



AK LNG: Long and Short Term Fiscal Impacts

Presentation to the House Resources Committee

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Fiscal Impacts - Overview

This presentation aims to tie together several different sources of analysis, to provide a comprehensive overview of AKLNG project fiscal impacts to the state.

Fiscal Impact Analysis

Debt Capacity

Alaska Department of Revenue, Debt Management

Gas Line Analysis

Black and Veatch

Fall 2013 Revenue Forecast + Gas Line

Alaska Department of Revenue, Tax Division

Black and Veatch

A note on uncertainty....

- Goal: To give a **reasonable** view of how the AKLNG project could impact Alaska's financial position both over the:
 - short term (next few years),
 - mid term (next decade), and
 - long term (to 2040 and beyond)
- Analysis presented represent a set of scenarios taken from a range of possible outcomes
- Different assumptions may produce significantly different results.
- Department of Revenue and consultants are in the process of refining this analysis. As a result, future analysis could have different results.

Current Debt Servicing & Capacity

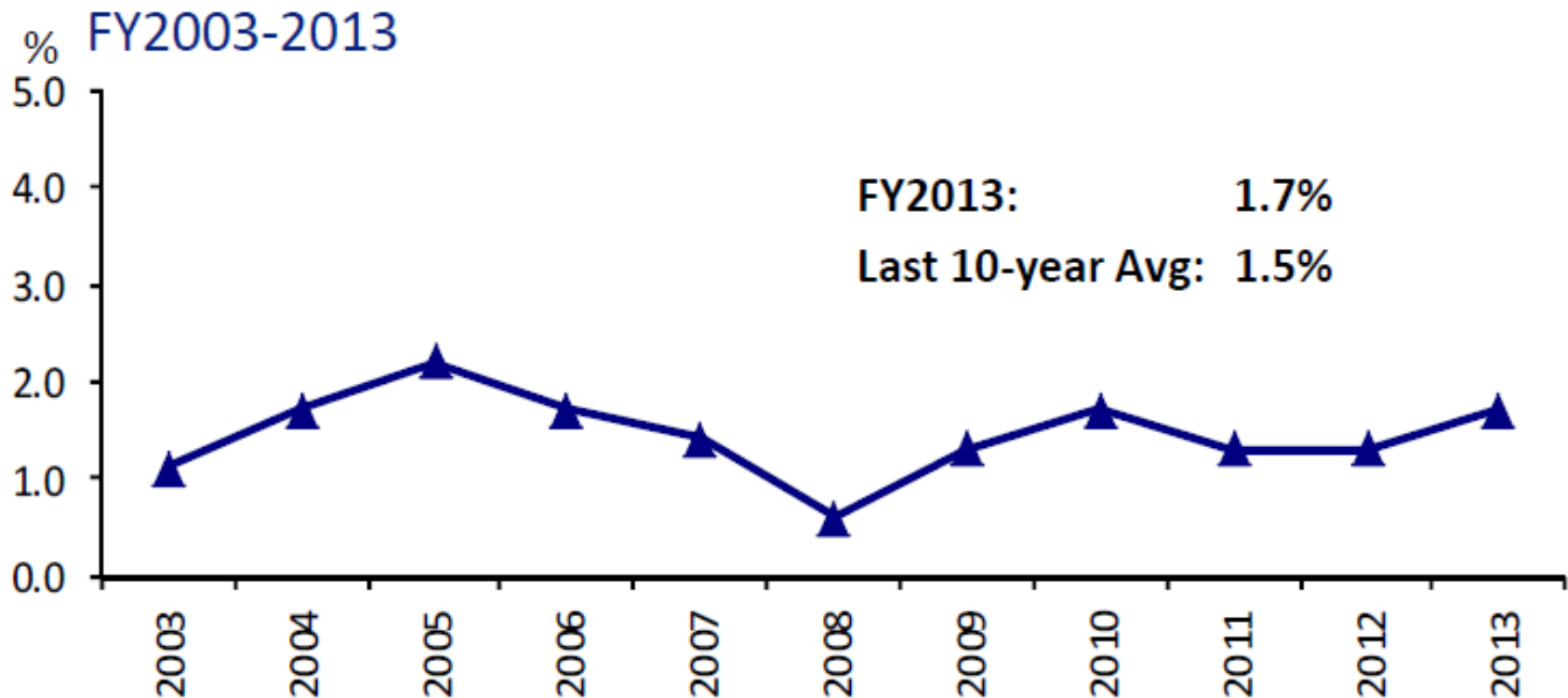
Debt capacity: Current debt outstanding

\$6.6 to \$8.1 Billion in Outstanding State Debt 1999-2014 Summarized by category in millions

	<u>1999</u>	<u>2014</u>	
• General Obligation	2.4	840.2	(additional \$303 million authorized but unissued)
• State Supported (leases & school debt reimbursement)	459.1	1,195.0	
• State Guaranteed (Veteran's Mortgage Program)	391.0	383.9	(additional \$695 million authorized but unissued)
• State Moral Obligation (AMBBA, AEA, ASLC)	763.1	1,200.7	
• State Revenue (AIAS & Sport Fishing Hatcheries)	210.4	595.7	
• University	85.7	190.5	
• State Agency (AHFC, AMBBA, ARR, NTSC)	767.5	543.3	
• State Agency Collateralized (AHFC, AIDEA)	1,983.8	2,312.2	
• Municipal	2,303.4	3,150.6	

