

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 8072

9644 SENATE LABOR & COMMERCE

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

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February 3, 1998

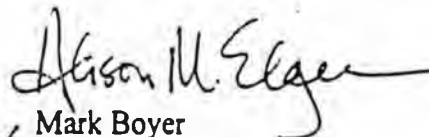
The Honorable Gary L. Davis
House of Representatives
Alaska State Legislature
State Capitol Bldg. - Room 513
Juneau, AK 99801

Dear Representative Davis:

Your amendment to the definition of a commercial motor vehicle in AS 28.40.100(a)(2) by House Bill 343 poses no problem for the department. The exemption of operators of construction equipment from the commercial driver's license requirements is consistent with the FHWA interpretations of related sections of Federal Motor Carrier Safety Regulations. Copies of sections 95.50 and 96.21 of the FHWA Interpretations manual are attached for your convenience.

Juanita Hensley will be available to address any additional questions you or the Committee may have on this issue.

Sincerely,



for Mark Boyer
Commissioner

MB/nn
Enclosures
cc: David Koivuniemi
Juanita Hensley

96.20 Must a motor vehicle that meets the definition of a "commercial motor vehicle in Section 390.5 because it transports hazardous materials in a quantity requiring placarding under the Hazardous Materials Regulations (49 CFR 171-180) comply with the fuel system requirements of Subpart E of Part 393, even though it has a gross weight rating (GVWR) of 10,000 pounds or less?

No. Federal Motor Vehicle Safety Standard No. 301 (FMVSS No. 301) contains fuel system integrity requirements for passenger cars and multipurpose passenger vehicles, trucks, and buses that have a GVWR of 10,001 or more pounds. The fuel systems of placarded motor vehicles with a GVWR of less than 10,001 pounds are adequately addressed by FMVSS No. 301 and compliance with Subpart E of Part 393 would be redundant. However, commercial motor vehicles that are not covered by FMVSS No. 301 must continue to comply with Subpart E of Part 393.

96.21 What types of equipment are included in the category of off-road motorized construction equipment?

The definition of off-road motorized construction equipment is to be narrowly construed and limited to equipment which, by its design and function is obviously not intended for use, nor is it used on a public road in furtherance of a transportation purpose. Examples of such equipment include motor scrapers, backhoes, motor graders, compactors, tractors, trenchers, bulldozers and railroad track maintenance cranes.

96.21 Does off-road motorized construction equipment meet the definitions of motor vehicle and commercial motor vehicle as used in 49 CFR 383.5 and 390.5?

No. Off-road motorized construction equipment is outside the scope of these definitions: (1) when operated at construction sites; and (2) when operated on a public road open to unrestricted public travel, provided the equipment is not used in furtherance of a transportation purpose. Since construction equipment is not designed to operate in traffic, it should be accompanied by escort vehicles or in some other way separated from the public traffic. This equipment may also be subject to State or local permit requirements with regard to escort vehicles, special markings, time of day, day of the week, and/or the specific route.

96.22 Are the reasonable suspicion testing and training requirements of Sections 382.307 and 382.603 applicable to an owner-operator who is both an employer and the only employee?

No. The requirements of Sections 382.307 and 382.603 are not applicable to owner-operators in non-supervisory positions. Section 382.307 requires employers to have a driver submit to an alcohol and/or controlled substances test when the employer has reasonable suspicion to believe that the driver has

95.49 When the driver's duty status changes, do Sections 395.8(c) or 395.8(h)(5) require a description of on-duty not driving activities ("fueling", "pre-trip", "loading", "unloading", etc.) in the remarks section in addition to the name of the nearest city, town or village followed by the state abbreviation?

No. Many motor carriers require drivers to identify work performed during a change of duty status. Part 395 neither requires nor prohibits this practice.

*** 95.50** Do the CDL Regulations (49 CFR 383) apply to operators of motor graders and front-end loaders while removing snow or leaves on a public road?

Yes. The operators would be required to have CDLs if the GVWR of the vehicle is 26,001 pounds or greater. The exemption for operators of off-road construction equipment does not apply in this case because the vehicles are being used on public roads and in the furtherance of a transportation purpose, the removal of snow or leaves from the road. The equipment performs a service on the public road in a manner similar to street sweepers. By previous interpretation, operators of street sweepers, with a GVWR of 25,001 pounds or more, are required to obtain a CDL.

