

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 14, 2015

3:30 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Bert Stedman, Vice Chair
Senator Lyman Hoffman
Senator Dennis Egan

MEMBERS ABSENT

Senator Anna MacKinnon

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 75(JUD) AM

"An Act relating to the registration of marijuana establishments by municipalities; relating to the definition of 'marijuana'; clarifying standards for personal use of marijuana by persons 21 years of age or older; prohibiting the public consumption of marijuana; authorizing the registration of marijuana clubs; relating to established villages and to local option elections regarding the operation of marijuana establishments; and providing for an effective date."

- MOVED SCS CSHB 75(CRA) OUT OF COMMITTEE

SENATE BILL NO. 100

"An Act relating to the assessment of property for oil and gas exploration, production, and pipeline transportation property tax on a North Slope natural gas project; amending the definition of "taxable property"; adding a definition for "North Slope natural gas project"; and making conforming amendments."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 75

SHORT TITLE: MARIJUANA REG; CLUBS; MUNIS; LOCAL OPT ELECT

SPONSOR(s): COMMUNITY & REGIONAL AFFAIRS

01/23/15 (H) READ THE FIRST TIME - REFERRALS

01/23/15 (H) CRA, JUD
 02/21/15 (H) CRA AT 10:00 AM BARNES 124
 02/21/15 (H) -- MEETING CANCELED --
 02/24/15 (H) CRA AT 8:00 AM BARNES 124
 02/24/15 (H) Heard & Held
 02/24/15 (H) MINUTE(CRA)
 03/03/15 (H) CRA AT 8:00 AM BARNES 124
 03/03/15 (H) Moved CSHB 75(CRA) Out of Committee
 03/03/15 (H) MINUTE(CRA)
 03/05/15 (H) CRA AT 8:00 AM BARNES 124
 03/05/15 (H) Moved CSHB 75(CRA) Out of Committee
 03/05/15 (H) MINUTE(CRA)
 03/06/15 (H) CRA RPT CS(CRA) NT 3DP 3NR
 03/06/15 (H) DP: NAGEAK, SEATON, TILTON
 03/06/15 (H) NR: DRUMMOND, REINBOLD, HUGHES
 03/11/15 (H) JUD AT 1:00 PM CAPITOL 120
 03/11/15 (H) Heard & Held
 03/11/15 (H) MINUTE(JUD)
 03/18/15 (H) JUD AT 1:00 PM CAPITOL 120
 03/18/15 (H) <Bill Hearing Canceled>
 03/25/15 (H) JUD AT 1:00 PM CAPITOL 120
 03/25/15 (H) <Bill Hearing Canceled>
 03/27/15 (H) JUD AT 1:00 PM CAPITOL 120
 03/27/15 (H) Moved CSHB 75(JUD) Out of Committee
 03/27/15 (H) MINUTE(JUD)
 03/30/15 (H) JUD RPT CS(JUD) NT 1DP 3NR 3AM
 03/30/15 (H) DP: LEDOUX
 03/30/15 (H) NR: MILLETT, CLAMAN, FOSTER
 03/30/15 (H) AM: LYNN, KELLER, GRUENBERG
 04/02/15 (H) TRANSMITTED TO (S)
 04/02/15 (H) VERSION: CSHB 75(JUD) AM
 04/03/15 (S) READ THE FIRST TIME - REFERRALS
 04/03/15 (S) CRA, JUD
 04/07/15 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
 04/07/15 (S) Heard & Held
 04/07/15 (S) MINUTE(CRA)
 04/14/15 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

BILL: SB 100

SHORT TITLE: NORTH SLOPE GAS PROJ PROP TAX; ASSESSMENT
 SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

04/07/15 (S) READ THE FIRST TIME - REFERRALS
 04/07/15 (S) CRA, RES, FIN
 04/14/15 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

HEATH HILYARD, Staff
Representative Cathy Tilton
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Reviewed the provisions of HB 75.

RANDALL HOFFBECK, Commissioner
Alaska Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Introduced SB 100 on behalf of the administration.

ACTION NARRATIVE

[3:30:53 PM](#)

CHAIR CLICK BISHOP called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Stedman, Hoffman, and Chair Bishop.

HB 75-MARIJUANA REG; CLUBS; MUNIS; LOCAL OPT ELECT

[3:31:58 PM](#)

CHAIR BISHOP announced the consideration of HB 75.

