

**ALASKA STATE LEGISLATURE**  
**SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

February 9, 2012

3:35 p.m.

**MEMBERS PRESENT**

Senator Donald Olson, Chair  
Senator Albert Kookesh  
Senator Linda Menard  
Senator Johnny Ellis

**MEMBERS ABSENT**

Senator Thomas Wagoner

**COMMITTEE CALENDAR**

SENATE BILL NO. 148

"An Act exempting a gas pipeline with a design capacity of 500,000,000 or more cubic feet of gas a day from the state's oil and gas exploration, production, and pipeline transportation property taxes until the pipeline generates revenue for its owners; and relating to the determination of full and true value for the purpose of determining the amount of required local contribution for public school funding."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 148

SHORT TITLE: GAS PIPELINE PROPERTY TAX EXEMPTION

SPONSOR(S): SENATOR(S) WIELECHOWSKI, EGAN, ELLIS, FRENCH, DAVIS, KOOKESH

01/17/12	(S)	PREFILE RELEASED 1/13/12
01/17/12	(S)	READ THE FIRST TIME - REFERRALS
01/17/12	(S)	CRA, RES, FIN
02/09/12	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

SENATOR BILL WIELECHOWSKI  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Sponsor of SB 148.

MICHELLE SYDEMAN, Staff  
Senator Bill Wielechowski  
Alaska State Legislature  
Juneau, Alaska  
**POSITION STATEMENT:** Introduced SB 148.

STEVE VAN SANT, State Assessor  
Municipal and Regional Assistance Division  
Department of Community and Economic Development  
Anchorage, Alaska  
**POSITION STATEMENT:** Neutral on SB 148.

LARRY PERSILY, Federal Coordinator  
Alaska Natural Gas Transportation Projects  
Washington D.C.  
**POSITION STATEMENT:** Supports SB 148.

JIM GREELEY, State Petroleum Property Assessor  
Department of Revenue  
Anchorage, Alaska  
**POSITION STATEMENT:** Neutral on SB 148.

JOYCE LOFGREN, Economist  
Tax Division  
Department of Revenue  
Anchorage, Alaska  
**POSITION STATEMENT:** Neutral on SB 148.

BARBARA HUFF TUCKNESS, Director  
Governmental and Legislative Affairs  
General Teamsters Local 959  
Anchorage, Alaska  
**POSITION STATEMENT:** Supports SB 148.

DON ETHERIDGE, Lobbyist  
Alaska AFL-CIO  
Juneau, Alaska  
**POSITION STATEMENT:** Supports SB 148.

DON BULLOCK, Legislative Counsel  
Legislative Affairs Agency  
Juneau, Alaska  
**POSITION STATEMENT:** Provided legal perspective on SB 148.

#### **ACTION NARRATIVE**

[3:35:29 PM](#)

**CHAIR DONALD OLSON** called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:35 p.m. Present at the call to order were Senators Kookesh, Menard and Chair Olson.

**SB 148-GAS PIPELINE PROPERTY TAX EXEMPTION**

[3:35:39 PM](#)

CHAIR OLSON announced the consideration of SB 148.

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SENATOR BILL WIELECHOWSKI, sponsor of SB 148, said the bill would waive state property taxes during construction for a natural gas pipeline with a design capacity of 500 million cubic feet per day. He said companies involved in the project would save an estimated \$600 million while the state would recoup its tax abatement via lower tariffs.

SENATOR MENARD asked if the Department of Revenue (DOR) voiced concerns.

CHAIR OLSON asked about the fiscal note's status.

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MICHELLE SYDEMAN, Staff for Senator Wielechowski, Alaska State Legislature, Juneau, said the bill had three zero fiscal notes. She said DOR noted that state royalties could increase from higher valued gas via lowered tariffs.

SENATOR MENARD asked if the departments involved in a gas pipeline supported SB 148.

MS. SYDEMAN answered that she did not know. She said the bill would assist in the Governor's efforts to get a pipeline built for a possible Liquefied Natural Gas (LNG) facility for Asian markets.

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STEVE VAN SANT, State Assessor, Municipal and Regional Assistance Division, Department of Community and Economic Development, said the department had not taken a position on SB 148.

CHAIR OLSON asked why there was no fiscal note showing the loss of property tax revenue.