95.50 What is considered a "public road"?

A public road is any road under the jurisdiction of a public agency and open to public travel or any road on private property that is open to public travel.

95.50 Since most operators of construction equipment are not classified by their job description or title as drivers, why do they need to obtain a CDL?

Operators of construction equipment are just like mechanics, shop help, and vehicle salespersons, who operate CMVs on public roads. The CDL regulations address the issue of job function rather than job title. The term "operator" is used in the CDL regulations (49 CFR Part 383) because they cover more persons than the traditional "driver". Operators of construction equipment with a GVWR of 26,001 pounds or more, who operate on the public road, would therefore be required to obtain a CDL regardless of the job description or title.

95.50 Is an operator automatically exempt from the CDL requirements (49 CFR Part 383) if the construction equipment is exempt from state vehicle registration requirements?

No. State vehicle registration has no bearing on who is required to obtain a CDL. The CDL regulations apply to any operator, not otherwise exempted or waived, who operates a CMV.

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(A) suspend execution of sentence or grant probation except on condition that the person serve a minimum term of imprisonment and perform required community work service as provided in (1) of this subsection;

(B) suspend imposition of sentence; and

(4) shall revoke the person's license, privilege to drive, or privilege to obtain a license, and the person may not be issued a new license nor may the privilege to drive or obtain a license be restored for an additional period of not less than 90 days after the date that the person would have been entitled to restoration of driving privileges.

(c) In this section, "previously convicted" means having been convicted in this or another jurisdiction, within 10 years preceding the date of the present offense, of a violation of this section, AS 28.15.291, or another law or ordinance with substantially similar elements. (§ 19 ch 3 SLA 1992)

Editor's notes. — Section 30, ch. 3, SLA 1992 provides that for the purpose of this section, enacted by § 19, ch. 3, SLA 1992, convictions for offenses committed before April 1, 1992 are considered previous convictions.

Sec. 28.33.190. Definitions. In this chapter,

(1) "alcoholic beverage" has the meaning given in AS 04.21.080(b);

(2) "commercial motor vehicle" has the meaning given in AS 28.40.100;

(3) "controlled substance" means any substance listed as being controlled under AS 11.71 or 21 U.S.C. 812 — 813, or determined under federal regulations to be controlled for purposes of 21 U.S.C. 801 — 813 (Controlled Substances Act);

(4) "disqualification" means a withdrawal of the privilege to drive a commercial motor vehicle;

(5) "disqualified" means that a person's privilege to drive a commercial motor vehicle has been withdrawn;

(6) "drive a commercial motor vehicle" means to affect the movement, attempt to affect the movement, or to be in actual physical control, of a commercial motor vehicle in motion, excluding slight motion incidental to loading, unloading, servicing, or inspecting the vehicle;

(7) "employer" means a person who

(A) provides compensation to a person who operates a commercial motor vehicle, including wages or other remuneration, whether through an employment relationship or by contract; or

(B) acts as an agent of someone who provides compensation to a person who operates a commercial motor vehicle, with authority to allow, require, permit, assign, or authorize the person being compensated to operate a commercial motor vehicle;

(8) "hazardous substance" means a substance found by the United States Secretary of Transportation to be hazardous for purposes of 49 U.S.C. 1801 — 1813 (Hazardous Materials Transportation Act);

(9) "operating a commercial motor vehicle" means

(A) to drive a commercial motor vehicle; or

(B) whether or not the vehicle is in motion, or is capable of being moved, to be in actual physical control, or to attempt to affect the movement, of a commercial motor vehicle; and

(10) "out-of-service order" means an order issued under regulations adopted under AS 28.05.011 that prohibits an owner or operator of a commercial motor vehicle from operating a commercial motor vehicle.

(11) "serious traffic violation" means

(A) speeding 15 miles per hour or more above the posted limit;

(B) reckless or negligent driving, in violation of AS 28.35.040 or 28.35.045 or an ordinance with substantially similar elements;

(C) violation of a provision of this title, or a regulation adopted under this title, relating to improper lane changes or following too closely, or an ordinance with substantially similar elements; or

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State v. Clayton, 584 P.2d

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22, ch. 143, SLA 1996
3 and 17-21 of this Act
on or after November 8,

1996 except that the extent that the amendments made by §§ 6, 7, 10, 11, and 13-21 of this Act involve prior convictions, those prior convictions may have occurred before, on, or after November 8, 1996."