[3:32:16 PM](#)

HEATH HILYARD, Staff, Representative Cathy Tilton, Alaska State Legislature, Juneau, Alaska, reminded the committee that during the previous hearing he reviewed the sectional analysis and discussed the substantive and non-substantive provisions of HB 75. He explained that the changes in the current version include a household plant limit, the establishment of marijuana clubs, the list of establishments that can be licensed, and the protest and review process for municipalities pertaining to registering marijuana establishments that is modeled on Title 4. He noted that one of the established village local option provisions is significant.

[3:32:30 PM](#)

SENATOR EGAN joined the committee meeting.

SENATOR HOFFMAN announced that he would speak to the local option provision for villages.

[3:34:06 PM](#)

At ease.

[3:35:45 PM](#)

CHAIR BISHOP called the committee back to order. He announced that the bill has an amendment.

[3:35:56 PM](#)

SENATOR HOFFMAN moved Amendment 1, labeled 29-LS0345\U.A.6 as follows:

AMENDMENT 1

OFFERED IN THE SENATE BY SENATOR HOFFMAN
TO: CSHB 75(JUD) am

Page 1, lines 4-6:

Delete relating to established villages and to local option elections regarding the operation of marijuana establishments;

Page 5, lines 29 - 31:

Delete "**An established village may prohibit the operation of marijuana establishments by voter initiative as provided in AS 17.38.200.**"

Page 8, line 5, through page 10, line 20:

Delete all material.

ReNUMBER the following bill sections accordingly.

SENATOR HOFFMAN detailed that the amendment leaves the village issue neutral and takes out the reference to local options. He pointed out that the local option could be addressed at a later time either in another committee, on the floor, or in a conference committee in a previous piece of legislation that has passed the Senate.

[3:36:43 PM](#)

CHAIR BISHOP removed his objection and announced that without further objection, Amendment 1 is adopted. He asked if Mr. Hilyard had any comments on the impact of Amendment 1.

MR. HILYARD commented that Amendment 1 simply makes the bill consistent with what was passed in the initiative. He detailed

that the initiative was silent on the local option for established villages.

SENATOR HOFFMAN pointed out that the initiative did not address what happened in unorganized areas of the state and primarily addressed organized areas of the state. He remarked that the initiative was neutral on the issue and what happens in unorganized areas of state can be addressed at a later time.

[3:38:14 PM](#)

CHAIR BISHOP announced that public testimony is closed.

[3:38:24 PM](#)

SENATOR STEDMAN moved to report [SCS CSHB 75(CRA), version 29-LS0345\Q], as amended from committee with individual recommendations and attached fiscal note(s).

[3:38:44 PM](#)

CHAIR BISHOP stated that without objection, [SCS CSHB 75(CRA)] is reported from the Senate Community and Regional Affairs Standing Committee.

[3:38:51 PM](#)

At ease.

SB 100-NORTH SLOPE GAS PROJ PROP TAX; ASSESSMENT

[3:40:38 PM](#)

CHAIR BISHOP called the committee back to order and announced the consideration of SB 100.

[3:40:55 PM](#)

RANDALL HOFFBECK, Commissioner, Department of Revenue (DOR), Juneau, Alaska, explained that three components need to be considered to establish a property tax structure or Payment in Lieu of Taxes (PILT) for the Alaska Liquefied Natural Gas (AKLNG) Project as follows:

1. Impact payments during construction.
2. Durable and predictable property tax structure that would last through the duration of the fiscal commercial contracts on the pipeline.
3. How the total take that would come from the property tax structure would be distributed between various government entities between the state and local jurisdictions.

COMMISSIONER HOFFBECK specified that SB 100 primarily focuses on the second point, the property tax structure during the operation of the pipeline project.

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He revealed that before the new administration came onboard, the past administration had established a Municipal Advisory Gas Project Review Board (MAGP Board) to make recommendations for a property tax structure on the AKLNG Project. He said the MAGP Board had met multiple times and produced a report that was submitted to the governor at the end of the last administration. He disclosed that several property tax structure components were presented from the report that would be important in creating a lasting program as follows:

- Fair and equitable to all stakeholders, municipalities, the state, and the producers.
- Clarity in order to avoid litigation that surrounded the Trans-Alaska Pipeline System (TAPS).
- Robust and durable, something that would last through the initial commercial agreements' life.
- Unambiguous so that the property tax structure would not be subject to judgement and interpretation.
- Commercially sound so that the pipeline can compete in the global market.