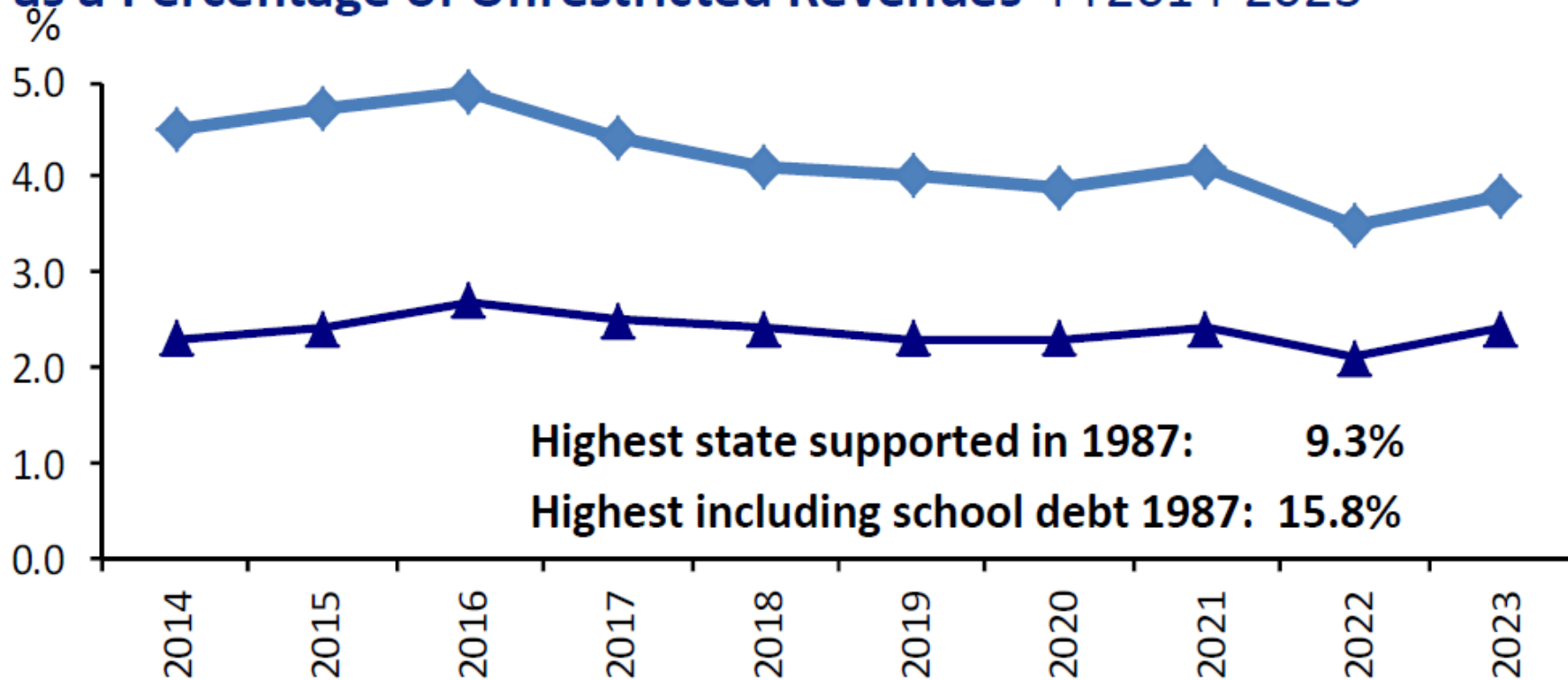
Debt capacity: Historically, debt service has been low relative to revenue

Historical Total State Debt Service (G.O. and State Supported) as a Percentage of Unrestricted Revenues¹



Debt capacity: Projected debt service

Projected State Debt Service (G.O. Plus State Supported compared to G.O., State Supported, & School Debt Reimbursement) as a Percentage of Unrestricted Revenues¹ FY2014-2023



Financial Management and Debt Metrics

The State has a long track record of conservative debt practices

- G.O. bonds carry pledge of full faith, credit and resources of the State
 - State policy limits debt service to less than 8% of General Fund unrestricted revenue
 - Debt service as a percentage of unrestricted General Fund revenues has remained low for 15 years
 - 10-year average 1.5%; FY2013 was 1.7% (3.3% including school debt reimbursements)
- Use of executive power to control expenses
- Historical Preference for utilizing pay-as-you-go funding versus debt
- Current and Future borrowing:
 - 2012 G.O. Authorization for State transportation projects (up to \$453 million)
 - Issued \$149.6 million Bond Anticipation Note in March 2013
 - Anticipate issuing up to \$230 million Bond Anticipation Note in March 2014 and \$35 million Certificate of Participation in April 2014
- State financial support has been discussed for a number of strategic capital initiatives

