

DOOR Update on Alaska LNG Project State as Potential Investor/Owner



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Presentation Outline

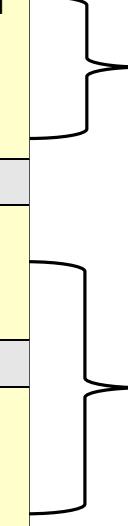
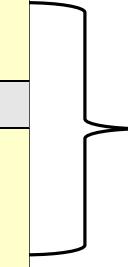
➤ DOR Role

- Legislative role as project advances
- DOR deliverables under SB 138
 - Property tax/Payment-In-Lieu-of-Tax (PILT)
 - Report on plan for State/Alaskan equity ownership
- Anticipated timing for legislative approval

➤ State as potential investor/owner and DOR Role

- DOR evaluation process for potential state ownership
- Interface with AGDC
 - DOR staff positions/time commitments
 - DOR consultants

Legislative Role on DOR Lead Items

CATEGORY	AGREEMENT(S)/ISSUE(S)	SIGNATORY/LEAD	COUNTERPARTY	LEGISLATIVE ROLE	
PAYMENT-IN-LIEU-OF TAX (PILT)	Property Tax Proposal and Property Tax Allocation and Disbursement Proposal/Recommendations	MAGPR/DOR	Alaska LNG Project Entity Owners	Legislative Approval	 Sec. 74, SB 138: Payment-in-lieu-of-Tax (PILT) needs to be analyzed in light of anticipated equity ownership mix (AGDC, State, Private).
SOA PARTICIPATION	Finance options for State ownership and participation in Alaska LNG project	AGDC/DOR	Alaska LNG Project Company	Authorization of Funding	 Sec. 76, SB 138: requires DOR to present plan to Legislature.
ALASKAN PARTICIPATION	Plan to allow a municipality, regional corporation or state resident to participate as co-owner in Alaska LNG project	AGDC/DOR	In-State Investors	Review Plan, Provide Feedback, and Possible Legislation	

Source: AGDC, as of 3/20/2018

DOT Deliverables: Payment-in-lieu-of-Tax

DOT has direct responsibility under SB 138 for the following:

- Section 74 of SB 138: Requests that governor establish an advisory planning group to advise governor on municipal involvement in a North Slope natural gas project and make recommendations related to property tax under AS 43.56 and AS 29.45
 - Municipal Advisory Gas Project Review Board (MAGPR) - established by AO 269 in 2014 to discuss property tax issues associated with the project and recommend possible options
 - Last meeting was in February 2016
 - Tentative decisions regarding Payment-in-lieu-of-Taxes (PILT) were reached, but more work is required
 - DOT intends to start up MAGPR Board meetings again shortly

Payment-in-lieu-of-Tax (PILT)

- The MAGPR Board last met February 2016. Board members' terms have expired and board needs to be re-constituted.
- While additional discussions must occur prior to a final recommendation, the board agreed to the following:
 - Construction PILT (C-PILT) should be distributed based on the merit of applications by impacted communities.
 - Operations PILT (O-PILT) should be allocated on a formula-driven calculation based on two criteria: Physical location of the project's real property and a per-capita distribution.
- The board left several unresolved issues for both C-PILT and O-PILT. These issues (see next slide) remain unresolved.

Unresolved Issues for C-PILT and O-PILT

- The unresolved issues for C-PILT include the following:
 - Will the state pay into the C-PILT fund the same as private-sector partners, given that State is not a taxable entity?
 - How exactly will impacted municipalities draw on the fund, and how will their requests be decided?
 - Will the state be allowed to draw on the fund the same as municipalities?
 - And will municipalities outside of the footprint of the project be allowed to draw on the fund for direct and indirect impacts?
- The unresolved issues for O-PILT include the following:
 - Will the state pay into the O-PILT the same as private-sector partners?
 - How will the fund be distributed to municipalities? Strictly based on project mileage or value within each municipality's boundaries? Or based on some hybrid formula? What amount, if any, should be assigned to a statewide municipal per-capita sharing of the PILT money?
 - Will the state receive funds from the account for the project mileage/value not within a municipal tax jurisdiction?

DOT Deliverables: State/Alaskan Participation

- Section 76 of SB 138: DOT to provide report on financing options, including options for municipalities, residents, or regional corporations to invest in the project and proposed legislation.
 - In 2015, DOT engaged Lazard to prepare an interim draft report, which was delivered to the legislature.
 - DOT is working with AGDC to update/revise draft report (1) to reflect new project structure and financing options, and (2) evaluate options to provide mechanism for Alaskan participation in ownership.
 - Regarding options for municipalities, residents, or regional corporations, Lazard's summary assessment stated:

"Although Regional Corporations, Municipalities and Individual Residents may provide potentially viable funding sources that align Project stakeholder incentives, certain practical constraints (e.g., potentially limited overall availability of funds, liquidity preferences, investment mandates, and structuring, marketing and monitoring costs) may be prohibitive."