[3:44:20 PM](#)

He stated that the producers' feedback was that simpler was better regarding a property tax structure. He detailed the producers' property tax preferences as follows:

- Fewest barriers as possible within the tax calculation.
- Tax law that had more general application, but still met their project expectations and was acceptable to the municipalities.
- Taxes tied directly to the amount of gas flowing through the pipeline, something that was measurable and simple, either in cents per Million Cubic Feet (MCF) or cents per Million British Thermal Units (MMBTU).

COMMISSIONER HOFFBECK said input from MAGP Board and the producers was used by the department to create a formula that could meet the objectives that were presented as follows:

Actual cost times a throughput adjustment, which was actual flow divided by the design flow, it did have an exponential adjustment due to the non-linear relationship between the cost of building the pipeline versus the amount that the pipeline can carry, times the indexed inflation rate, times 20 mills, then times an adjustment factor that could be used to turn the value up or down in order to meet the economic conditions of the pipeline to make the pipeline economic.

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He noted that the feedback from the producers included commentary on the mill rate and capital cost. He said the producers pointed out that the proposed gas liquefaction plant in Nikiski is statutorily excluded from the 20 mill rate and should be assessed at whatever the local mill rate is.

He added that the producers addressed the capital cost where originally the structure was looking at the cost at the completion of the construction; however, the producers thought it would be more beneficial if the project's cost could be based on the estimated costs at the Final Investment Decision (FID). He detailed that using the estimated cost at FID would allow for the economics of the property tax to be predicted while the economics of the pipeline itself was being computed, that way the project did not have to be complete in order to figure out what the total take from the property tax would be.

[3:48:17 PM](#)

He said the producers addressed depreciation and obsolescence and looked more at the idea of a fixed component for depreciation as well as inflation. He explained that the producers preferred to have an adjustment agreement on inflation and depreciation that is negotiated within the fiscal package rather than having calculated components.

He added that producers remarked about the flow adjustment calculation that used an exponent that made the formula overly complicated. He said the producers felt that the exponent was an unnecessarily arbitrary variable and the formula was robust enough to deal with the economics without having to add an adjustment factor at the end.

COMMISSIONER HOFFBECK disclosed that the input from the producers was shared with MAGP Board and the formula was adjusted as follows:

Capital cost times an inflation component, which is just one times whatever the inflation rate would be to the number of years, times the depreciation factor, times the actual throughput over the design throughput, times the mill rate.

He noted that the exponent would be left in with the throughput calculation, but the MAGP Board set the exponent at one. He detailed that setting the exponent at one rendered the calculation meaningless, but MAGP Board thought the exponent was important to leave. He added that the mill rate would be whatever the statutory rate was for the various components of the pipeline.

He disclosed that MAGP Board agreed to use the FID for capital costs, but asked that a 10 percent uplift be applied due to the uncertainty of cost overruns. He added that MAGP Board recommended using a 4 percent inflation rate and a 50 year floating-life for the depreciation factor in order that the depreciation would never take the value of the pipeline to 0. He detailed that the throughputs would be done on a 5-year floating average in order to take away any large swings that might come from unanticipated disruptions that are not reservoir related.

CHAIR BISHOP asked to confirm that the producers' concerns were presented to MAGP Board and the board wanted to uplift FID by 10 percent.

COMMISSIONER HOFFBECK answered yes.

[3:50:36 PM](#)

He detailed that the feedback from the producers was that the 20 mill rate could be accommodated through other adjustments in the formula, but their preference was that the gas liquefaction plant be treated as a locally assessed asset at the lower local mill rate. He detailed that the producers felt that having an uplift on the capital costs would just exasperate any economic issues that would be associated with cost overruns. He said the producers asserted that cost overruns were already creating economic difficulties for the project and increasing the property taxes based on the overrun would make it worse by introducing uncertainty. He reiterated that the producers

preferred a fixed depreciation and obsolescence component and asked that an inflation escalation slope be considered with a lower initial property tax to provide economic benefits on the front end.

COMMISSIONER HOFFBECK pointed out that using impact payments during construction lowers the burden from property taxes going in. He added that using a 5-year average could take as much as 8 years before the property would be at its full value, depending on how quickly all of the throughput is brought up to full capacity, but the lower burden formula eventually crosses over the standard property tax regime's projection where inflation would increase the value. He asserted that there would be some opportunities on the out-years for the municipalities to benefit and using the time-value of money at different discount rates between industry, local, and state would provide an opportunity for both parties.