Debt capacity with AKLNG

OPTIONS IDENTIFIED BY STATE FOR EQUITY PARTICIPATION – 20%

updated

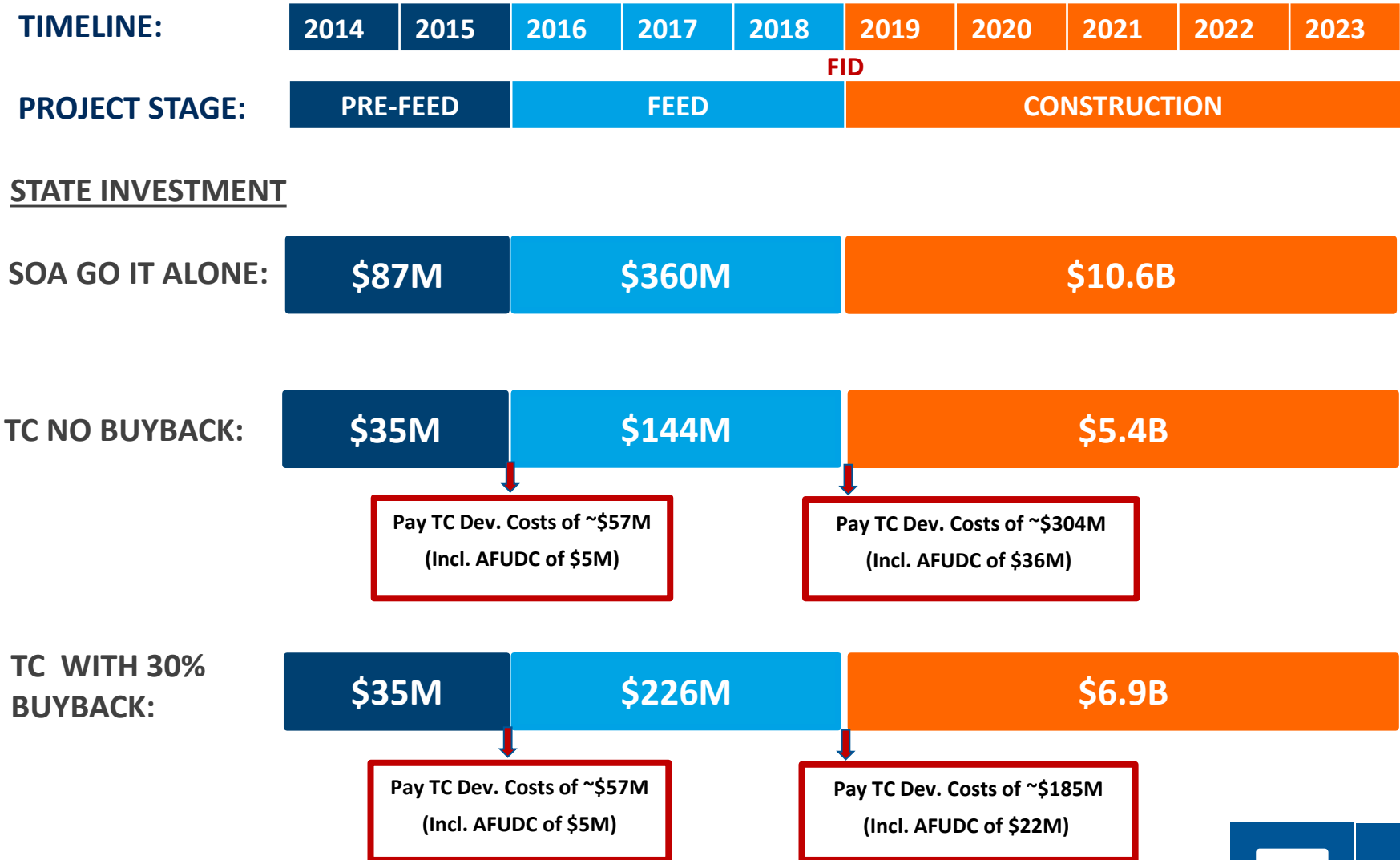
	GTP	Pipeline	LNG Plant
SOA Alone	SOA : 20%	SOA: 20%	SOA: 20%
SOA + TC No Buyback	TC: 20%	TC: 20%	SOA: 20%
SOA + TC with Buyback	TC: 14%	TC: 14%	SOA: 20%
	SOA: 6%	SOA: 6%	

* Assumes 20% State equity participation



IMPLICATIONS OF OPTIONS AND POTENTIAL OFF RAMPS— 20%

updated



* Assumes 20% State equity participation



CAN THE STATE GO IT ALONE?

- STATE'S DEBT CAPACITY



- **Financing the State's share of the AKLNG Project on the State's balance sheet – key issues:**
 - At what cost of debt?
 - Debt servicing as what % of general fund unrestricted revenue?

