

SCOMM

94:12

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SB 169

Revision Date:

Dept. Affected:

Revenue

Title:

Temporary exemption from Property Tax for a pre-built
transportation facility

BRU:

Revenue Operations

Component:

Oil and Gas Audit

Sponsor:

Sen. Donley

Requestor:

Senate Oil and Gas Committee

COMPONENT SERIAL NO.

115

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	2.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE FUND SOURCE:	*	*	*	*	*	*
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY94) impact: \$

ANALYSIS: (Attach a separate page if necessary.)

* SEE ATTACHMENT (A)

Prepared by:

Clyde R. Benson

Division:

Oil and Gas Audit Division

Approved by Commissioner:

Darrel J. Rexwinkel

Agency:

Revenue

Phone: 277-1363 Ext. 251

Date: January 27, 1994

Date: January 27, 1994

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ATTACHMENT (A)

SB 169 Analysis
Page 2 of 2

SB 169 does not specify a particular transportation facility or the anticipated capital cost, however the wording of the bill dealing with net economic benefit to the state suggests a major construction project. We have assumed for the purpose of this analysis that the transportation facility being described is a large inch gas pipeline from Prudhoe Bay to an ice free port. The capital costs and construction period stated in the assumptions are for demonstration purposes only and do not attempt to estimate actual pipeline costs.

ASSUMPTIONS:

CAPITAL COST OF PIPELINE	\$12,000,000,000
PROPERTY TAX MORATORIUM	5 YRS
CONSTRUCTION PERIOD	3YRS (EQUAL EXPENDITURES EACH YEAR)

	ANNUAL VALUE	TAX RATE	STATE & MUNICIPAL TAX LOSS
YEAR 1	\$4,000,000,000	2 %	\$80,000,000
YEAR 2	\$8,000,000,000	2 %	\$160,000,000
YEAR 3	\$12,000,000,000	2 %	\$240,000,000
YEAR 4	\$12,000,000,000	2 %	\$240,000,000
YEAR 5	\$12,000,000,000	2 %	\$240,000,000
TOTAL TAX FORGIVENESS			\$960,000,000

**DIVISION OF LEGAL SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

January 27, 1994

SUBJECT: Senate Bill 169 (Work Order No. 8-LS0801\A)

TO: Senator Loren Lemar, Chair
Senate Special Oil and Gas Committee
ATTN: Annette Kreitzer

FROM: Jack Chenoweth
Legislative Council

The state imposes a 20 mill tax on certain pipelines. AS 43.56. The statute authorizes taxation of a pipeline, generally, from its "construction commencement" date which, for purposes of this discussion, we take to be the date

there has been issued to the owner or an agent of the owner right-of-way permits, leases, and title and other rights in land, and other approvals, permits, licenses, and certificates, by federal, state and local agencies that a reasonable and prudent person would consider adequate to commence construction of the facilities in the expectation that all other approvals, permits, licenses, and certificates necessary for the completion of facilities will be obtained;

AS 43.56.210(2)(A). ^{1/} The statute conceives that the taxable pipeline property would become subject to taxation and taxed even before it was hooked up, end-to-end, and capable of transporting crude oil or natural gas.

Senate Bill 169 proposes to provide an early development exemption by delaying the imposition of the tax after the construction commencement date and exempting the otherwise taxable property from the property tax, if the taxpayer or prospective taxpayer can demonstrate each of the two elements of AS 43.56.025(a), set out in sec. 2 of the bill. The exemption provided by that delay may not exceed the earlier of the December 31 date following actual completion of the pipeline and its use for transporting the oil or gas, or the December 31 following the fifth anniversary date

^{1/} The definition of "construction commencement date" has some other contingent provisions but they are not relevant to this discussion.

Senator Loren Leman

January 27, 1994

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of the construction commencement date. In other words, the state will withhold its ability to tax the line for as long as five years (and some additional period to make it to December 31) so that the pipeline can be constructed in place without being subject to taxation.

Municipalities may subject the same pipeline property to property tax, subject to the limitation of levy set out in AS 43.56.010(b) - (d), and subject, further, to the exemption proposed by the early development exemption. In short, if the state provides an early development property tax exemption, the property is not to be subject to municipal property tax levy for the duration of the state-approved exemption.

JBC:lmb

94-026.lmb

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3867 or 465-2450
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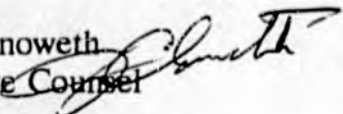
130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

March 29, 1993

SUBJECT: Senate Bill 169, authorizing a moratorium on levy and collection of the pipeline property tax (Work Order No. 8-LS0801A)

TO: Senator Dave Donley

FROM: Jack Chenoweth
Legislative Counsel 

In summary the bill proposes to establish a moratorium on levy and collection of the state property tax on pipelines under certain conditions. Under AS 43.56.020(b), "property that is committed by contract or other agreement for use in this state primarily for the production or pipeline transportation of gas or unrefined oil, or in the operation or maintenance of facilities for the production or pipeline transportation of gas or unrefined oil" is exempt from the state tax levied under AS 43.56.010(a) before the project's construction commencement date. This bill would extend that exemption for a period of not more than five years during the period following the pipeline's construction commencement date under certain conditions.

