

Status Review on Proposed Payments in Lieu of Property Tax

Senate Community & Regional Affairs

January 28, 2015

Randall J. Hoffbeck, Commissioner

Department of Revenue



Current Status of PILT Discussions

Tentative alignment reached with Producer Parties on:

1. Amount of Construction-related Payment in Lieu of Tax (CPILT) and
2. Structure and target amount for Operations-related Payment in Lieu of Tax (OPILT)

Overview

- Conceptual overview of CPILT
- Conceptual overview of OPILT
- OPILT calculation
- CPILT proposal

CPILT

- Total amount = \$800 million
 - 4:4ths
 - Expected pay out over 5-year construction period
- Annual payment amount, schedule, and allocation among State and impacted local jurisdictions yet to be determined

OPILT

- Target amount total = \$15.7 billion
 - Actual payment amount will vary as actual flow rate with five year averaging varies from project design flow
 - Calculated using MAGPRB recommended formula
 - Paid out over 25-year period
 - 4:4ths
 - Payment schedule incorporates 1% increase in payments each year, which is included in target amount
- Allocation among State and local jurisdictions yet to be determined

OPILT Methodology – Initial Formula

MAGP Board Recommendation (March 13, 2015)

$$\left[\text{Capital Cost} \times (1 + e)^m \times \frac{\text{Depreciation Factor}}{\left(\frac{\text{Actual Throughput}^n}{\text{Design Throughput}} \right)} \times \text{Mill Rate} \right]$$

MAGP Board Recommendation
(Formula Values)

n = exponent to dampen effect of actual flow
e = annual escalation rate
m = years of operation (startup = 0)

Capital Cost = FID estimate x 1.1
e = 4% per annum
Depreciation Factor based on 50 year floating life
Actual Throughput = 5 year floating average
n = 1
Mill Rate based on current statutes **for all Project assets including LNG Plant**

OPILT Methodology – Modified Formula

SB 100 Recommendation

$$\left[\text{Original Cost} \times \text{Inflation Factor} \times \text{Depreciation Factor} \times \left(\frac{\text{Actual Throughput}}{\text{Design Throughput}} \right) \times 20 \text{ Mills} \right]$$

Original Cost = Fixed by **pre-FID** project specific data/fiscal agreement

Inflation Factor = Fixed by fiscal agreement

Depreciation Factor = Fixed by fiscal agreement

Actual Throughput = Operational measurable

Design Throughput = Fixed by **pre-FID** project specific data

Mill Rate = Fixed by statute, **with total take adjusted by fiscal agreement**

OPILT Methodology – Current Formula

Tentative Alignment

$$\left(\text{Original Cost} \times \text{Escalation Factor} \times \text{Depreciation Factor} \times \left(\frac{\text{Actual Throughput}}{\text{Design Throughput}} \right) \times \text{Blended Mill Rate} \right)$$

Original Cost = \$55 billion

Escalation Factor = 2.5% (3.25% inflation - .75% obsolescence)

Depreciation Factor = 30 year modified floating/fixed life

Actual Throughput = Operational measurable (5 year rolling average)