Scenario 1 (lower interest)

- SOA Debt at 4.6%
- Debt Service limited to 3% of GFUR

Scenario 2

- SOA Debt at 4.9%
- Debt Service limited to 5% of GFUR

Scenario 3 (higher interest)

- SOA Debt at 5.6%
- Debt Service limited to 6% of GFUR

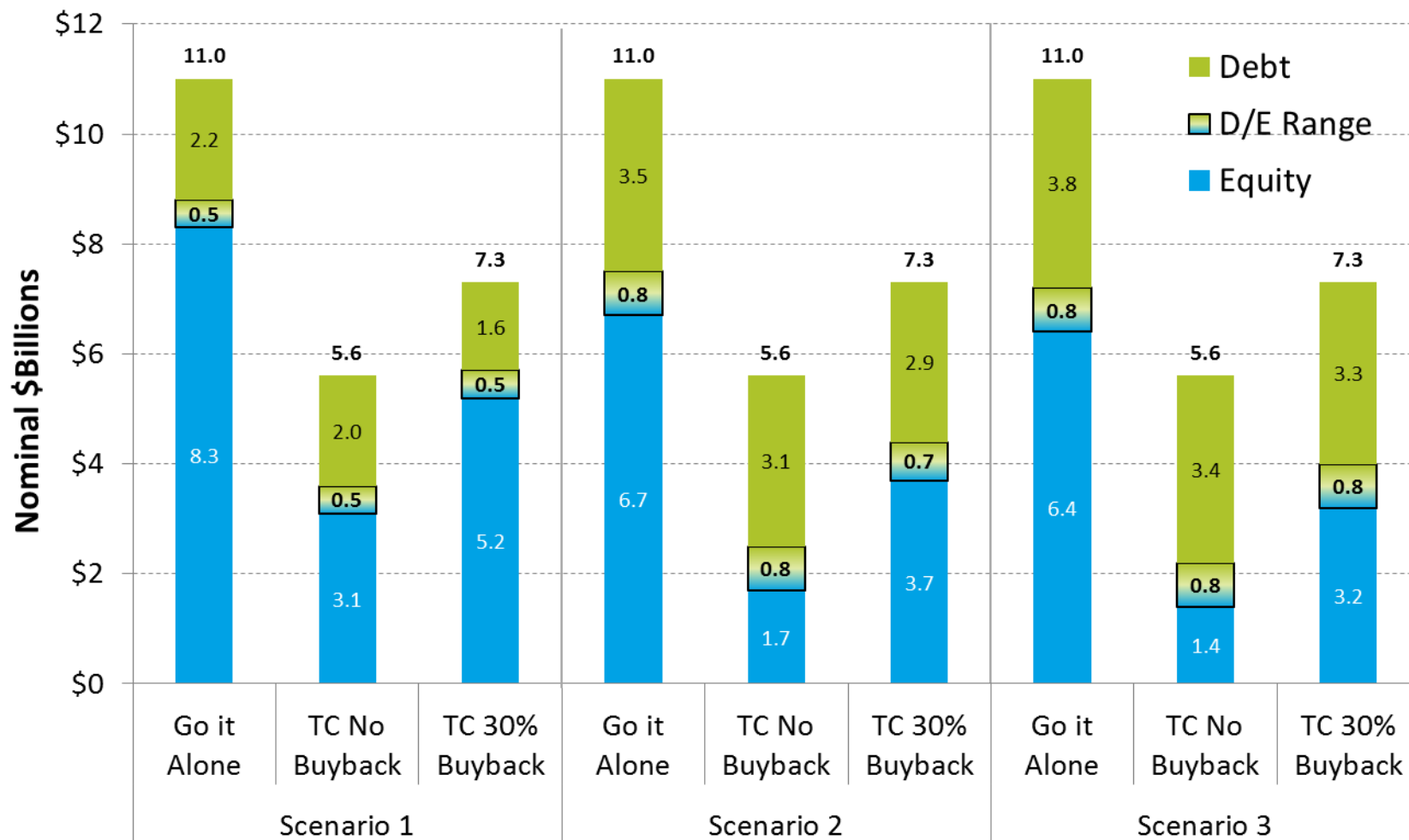
- **High-level, indicative assumptions based on input from Department of Revenue**
- **Based on market conditions as of February 20, 2014**

CAN THE STATE GO IT ALONE?

