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Nauman
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CS FOR HOUSE BILL NO. 230(L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES SEATON, Gara, Thompson, Kito III

A BILL

FOR AN ACT ENTITLED

1 **"An Act allowing the Alaska Industrial Development and Export Authority to issue**
 2 **bonds for an oil or gas processing facility; providing a tax credit for the construction or**
 3 **improvement of an oil or gas processing facility; and creating the oil and gas**
 4 **infrastructure fund to finance construction or improvement of an oil or gas processing**
 5 **facility."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
 8 to read:

9 FINDINGS. The legislature finds that

- 10 (1) it is in the long-term best interest of the state to increase oil production;
- 11 (2) small producers find it difficult to access existing oil and gas processing
- 12 facilities, which could be detrimental to the goal of increasing production;
- 13 (3) one small oil company has reached the point of oil production but, because

1 of the lack of available oil and gas facilities, is unable to process oil and ship the oil through
2 the Trans Alaska Pipeline System;

3 (4) near-term investment of \$200,000,000 in oil and gas processing facilities
4 would for allow new production from new fields to enter the Trans Alaska Pipeline System;

5 (5) the prohibition on the issuance of bonds of the Alaska Industrial
6 Development and Export Authority in an amount exceeding \$400,000,000 does not provide
7 flexibility for participation in project financing;

8 (6) removing that limit on bonding authority for processing facilities and other
9 infrastructure would allow small companies that do not have capital to finance oil and gas
10 processing facilities to move more oil from new fields;

11 (7) the Alaska Industrial Development and Export Authority has sufficient
12 expertise to control risk in the state's participation in oil and gas processing facilities; and

13 (8) participation by the Alaska Industrial Development and Export Authority
14 in a large oil or gas processing facility project over a 10-year period would bring more income
15 to the state than the typical short-term investment in the low-interest-rate environment.

16 * **Sec. 2.** AS 43.20.049(e)(3) is amended to read:

17 (3) "qualified oil and gas service industry expenditure"

18 (A) means an expenditure directly attributable to an in-state
19 manufacture or in-state modification of tangible personal property used in the
20 exploration for, development of, or production of oil or gas deposits;

21 (B) means an expenditure for the construction or
22 improvement of an oil or gas processing facility, flow lines, or other
23 infrastructure of the facility north of 68 degrees North latitude;

24 (C) [, BUT] does not include components or equipment used
25 for or in the process of that manufacturing or modification.

26 * **Sec. 3.** AS 43.20.049(e) is amended by adding a new paragraph to read:

27 (4) "oil or gas processing facility" has the meaning given in
28 AS 44.88.900.

29 * **Sec. 4.** AS 44.88.095(g) is amended to read:

30 (g) The authority may issue bonds in an amount greater than \$10,000,000 to
31 assist in the financing of an oil or gas processing facility under AS 44.88.168 or a

1 development project under AS 44.88.172 - 44.88.177 only if approved by law,
2 excluding refunding bonds. Refunding bonds may be issued without further approval
3 by law in a principal amount sufficient to provide funds for the payment of all bonds
4 to be refunded by them and, in addition, for the payment of all other amounts that the
5 authority considers appropriate in connection with the refunding, including expenses
6 incident to the redeeming, calling, retiring, or paying of the outstanding bonds, the
7 funding of reserves, and the issuance of the refunding bonds.

8 * **Sec. 5.** AS 44.88.140(a) is amended to read:

