

House Bill 381 – House Resources CS

Version T

House Finance Committee

Department of Revenue

May 12, 2026

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THE STATE
of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Acronyms and Definitions

AGDC – Alaska Gasline Development Corporation

ANS – Alaska North Slope

AVT – Alternative Volumetric Tax

Bcf – Billion cubic feet

CAPEX – Capital expenditures

CIT – Corporate Income Tax

CY – Calendar Year

DNR – Department of Natural Resources

DOR – Department of Revenue

FID – Final Investment Decision

FY – Fiscal Year

GTP – Gas Treatment Plant

IRR – Internal Rate of Return

LNG – Liquefied Natural Gas

MTPA – Million Tons per Annum (year)

Mcf – Thousand cubic feet

Mmbtu – Million British thermal units (1 mcf \approx 1.038 mmbtu)

OPEX – Operating expenditures

PTV – Production Tax Value

Definitions

- Upstream – oil and gas exploration and production
- Midstream – oil and gas processing and transportation



Presentation Overview

- Background – Property Tax
- Proposed Legislation and Revenue Impacts
- Implementation Costs
- Detailed Project Modeling



Background – Property Tax

Background – Property Tax

- Alaska levies an oil and gas property tax on the value of taxable exploration, production, and pipeline transportation property in the state.
 - The state manages the appraisal process for all oil and gas property in the state.
 - Municipal property tax collections for oil and gas property are based on the state's assessed value.
 - The state tax rate is 20 mills (2%) of assessed value.
 - Municipal property taxes paid reduce the liability owed to the state.
- LNG plants are not subject to state oil and gas property tax but are subject to local municipal property tax and are appraised and assessed by the municipality where the LNG plant is located.



Proposed Legislation and Revenue Impacts

Disclaimer

- These numbers are based on our preliminary interpretation of bill provisions and how those would apply to the Spring 2026 Forecast and DOR's baseline AKLNG model
- Based on Committee Substitute version T
- Modeling and analysis is based on our understanding of policy intent where this differs from bill text
- This presentation is solely for informative purposes
 - Not an official statement as to any particular tax liability, interpretation, or treatment
 - Not tax advice or guidance



Proposed Legislation

- This bill would:
 - Create a policy framework for replacing certain state and municipal property taxes with an Alternative Volumetric Tax
- DOR-specific impacts:
 - Eligibility Conditions
 - Municipal Optionality
 - Property tax changes
 - Alternative Volumetric Tax



Note on Revenue Impacts/ Fiscal Note

- The revenue impact of this bill is indeterminate.
- Uncertain whether AKLNG project proceeds – this bill is a tax decrease, the magnitude of which depends on municipal decisions, increasing uncertainty.
- In addition to direct impacts of this bill, AKLNG project would also impact production tax, corporate income tax, and royalty revenue both from the Alaska LNG project and associated new development.
- Municipalities could be impacted through property tax exemptions, alternate tax rates, tax deferrals, appropriations of AVT revenue, equity interest agreements, and increased property tax revenue from associated new developments.
- Further, there would be economic benefits and impacts for the state and municipalities far beyond the direct impacts of oil and gas revenue, if the project proceeds.



Eligibility Conditions

- To be eligible for tax exemptions/ alternative tax, owners of property that could be taxable under the AVT must commit to:
 - deposit \$40 million into a designated community impact fund and reimburse impacted municipalities for the impacts of pipeline construction
 - negotiate a project labor agreement for construction of the gas pipeline, and
 - construct a Fairbanks spur line.



Eligibility Conditions, continued

- Plans for the project must include a Fairbanks spur line that:
 - is of sufficient capacity to meet reasonably projected demand,
 - is scheduled to begin operation within two years of commencement of commercial operations of a major component of the project,
 - connects to local infrastructure,
 - delivers gas safely and reliably at lowest reasonable cost,
 - has related costs allocated systemwide (in-state only).
- Owner responsible for constructing the spur line must begin permitting and regulatory steps on or before completion of 730 miles of gas pipeline construction.
- Owner must begin construction on the spur line within one year after receiving required permits and meeting regulatory requirements.



AKLNG Property Tax Changes

- Bill would replace certain state and municipal property taxes with the Alternative Volumetric Tax (AVT).
- Property subject to the AVT would be exempt from state and municipal property taxes.
- Property related to a Gas Treatment Plant would be excluded from state oil and gas property tax.
- Municipalities may partially or totally exempt, defer, or provide an alternate tax rate for property related to a Gas Treatment Plant, carbon capture facility, or LNG plant from municipal taxation.
- If exempted, municipality may negotiate for an equity interest in lieu of property tax.
- AVT would terminate if construction of the first 730 miles of gas pipeline has not begun by January 1, 2032.
- Bill would also exclude certain project-related property value and revenue from school funding calculations.