- STATE'S DEBT CAPACITY

updated

State of Alaska Required Equity Investment Range



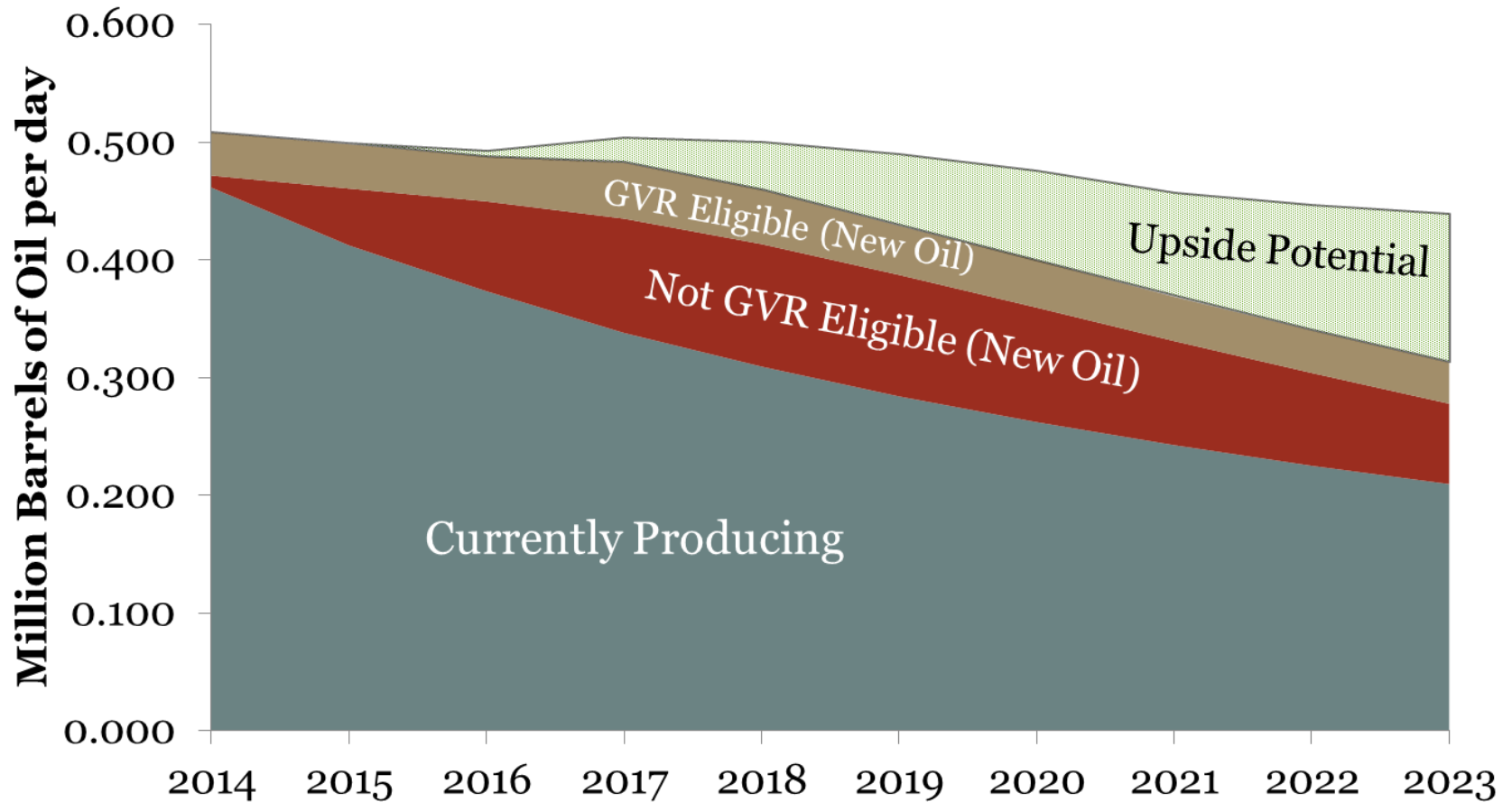
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AKLNG Potential: Fall 2013 Revenue Forecast & the Gas Line

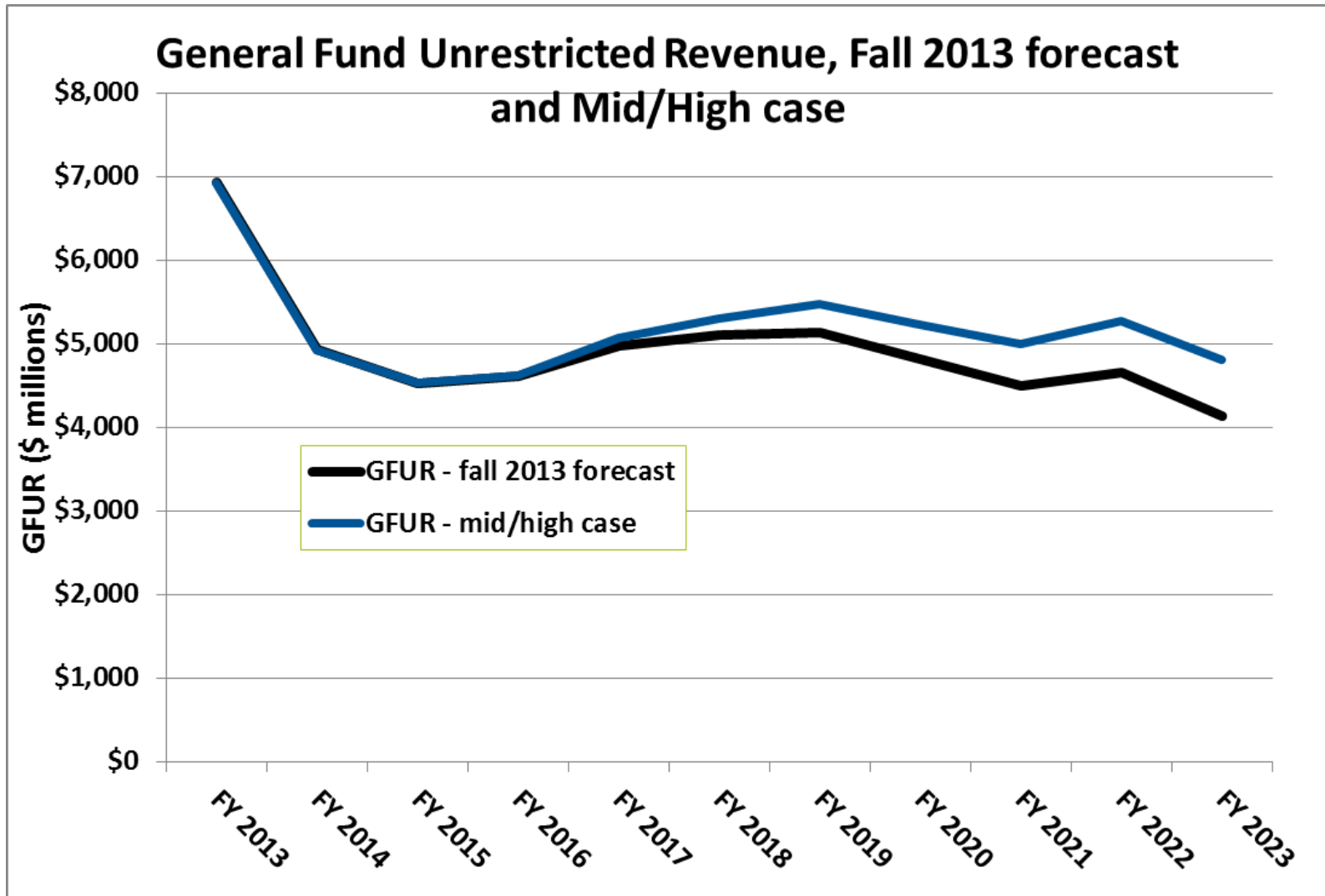
AKLNG – Long term potential: Assumptions

