

ALASKA LEGISLATURE

Committees:

Chair: Special Committee on Arctic Policy,
Economic Development, and Tourism

Member:
Resources
Community and Regional Affairs
Special Committee on Energy



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Representative John Lincoln

To: Senator Anna MacKinnon, Co-Chair
Senator Lyman Hoffman, Co-Chair
Senate Finance Committee

From: Representative John Lincoln

Date: May 10, 2018

Re: Delong Mountain Transportation System / Northwest Arctic Borough provision in HB119

Secs. 1, 2 and 6 through 8 of CSHB119(FIN) address the valuation of Red Dog mine operator Teck's private leasehold interest in the Delong Mountain Transportation System (owned by the Alaska Industrial Development and Export Authority) and whether that assessed value is included in the calculation of the Northwest Arctic Borough's required minimum contribution to its schools. AS29.45.030(a) has excluded that leasehold interest from the calculation since 2000, but the statutory provision expired November 2017. This legislation would renew the provision through 2027 (retroactive to November 2017). CSHB119(FIN) would have no fiscal impact to the state education budget as it simply maintains the years-long status quo, establishing a new sunset date.

The Red Dog Mine, 90 miles north of Kotzebue, has been a solid investment for the state since it started production in 1989. The Alaska Industrial Development and Export Authority financed a \$265 million investment to build the road and port. Under the operating agreement, AIDEA in FY17 received \$24 million from Teck and, to date, has received almost \$500 million on the original financing. Teck will pay AIDEA several hundred million dollars more before the debt is fully paid off.

In addition to being a profitable investment for the state, the mine has been a strong contributor to the borough. Because there is no property tax in the borough, Teck's payments are based entirely on a negotiated PILT (payment in lieu of taxes) covering borough severance taxes. In a new 10-year PILT agreement negotiated in 2017, the borough will receive payments from Teck of between \$14 million and \$18 million a year. Previous payments were \$11.6 million annually. In addition, Teck Alaska will create a Village Improvement Fund to be distributed by the borough toward community services and infrastructure, with input from its 11 villages. The fund will be opened with \$11 million and will receive \$4 million to \$8 million per year based on a percentage of Red Dog's gross profits. The borough has long used its funding to contribute more than the required minimum to schools.



Memorandum

To: Senate President Pete Kelly

From: Gene Therriault

Re: DMTS and Ketchikan Shipyard possessory interest tax valuation history

Date: May 10, 2018

You have asked for historical information on the tax exemption for the DeLong Mountain Transportation System and the Ketchikan Shipyard assets owned by the Alaska Industrial Development and Export Authority.

In 2000, the Alaska Legislature passed CCS SB 248 to create a **mandatory** tax exemption for the possessory interest tax value of the DeLong Mountain Transportation System. The same legislation also added a separate section to Alaska Statute creating a municipal tax exemption **option** for infrastructure owned by the Alaska Industrial Development and Export Authority in order to clarify the local government authority to grant such an exemption. That language stated:

*AS 29.45.050(p) A municipality **may** by ordinance partially or totally exempt from taxation a private leasehold, contract, or other interest held by or through an applicant or proposed applicant in any property, assets, project, or development project owned by the Alaska Industrial Development and Export Authority under AS 44.88.*

The operating agreement between AIDEA and Vigor Alaska speaks to the expectation and need for municipal tax relief through the following language:

The parties acknowledge that pursuant to the City/Borough MOU, the Borough may provide relief from real property taxes on the portions of the Shipyard operated by ASD. The parties also acknowledge that as of the Effective Date of this Agreement the granting of some form of borough real property tax relief is critical to the long term success of ASD's Shipyard operation.

ASD (now Vigor Alaska) operated the Ketchikan shipyard under an optional tax exemption granted by the Ketchikan Gateway Borough and continued to do so after the statutory language was clarified.

In 2011, the State Assessor (in DCCED's Division of Community and Regional Affairs) determined that the optional tax exemption the Borough provided to the shipyard did not exclude the possessory interest value of the shipyard operating agreement from being included in calculation of the Borough's Required

Local Contribution to education. This determination had the effect of increasing the amount of the Borough's required contribution for local education funding.

The Borough challenged the State Assessor's determination through administrative appeals of assessment years 2015 and 2016. The appeals were resolved by a settlement that provided for the possessory interest in the shipyard to be included in the Borough's property tax base, but the settlement established a value for the possessory interest in the shipyard for 2015 and 2016 at a level lower than the State Assessor had initially determined. The settlement also required the State Assessor to consider some particular factors in valuing the possessory interest in the shipyard for 2017.

Language now added to HB 119 adds the possessory interest in the Vigor Alaska operating agreement for the Ketchikan Shipyard to the mandatory property tax exemption that includes the DMTS. Under the terms of the legislation, this mandatory exemption will sunset on November 30, 2027. The mandatory property tax exemption will have the effect of reducing the Borough's required contribution for local education funding. It will also have the effect of converting the optional tax exemption the Borough granted to the shipyard by contract into a mandatory one that the Borough cannot change by contract or otherwise until after the sunset date.

The DMTS and Ketchikan Shipyard infrastructure each represent important state infrastructure that underpin hundreds of high salary jobs in Alaska. AIDEA has no objection to the extension of the mandatory possessory interest tax exemption for the DMTS and the inclusion of the Ketchikan Shipyard in this provision. Both of these important infrastructure projects help AIDEA achieve the policy goals established by the Alaska Legislature for AIDEA at AS 44.88.010. The most pertinent portion of this policy states:

*AS 44.88.010(b) It is declared to be **the policy of the state**, in the interests of promoting the health, security, and general welfare of all the people of the state, and a public purpose, to **increase job opportunities** and otherwise to encourage the economic growth of the state, including the **development of its natural resources, through the establishment and expansion of manufacturing**, industrial, energy, export, small business, and business enterprises and the other facilities referred to in (a) of this section by creating the Alaska Industrial Development and Export Authority with the powers, duties, and functions as provided in this chapter.*