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He set forth that the final formula that is embedded within the draft language as follows:

Original cost, times an inflation factor, times a depreciation factor, times the actual throughput, divided by design throughput with no exponent, times 20 mills.

He asserted that the formula's beauty is that the original cost would be fixed by the project, either by estimates or actual cost. He detailed that the inflation factor would be fixed within the fiscal agreements as would be the depreciation factor. He added that the actual throughput would be a measurable annual number and would not be subjective, design throughput would be fixed by project specific data, and the mill rate would be fixed by statute. He summarized that the final formula's simple and straight forward approach gets away from all of the variables that have plagued the TAPS value.

SENATOR STEDMAN asked to confirm that the inflation rate would be set at 4 percent.

COMMISSIONER HOFFBECK replied that MAGP Board decided on 4 percent, but the number is certainly not locked down and will be negotiated as part of the commercial agreement. He noted that he had asked MAGP Board to review inflation over the past decades and the actual inflation rate was a little less than 3 percent.

CHAIR BISHOP asked that Commissioner Hoffbeck walk through the bill.

[3:56:00 PM](#)

COMMISSIONER HOFFBECK addressed the bill's sections as follows:

- Section 1, simply breaks out the gas line as a separate asset within the AS 43.56 tax statutes.
- Section 2, amends AS 43.56.060(e) in the pipeline section to add the conforming reference to exempt property exclusively used for North Slope natural gas project and move it to subsection (h).
- Section 3, is the actual subsection (h). There are two parts, the first sentence is more or less a placeholder for impact payments. When first drafted, there was no statement as to what happened during construction and we felt that could create some confusion that the language exempted the project from any kind of tax payments during construction, so the sentence was added that says the full and true value will be calculated each January 1 with the intent that the language will eventually be replaced with a schedule of impact payments versus the generic statement. The second sentence is a narrative description of the formula which is simply the original cost adjusted for inflation, reduced by an annual allowance for depreciation, and the remaining is subject to a throughput factor.

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He addressed Section 4 as follows:

- Section 4 amends the statutory language for a taxable property. The "bolded" and underlined portion brings the gas liquefaction plant itself under AS 43.56 statutes rather than leaving it under the local assessment statutes.

He explained AS 43.56 as follows:

The way AS 43.56 works is it is a flat 20-mill levy, 2-percent levy, against the value of oil and gas property within the State of Alaska, that's assessed by the state. Local jurisdictions can assess oil and gas property as well using whatever mill rate they

charge every other property within their jurisdiction. What the oil and gas companies pay the local jurisdictions is then used as a credit against the 20 mill levy that they pay the state.

COMMISSIONER HOFFBECK summarized that the language in Section 4 takes the gas liquefaction plant out of the lower taxing structure of the local assessment and moves it into the 20 mill levy in the oil and gas assessment. He disclosed that the producers saw the 20-mill levy on the gas liquefaction plant as an extra burden that the project has to carry because the levy raises their tax burden. He said the department recognizes that the levy will have to be compensated for within other parts of the formula or within other economics of the project because the intent is not to raise the tax burden on the producers. He asserted that at some point the distribution of revenues between local jurisdictions and the state must be determined.

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He offered an example of government revenues distribution between entities as follows:

Let's just say that the state chose to say that 50 percent of all revenues off of the property tax will flow to the state before there is any allocations to the municipalities. If everybody is under the same taxing authority, everybody is under that same 20 mills. That's a relatively easy process where the state takes the 10 mills off of the top and everybody calculates the remainder below; but, if Kenai is only locally assessed and there is no state levy, now you get into the position of how does the state go in and dictate to Kenai that their local assessment has to be reduced by x-number because we are taking a certain percentage of the value of the AKLNG property, it really would require putting constraints on local taxing authority which has multiple effects not the least of which is how they can bond, so by moving it over, everything is under the 20 mill, we can get away with having to constrain local taxing authorities.

SENATOR EGAN asked if the state gets anything if a municipality taxes at 20 mills.

COMMISSIONER HOFFBECK answered that under the current property tax regime, the state would get nothing. He noted that Valdez had taxed TAPS for years at 20 mills.

SENATOR EGAN asked to verify that the same situation would occur under the new proposal.