- Long-term forecast assumes the following trends for oil and gas related revenues
 - Oil revenues – GFUR trend from OMB between 2020-2024 projected forward (decline of ~2%/yr)
 - Gas revenues – AKLNG Project revenues assumed to begin in 2024
- Assumptions underlying gas revenues
 - AKLNG project comes online in 2024
 - Export volume of 2.5 Bcf/d and in-state volume of 0.25 Bcf/d
 - Oil price = \$90/bbl in 2013\$ growing at 2.5% a year; LNG Price = 13.5%*Oil Price + \$1
 - GFUR is assumed to include 75% of royalties, 25% of property tax, 100% of state corporate income tax, production tax and return on equity on AKLNG project investment
- Three different scenarios for State equity participation:
 - Go it alone – State holds 20% equity stake in GTP, Pipeline and LNG Plant
 - TC with no buy back – TC holds 20% equity stake in GTP and Pipeline, State holds 20% equity stake in LNG Plant
 - TC with buy back – initially, TC holds 20% equity stake in GTP and Pipeline, State holds 20% equity stake in LNG Plant. State buys back 30% of TC's stake at beginning of FEED

North Slope Production Forecast

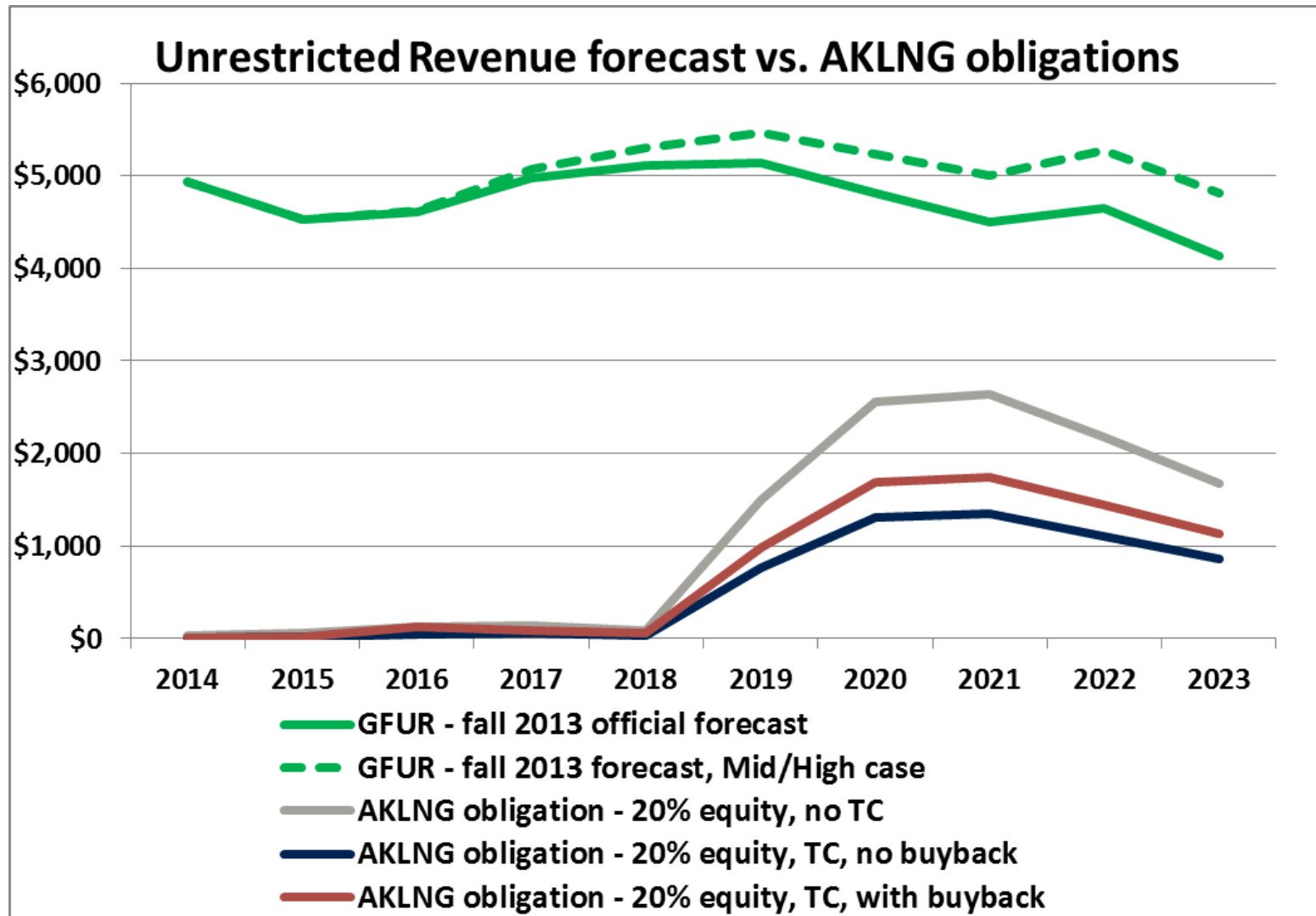


Revenue Forecast – Official, and Mid/High Case



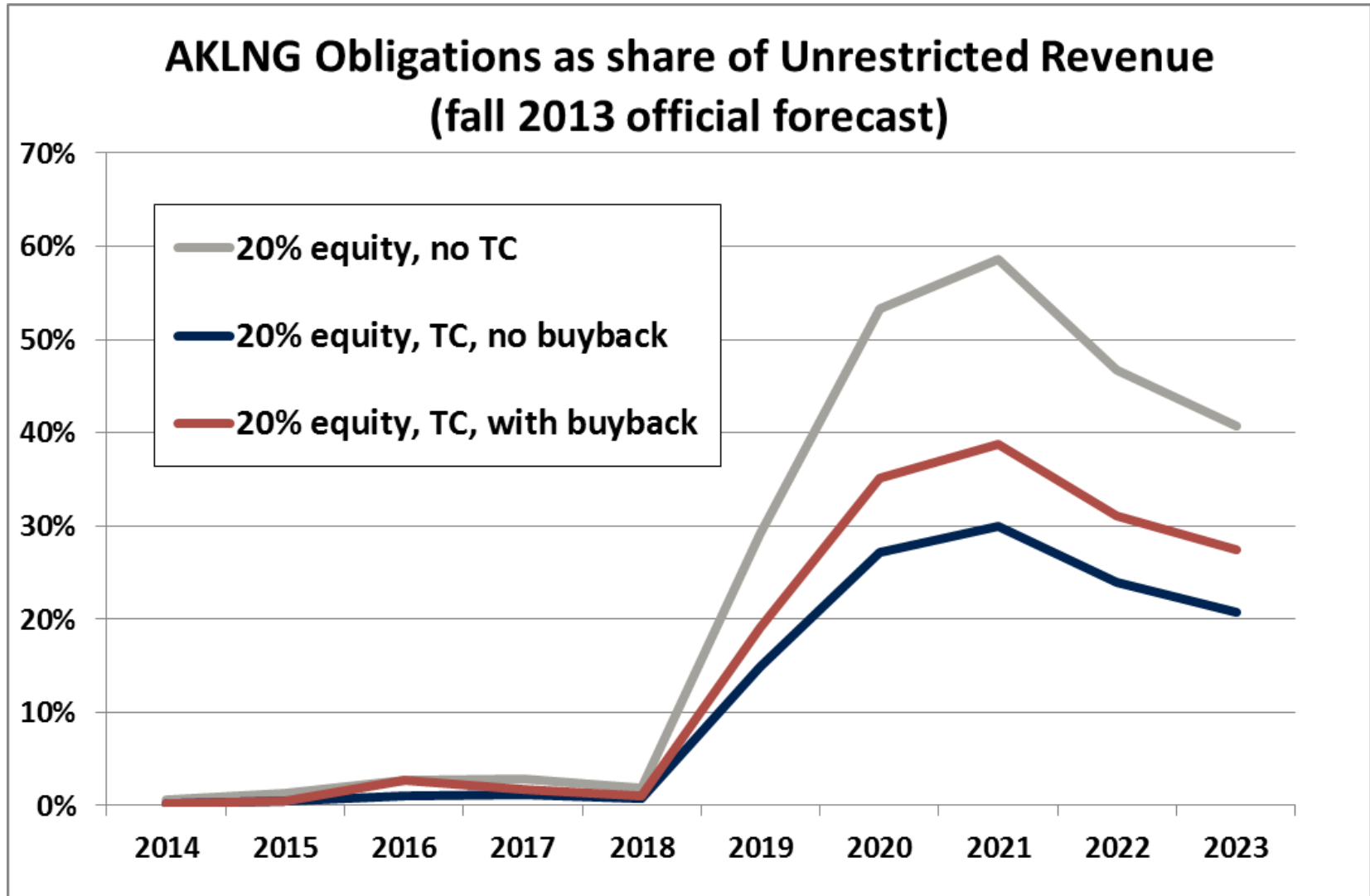
Source: Department of Revenue. Official forecast from Revenue Sources Book Fall 2013. Mid/high case uses a production assumption midway between the fall 2013 official “riskied” forecast, and an unrisked, independent technical assessment provided to the Department.