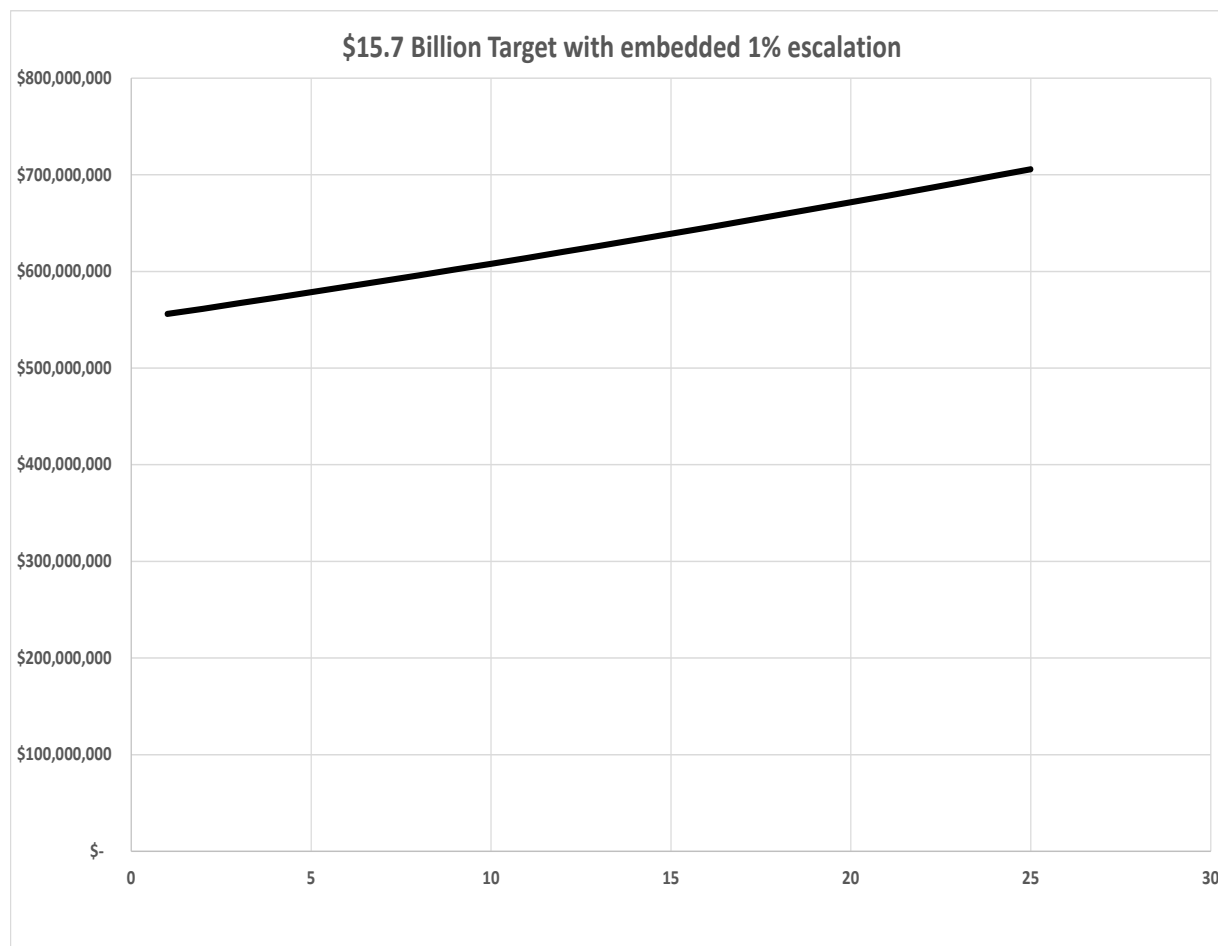
Design Throughput = To Be Determined

Mill Rate = 13.75 Mills (20 mills GTP, 20 mills pipeline, 7.5 mills LNG*)

