

# Summary of Changes: HB 381 ver T, House Resources CS

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House Finance Committee, May 11  
Rep. Robyn Frier, Co-Chair, House Resources; Rep Maxine Dibert, Co-Chair, House Resources  
Presented by Calvin Zuelow, Staff to Rep Frier and House Resources

# Definitions

- Alternative Volumetric Tax (AVT)
- Gas Treatment Plant (GTP)
- Payment in Lieu of Taxes (PILT)
- Mmf = one thousand cubic feet
- Liquid Natural Gas (LNG)
- Alaska Gasline Development Corporation (AGDC)

# Committee work on the AK LNG project before HB 381

- Before the Governor introduced HB 381, House Resources held several hearings on the AK LNG Project
  - GaffneyCline shared in a January 21 hearing that property tax modification was likely necessary for project finances
  - A House Resources hearing with impacted borough mayors on February 18 highlighted the risk of burdening local taxpayers with heavily subsidizing the project if community benefits and impacts were not carefully considered as a component of property tax adjustment

# Committee work on the AK LNG project before HB 381

- HB 381 version A was introduced in late March
  - Dept. of Revenue described a 6 cent/mm<sup>3</sup> AVT as a replacement for 2 mills of state property tax, assuming AGDC early cost estimates. No considerations for lost community revenues or impacts in HB 381 version A
- Committee set out to craft reasonable and politically durable proposal for tax reduction that brought local governments and the project developer closer to alignment

# AVT adjustments between Ver. A and Ver. T

- Version A of HB 381 applied a 6 cents/mmcf AVT on entire project
  - Ramp up period with no tax applied was significant: 10 years, or until 1 billion cubic feet per day average throughput was achieved by the project
- House Resources raised the AVT from 6 cents/mmcf to 15 cents/mmcf
  - Anticipating inflation on costs, co-chairs felt that 15 cents/mmcf was closer to replacement for 2 mills of property tax. Co-chairs acknowledged this is impossible to establish without public FEED information on the project, and there was some deference to the Finance Committee on the exact number
  - Removed ramp up period. AVT applied at first gas; preserves existing abatement of property tax on AK LNG project during construction

# AVT adjustments between Ver. A and Ver. T

- House Resources added a funding formula for AVT revenues to benefit all communities in the State of Alaska (*subject to appropriation*)
  - 50% AVT revenue is distributed in proportion to the percentage of pipeline in tax jurisdictions along pipeline corridor
  - 50% of AVT revenue is distributed per capita to all communities in the State

# Fairbanks Spur Language

- Fairbanks North Star Borough has limited exposure to property tax reduction on the project
  - Committee heard that the policy priority for Fairbanks is guaranteeing access to the project through a lateral spur line
- HB 381 version T requires a formal commitment between the project developer and the State of Alaska that a spur line will begin construction before exports begin in Phase 2 of the project. If commitment is not made, tax benefits to the project are not implemented
  - Language is the result of negotiations between project developer and FNSB. Timeline crafted with considerations for permitting and other concerns from the project developer
  - The Resources Committee heard from drafting attorney that this language would function as a contractual agreement between project developer and the Commissioner of Revenue

# Gas Treatment Plant (GTP) and LNG Facility

- Committee heard from both the Kenai Peninsula Borough and the North Slope Borough in February that there was interest in negotiating a tax benefit to the project and seeing the project succeed, but the complexity of the borough's needs and the uncertainty around the actual impact of the project on the respective boroughs led the co-chairs to believe the Legislature was not the appropriate venue for negotiations in the time available to the Committee
- Glenfarne's initial presentation to both H RES and H FIN highlighted negotiating with local jurisdictions on PILT agreements is a common industry practice

# Gas Treatment Plant (GTP) and LNG Facility

- To facilitate direct negotiations between the project developer and the respective boroughs on PILT agreements, the GTP and the LNG facility were excluded from AVT
  - The GTP is excluded from the oil and gas property tax statute in HB 381 ver. T; LNG facilities are taxed under municipal property taxes already in current law
  - Specific exemptions to AS 29.45 included in the bill allowing boroughs to modify mill rates as component of PILT negotiation. This was added during amendments after Governor's office raised concern that just applying municipal property taxes locked in municipal mill rates

# Other Conditional Effect Language

- In addition to committing to construct a spur line before Phase 2 begins, the project developer must also commit to
  - Create a \$40 million dollar community impact fund to pay for impacts of **construction** of the project
    - 25% of a community's actual construction impacts may be covered up front
    - This language was proposed by the project developer as a \$30 million dollar fund. Co-Chair Frier felt as impacts were uncertain, \$30 million was likely too low and conceptually amended the number to \$40 million as this amendment was adopted
  - Negotiate a project labor agreement with qualified Alaskan labor
    - Language based on language from AGIA; the Legislature has historically envisioned this as a requirement for the project
    - Project developer has discussed that negotiations are already ongoing

# Other amendments adopted by the committee

- The Resources Committee considered 29 amendments to HB 381 in committee, and adopted 11 (with 5 of those amended conceptually)
- Notable amendments adopted but not yet mentioned included
  - Establishing a funding stream from State AK LNG revenues to a constitutional education fund, conditional on a successful amendment to the Alaska Constitution to create a constitutional education fund (from Rep Elam)
  - Redirecting 20% of AK LNG royalty revenue from the Affordable Energy Fund created by SB 138 in 2014 to the Renewable Energy Grant Fund (from Rep Fields)

Thank you!

Questions?

House.Resources@akleg.gov