis:

Administration has prepared a Bylaw to allow for property tax incentives, for Council's consideration. The Bylaw was developed in consultation with Brownlee LLP, AIHA, a site selection consultant, industrial assessors, as well as the City's Financial Services and Legislative Services departments. If approved, the Bylaw will create a tax-based incentive program that adheres to the regional policy drafted by AIHA and incorporates international best-practices with respect to incentives.

The proposed Bylaw would only be applicable to facilities that meet the following requirements:

1) be located within the designated boundaries of the City of Fort Saskatchewan and Alberta's Industrial Heartland;
2) be within a sector considered part of the energy value chain;
3) be a new construction or expansion project;
4) deploy a capital cost expenditure of $50 million or more;
5) employ a minimum of 250 workers during construction;
6) employ a minimum of 15 skilled permanent position during operations; and
7) not be relocating from another member municipality of AIHA.

Facilities that meet these requirements would be eligible for an 80% exemption in their annual property tax until one of two caps are met:

1) 2.5% of capital costs of construction for the facility; or
2) 10 years.

Administration considers an incentive of 2.5% of capital costs to be appropriate because it reflects the competitive gap between our region and competing jurisdictions in the US. Construction costs in Alberta are higher than our competitors. Reducing the company's total tax burden is one means of offsetting this increased cost. In recommending this amount, Administration in partnership with AIHA looked at a detailed cost analysis comparing our region with the US Gulf Coast, along with the proportional tax burden municipal property taxes have on a facility.

Administration is recommending this approach for the following reasons:

1) Large industrial development has significant economic benefits to the City and local business community by creating skilled jobs and employment opportunities.
2) Developments that require significant capital investment typically operate for long periods of time, which provide long-term economic benefit to the City and residents.
3) The program models the property tax incentive program offered in the State of Louisiana, which offers an 80% abatement of annual property taxes for a period of 5 years, renewable for an additional 5 years provided that the company continues to abide by the conditions set out in the legislation.
4) Utilizing an annual percentage tax exemption (80%) provides the City and the potential investor with certainty that can be used in economic modeling and forecasting when making financial and budgetary decisions.
5) The City will still collect a portion of the new tax revenue (20%) to help offset any growth pressure and costs incurred as a result of the development.
6) Tax incentives only activate once the facility has completed construction and is operational, ensuring that the City is only exempting projects that provide actual outcomes and economic impacts. If a company fails to complete construction or does not proceed with the project, no exemptions are provided.

7) The program requires entrance into an agreement that outlines the conditions of the exemption and the performance-based metrics to which the company must adhere. This agreement will give the City the authority to annually audit the company's project to ensure compliance. The exemption can be cancelled should a company not comply with the requirements of the agreement.
8) All agreement have set expiration dates to ensure that the construction of a project is not unnecessarily delayed and thus avoids a prolonged period of time that the City is exempting taxes.
9) Utilizing an annual percentage exemption provides the City with a buffer in the event that M&E depreciation schedules are changed. Should tax levies decrease as a result of accelerated depreciation, the amount of the tax exemption will decrease accordingly.

Financial Implications:

Under the proposed program, the incentive is only available to new construction or expansion projects. As such, the City's existing tax base will not be impacted.

The City will collect a portion of new tax revenue on new facilities which will offset additional servicing costs.

A detailed financial model demonstrating the financial implications of a tax exemption on a hypothetical development is included as Appendix B.

Internal/External Impacts:

If the Bylaw is approved, the incentive program would be administered by the Economic Development Department, with support from the Financial Services, Planning & Development, Legislative Services, Fleet, Facilities and Engineering, Public Works, and Emergency Services Departments.

Outside expertise may be required based on the nature and complexity of applications to provide additional services, such as additional legal reviews and auditing services. Costs for these services would be offset through the collection of the application fee.

This Bylaw has been designed to complement provincial incentive programs, such as the APIP. APIP will provide grants worth 12% of a project's eligible capital costs as defined by the *Canadian Income Tax Act*.

Risk Analysis:

This program is designed to complement the Alberta Petrochemical Incentive Program offered by the province. Working in partnership, the City and provincial programs will provide an incentive sufficient to bridge the competitive gap between our region and the US. Alignment between multiple levels of government is needed for attracting large-scale, long life, value-add energy investment.

Should the City not approve the Heartland Incentive Bylaw, there is risk that investment in our region could stagnate as new facilities are built in the US and other competitive jurisdictions. Similarly, the City could lose potential investment to our neighbouring municipalities should they choose to enact tax-based incentives.

With industrial development comes an influx of new residents and workers, which could create strain on existing service levels. Costs associated with this growth would be offset by the portion of taxes the City would collect from the new facility.

Incentives can provide a company an advantage over competitors. Given the eligibility criteria within the Bylaw and the nature of the developments that could reasonably utilize the proposed tax exemptions, Administration believes this risk to be minimal.

The incentives become available to a project proponent when the project begins operations, mitigating the risk to taxpayers and assuring that actual economic benefits are realized prior to tax abatement.

Plans/Standards/Legislation:

Recent MGA amendments, specifically Section 364.2, make adoption of an incentive bylaw possible.

Strategic Plan:

Core Value – Positioned for Growth; Goal – Strategically plan, prepare and manage responsible and sustainable growth for our residents and businesses.

Alternatives:

1. Council can choose to reduce the maximum total value of exemptions from the proposed 2.5% of capital costs provided it remains within the policy adopted by AIHA.

2. Council can increase or decrease the annual tax levy exemption from the proposed 80%.

Administrative Recommendation:

Administration is recommending that Council give three readings to Heartland Incentive Bylaw C28-20 as presented.

Attachments:

1. Bylaw C28-20
2. Appendix A – Competitors Incentive Programs
3. Appendix B – Financial Model of Hypothetical Development

Prepared by: Mark Morrissey, Director, Economic Development — Date: November 26, 2020

Approved by: Jeremy Emann, Chief Financial Officer, Finance Services — Date: December 1, 2020

Approved by: Janel Smith-Duguid, General Manager, Infrastructure & Planning Services — Date: November 27, 2020

Approved by: Troy Fleming, City Manager — Date: December 1, 2020