



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Joe Balash, Commissioner

Department of Revenue

Angela M. Rodell, Commissioner

March 11, 2014

The Honorable Donald Olson
Alaska State Senator
State Capitol, Room 508
Juneau, AK 99801

Dear Senator Olson:

Please find the following response to your question from yesterday, March 10, 2014. You asked about the approach for establishing a framework for the settlement of property taxes, and if it is based on the agreement of the pipeline? In addition, you asked whether or not a large diameter gas line as contemplated under SB 138 would be exempt from municipal taxation if the state is an equity owner.

Reflecting that the Heads of Agreement (HOA) framework is a proposal to initiate consultation by the administration with local governments, nothing in the bill currently before the legislature makes any changes to the municipal property tax statutes in AS 29.45 or the state property tax statutes in AS 43.56. Under current law, an LNG plant is subject to local property taxes under AS 29.45 but not state property taxes under AS 43.56. The GTP and gas pipeline would be subject to state property taxes under current law. However, if under SB 138 AGDC acquires an equity interest in the LNG plant, and an equity interest in the GTP and pipeline by exercising an option to acquire part of TC's interest for example, the entire LNG plant, GTP and pipeline – not just AGDC's share – would be exempt from property taxes until the commencement of commercial operations of the project. See AS 43.56.020(d) (part of HB 4 passed in 2013). After commercial operations begin only AGDC's share of the LNG plant, GTP and pipeline would be exempt from taxes. See AS 31.25.260 (part of HB 4).

However, the HOA (reflected in the proposed legislative findings in SB 138 for property taxes relating to a North Slope natural gas pipeline project) provides that the state administration would consult with local governments to determine an appropriate series of impact payments during construction as well as property tax structure for the project. See HOA Article 9.3.1. The HOA parties proposed a starting framework that they believed would fairly compensate local governments while seeking to avoid contentious valuation disputes in the future. The HOA proposal for taxes once the project is operating, to be considered in future legislation, and in the contract negotiations, would be to base the payments on the volume of gas moving through the pipeline or other facilities (e.g., cents per MCF), called payments in lieu of taxes or "PILT," instead of being based on property value and millage subject to AS 29.45 or AS 43.56. The HOA also proposes to establish serial impact payments to be paid by the developers of a North Slope natural gas pipeline project to help offset increased services and other costs borne by state and local governments during construction.

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All communities benefit from property taxes on oil and gas properties, either directly or indirectly through state revenue sharing with municipalities. Based on that consultation, the state would propose legislation in a later legislative session to amend the state and municipal property tax statutes for the GTP, pipeline and LNG plant. The legislation would provide a property tax and impact payment framework and enable the administration to negotiate contracts with the project owners concerning a property tax payment method for determining the appropriate revenues to the state and local governments from the North Slope natural gas project developers.

Sincerely,



Joe Balash, Commissioner
Department of Natural Resources



Angela M. Rodell, Commissioner
Department of Revenue

CC: Senator Pete Kelly, Co-Chair, Senate Finance Committee
Senator Kevin Meyer, Co-Chair, Senate Finance Committee
Members of the Senate Finance Committee
Heather Brakes, Legislative Director