COMMISSIONER HOFFBECK answered that there is nothing in the new proposal that changes the scenario that Senator Egan described. He admitted that the department is contemplating going back to the municipalities to have a difficult discussion on determining how much property tax revenue will flow locally and how much is going to flow to the state. He pointed out that the revenue distribution is not a project issue, the project is concerned with the total amount. He said in negotiating the fiscals for the project, the producers just need to know the total tax amount and they do not care how the revenues are going to be distributed around the state. He remarked that the distribution of revenues really is a discussion between the state and the local jurisdictions. He summarized that intent in crafting the language was to make sure that process was not made more difficult and that is why it was all moved under one standard taxing authority.

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SENATOR STEDMAN asked for a rough estimation on the cost for the gas liquefaction plant.

COMMISSIONER HOFFBECK answered approximately \$25 billion.

SENATOR STEDMAN asked what the property tax would be for the \$25 billion plant.

COMMISSIONER HOFFBECK answered \$500 million.

SENATOR STEDMAN asked if there are readjustments, escape clauses, or negotiating clauses if economic changes happens in the future that disadvantages the industry or state.

COMMISSIONER HOFFBECK answered that statutes can be changed, but the larger question pertains to how the exactly the commercial agreements are going to be finalized and whether there will be constitutional provisions or contractual agreements.

SENATOR STEDMAN asked to verify that the gas liquefaction plant's dollar amount includes the dock and everything at the site.

COMMISSIONER HOFFBECK answered correct.

SENATOR STEDMAN asked if the LNG ships were outside of the taxing authority.

COMMISSIONER HOFFBECK answered yes.

CHAIR BISHOP asked to verify that the \$500 million is an annual amount.

COMMISSIONER HOFFBECK answered correct. He explained that the formula is fairly open ended to take into account the \$1 billion per year on property taxes on a \$50 billion project, an amount that is a lot for the project to bear. He specified that rather than locking in the \$1 billion tax and making everything else work, the thought was having some flexibility in the fiscal negotiations was more prudent.

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SENATOR STEDMAN noted that Sitka was a 1-mill town for decades and the millage rate was 3 mills. He asserted that the mill's property tax rate worked very well for both the industry and community. He asked what the magic was in 20 mills and how was the number chosen.

COMMISSIONER HOFFBECK surmised that the 20 mill rate was based on oil and gas legislation in the 1970s.

CHAIR BISHOP opined that everything was on the table because SB 100 was having its first hearing in the committee. He pointed out that the committee is dealing with gas rather than oil from 40 years in the past. He asserted that there is a difference in value, so all things are on the table.

SENATOR STEDMAN remarked that he does not understand why some millage rate from 30 to 50 years ago is locked in on. He pointed out that the millage rate and formula can be changed to come out with the same numeric, but opined that the 20 mill rate seems extremely high.

COMMISSIONER HOFFBECK noted that he was an assessor and 20 mills is kind of a breaking point where taxpayers won't allow it to go

any higher. He pointed out that the only real concerns within the existing property tax laws is that everybody has to be taxed at the same rate. He opined that care should be taken to not create a threshold that is lower than the local mill rates where people start feeling like the big industrial property was not paying the same rate as everybody else.

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SENATOR STEDMAN remarked that the amount of money that would go into local coffers would be huge from the sheer value and dominance of the property. He reiterated that Sitka had a 3-mill rate and the pulp mill virtually carried the whole town and enabled taxpayers in the community to pay 3 mills. He remarked that Sitka could have raised the property tax rate to 20 mills and the pulp mill would have paid it, but then everybody would have had to pay 20 mills. He admitted that the economic models were a little different in the late 1950s, but the 3-mill rate worked very well in Sitka for decades and did not engulf the industry and the community in a lot of adversarial dialogue.

COMMISSIONER HOFFBECK remarked that he did not disagree with anything that Senator Stedman said. He detailed the property tax revenue benefits for the state as follows:

When we talk about the potential revenues to the state from a gas line at \$4 billion a year, \$1 billion of that is anticipated to be the property tax component. We need to realize that the state will be the largest recipient of the property taxes when it is all said and done of any individual entity and then if the state decides to trim everybody back, saying this is more than local jurisdictions need, even more money flows to the state; it is not unreasonable to think that \$500 million to \$700 million of this property tax would actually flow to the state rather than to local jurisdictions.

He set forth that property tax revenue is a steady income stream. He noted that the state's 25 percent share in gas can be fairly variable due to gas prices. He summarized that property tax revenue has to be part of the total fiscal package and needs to be treated as asset in negotiations.