The principal operative provision is the **bill's section 3**. If the taxpayer applies and qualifies for the exemption, the bill would extend the exemption for the benefit of the "pipeline transportation property" for a period until the close of the calendar year in which the pipeline begins to transport or until the close of the calendar year five years after the project's construction commencement date, whichever expires earlier. The bill section imposes an application requirement and directs the Department of Revenue to determine by regulation what information must be submitted to support the tax exemption application. Most significantly, the bill section limits the operation of the exemption or moratorium to pipelines of taxpayers who demonstrate that the provision of the exemption would hasten the construction commencement date and that the net increase in economic activity would more than offset loss of state and municipal revenue attributable to the tax exemption.

Bill section 1 provides a brief statement of purpose for the measure.

Bill section 2 adds to the list of mandatory municipal tax exemptions a cross-reference to the exemption for the development of pipeline property.

Senator Dave Donley

March 29, 1993

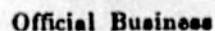
Page 2

Bill section 4 amends the definition of "construction commencement date" to delete an outdated reference and to make a change that conforms the language to the recommended style of drafting.

Bill section 5 gives the measure a January 1, 1994, effective date.

JBC:pl

93-248.plm



SENATE RESOURCES

DATE: 3/1/94

PLEASE PRINT!

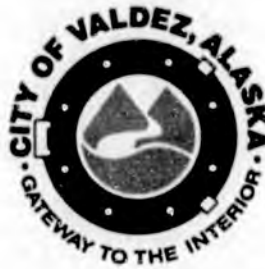
NAME**ADDRESS** (MAILING) & (ZIP)**PHONE**

REPRESENTING

**DO YOU WANT
TO TESTIFY?**

Subject of meeting:

SB 169 Tax Exemption: Certain Pipeline Property



February 9, 1994

FEB 14 1994

Senator Loren Leman, Chairman
Senate Special Committee on Oil and Gas
State Capitol
Juneau, Alaska 99801-1182

RE: SB 169

Dear Senator Leman:

The City of Valdez has been in contact with Annette Kreitzer of your staff regarding an upcoming hearing on SB 169, a bill sponsored by Senator Donley "authorizing an extension of the exemption from the levy and collection of the tax imposed on certain oil and gas pipeline transportation property during the period of pipeline construction."

At its regular meeting of February 7, 1994, the Valdez City Council unanimously adopted Resolution 94-19 establishing the City's position on this measure. I would summarize the feelings of the City Council of being sympathetic to the intent of Senator Donley of providing incentives to assist in the construction of major pipeline projects, like the Trans-Alaska Gas System (TAGS), but it is even more concerned with empowering the Department of Revenue to make exemptions on behalf of municipalities. This prospect is particularly frightening due to the fact that severe impacts caused by large construction projects primarily affect locally provided services and facilities.

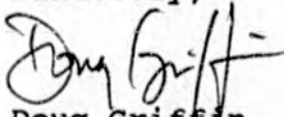
There may be amendments that could make this initiative more palatable. For example, the state could grant an exemption for portions of the pipeline located in the unorganized borough outside of cities and boroughs; let the State give away its taxing authority, but not that of organized local governments. However, the concept of allowing the State to have any additional authority over local taxing prerogatives is very troubling, particularly as State aid to municipalities is reduced. Taking away State aid is one thing, but taking away the ability to locally raise revenues to meet public health and safety needs is unconscionable. Should local taxpayers impacted by a pipeline project with a "net increase in economic activity in the State" have to see their taxes raised to meet the increased demand for services during the pipeline construction phase? That scenario is fundamentally unfair and unjust.

Senator Loren Leman, Chairman
February 9, 1994
Page 2

Our City Council has gone on record recently as being overwhelmingly supportive of the TAGS project. The City stays in close contact with Yukon Pacific regarding the status of the TAGS line, and no town is more excited about the progress this visionary concept has made in becoming a viable project of enormous benefit to this State and the nation as a whole. However, SB 169 is fundamentally flawed and vague in its application and, therefore, the City of Valdez opposes it.

Thank you for this opportunity to comment.

Sincerely,


Doug Griffin
City Manager

Enclosure

cc: Mayor John Harris
Valdez City Council
Governor Walter J. Hickel
Senator Georgianna Lincoln
Representative Harley Olberg
Commissioner Edgar Blatchford, Community and Regional Affairs
Commissioner Darrel J. Rexwinkel, Revenue
Kent Swisher, Executive Director, Alaska Municipal League

CITY OF VALDEZ, ALASKA

RESOLUTION NO. 94-19

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA
REGARDING SB 169 IN THE LEGISLATURE OF THE STATE OF ALASKA.