\$15.7 billion

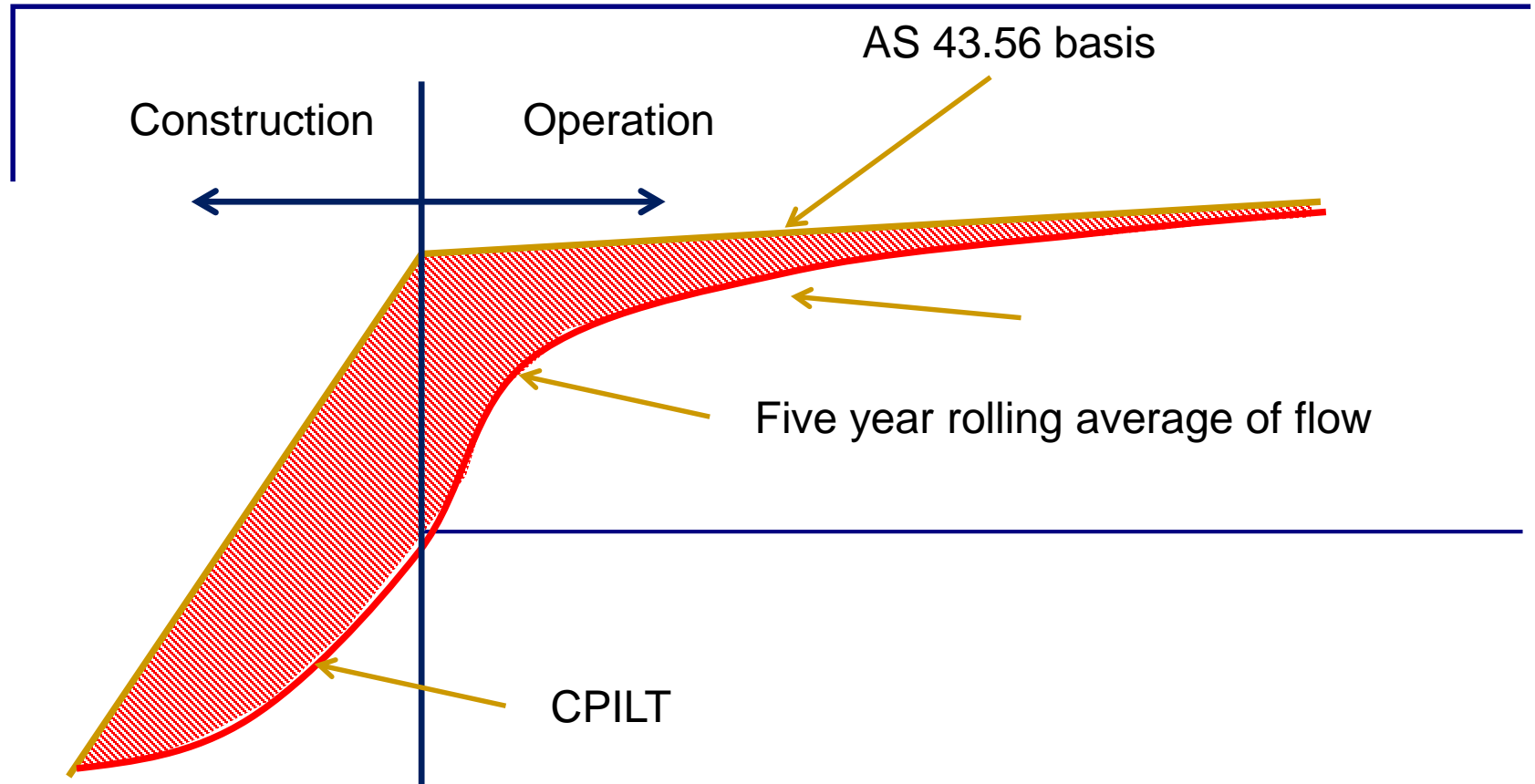
OPILT Target Payments (millions)*

Year 1	\$	556
Year 2	\$	562
Year 3	\$	567
Year 4	\$	573
Year 5	\$	578
Year 6	\$	584
Year 7	\$	590
Year 8	\$	596
Year 9	\$	602
Year 10	\$	608
Year 11	\$	614
Year 12	\$	620
Year 13	\$	626
Year 14	\$	633
Year 15	\$	639
Year 16	\$	645
Year 17	\$	652
Year 18	\$	658
Year 19	\$	665
Year 20	\$	672
Year 21	\$	678
Year 22	\$	685
Year 23	\$	692
Year 24	\$	699
Year 25	\$	706
Target	\$	15,700



*Actual payment amount will vary as actual flow rate with 5 year averaging varies from project design flow

Conceptual Project Benefits from PILT Target Payments



Schematic, not to scale

OPILT Target Payment Components yet to be Determined

- Volume and timing for setting design rate
- Flow rate measurement based on Mcf (thousands of cubic feet) or mmbtu (millions of British Thermal Units)
- Measurement location taken at each component (GTP, Pipeline, LNG) individually or one location for entire project
- Measurement taken at the inlet or the outlet of project components

Next Steps for MAGPRB

- Provide recommendations on proposed structure and target amounts
 - CPILT
 - OPLT
 - Provide recommendations on allocation and disbursement of payments among State and local jurisdictions
 - Drafting 2015 MAGPRB Annual Report
 - Recommendations on legislation
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