



Alaska House Resources Committee Testimony
April 1, 2014

Mr. Chairman and members of the Committee:

Thank you for providing this opportunity to express our concerns about the impacts that pending fiscal negotiations for a gas pipeline project might have on our municipalities if SB138 passes as currently drafted.

The recent Heads of Agreement between the State and the North Slope Producers lays the framework for future negotiation of fiscal terms for an Alaska LNG project which includes enactment of the enabling legislation now before you. This Heads of Agreement provides that the State and North Slope producers will negotiate a payment in lieu of taxes "PILT", which would eliminate property taxes during the operating life of a project. The agreement also provides that the Producers would pay pre-negotiated impact fees during construction, rather than property taxes as currently required under Alaska law.

The Heads of Agreement also states that one of its purposes is to reduce valuation disputes between the parties, and to ensure a healthy long-term OIL business. We are therefore worried that these yet to be negotiated gasline terms might expand to alter property taxes paid on existing infrastructure as well, including that used in oil exploration, production, and transportation.

We have been verbally assured by the Administration and by some members of the Legislature that it is not anybody's intention to change the taxing regime on existing infrastructure as part of these upcoming negotiations. However, we find these non-binding assurances to be something less than comforting.

We still believe our concerns in this area to be well founded. The only other time the Producers have ever come to consensus regarding fiscal terms to build a gasline was during the Murkowski Administration, under the Governor's

Stranded Gas Development Act (SGDA) contract. That contract required PILT payments on both new gas infrastructure AND existing oil infrastructure, in order to get the Producers to take the next step which was merely another study. Had the SDGA been adopted, we would have gotten that study, without ever seeing an actual pipeline; yet local governments would today be receiving only a fraction of the tax revenues that are currently being generated under existing law.

Like the SGDA, the recent Heads of Agreement only pursues another study, and is clearly heading in this same direction regarding fiscal terms. We therefore believe it to be unrealistic to think that history would not repeat itself, and that the Producers would not put existing tax structures on the table, despite the State's best intentions, once everyone got behind closed doors for these confidential negotiations.

The City of Valdez receives over 90% of our operating revenues from this existing property tax structure. This is appropriate due to the demands of the very infrastructure being taxed. For example, as a result of TAPS infrastructure within our municipality, the City of Valdez is required to provide a much greater level of municipal services than would otherwise be required of a community our size; especially in the areas of fire fighting, security, and public works. Significant reductions to this revenue, like that negotiated under the SDGA, would have a catastrophic impact on the City's ability to continue meeting the needs of Alyeska; and more importantly, our ability to honor existing bond obligations, or even to continue providing the most basic public services to our residents.

Therefore, to address these concerns we seek your help in achieving the following goals:

- 1) **Protecting Property Taxes on Existing Oil and Gas Property** – We request that this enabling legislation be amended to provide clear intent that the Legislature would look unfavorably on any future agreement brought back to it that goes backwards and takes away what is already being provided to the state and/or the municipalities under existing law.
- 2) **Property Taxes During Construction of an LNG Project** - Alaskan municipalities must be able to analyze all the details of the project plan, before they can properly measure the impacts construction will have on their communities. Each affected municipality needs to discuss, negotiate and agree to terms that directly affect impacts a project like this would have on municipal budgets, and the extent shortfalls would have to be made up by other tax payers. Again, legislative input now, emphasizing a meaningful role for affected municipalities is critical.

- 3) **Property Taxes During Operation of an LNG Project** - Property tax concessions for new infrastructure may very well be appropriate to facilitate project development. We all recognize this and want to do all we can to help facilitate a project. However, before such an agreement could be possible, the economics need to be well defined to enable a determination of the extent to which an Alaska LNG project, once in operation, should pay property taxes at a rate less than other property owners. Only after project economics are well understood can the need for and magnitude of a PILT be properly analyzed. As with negotiations related to impact fees during construction, meaningful municipal participation in the development of these terms is essential. Only the municipalities themselves, not the state negotiating on their behalf, can truly assess local impacts.

We do understand that the more involvement there is in any process, the more complex the task becomes. But it's important to remember that complexity is the price we've always needed to pay for meaningful participatory government.

We have suggested amendment language to help address some of these concerns and would appreciate your serious consideration to support these concepts or substantially similar safeguards. If the North Slope producers are allowed an open ended, confidential process like that used with Governor Murkowski, the financial consequences to municipalities would likely be extreme. Enacting safeguards into this legislation to address these concerns now is a necessary step to ensure that does not happen.

Again, thank you very much for your consideration.

David Cobb
Mayor of Valdez