9 (a) Except as provided in AS 29.45.030(a)(1) and AS 44.88.168, the real and
10 personal property of the authority and its assets, income, and receipts are declared to
11 be the property of a political subdivision of the state and, together with any project or
12 development project financed under AS 44.88.155 - 44.88.159 or 44.88.172 -
13 44.88.177, and a leasehold interest created in a project or development project
14 financed under AS 44.88.155 - 44.88.159 or 44.88.172 - 44.88.177, devoted to an
15 essential public and governmental function and purpose, and the property, assets,
16 income, receipts, project, development project, and leasehold interests shall be exempt
17 from all taxes and special assessments of the state or a political subdivision of the
18 state, including, without limitation, all boroughs, cities, municipalities, school
19 districts, public utility districts, and other taxing units. All bonds of the authority are
20 declared to be issued by a political subdivision of the state and for an essential public
21 and governmental purpose and to be a public instrumentality, and the bonds, and the
22 interest on them, the income from them and the transfer of the bonds, and all assets,
23 income, and receipts pledged to pay or secure the payments of the bonds, or interest on
24 them, shall at all times be exempt from taxation by or under the authority of the state,
25 except for inheritance and estate taxes and taxes on transfers by or in contemplation of
26 death. Nothing in this section affects or limits an exemption from license fees,
27 property taxes, or excise, income, or any other taxes, provided under any other law,
28 nor does it create a tax exemption with respect to the interest of any business
29 enterprise or other person, other than the authority, in any property, assets, income,
30 receipts, project, development project, or lease whether or not financed under this
31 chapter. By January 10 of each year, the authority shall submit to the governor a report

1 describing the nature and extent of the tax exemption of the property, assets, income,
2 receipts, project, development project, and leasehold interests of the authority under
3 this section. The authority shall notify the legislature that the report is available.

4 * **Sec. 6.** AS 44.88 is amended by adding a new section to read:

5 **Sec. 44.88.168. Oil and gas infrastructure fund.** (a) The oil and gas
6 infrastructure fund is established in the authority. The oil and gas infrastructure fund
7 consists of money appropriated to the authority for deposit in the fund, and money
8 deposited in the fund by the authority. The fund is not an account in the revolving fund
9 established in AS 44.88.060, and the authority shall account for the fund separately
10 from the revolving fund. Money in the fund may be used to finance the construction
11 and improvement of an oil or gas processing facility on the North Slope and flow lines
12 and other surface infrastructure for the facility.

13 (b) Notwithstanding AS 44.88.140, the state or a political subdivision of the
14 state may levy a tax or special assessment on an oil or gas processing facility, flow
15 lines, and other surface infrastructure for the facility financed by the oil and gas
16 infrastructure fund.

17 (c) In this section, "North Slope" means that area of the state lying north of 68
18 degrees North latitude.

19 * **Sec. 7.** AS 44.88.900 is amended by adding a new paragraph to read:

20 (18) "oil or gas processing facility" means a project that is a facility
21 that separates and cleans crude oil or natural gas by separating impurities to make the
22 product suitable for transport through a pipeline or a facility that chemically converts
23 natural gas to a liquid form; "oil or gas processing facility" does not include a facility
24 that uses phase conversion of natural gas to liquid form.

25 * **Sec. 8.** The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 **LEGISLATIVE APPROVAL; NORTH SLOPE OIL OR GAS PROCESSING**
28 **FACILITY.** (a) The Alaska Industrial Development and Export Authority may issue bonds to
29 finance the construction and improvement of an oil or gas processing facility on the Alaska
30 North Slope and flow lines and other surface infrastructure for the facility. The principal
31 amount of the bonds provided by the authority for the facility, flow lines, and other surface

1 infrastructure may not exceed the sum of \$200,000,000 and the costs of funding reserves and
2 the costs of issuing the bonds that the authority considers reasonable and appropriate.

3 (b) The bonds authorized in this section may be

4 (1) issued as either bonds that are a general obligation of the authority or as
5 revenue bonds payable exclusively from the income and other money derived from the oil and
6 gas processing facility, as the authority considers appropriate;

7 (2) used to provide financing under another program of the authority.

8 (c) Notwithstanding AS 44.88.140 and AS 29.45.030(a), an oil or gas processing
9 facility, flow lines, and other surface infrastructure for the facility constructed or financed by
10 the oil and gas infrastructure fund (AS 44.88.168) are subject to taxes and special assessments
11 of the state or a political subdivision of the state.

12 (d) This section constitutes the legislative approval required by AS 44.88.095(g). The
13 bonds authorized in this section may not be considered in calculating the authority's 12-month
14 bonding limitation under AS 44.88.095(a).