Governor's Office of Energy Development: *High Cost Infrastructure Tax Credit*

Daniel Royal

Energy Infrastructure Incentives Manager

- <u>The High Cost Infrastructure Tax Credit</u>
  - Purpose: The High Cost Infrastructure Tax Credit (HCITC) is an incentive that supports investments in qualifying cost-intensive infrastructure projects. The purpose of the program is to promote the business expansion and natural resource development that is critical to advancing Utah's economy.
  - The program is a tool that can be used to attract companies to Rural Utah.
    - *Please note: HCITC cannot be used with EDTIF.*
  - The program offers another option for companies whose projects might not fit within the EDITIF parameters.

High Cost Infrastructure Tax Credit Program: ***Background***

- Beginning in 2012 Sen. Okerlund and the GRPB began discussions about an incentive that would be more tailored for projects in rural areas.
  - *Idea was for a non-refundable credit that would help offset the high cost of infrastructure for projects proposed in transmission-constrained areas.*
- Legislation first proposed in 2015 as SB 216; Sponsored by Sen. Okerlund
- Passed with last minute changes that added provision to encourage expedited Tier 3 investments.
- Changes proposed in 2016 session; only minor administrative changes made it into final bill.
- OED has created rules and procedures; program finally actionable this month.

High Cost Infrastructure Tax Credit Program: ***How it Works***

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- Standard eligibility
  - Project types: New or expanding industrial, manufacturing, mining & agricultural projects for which infrastructure costs represent >10% of capital expenditure
  - Qualifying infrastructure: road, rail, transmission, pipeline, water line
  - Tax Credits: 30% of newly generated state revenue each year for 20 years or until 50% of infrastructure investments are recovered
- Refinery/Tier 3 eligibility
  - Project types: Fuel standards compliance projects that transition fuel products to Tier 3
  - Qualifying infrastructure: Equipment necessary to achieve Tier 3
  - Tax Credits: Up to 30% of state revenue each year for 20 years or until 30% of the infrastructure investments are recovered

High Cost Infrastructure Tax Credit Program: ***Process***

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- Interested companies must submit a pre-application
  - After OED acknowledges receipt of pre-application, the incentives manager will review the pre-application no later than Friday of the week after it was submitted.
- If all eligibility requirements appear to be satisfied, applicant will be invited to submit an application.
  - Program manager will review application, schedule follow-up calls/meetings as necessary to vet and refine application.
- Once OED is confident all criteria are satisfied the project will be included in the next UEIA Board Meeting for review.
- If Board confirms an incentive is warranted per OED's recommendation, OED will create an authorization letter acknowledging the award, and commence work on a contract to govern the tax incentive.

High Cost Infrastructure Tax Credit Program: ***Board Authorization***

- If OED determines that all criteria have been met, it will recommend to the Utah Energy Infrastructure Authority that the project warrants a credit authorization
- Utah Energy Infrastructure Authority
  - Has energy infrastructure bonding authority, and serves as review/approval board for HCITC
    - Determines which projects receive credits based on eligibility and state benefits criteria; determines annual credit amount in case of Tier 3 projects
  - Chaired by Governor's Energy Advisor, with make-up that reflects its authorities and priorities:
    - *GOED; SITLA; utility representative; rural county commissioner; rural energy industry representative; two members of public w/relevant experience; public finance expert*

High Cost Infrastructure Tax Credit Program: ***Example #1***

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- ABC Turkey Farms, LLC, based in Piute County, received a contract from Norbest to provide turkeys.
  - Company must invest $5 million to build 10 new poultry houses.
  - Of the $5 million, $2 million will be used to install a natural gas lines and to upgrade power lines and associated facilities, e.g. substation.
  - The expanded operation will have gross sales of $4,000,000 and incremental <u>new</u> state revenue of $150,000 in each of the next 20 years.
  - Tax credit would equal 30% on an annual basis ($45K) until it hits 20 years or receives credits totaling 50% ($1M) of the project's infrastructure costs.
    - ABC would never realize the full $1M credit, maxing out at $900K after twenty years.

High Cost Infrastructure Tax Credit Program: ***Example #2***

GOVERNOR'S OFFICE OF **ENERGY** DEVELOPMENT

- ABC Mining L.L.C., based in Carbon County, is creating a wholly new gravel mining venture in neighboring Emery County.
  - The company must invest a total of $25,000,000 in order to get the mine operating.
  - Of the $25 million, $2 million will be used to build a 1-mile road and $3 million will be used to build a 1 mile railroad spur to their facility, i.e. ~20% of initial "capex."
  - The company anticipates gross sales of **$12.5 million** and new state revenue of **$750 thousand** for each of the next 20 years.
  - Tax credit would equal 30% on an annual basis ($225,000) until it hits 20 years or receives credits totaling 50% ($2.5M) of the project's aggregate infrastructure costs.
  - ABC Mining would realize the full $2.5M credit after twelve years, at which time the credit period would end.

High Cost Infrastructure Tax Credit Program: ***Example #3***

- ABC Oil, Inc., based in Davis County, is a crude oil refining facility that produces 30,000 barrels per day.
  - In order for its fuel to meet EPA's new Tier 3 gasoline standards, the company must upgrade its hydrotreater at a cost of $50 million.
  - The company has gross sales of **$200 million** and state revenue of **$2.4 million** for each of the next 20 years.
  - The Board decides to award a 15% credit* ($360K) annually until it has received tax credits totaling 30% of the Tier 3 infrastructure costs ($15M).
    - * Annual credit could be up to 30% per year at the discretion of the Board.
  - ABC would never realize the full 30% of their infrastructure investment either, maxing out at $7.2M after 20 years.

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