July 13, 2016

Responses to questions raised during the June 29, 2016 Joint Resources Committee Hearing

**Please provide the committee with the project concept framework that AGDC recently presented to the Alaska LNG venture partners, and that was referenced during testimony last week.**

On June 22nd, AGDC hosted a work session with the Alaska LNG venture parties. At that meeting AGDC presented a preliminary discussion framework of an option that would put the state in a project leadership role, and which could result in changes in ownership and management of the project as a means to move the project forward. A separate cover letter to Senator Meyer and Senator Giessel in response to their written request and summary of the concept points is attached.

**Will the income from the Alaska LNG project be subject to taxation, if the state had partial or whole ownership?**

Absent a Private Letter ruling from the Internal Revenue Service (IRS), the state doesn't definitively know how income from the project will be treated for federal tax purposes. Currently, the IRS maintains a general position that income of a state, political subdivision of a state, or an integral part of a state is normally not subject to federal income tax. The IRS's position however, is subject to change by the agency, Congress or the courts. Further, AGDC is not currently aware how different ownership scenarios might influence federal taxation on the project, but is taking the issue into consideration as it moves forward.

**To what extent would the state or AGDC's debt on the project be tax exempt? Would the IRS look at the project differently if it was mainly built to make a profit, or could the argument be made that because the project would serve a public benefit to Alaskans it could be tax exempt?**

AGDC is exploring every means of reducing costs, increasing revenue to the state and improving overall project economics. There is a good potential that the argument could be made, but AGDC has not investigated the use of AGDC or State debt on the project at this point in time.

**Would the state pay property tax if they were the owner of the project, or would they be exempt?**

To be successful, the state must understand both the benefits and the impacts the project will have on communities throughout the state. Article 9 of the Heads of Agreement, envisions that both a payment in lieu of property tax (PILT) and a series of construction impact payments would be incorporated into the project's overall fiscal contract. Impact payments are expected during project construction (in lieu of property taxes) and PILTs are expected during project operations. The Municipal Advisory Gas Project Review Board was established by Executive Order in March 2014 to analyze these issues and to specifically make recommends to the legislature on tax proposals and any statutory changes that might need to be made. The MAG, state negotiators and the project sponsors have been actively discussing this issue, and a tremendous amount of work has been accomplished over the last two years.

Negotiations continue and the issues around the size and allocation of tax payments have not be resolved. Ultimately, the project sponsors will have to agree on a schedule of payments that can be supported by project economics, and the legislature will have to agree on a fair and reasonable allocation formula.

**How will the legislature be involved in future project decisions?**

AGDC will continue to work closely with the legislature on all major policy decisions. Current law requires that agreements and commercial contracts associated with a North Slope natural gas pipeline project that will have a duration of longer than two years, and to which the State of Alaska is a party through DNR, require legislative approval. AGDC is not similarly required to obtain legislative authority prior to executing commercial contracts so long as AGDC's contract costs can be covered by AGDC's existing funds, an existing appropriation, or if the contact obligation is made subject to future appropriation. However, for AGDC to expend money from one of its existing funds under such a contract, the contract would have to be in compliance with the statutes describing how these funds can be used. AGDC may enter into any contract that is consistent with its statutory purposes and powers as set out in AS 31.25 and the duration of such a contract is not necessarily limited to two years. Examples include contracts with engineering firms, or with advisors working on securing financing, or a contract to lease or purchase property. Currently, AGDC is dependent on public funds appropriated by the legislature. Depending on the pace of post pre-FEED activities and the level of participation by others, AGDC may need to seek additional development funds from the legislature.

**Is AGDC adequately sharing the funding the legislature has provided the corporation with other state agencies? How is the corporation using the RSA process?**

Yes. AGDC has responsibility over two funds from which it finances corporate operations and gasline project activities: the In-State Natural Gas Pipeline Fund (AS 31.25.100) and the Alaska Liquefied Natural Gas Project Fund (AS 31.25.110). The corporation regularly establishes Reimbursable Services Agreements (RSA) with other state agencies that are providing a service either to the corporation or to the project. An RSA is a contractual agreement between AGDC who is paying for the service, and the state agency providing the service. AGDC and the servicing agency agree in advance on the terms and conditions of the contract, to include scope of work, deliverables, cost estimates, budget, and timelines prior the RSA being executed. Some agencies have received spending authority to perform these services in their annual operating budget, others have not.

For FY17, AGDC has initiated RSAs with the Department of Law ($839K) and the Department of Revenue ($1.23 mill) for work related to the Alaska LNG project. In addition, AGDC is providing $430k to fund the first three months of the fiscal year for the Department of Natural Resources North Slope Gas Commercialization group. AGDC is working with DNR to establish plans to streamline the gasline efforts of the two organizations and to develop a long-term strategy for funding the balance of the fiscal year.

We are, however, implementing austerity measures and are consequently being more judicious in the expenditure of funds to outside parties, particularly law firms and economic consultants. Rather than a blanket shift of funds based on past expenditures, we are approving fund transfers as work is required.