AKLNG Property Tax Changes, continued

- AKLNG project is not included in the official Spring 2026 revenue forecast, so there is zero revenue impact under the official forecast.
- If the project were to proceed without tax modifications, current law property tax revenue to the state is estimated at \$25 million initially in 2029, ramping up to \$244 million in 2033.
- If the project were to proceed without tax modifications, current law property tax revenue to municipalities is estimated at:
 - Total - \$17 million initially in 2029, \$479 million in 2033
 - Gas Treatment Plant - \$20 million in 2029, \$212 million in 2033
 - Pipeline - \$11 million in 2029, \$116 million in 2033
 - LNG Facility - \$18 million in 2029, \$169 million in 2033



Alternative Volumetric Tax

- An Alternative Volumetric Tax (AVT) would apply beginning on commencement of commercial operations of a major component of the project.
 - No ramp-up period or throughput threshold.
 - Applies to natural gas transported through a gas pipeline.
- The AVT would be:
 - \$0.15 per mcf of natural gas transported through a gas pipeline, and
 - Annual inflation adjustments based on the change in CPI over the previous five calendar years, beginning January 1 after the first full year of tax under the initial rate.



Alternative Volumetric Tax, continued

- The state would levy and collect the AVT.
- Each year, the legislature may appropriate:
 - 50% of the tax to municipalities and the unorganized borough through which the gas pipeline runs, proportionately divided based on miles of pipe, with the state retaining the unorganized borough portion outside a municipality.
 - 50% of the tax to municipalities, reserves, and communities in the unorganized borough on a per-capita basis.
- AVT would terminate if construction of the first 730 miles of gas pipeline has not begun by January 1, 2032.
- If the conditions required under the bill are met, the AVT and associated tax changes would sunset effective January 1, 2056.



Alternative Volumetric Tax (AVT), continued

- Total revenue from the \$0.15/ mcf AVT would be \$10 million in 2029 after start of commercial operations, increasing to \$577 million in 2033.
- The state would receive an estimated 19% of the AVT revenue for the pipeline component and no revenue for the other project components. The remainder of the AVT may be appropriated by the legislature to municipalities and communities.
- Unrestricted general fund revenue to the state would be \$2 million in 2029, increasing to \$37 million in 2033.
- Revenues would increase with inflation adjustments thereafter.



Fund and Revenue Provisions

- Bill would create an Alaska Education Fund, subject to voter approval of a constitutional amendment and other bill conditions.
- Bill would allow the legislature to appropriate 20% of certain royalty gas revenue remaining after payment to the Alaska Permanent Fund to the Renewable Energy Grant Fund.
- Bill would repeal the Affordable Energy Fund.
- The Alaska Education Fund would receive all remaining state revenue associated with a North Slope natural gas project after payments to the Permanent Fund, to municipalities and communities under the AVT, and to the Renewable Energy Grant Fund.



Other Provisions

- AGDC would be required to report to the legislature before a final investment decision on phase two.
- Main property tax and AVT framework would take effect only after DOR determines the bill conditions have been met.
- Renewable Energy Grant Fund provisions, repeal of the Affordable Energy Fund, and conditional-effect provisions take effect immediately.
- Alaska Education Fund would take effect only if approved by voters through a constitutional amendment and bill conditions are met.
- AVT would terminate if construction of the first 730 miles of gas pipeline has not begun by January 1, 2032.
- If the conditions required under the bill are met, the AVT and associated tax changes would sunset effective January 1, 2056.



Implementation Costs

Fiscal Note – Expenditures – Staffing Plan

- The Tax Division would need to add four positions to fully implement the provisions of this bill and support AKLNG related work:
- An Appraiser 3 to carry out this additional workload associated with appraisal and valuation for the AKLNG project.
 - The addition of such a significant amount of new taxable property creates additional workload that cannot be absorbed and we cannot assume that all property will be exempt from current property tax.
- A Tax Auditor to administer the new AVT.
 - Even though the expected taxpayer base is small, these new tax types would create additional workload which could not be absorbed.
- An Oil & Gas Revenue Specialist to support increased valuation and audit work related with major gas sales as well as new regulations and gas expertise.
- A Commercial Analyst to assist with project certification and reports and to increase the department's commercial analysis capabilities relating to gas.



Fiscal Note – Expenditures – Capital Request

- \$500,000 reflects an estimate for the Division's contract with FAST Enterprises to make the necessary changes to the Tax Revenue Management System (TRMS) in a short amount of time.
- The Department would also need to make amendments to existing regulations to fully implement the changes in this bill and update for major gas sales generally
 - This work can be performed with existing resources, added positions, and support from the Department of Law.



Fiscal Note – Expenditures

Expenditures/Revenues		(Thousands of Dollars)					
Note: Amounts do not include inflation unless otherwise noted below.							
	FY2027 Appropriation Requested	Included in Governor's FY2027 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY2027	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Personal Services	767.8		767.8	767.8	767.8	767.8	767.8
Travel	40.0		40.0	40.0	40.0	40.0	40.0
Services	55.6		55.6	55.6	55.6	55.6	55.6
Commodities	17.0		1.0	1.0	1.0	21.0	1.0
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	880.4	0.0	864.4	864.4	864.4	884.4	864.4
Estimated CAPITAL (FY2027) costs			<u>500.0</u>	<i>(separate capital appropriation required)</i>			