MR. VAN SANT said the Department of Community and Economic Development (DCCED) zero fiscal note would go through DOR. He noted that municipalities would be allowed to levy a local property tax.

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MS. SYDEMAN said SB 148 would not discriminate between pipeline projects. She noted that during the Alaska Gasline Inducement Act (AGIA), it was estimated that a \$500 million state investment would increase state revenues by \$1.2 billion. She said a large pipeline could bring in as much as \$66 billion in revenue and an instate bullet pipeline would generate \$10 billion. She said the revenues would be particularly important to the state as oil production continued to decline.

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She said a large pipeline would create 10,000 construction jobs with \$6 billion generated from instate spending. She said an instate pipeline would create 9,500 construction jobs with another 50 to 75 workers being employed on an ongoing basis.

She said a gas pipeline would provide a stable supply of affordable energy to Interior and Southcentral. She said a pipeline would provide the impetus for additional oil and gas development.

She said congress had provided a variety of incentives to build a pipeline via \$21 billion in loan guarantees, accelerated pipeline tax depreciation and a tax credit for a \$12 billion gas treatment facility in Prudhoe Bay.

[3:47:05 PM](#)

MS. SYDEMAN said the state could provide additional incentives with direct subsidies, loans, equity investment, lowering or deferring production taxes and financing cost overruns.

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She said waiving state property taxes was a first step to make a project more economical. She said the risk-free plan was straightforward and signaled the state's willingness to participate in the project.

CHAIR OLSON commented that deferred property tax was a good idea. He asked why tax abatements were not implemented in the past and was the idea thought of during the AGIA debate.

SENATOR WIELECHOWSKI answered that a similar proposal was presented in the Alaska Stranded Gas Development Act (ASGD), but waiving municipal taxes was also included. He said no money would be lost if a pipeline did not get built. He said giving something to make the economics better would lead to significant revenues coming into the state.

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CHAIR OLSON asked about other gas pipeline inducements and what effect SB 148 would have.

SENATOR WIELECHOWSKI answered that he did not know. He said he did not think there was interplay with other incentives.

CHAIR OLSON asked about the influence on new borough formation.

SENATOR WIELECHOWSKI said new boroughs were specifically exempted and would not be impacted.

CHAIR OLSON asked if communities in the Unorganized Borough would be able to assess taxes.

SENATOR WIELECHOWSKI answered that communities formed with taxing authority would be able to tax.

SENATOR MENARD asked about grandfather rights for newly formed boroughs.

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MS. SYDEMAN responded that boroughs organizing in the future would be able to develop a taxing authority.

SENATOR MENARD responded that there could be potential problems if a pipeline developer committed and property taxes changed.

MS. SYDEMAN answered that pipeline companies would expect the possible formation of new boroughs with taxing authority.

SENATOR MENARD commented that new boroughs should be grandfathered and not be allowed to collect taxes.

SENATOR WIELECHOWSKI responded that allowing new boroughs to assess taxes would be addressed with Legal Services.

SENATOR MENARD commented that much of that land was privately owned and asked what protects the industry from someone turning their land into a borough.

SENATOR WIELECHOWSKI answered that private property owners would be able to receive a property tax.

3:58:00 PM

SENATOR KOOKESH responded that he disagreed with the last statement and said people have the right to form a borough.

SENATOR MENARD responded that she supported boroughs too. She said her intent was to require formation prior to project development.

CHAIR OLSON asked if there was a time limit or sunset date for a property tax holiday. He said he was concerned about stretching out the construction period for continued tax exemptions.

SENATOR WIELECHOWSKI replied that there is no time limit and was worth considering.

SENATOR KOOKESH commented that he did not understand the need to add a sunset clause. He said companies building pipelines were motivated to generate income rather than continue to receive a tax break.

SENATOR WIELECHOWSKI answered that he agreed.

CHAIR OLSON stated that proposing a sunset date would be intended to move a project along.

SENATOR KOOKESH commented that he did not read that intent in the bill.

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LARRY PERSILY, Federal Coordinator, Alaska Natural Gas Transportation Projects, said the legislature must look at all options to improve the odds of getting a natural gas pipeline, provide energy for Alaskans and attract billions of dollars of new investment.