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SENATOR EGAN noted varied tax factors as follows:

The state's tax structure, a whole bunch of different factors weigh in. There are communities in the state that have 20 mills, there are communities that charge much less and have a sales tax, there are major communities in the state that don't have a sales tax, so that's got to weigh into the discussion as well. My community is not served by this, I mean it's not going to be effected right off the bat, but that has to be taken into consideration as well, our total tax structure and how it is written.

COMMISSIONER HOFFBECK replied that Senator Egan was right. He specified that the 20 mill levy in the formula sets the total take and how the revenue gets divided up was still a discussion that needs to occur. He said the lawmakers could say that it does not care what the mill rates were and dictate that each jurisdiction gets a 5 mill equivalent against the value in their jurisdiction. He remarked that a lot of different things could be done to figure out how to "divide up the pie."

SENATOR EGAN asked to verify that a community could have an opportunity to collect the 20 mills and still charge an additional 5 percent or 6 percent sales tax.

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COMMISSIONER HOFFBECK answered yes.

SENATOR EGAN explained that Juneau has mill limits and other communities do as well, but noted that Juneau has done initiatives for sales taxes as well. He admitted that more thought would have to be put into the state's tax revenue.

SENATOR STEDMAN asked to clarify that \$500 million in taxes would come from the gas liquefaction plant and the state owns 25 percent of the gas liquefaction plant as well.

COMMISSIONER HOFFBECK answered correct.

SENATOR STEDMAN asked if the state's 25 percent is included in the \$500 million where the 25 percent is knocked out to see the net.

COMMISSIONER HOFFBECK answered that currently the state's percentage is included in the property tax. He detailed that there has not been any final discussion on whether the state will be a taxpayer or not. He pointed out that a lot of the

decision ultimately has to do with TransCanada and a few other things as to whether the state's portion is a taxable entity or not.

CHAIR BISHOP asked how the gas treatment plant (GTP) would be taxed and where would the revenue go.

COMMISSIONER HOFFBECK answered that the GTP's value would be taxed under AS 43.56 at 20 mills. He explained that under the current tax structure, the revenue would go to the North Slope Borough. He noted that the North Slope Borough typically assesses at 18.5 mills. He revealed that another provision within the property tax statutes limits the amount of revenue that can flow to any jurisdiction, the statute changed the previous year and used to be fixed at 225. He detailed the formula as follows:

The formula was you took the statewide per capita assessed value, so how much per person statewide, times 225 percent, that was the limit of your taxable asset that you could tax, times 30 mills would be the maximum amount of revenue that you could actually generate for operations within your jurisdiction.

He revealed that the North Slope Borough is already capped and any additional property tax revenue would not be allowed for the gas operations. He noted that there is another provision that states that there is no cap for bonded debt, so the North Slope Borough could acquire additional bonded debt and tax at a little bit higher rate, but there would likely be a debt component. He specified that there would be absolutely no more money that would go towards operations to the North Slope Borough, so the GTP's mill rate would drop and the money should flow back to the state.

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SENATOR STEDMAN asked to verify that everything upstream to the point of production would fall under the current structure on gas.

COMMISSIONER HOFFBECK answered correct. He pointed out that there is one more provision that will be reviewed in the next section of SB 100 that actually tightens the structure a bit more.

SENATOR STEDMAN asked if there have been any conversations on what kind of buildout might or might not come after construction of the AKLNG line.

COMMISSIONER HOFFBECK answered no.

He addressed section 5 as follows:

Section 5 amends AS 43.56.210, adding subsection 7, which defines the various components of the project; it says the North Slope Natural Gas Project means a project to transport gas produced north of 68 degrees north latitude to gas treatment plant, a gas pipeline, a liquefaction plant, and a marine terminal, and then it goes on to fairly generic fashion to define each of those four components. There are two things that I'd like to point out on the gas pipeline, at the very end of the last sentence, there's a provision that says, "Including any pipelines down stream of an offtake point between a gas treatment plant and a liquefaction plant;" so what that is saying is anything between the GTP on the North Slope and the liquefaction plant in Kenai, if there's any offtake points, anything past that offtake point does not fall under this agreement, it would be a separate asset taxed separately.

CHAIR BISHOP asked if the sentence Commissioner Hoffbeck referred to could be called "middle earth."