Detailed Project Modeling

Key Assumptions

- Model timeframe: 32 years from first LNG sale in 2031
 - It is anticipated that the project will continue beyond the modeled period
- Tolls equal to total cost of service providing an equity return (IRR) of 10% pre-tax for tolling agreement period of 20 years
- Construction costs: \$46.2B (2026 base year)
- Unprocessed gas price: \$1.50 per mcf (2026 base year)
- Phase 1 production from other gas field, requiring gas treatment
- Phase 2 production from Prudhoe Bay (PBU) and Point Thomson (PTU) and Phase 1 source, based on AGDC estimates
 - Impact on oil production at PBU assumed to be zero. PTU liquids production increased by 270 million barrels over life of project



Scenarios Modeled

- Current law scenario
- HB381 – as introduced
- CSHB381(RES) version T

- Modeling shows impact IF the full AKLNG project proceeds under each scenario, which is uncertain



Analysis Summary; Current Tax Law

Cashflow Summary

Total Cashflow Nominal (\$ millions)	State Revenues	Federal Revenues	Municipal Revenues	Upstream Owners	Midstream Owners
Cumulative to 2042	\$ 10,093	\$ (2,213)	\$ 6,274	\$ 19,376	\$ 6,381
Cumulative to 2052	20,770	8,293	11,870	41,651	25,807
Cumulative to 2062	29,716	22,597	17,297	60,379	70,361

Cost of Supply Summary

In-State Break-Even Price (for 2033)	Nominal	Real (\$2026)
Gas Commodity Charge (\$/mcf output)	\$1.92	\$1.62
GTP Toll (\$/mcf output)	\$1.14	\$0.96
Pipeline Toll (\$/mcf output)	\$1.79	\$1.51
In State Gas Break-Even Price (2033)	\$4.86	\$4.09

LNG Break-Even Price (for 2033)	Nominal	Real (\$2026)
Gas Commodity Charge (\$/mcf output)	\$2.06	\$1.73
GTP Toll (\$/mcf output)	\$1.22	\$1.03
Pipeline Toll (\$/mcf output)	\$1.92	\$1.61
LNG Plant Toll (\$/mcf output)	\$2.92	\$2.46
Alaska to Japan Shipping (\$/mcf)	\$0.94	\$0.79
LNG Break-Even Price (2033)	\$9.07	\$7.63



Analysis Summary; HB 381 as Introduced

Cashflow Summary

Total Cashflow Nominal (\$ millions)	State Revenues	Federal Revenues	Municipal Revenues	Upstream Owners	Midstream Owners
Cumulative to 2042	\$ 7,482	\$ (2,218)	\$ 1,337	\$ 19,376	\$ 6,510
Cumulative to 2052	15,867	8,193	2,699	41,651	25,272
Cumulative to 2062	22,532	22,106	3,968	60,379	68,512

Cost of Supply Summary

In-State Break-Even Price (for 2033)	Nominal	Real (\$2026)
Gas Commodity Charge (\$/mcf output)	\$1.92	\$1.62
GTP Toll (\$/mcf output)	\$0.96	\$0.81
Pipeline Toll (\$/mcf output)	\$1.54	\$1.30
In State Gas Break-Even Price (2033)	\$4.43	\$3.73

LNG Break-Even Price (for 2033)	Nominal	Real (\$2026)
Gas Commodity Charge (\$/mcf output)	\$2.06	\$1.73
GTP Toll (\$/mcf output)	\$1.03	\$0.87
Pipeline Toll (\$/mcf output)	\$1.65	\$1.39
LNG Plant Toll (\$/mcf output)	\$2.79	\$2.35
Alaska to Japan Shipping (\$/mcf)	\$0.94	\$0.79
LNG Break-Even Price (2033)	\$8.48	\$7.13



Analysis Summary; CSHB 381 (RES) Version T

Cashflow Summary

Total Cashflow Nominal (\$ millions)	State Revenues	Federal Revenues	Municipal Revenues	Upstream Owners	Midstream Owners
Cumulative to 2042	\$ 7,836	\$ (2,212)	\$ 6,785	\$ 19,376	\$ 6,560
Cumulative to 2052	16,651	8,217	13,505	41,651	25,449
Cumulative to 2062	25,083	22,200	19,395	60,379	68,865