WHEREAS, Senator Dave Donley has introduced a bill, SB 169, in the Alaska Senate "authorizing an extension of the exemption from the levy and collection of the tax imposed on certain oil and gas pipeline transportation property during the period of pipeline construction;" and

WHEREAS, the City of Valdez has contacted the office of Senator Loren Leman, Chairman of the Senate Special Committee on Oil and Gas regarding SB 169 and have been informed that a public hearing will be scheduled soon on this bill; and

WHEREAS, staff for the Senate Special Committee on Oil and Gas have requested comments and a formal position from municipalities which could be most effected by this legislation; and

WHEREAS, Section 3 of the bill would allow the Department of Revenue to exempt oil and gas pipeline transportation property from taxation if the taxpayer demonstrates, to the satisfaction of the department, that tax exemption will permit the project to begin substantially sooner and that the "net increase in economic activity in the state attributable to an earlier construction commencement date for the pipeline... will be greater than the loss of revenue to the state and municipalities attributable to provision of the exemption;" and

WHEREAS, impacts on schools, roads, utilities, recreation services, solid waste collection and disposal, public safety, docks and ports, planning and land use, and government administration are primarily felt at the local municipal level; and

WHEREAS, impacts during the construction phase of a project are much more dramatic and, therefore, usually require increased expenditures for municipal services; and

WHEREAS, Senate Bill 169 places a great deal of authority and power within the Alaska Department of Revenue, without benefit of local input, to preempt normal municipal taxation prerogatives and could possibly erode the tax base necessary to effectively maintain public health and safety during a construction impact that could increase the population of Valdez by at least 100%; and

WHEREAS, without benefit of a clear understanding of what types of projects would qualify, how the Department of Revenue will measure increased economic activity and loss

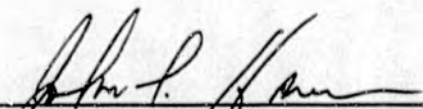
of revenue to the state and municipalities attributable to early construction of a pipeline, the City of Valdez has some major concerns with the intent and implications of SB 169 as presently drafted;

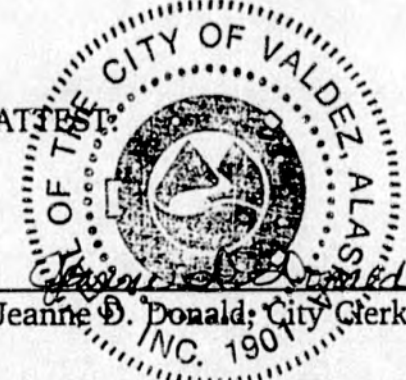
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, that:

While the City of Valdez is supportive of transportation projects that will deliver Alaska's abundant natural resources to market within established pipeline right-of-way corridors, the City of Valdez opposes SB 169 because it may hamper the ability of the city to tax and raise the revenue necessary to address demands attributable to construction impacts on city services.

PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, this 7th day of February, 1994.

CITY OF VALDEZ, ALASKA


John L. Harris, Mayor

ATTEST:

Jeanne D. Donald, City Clerk

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Communications Assistant

**THE ALLIANCE**

4220 'B' Street, Suite 200 / Anchorage, Alaska 99503-5911

Phone (907) 563-2228 Fax (907) 561-8870

DATE: February 1, 1994
TO: Senator Dave Donley
FROM: Walt Furnace
SUBJ: SB169

Dear Senator Donley:

The Board of Directors of the Alaska Support Industry Alliance is on record supporting legislation that will promote positive development of Alaska's resources. I have reviewed SB169 and herein submit this letter of support. The bill's intent of proposing a transportation property tax exemption for early oil and gas pipeline development is consistent with the policy position of the Alliance.

We appreciate the opportunity to comment on SB169 and wish you success in its passage.

Sincerely,

Walt Furnace
General Manager

cc: Sen. Loren Leman

Senator Dave Donley



SPONSOR STATEMENT

Senate Bill 169

**Oil and Gas Pipeline Transportation
Property Tax Exemption**

SB169 proposes a transportation property tax exemption for early oil and gas pipeline development. Currently companies are taxed on any oil and gas property at the time it is purchased or brought into Alaska. This bill gives companies a tax exemption until the property is actually used, as long as the project is of economic benefit to the state.

Today, if a company wants to build a pipeline, once it purchases pipe and other materials and equipment, and sets it in a storage yard, the company is taxed on these materials upon its purchase and arrival in the state. SB169 allows these materials to be purchased and stored and not taxed until the pipeline is in place.

The current tax structure is a disincentive for companies to begin their projects early and projects could be delayed or cancelled altogether. SB169 is a strong incentive for early pipeline development which could result in more jobs for Alaskans.

DD/mf