He said the competition was very fierce to attract the billions of investment needed for a gas project. He said there was over \$250 billion in LNG export projects under development around the world today. He said shale gas has filled the North American

market and presented extremely tough price competition for any new supplies from Alaska.

4:02:05 PM

SENATOR ELLIS arrived.

CHAIR OLSON asked what the chance of success was by offering property tax abatements. He asked if \$600 million in property tax savings should be increased or decreased.

4:04:02 PM

MR. PERSILY answered that a property tax incentive by itself would not be enough to attract a gas pipeline. He said property tax abatement was one piece of a fiscal structure for a price competitive project.

CHAIR OLSON asked to clarify that the tax incentive amount does not necessarily make or break a possible deal.

MR. PERSILY answered that the number would be determined by the size of the project.

4:06:51 PM

JIM GREELEY, State Petroleum Property Assessor, Alaska Department of Revenue, Anchorage, said he was available to answer questions.

JOYCE LOFGREN, Economist, Tax Division, Alaska Department of Revenue, said she was available to answer questions.

CHAIR OLSON asked what properties were going to be taxable.

MR. GREELEY answered that the bill did not specify any terminals or plants. He said all of the costs associated with a pipeline's installation would be taxable.

4:08:27 PM

BARBARA HUFF TUCKNESS, Director, Governmental and Legislative Affairs, General Teamsters Local 959, said any encouragement or incentive to create new jobs would be a good thing.

4:10:56 PM

DON ETHERIDGE, Lobbyist, Alaska AFL-CIO, said the bill would be a step towards creating jobs for a lot of Alaskans. He said the long run outcome far outweighed the cost of not charging property taxes. He said inexpensive natural gas could spur industries to move into the state.

[4:12:30 PM](#)

CHAIR OLSON asked if Alaskan manpower would be ready to build a specialized pipeline.

MR. ETHERIDGE answered that continual training occurred in Fairbanks. He said it was doubtful that enough trained individuals would be available to meet the demand for 10,000 workers. He said training would continue to get as many Alaskans ready to work.

CHAIR OLSON asked if there was adequate training funding from the state.

[4:14:07 PM](#)

MR. ETHERIDGE said reduced federal funding for training would require additional funds from the state.

SENATOR MENARD asked how many trainees had left for jobs in other states.

MR. ETHERIDGE answered that he did not know.

CHAIR OLSON asked how municipalities would be affected.

MR. GREELEY answered that municipalities would not be affected.

[4:17:09 PM](#)

At ease from 4:17:09 p.m. to 4:17:30 p.m.

[4:17:30 PM](#)

CHAIR OLSON asked Mr. Bullock to explain the two amendments in the bill packet.

[4:17:50 PM](#)

DON BULLOCK, Legislative Counsel, Legislative Affairs Agency, said the first amendment, 27-LS0990\M.2, clarified that DOR would continue property assessment for municipalities to assess uniform rates.

He said the first part of the second amendment, 27-LS0990\M.3, amended the title about certain gases of 500 million cubic feet or more in a pipeline as the trigger for allowing the property tax exemption. He said the second part of the amendment required that North Slope gas be transported south of 68 degrees north latitude.

[4:20:04 PM](#)

MR. BULLOCK said property tax suspension was used during the construction of the Trans Alaska Pipeline System (TAPS).

CHAIR OLSON asked what the suspended tax was for TAPS.

MR. BULLOCK answered that he did not know.

SENATOR MENARD asked if the same tax holiday was used for TAPS.

MR. BULLOCK answered no. He said the circumstances were completely different for TAPS. He said the current bill incentivizes the gas pipeline prior to development.

[4:22:47 PM](#)

MS. SYDEMAN said the two proposed amendments were important to make sure that the exemption did not apply to lines solely from one facility in the North Slope to another. She said the other amendment was to assure that there would be a single way of assessing the value of the pipeline so each municipality did not have a different methodology.

CHAIR OLSON asked if there were any letters from boroughs affected by the proposed pipeline.

MS. SYDEMAN answered no. She said she expected letters of support after the municipality and borough tax clarification.

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CHAIR OLSON said SB 148 would be held in committee.

[4:24:20 PM](#)

There being no further business to come before the committee, Chair Olson adjourned the Senate Community and Regional Affairs Standing Committee at 4:24 p.m.