Cost of Supply Summary

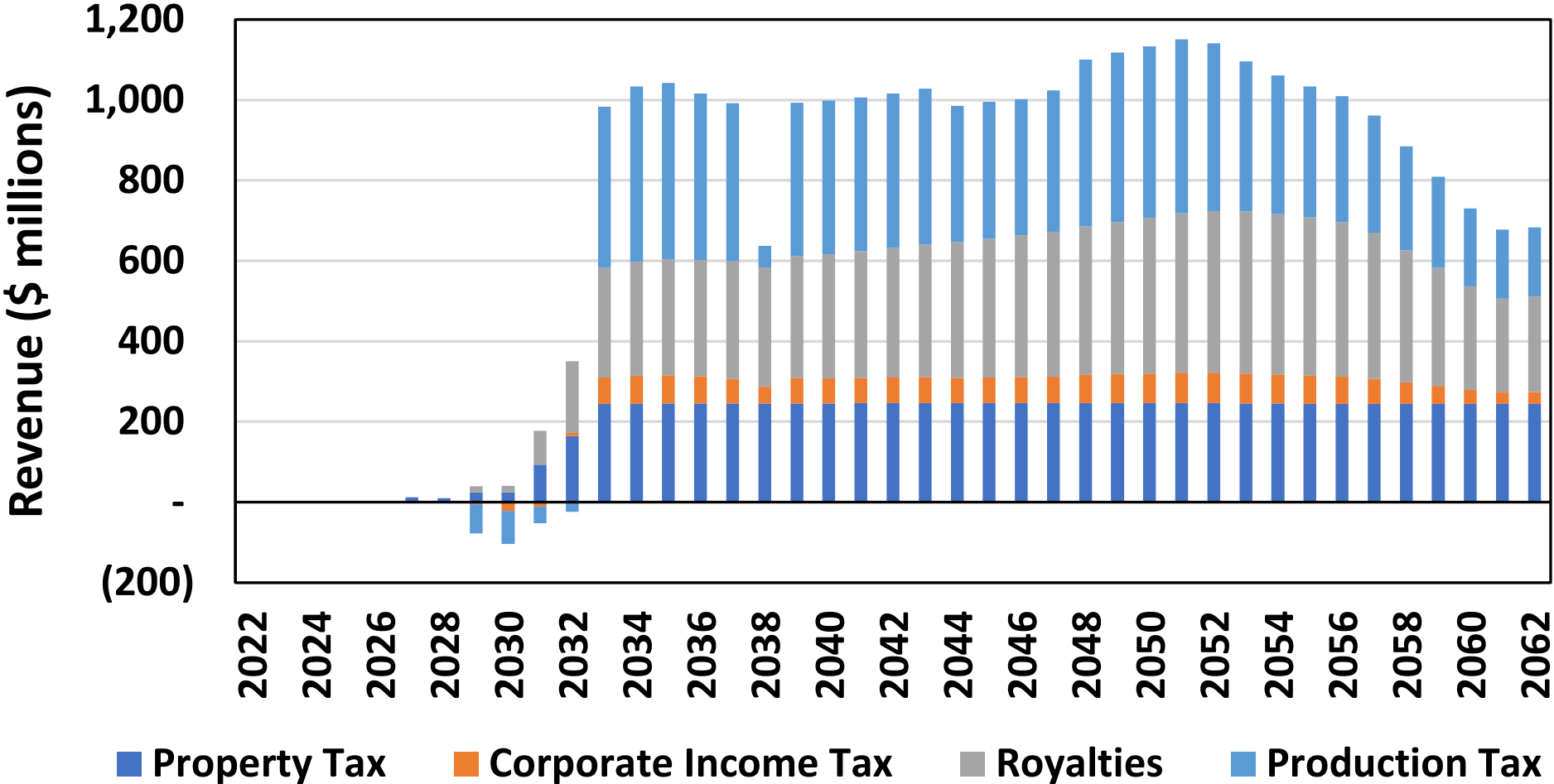
In-State Break-Even Price (for 2033)	Nominal	Real (\$2026)
Gas Commodity Charge (\$/mcf output)	\$1.92	\$1.62
GTP Toll (\$/mcf output)	\$1.12	\$0.94
Pipeline Toll (\$/mcf output)	\$1.73	\$1.45
In State Gas Break-Even Price (2033)	\$4.76	\$4.01

LNG Break-Even Price (for 2033)	Nominal	Real (\$2026)
Gas Commodity Charge (\$/mcf output)	\$2.06	\$1.73
GTP Toll (\$/mcf output)	\$1.20	\$1.01
Pipeline Toll (\$/mcf output)	\$1.85	\$1.55
LNG Plant Toll (\$/mcf output)	\$2.91	\$2.45
Alaska to Japan Shipping (\$/mcf)	\$0.94	\$0.79
LNG Break-Even Price (2033)	\$8.96	\$7.54