COMMISSIONER HOFFBECK answered yes. He reiterated that anything beyond an offtake point is not part of the project.

SENATOR STEDMAN inquired what the property tax collected by the state for oil and gas revenue was, including municipalities. He said he recalls \$450 million was collected.

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COMMISSIONER HOFFBECK replied that he thought the amount was mid-\$300 million.

SENATOR STEDMAN asked if Commissioner Hoffbeck's estimation was the state's share.

COMMISSIONER HOFFBECK responded that the he thought the total oil and gas property tax collected was in the \$16 billion range.

SENATOR STEDMAN hypothesized as follows:

Say it is \$350 million, just for conversation, so if our current infrastructure is worth \$350 million, then this additional construction is going to be worth somewhere at \$1 billion, not to the state, but in gross value. Does the formula before you deduct out the state's percentage of ownership?

COMMISSIONER HOFFBECK answered correct. He specified that the value of the project will probably be as much as three times the value of the existing oil and gas assets within the State of Alaska.

SENATOR STEDMAN asked to verify that Commissioner Hoffbeck's statement does not include any buildout.

COMMISSIONER HOFFBECK answered yes.

SENATOR STEDMAN asked if the state can we get a pre-payment.

COMMISSIONER HOFFBECK pointed out that another component within the definition is in the GTP and the final line goes to Senator Stedman's question and says, "Excluding any transmission lines that deliver gas to the inlet flange of the facility." He revealed that a tighter boundary was drawn for property taxes that had been discussed in other presentations. He specified that the Point Thomson pipeline would not be part of the AKLNG Project nor would the pipeline from the central gas facility, the GTP. He explained that the tightened property tax boundaries was done to deal with expansion issues and clarify that pipelines feeding the GTP would not automatically fall under the fixed PILT, the asset would be taxed separately. He noted that producers feared that taxes would possibly double on a pipeline like Pt. Thomson. He reiterated that Pt. Thomson would be taxed under the standard tax regime, but starting at the inlet flange all would fall under whatever is agreed in the PILT for the project.

He summarized that the pushbacks from the producers were as follows:

- 20 mill rate.
- Tying a tighter boundary around the project.

- Anticipating a PILT with a fixed cents per MCF or cents per MBTU.

COMMISSIONER HOFFBECK admitted that the necessary inputs are not available for the formula to derive what the project will cost and how much gas is going to be carried.

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SENATOR STEDMAN asked how the state will be protected with alignment where alignment translated into a percent of the gas equaling to the percent of the ownership with the infrastructure: GTP, pipeline, and liquefaction plant. He continued to comment as follows:

It just appears on the surface the further we get away from that with TransCanada's ownership, the more risk that we have as a state getting these numbers off. If we are low, or for that matter high, and we are in balance or in alignment with the industry, so it pretty much will come out in the wash, a lot easier than if TransCanada is in the middle of our lunch table eating our beef sandwich and we get a little bit of salad on the side or something. So there is at some point I think we need to have that type of conversation so we understand as policymakers any potential imbalance or balancing that may take place as we change that ownership percentage.

COMMISSIONER HOFFBECK agreed that a discussion will need to occur and TransCanada's ultimate position in the pipeline is still not determined.

CHAIR BISHOP agreed that the AKLNG project is going to have far reaching impacts on communities along the route as well as communities not connected to the route. He referenced the impacts of TAPS on Fairbanks and asked that in order to defray costs to the municipalities, how would SB 100 or the administration handle impacts during the construction of the AKLNG pipeline.

COMMISSIONER HOFFBECK explained that the discussion on impacts was underway with three avenues being reviewed to determine impacts as follows:

1. Environmental impact process with the Federal Energy Regulatory Commission (FERC), impacts will be identified, but a dollar value is not attached.
2. The department has a tremendous amount of information that was developed under the Stranded Gas Development Act and the Alaska Gasline Inducement Act (AGIA).
3. Within the sponsor group there is a team that is working on impacts.

COMMISSIONER HOFFBECK summarized that all of the impact information will ultimately come together and the department will try to come up with a schedule of impact payments and a way to determine where the payments should be distributed. He revealed that the impact discussion was underway with MAGP Board.

4:25:36 PM

SENATOR STEDMAN asked to address substantial property taxes given during the construction phase for a mega-project that is extremely capital intensive like the AKLNG Project. He pointed out that consideration has to be given to not burden the economics of the time-value of money in the calculation in trying to move the project forward. He asked that Commissioner Hoffbeck address why the state might or might not consider relief on any big project.