Revenue Forecast vs AKLNG Obligations



Source: Department of Revenue - Revenue Sources Book Fall 2013; Black and Veatch.

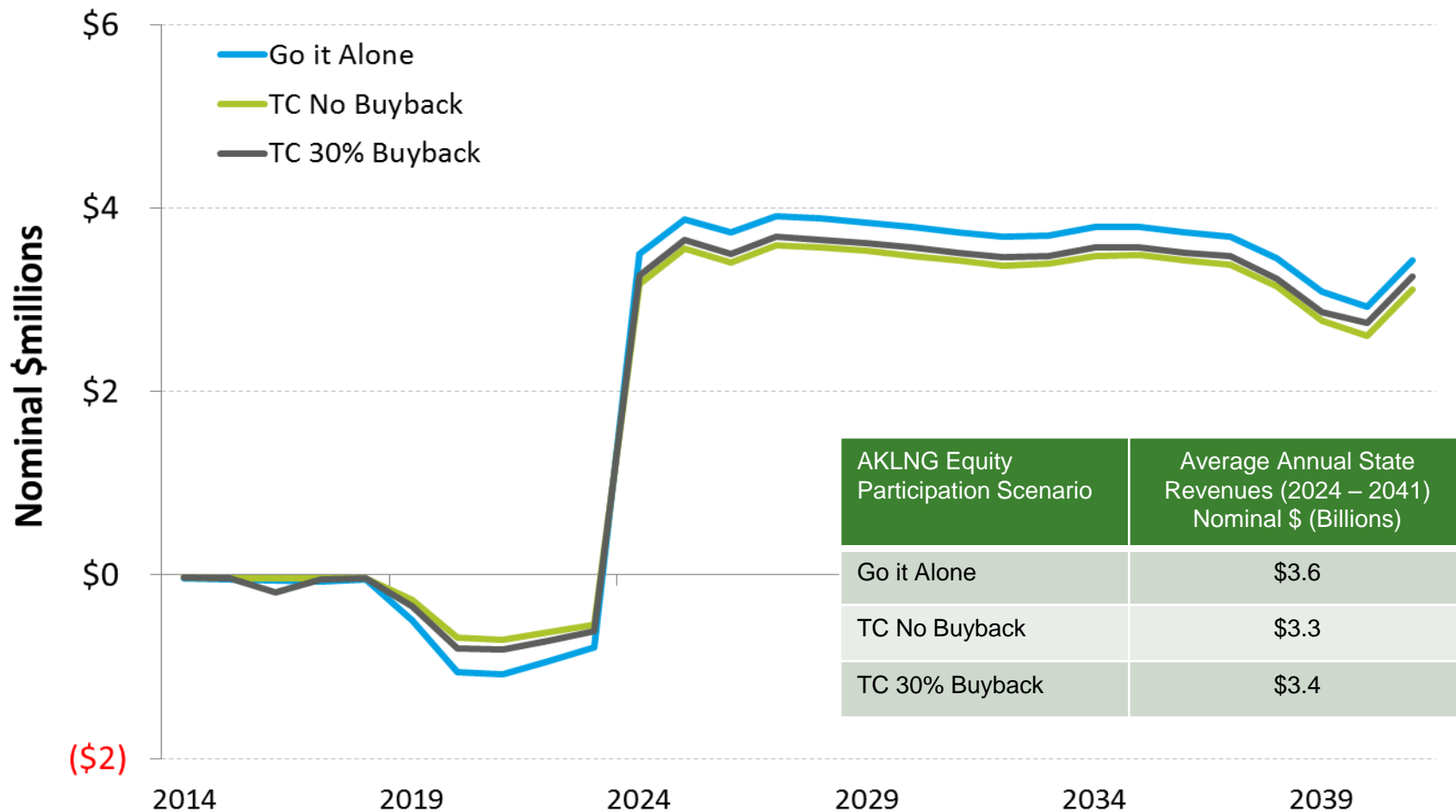
AKLNG Obligations vs. GFUR Forecast



Source: Department of Revenue - Revenue Sources Book Fall 2013; Black and Veatch.

AKLNG – Long term potential

20% Equity Alternative SOA Cash Flow Forecast



Source: Black and Veatch. Based on assumed 70%/30% financing split for debt/equity.

THANK YOU

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