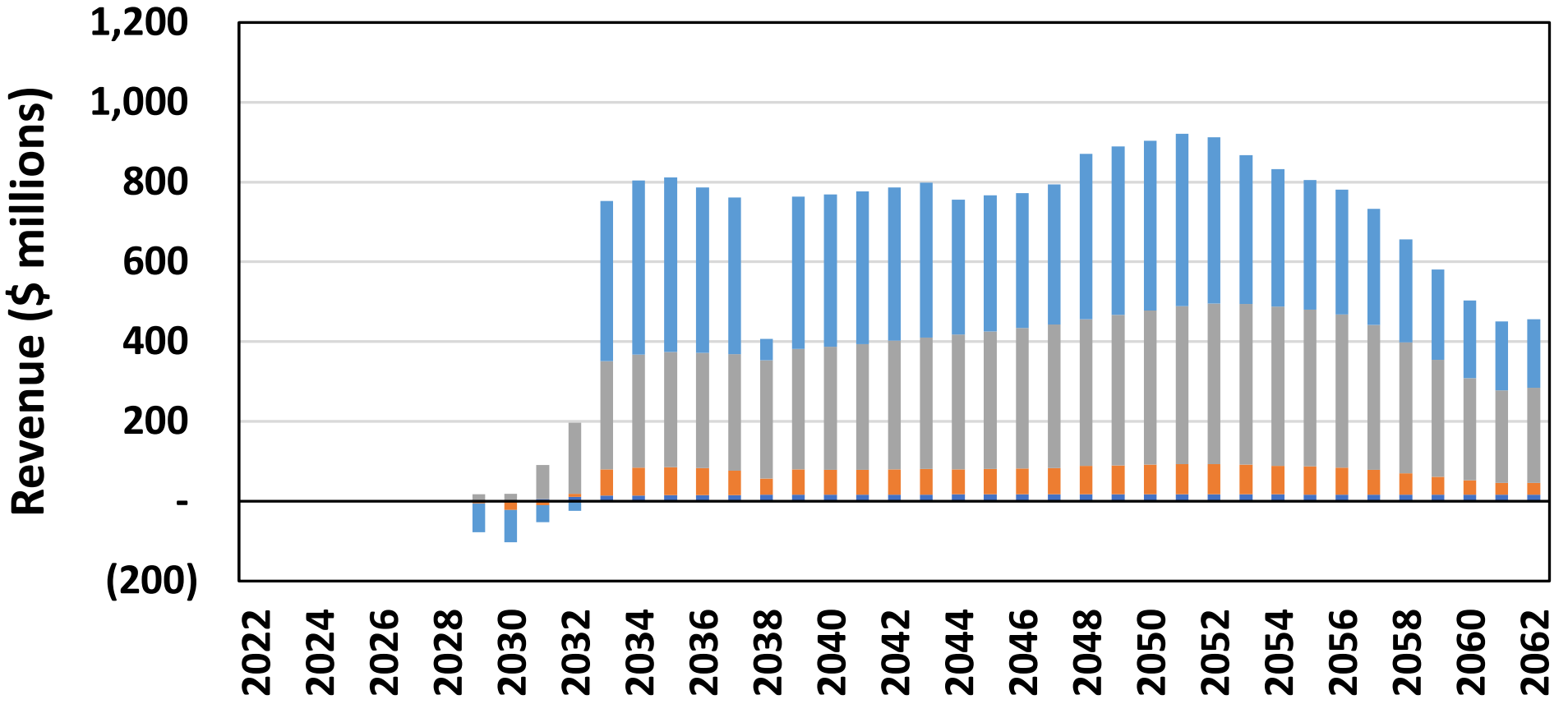
State Revenues by Year; Current Law

Annual State Revenues (\$ Nominal)



State Revenues by Year; HB 381 as Introduced

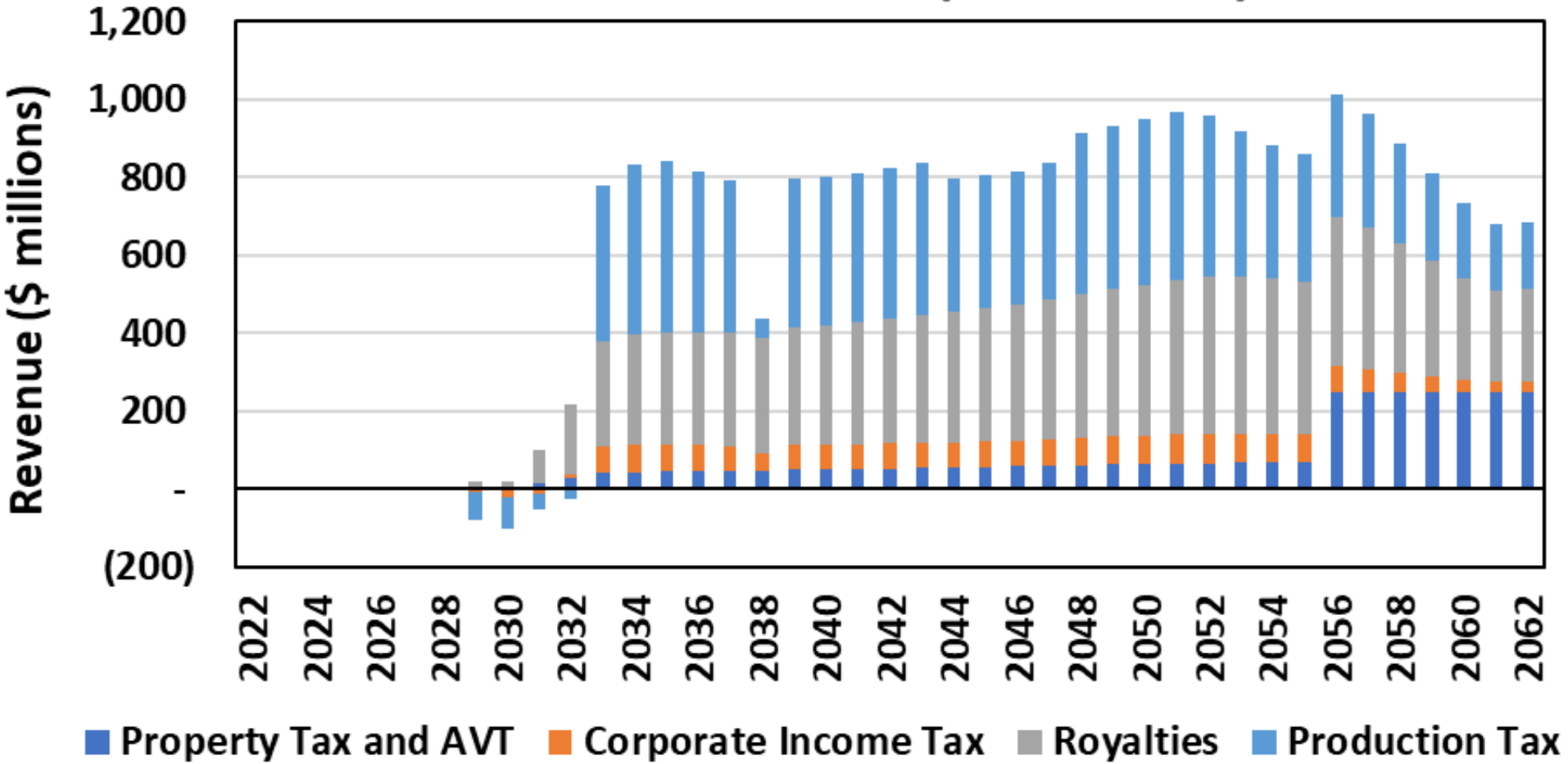
Annual State Revenues (\$ Nominal)