Evaluation Process for Potential Equity Stake

- DOR is responsible for evaluating whether State should take equity interest in Alaska LNG.
- DOR has hired Maria Tsu as Alaska Gasline Project Financing Specialist to lead effort.
 - Ms. Tsu has 20+ years of institutional investment experience, including nine years at the Alaska Permanent Fund Corporation, where she was most recently Director of Investments for Private Markets (private equity and infrastructure). She also worked for the SOA Treasury Division, for the Municipality of Anchorage, and for the North Pacific Fisheries Management Council. Prior to moving to Alaska in early 2000, Ms. Tsu worked at Goldman Sachs in New York. She holds B.S. and M.S. degrees in Chemical Engineering from the University of Washington, and a Masters degree in economics from Virginia Tech.
- Evaluation steps include:
 1. Understand all aspects of Alaska LNG project
 2. Develop financial model needed to guide decision
 3. Conduct in-depth due diligence
 4. Assist AGDC in identifying sources of equity funding
 5. Assist AGDC in obtaining approvals from relevant entities
 6. Assist AGDC in equity fundraising

Evaluation Steps (continued)

Step	Activity	Objectives
1	Review	Understand project scope, timelines, underlying economics, cash flows, funding needs, capital sources, opportunities and risks.
2	Financial Modeling	Model project financials plus other State revenues (royalties, taxes) and other economic benefits to Alaska (jobs, growth, fiscal stability).
3	Due Diligence	In-depth review of project aspects most relevant to investment decision: sources of returns and risks (both financial and non-financial, including impact to State's bonding capacity and credit rating). Draft due diligence report.
4	Funding Sources	Identify equity funding sources, including state, Alaskans (individuals, municipalities, Alaska Native corporations), and non-Alaskan third-party sources.
5	Obtain Approvals	Assist AGDC in obtaining necessary approvals from State and national entities (e.g., CFIUS).
6	Fundraising	Assist with fundraising and documentation of investment merits and risks.

DOT Deliverables: Tax As Gas (TAG)

- AS 43.05.010(17) : DOT commissioner directs disposition of revenue from TAG
 - If DNR elects Royalty-In-Kind (RIK), then producers have the option to elect Tax-As-Gas (TAG), although there are other triggers for a TAG election.
 - Under current AGDC-led project structure, if DNR elects RIK, State could sell royalty gas and Tax-as-Gas to AGDC
 - DNR is actively engaged with AGDC on discussions regarding Gas Sales Agreement
 - Contract for sale of State's royalty and TAG gas by DNR will require royalty board recommendation and legislative approval
 - If DNR elects RIK and the producers elect TAG, then DOT will establish regulations to support a TAG election.

Anticipated Timeline for DOR Deliverables

➤ Final Report(s) to legislature on:

- Financing options for State of Alaska ownership in Alaska LNG project (as noted above, DOR/AGDC working on interim reports regarding whether State invests and options to do so)
- Plan for Municipalities, Regional Corporations, and residents to participate in ownership of project

Anticipated timeline: SB 138 requires these to be submitted at time DNR submits agreements, e.g. RIK gas sales agreement, for legislative approval under AS 38.05.020(b)(11)

➤ Property tax proposal, allocation and disbursement :

- Payment-in-lieu-of-Tax (PILT) is under consideration for construction period (C-PILT) and once project is operational (O-PILT)

Anticipated timeline: must be resolved before equity fund raising for bulk of construction costs.

DOF Interaction with AGDC

- DOF has one full-time RSA/staff position (Maria Tsu), reporting to Commissioner Fisher, assigned to work with AGDC. Ms. Tsu splits time between Atwood (20%) and AGDC's office (80%).
 - Embedded into AGDC financial modeling group
 - Fully integrated into team
 - Participates in meetings with other AGDC teams (commercial, technical)
 - Interacts with other Anchorage-based DNR and DOF staff
- Ms. Tsu works closely with Commissioner Fisher and Deputy Commissioner Barnhill in coordinated effort to address issues.
- As project ramps up, DOF may need to add resources to ensure expertise and work-load demands are satisfied.

DOT Consultants

- DOT has two consultants (Greengate LLC and Hilltop Securities) under contract.
- Greengate LLC is tasked with the following:
 - Provide high-level review of AGDC financial model and suggest improvements
 - Validate final AGDC financial model, which serves as basis for equity investor and DOT models
 - Assist/provide input on DOT model to consider benefits to Alaska more broadly (royalties, taxes, jobs, economic growth, fiscal stability, etc.)
 - Review/validate DOT model
- Hilltop Securities is tasked with the following
 - Provide expertise and advice on project finance and underwriting
- DOT may engage additional consultants or advisors as project develops to provide independent expert advice in other areas.