

Red Dog Mine

Background: The Red Dog Mine, 90 miles north of Kotzebue, has been producing since 1989 and is the world's largest zinc mine. The Alaska Industrial Development and Export Authority (AIDEA) financed a \$265 million investment to build the road and port for use by Red Dog (the Delong Mountain Transportation System). Under the lease terms, AIDEA in FY17 received \$24 million from Teck for use of the Delong Mountain Transportation System. To date, AIDEA has received almost \$500 million from Teck on the original AIDEA financing of \$265 million for the road and port (principal and interest). Teck will pay AIDEA several hundred million more before the debt is fully paid off.

The issue before the Legislature deals with the Northwest Arctic Borough and its tax treatment of Teck's private leasehold interest in the road and port. The borough has no property tax -- just as there is no property tax in the Denali Borough, Aleutians East Borough and Lake-Peninsula Borough. In all those boroughs, since there are no local property assessments, the state assessor, by law, must estimate the value and estimate the annual tax revenues as if there were a property tax. That's because state statute requires boroughs to make a minimum contribution to schools, based on the total taxable value in the borough (even if they don't have a tax). So, in the case of the Northwest Arctic Borough, the state assessor estimates that if the borough had a property tax of 2.65 mills (the minimum set in statute), Teck would pay about \$800,000 a year to the borough in property taxes on Teck's private leasehold interest in the Delong Mountain Transportation System. And, absent state statutory direction to the contrary, that \$800,000 would be added to the borough's minimum local contribution requirement for schools, regardless whether Teck made a directed payment to the borough of the same amount.

Because there is no property tax in the borough, Teck makes no directed payment specifically in lieu of property taxes to the borough. Teck's payments to the borough 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 between the borough and Teck, the borough will receive annual payments from Teck based on a fixed asset value of Red Dog mine. The payments are estimated at between \$14 million and \$18 million per year. Previous payments were \$11.6 million annually. In addition, under the new agreement, 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 certain percentage of Red Dog's gross profits.

To put the numbers in context, the Northwest Arctic Borough general fund budget for FY18 is about \$19.5 million. The borough appropriated about \$4 million of its general fund to the school district for this year. The total school district operating budget this year is about \$65 million: \$4 million from the borough, \$0.75 million in other local revenues, about \$16 million in federal funds, about \$2 million directly from Teck (outside of the PILT), \$37 million in state foundation formula funding, and a few million in other funds.

The state statute that has been in place for years -- but expired in November 2017 -- excludes the estimated value of Teck's leasehold interest in the AIDEA-owned road and port from the calculation of the borough's minimum local contribution to schools. The legislative action requested by Rep. Lincoln would have no fiscal impact to the state, as it simply maintains a years-long status quo and establishes a new sunset date in 2028. Without this statutory renewal, the borough would be required to increase its local contribution to schools by \$800,000 a year.

Vigor Shipyard – Ketchikan

Points for AIDEA Owned Ketchikan Shipyard

Talking Points for AIDEA Owned Ketchikan Shipyard

1. The Ketchikan Shipyard (KSY) is a state asset owned by AIDEA since 1997. KSY was started largely to service Alaska Marine Highway vessels.
2. Vigor Alaska LLC (VA) operates the KSY pursuant to a non-exclusive 10-year operating agreement that began on November 30, 2015. There is one, additional 10-year extension allowed by mutual agreement. VA, and its predecessor entity Alaska Ship & Drydock, have operated KSY since the mid 1990's.
3. AIDEA-owned property is tax-exempt. It is the possessory interest in tax-exempt property which is at issue. The exemption in AS 29.45.030(a)(1)(A) was last extended in 2012. Since the inception of this provision, KSY was treated as if it were mandatorily exempt same as the Delong Mountain facility.
4. It was only after the last extension of the exemption that the state assessor took the position that KSY does not meet the criteria in the exemption as drafted. The purpose of the proposed changes to the provision in AS 29.45.030(a)(1) is to clarify that the provision applies equally to both the KSY and Delong Mountain Facility (and other entities that meets the stated criteria).
5. The KSY and the Delong Mountain Facility are substantially similar:
 - a. Both facilities are owned by AIDEA;
 - b. Both facilities are operated by a private entity under an operating or use agreement, not a lease;
 - c. For both AIDEA exercises significant oversight;
 - d. The operator for both does not have exclusive rights of use like they would under a lease;
 - e. Both facilities serve a significant public economic development purpose of benefit to areas of the state beyond the respective borough in which they are located.

6. Both facilities differ from other AIDEA-owned projects which are leased to the private sector where the private possessory interest is taxed.
 - a. The Fed Ex hangar and Skagway dock are both leased. The Shipyard and Delong Mountain facility are both under an operating or use agreement. There are significant differences.
 - b. A lease the operator has control and operates based upon their best interest, and is free to retain profits.
 - c. The shipyard has extensive AIDEA oversight:
 - i. Certain amounts must be set aside for repair and maintenance of the property; and
 - ii. If there is a profit above 7%, and the repair reserve has been met, then nearly half of the profit goes to AIDEA and the communities.