■ Property Tax and AVT ■ Corporate Income Tax ■ Royalties ■ Production Tax

State Revenues by Year; CSHB 381 (RES) version T

Annual State Revenues (\$ Nominal)



Sensitivity Matrix; In-State Gas Break-Even Price, Nominal \$/mcf in 2033

Current Law

		Upstream Gas Price								
		\$1.00	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Alaska LNG Capital Cost	Base CAPEX	\$4.22	\$4.86	\$5.50	\$6.14	\$6.78	\$7.42	\$8.06	\$8.70	\$9.34
	+20%	\$4.79	\$5.43	\$6.07	\$6.71	\$7.35	\$7.99	\$8.63	\$9.27	\$9.92
	+40%	\$5.37	\$6.01	\$6.65	\$7.29	\$7.93	\$8.57	\$9.21	\$9.85	\$10.49
	+60%	\$5.95	\$6.59	\$7.23	\$7.87	\$8.51	\$9.15	\$9.79	\$10.43	\$11.07
	+80%	\$6.52	\$7.16	\$7.81	\$8.45	\$9.09	\$9.73	\$10.37	\$11.01	\$11.65
	+100%	\$7.10	\$7.74	\$8.38	\$9.02	\$9.66	\$10.30	\$10.94	\$11.58	\$12.22

**HB381
as introduced**

		Upstream Gas Price								
		\$1.00	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Alaska LNG Capital Cost	Base CAPEX	\$3.79	\$4.43	\$5.07	\$5.71	\$6.35	\$6.99	\$7.63	\$8.27	\$8.91
	+20%	\$4.28	\$4.92	\$5.56	\$6.20	\$6.84	\$7.48	\$8.12	\$8.76	\$9.40
	+40%	\$4.76	\$5.40	\$6.04	\$6.68	\$7.32	\$7.96	\$8.60	\$9.24	\$9.89
	+60%	\$5.25	\$5.89	\$6.53	\$7.17	\$7.81	\$8.45	\$9.09	\$9.73	\$10.37
	+80%	\$5.74	\$6.38	\$7.02	\$7.66	\$8.30	\$8.94	\$9.58	\$10.22	\$10.86
	+100%	\$6.22	\$6.86	\$7.50	\$8.14	\$8.78	\$9.43	\$10.07	\$10.71	\$11.35

**CSHB381 (RES)
version T**

		Upstream Gas Price								
		\$1.00	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Alaska LNG Capital Cost	Base CAPEX	\$4.12	\$4.76	\$5.40	\$6.04	\$6.68	\$7.33	\$7.97	\$8.61	\$9.25
	+20%	\$4.64	\$5.28	\$5.92	\$6.56	\$7.21	\$7.85	\$8.49	\$9.13	\$9.77
	+40%	\$5.16	\$5.80	\$6.44	\$7.09	\$7.73	\$8.37	\$9.01	\$9.65	\$10.29
	+60%	\$5.68	\$6.32	\$6.97	\$7.61	\$8.25	\$8.89	\$9.53	\$10.17	\$10.81
	+80%	\$6.20	\$6.84	\$7.49	\$8.13	\$8.77	\$9.41	\$10.05	\$10.69	\$11.33
	+100%	\$6.72	\$7.37	\$8.01	\$8.65	\$9.29	\$9.93	\$10.57	\$11.21	\$11.85

Sensitivity Matrix; LNG Break-Even Price, Nominal \$/mcf in 2033

Current Law

		Upstream Gas Price								
		\$1.00	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Alaska LNG Capital Cost	Base CAPEX	\$8.38	\$9.07	\$9.75	\$10.44	\$11.12	\$11.81	\$12.50	\$13.18	\$13.87
	+20%	\$9.47	\$10.15	\$10.84	\$11.53	\$12.21	\$12.90	\$13.59	\$14.27	\$14.96
	+40%	\$10.56	\$11.24	\$11.93	\$12.62	\$13.30	\$13.99	\$14.67	\$15.36	\$16.05
	+60%	\$11.65	\$12.33	\$13.02	\$13.70	\$14.39	\$15.08	\$15.76	\$16.45	\$17.14
	+80%	\$12.73	\$13.42	\$14.11	\$14.79	\$15.48	\$16.17	\$16.85	\$17.54	\$18.22
	+100%	\$13.82	\$14.51	\$15.20	\$15.88	\$16.57	\$17.25	\$17.94	\$18.63	\$19.31