COMMISSIONER HOFFBECK answered that the biggest impact on the project is the time before actual revenue is being generated with outflows of cash during construction with no inflow of revenue. He explained that the time-value of money is the lost opportunity elsewhere where the money could be used to generate revenue. He pointed out that the tax burden is something that does not really add to the value of the project during the period before revenue is being generated, but the taxes are a significant outflow of cash to the project.

He asserted that the state is very sensitive to the relief issue as are the producer groups. He explained that the idea would be that rather than having \$1 billion taxed incrementally during construction, a lesser amount would be paid that would sufficiently cover direct and indirect impacts from construction that would hold the municipalities whole and yet would not put a lot of impact on the pipeline where the taxes could be deferred or simply becomes part of the state's contribution to the project. He said there are a lot of ways to deal with municipal

impact, but there is real sensitivity to the early cash flow years prior to revenue paying the taxes.

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SENATOR STEDMAN remarked that as policymakers, looking at the AKLNG Project as potentially in boroughs entirely from coast-to-coast was in the state's best interest in how property taxes are handled.

COMMISSIONER HOFFBECK replied that the potential for Senator Stedman's statement does exist. He opined that there is some hope by the state that the project would create incorporation within areas that would have a local government and revenue source where the state would not have to take care of the areas. He noted that the entire borough scenario for the project has not occurred around the TAPS pipeline.

4:30:17 PM

SENATOR STEDMAN recommended that a stress test would be a good exercise in the direction that he suggested. He opined that the recent oil tax structure was not stress tested anywhere near enough and ultimately led to some issues that the state is currently dealing with. He summarized that the agreed upon tax formula should be stress-tested under several scenarios.

CHAIR BISHOP pointed out that the sponsor statement talks about taking recommendations from the MAGP Board regarding PILTs, but SB 100 does not specifically address PILTs.

COMMISSIONER HOFFBECK answered that the bill does not make it all the way to the PILT process. He set forth that SB 100 isolates the components needed for working through the fiscal negotiations and gets rid of a lot of the issues associated with TAPS.

He stated that he would like to address Senator Egan's comments on property taxes and Chair Bishop's question on PILTs. He noted that the Denali Borough is a jurisdiction that the pipeline will flow through that does not have a property tax, but the borough is obviously interested in having a PILT to get some value off of the project without having to implement a property tax. He said there are issues associated with the PILT versus a standard taxing authority that needs to be addressed. COMMISSIONER HOFFBECK addressed PILTs and said the producers ultimately desire a cents per MCF PILT that could be applied to

every molecule of gas that flows down the pipeline, ultimately making the calculation much easier.

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CHAIR BISHOP asked if the proposed tax assessment in SB 100 takes into account the 12 FERC resource books, particularly book number-5 which deals with community socioeconomic conditions.

COMMISSIONER HOFFBECK answered that the particular resource book Chair Bishop noted is anticipated to be part of the analysis on impact payments. He added that he believes that MAGP Board is aware of the public hearings associated with FERC and intends to have some input as well.

CHAIR BISHOP noted that he appreciates Commissioner Hoffbeck's comments on "getting it right." He concurred that a mega-project does burn through some major cash during the construction phase and recounted his TAPS construction days as to how critical the first tanker out of Valdez was.

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COMMISSIONER HOFFBECK shared that MAGP Board expressed the same sentiment in recognizing that the project has to work economically as well. He opined that the change in sentiment was due to the stranded gas days where there was a lot of animosity between the state, producers, and municipalities. He said MAGP Board has been very open and willing to work the issues. He set forth that a lot of the credit has to go to the early involvement of the Parnell Administration that brought MAGP Board in early in the process.

CHAIR BISHOP noted that decisions have not been made on Royalty In Kind (RIK) from SB 138 and PILT from SB 100. He asked if the project is sliding behind schedule because the two benchmark decisions have not been made.

COMMISSIONER HOFFBECK answered no. He detailed that a lot of work is being done to set the foundation for making good decisions rather than being driven by a timeline. He set forth that the project is definitely within the time frames laid out by the heads of agreement (HOA).

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CHAIR BISHOP announced that seeing and hearing no other comments, SB 100 will be set aside.

4:39:02 PM

There being no further business to come before the committee, Chair Bishop adjourned the Senate Community and Regional Affairs Standing Committee hearing at 4:39 p.m.