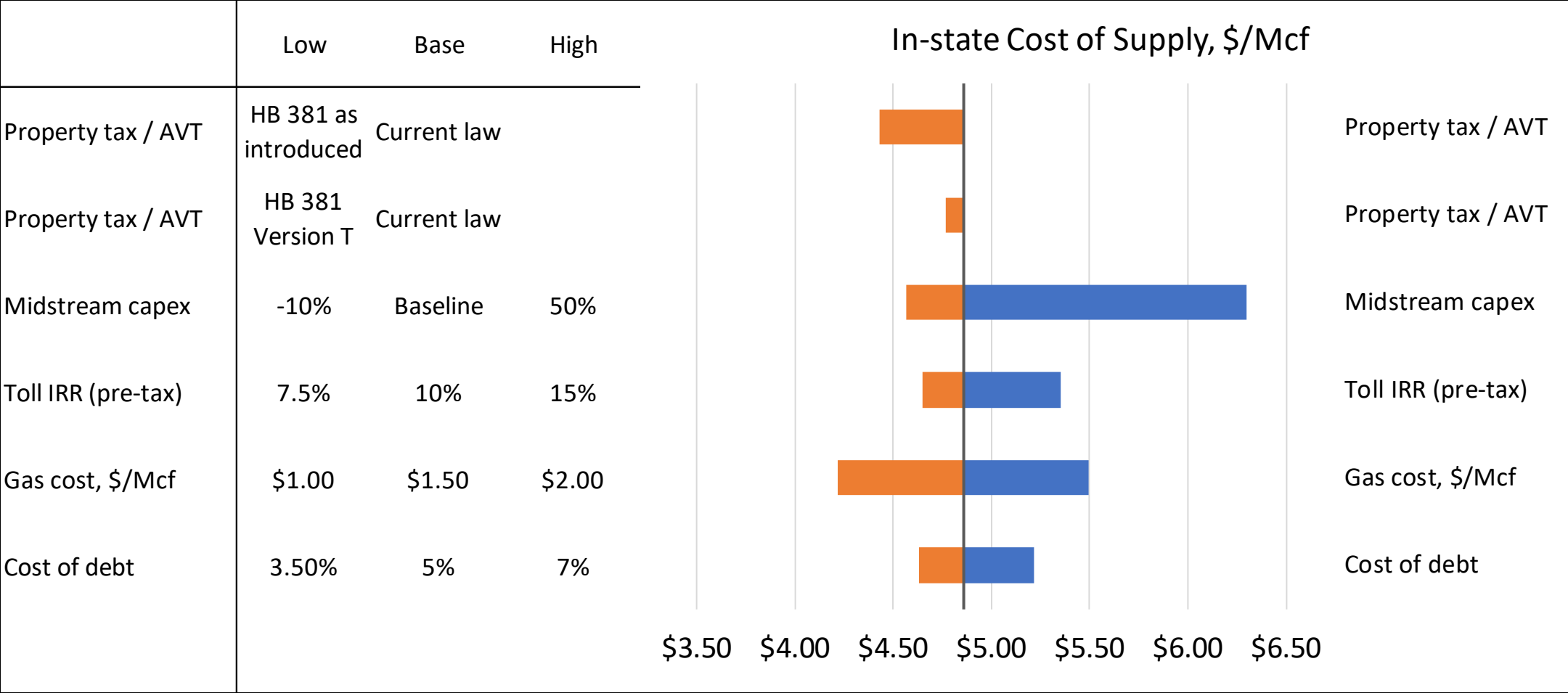
**HB381
as introduced**

		Upstream Gas Price								
		\$1.00	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Alaska LNG Capital Cost	Base CAPEX	\$7.79	\$8.48	\$9.16	\$9.85	\$10.53	\$11.22	\$11.91	\$12.59	\$13.28
	+20%	\$8.75	\$9.44	\$10.12	\$10.81	\$11.49	\$12.18	\$12.87	\$13.55	\$14.24
	+40%	\$9.71	\$10.40	\$11.08	\$11.77	\$12.46	\$13.14	\$13.83	\$14.51	\$15.20
	+60%	\$10.67	\$11.36	\$12.04	\$12.73	\$13.42	\$14.10	\$14.79	\$15.48	\$16.16
	+80%	\$11.63	\$12.32	\$13.01	\$13.69	\$14.38	\$15.06	\$15.75	\$16.44	\$17.12
	+100%	\$12.59	\$13.28	\$13.97	\$14.65	\$15.34	\$16.03	\$16.71	\$17.40	\$18.08

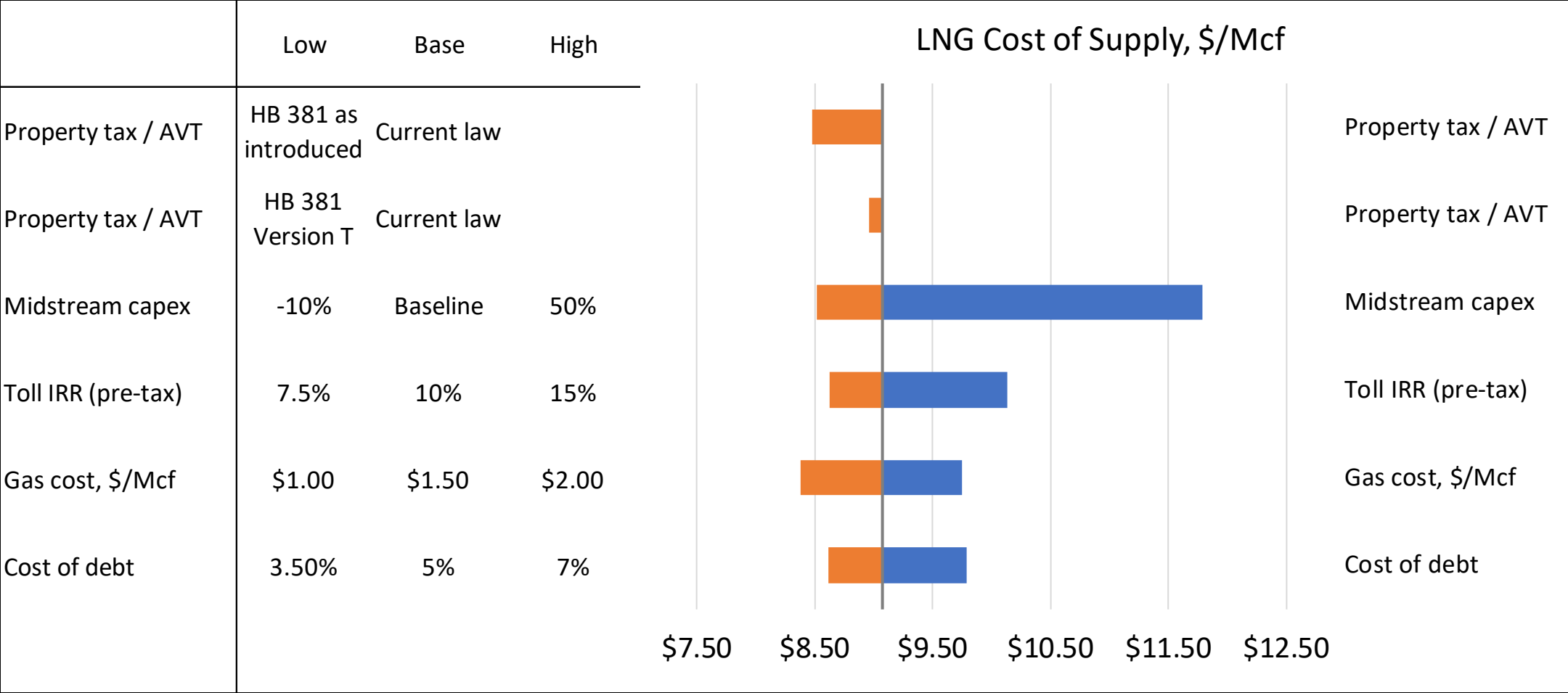
**CSHB381 (RES)
version T**

		Upstream Gas Price								
		\$1.00	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Alaska LNG Capital Cost	Base CAPEX	\$8.27	\$8.96	\$9.64	\$10.33	\$11.02	\$11.70	\$12.39	\$13.08	\$13.76
	+20%	\$9.30	\$9.99	\$10.67	\$11.36	\$12.04	\$12.73	\$13.42	\$14.10	\$14.79
	+40%	\$10.33	\$11.01	\$11.70	\$12.39	\$13.07	\$13.76	\$14.44	\$15.13	\$15.82
	+60%	\$11.36	\$12.04	\$12.73	\$13.41	\$14.10	\$14.79	\$15.47	\$16.16	\$16.84
	+80%	\$12.38	\$13.07	\$13.76	\$14.44	\$15.13	\$15.81	\$16.50	\$17.19	\$17.87
	+100%	\$13.41	\$14.10	\$14.78	\$15.47	\$16.16	\$16.84	\$17.53	\$18.21	\$18.90

Sensitivity Scenarios; In-State Gas Cost, 2033 Nominal \$/Mcf in 2033



Sensitivity Scenarios; LNG export price, Nominal \$/Mcf in 2033



Conclusions

- The Alaska LNG Project has the potential to provide tens of billions of dollars for the State of Alaska, the U.S. federal government, local governments, and the public sector
 - Beyond direct financial impacts, the project would enhance Alaska and America's energy security and create thousands of jobs
- HB 381 as introduced would materially decrease the cost of gas provided and make the project more attractive to investors
- CSHB 381(RES) version T would be a tax decrease overall, but not as much as the original bill
- CSHB 381(RES) version T would not materially decrease the cost of gas or make the project more attractive to investors
- CSHB 381(RES) version T provides significant benefits for communities



THANK YOU

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