Sec. 28.40.100. Definitions for title. (a) Unless otherwise specifically defined or unless the context otherwise requires, in this title and in regulations adopted under this title

(1) "cancel" means to annul or terminate, by formal action of the department, a certification, registration, license, permit or privilege issued or allowed under this title or regulations adopted under this title, because of an error or defect in the document issued or the application for issuance or because the person holding the document is no longer entitled to it;

(2) "commercial motor vehicle" means a motor vehicle or a combination of a motor vehicle and one or more other vehicles

(A) used to transport passengers or property;

(B) used upon a land highway or vehicular way; and

(C) that

(i) has a gross vehicle weight rating or gross combination weight rating greater than 26,000 pounds;

(ii) is designed to transport more than 15 passengers, including the driver; or

(iii) is used in the transportation of materials found by the United States Secretary of Transportation to be hazardous for purposes of 49 U.S.C. 1801 — 1813 (Hazardous Materials Transportation Act);

(D) except that the following vehicles meeting the criteria in (A) — (C) of this paragraph are not commercial vehicles:

(i) emergency or fire equipment that is necessary to the preservation of life or property;

(ii) farm vehicles that are controlled and operated by a farmer; used to transport agricultural products, farm machinery, or farm supplies to or from that farmer's farm; not used in the operations of a common or contract motor carrier; and used within 150 miles of the farmer's farm; and

(iii) recreational vehicles used exclusively for purposes other than commercial purposes;

(3) "commercial purposes" means activities for which a person receives direct monetary compensation or activities for which a person receives no direct monetary compensation but that are incidental to and done in furtherance of the person's business;

(4) "commissioner" means the commissioner of public safety;

(5) "custom collector vehicle" means a vehicle whose body and frame were manufactured before 1949 or a replica of a vehicle whose body and frame were manufactured before 1949 and that has been modified for safe road use; in this paragraph, "modified" includes a material alteration of the drive-train, suspension, brake system, or dimensions of the body;

(6) "department" means the Department of Public Safety;

(7) "driver" means a person who drives or is in actual physical control of a vehicle;

(8) "driver's license" or "license," when used in relation to driver licensing, means a license or permit to drive a motor vehicle, or the privilege to drive or to obtain a license to drive a motor vehicle, under the laws of this state, whether or not a person holds a valid license issued in this or another jurisdiction;

(9) "gross combination weight rating" means the value specified by the manufacturer as the loaded weight of a combination vehicle, except that if a value has not been specified by the manufacturer, the gross combination weight rating is determined by adding the gross vehicle weight rating of the power unit and the total weight of the towed unit and the load on the towed unit;

(10) "gross vehicle weight rating" means the value specified by the manufacturer as the loaded weight of a single vehicle;

HB

393

FISCAL NOTE

Bill Version: HB 393

BIL (H) Publish Date: 2/11/98

STATE OF ALASKA 1998 LEGISLATIVE SESSION

Revision Date: (Note if correction) _____ Dept Affected Natural Resources
 Title: Contracts for payments in lieu of taxes BRU: Commissioner's Office
for stranded gas resources Component: Management and Administration
 Sponsor: Rules Committee
 Requestor: Governor Component Serial No. 423

Expenditures/Revenues (Thousands of Dollars)

	FY99	FY00	FY01	FY02	FY03	FY04
OPERATING EXPENDITURES						
PERSONAL SERVICES						
TRAVEL	10.0	10.0	10.0	10.0	10.0	10.0
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	10.0	10.0	10.0	10.0	10.0	10.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

	FY99	FY00	FY01	FY02	FY03	FY04
1002 Federal Receipts						
1003 GF Match						
1004 GF	10.0	10.0	10.0	10.0	10.0	10.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	10.0	10.0	10.0	10.0	10.0	10.0

Estimate of any current year (FY98) cost: \$ _____

POSITIONS

	FY99	FY00	FY01	FY02	FY03	FY04
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

It is expected that negotiation of these contracts will require travel by the commissioner of the department.

Prepared by: Nico Bus *Nico Bus for* none: 465-2400
 Division: Support Services ata: 8-Feb-98
 Approved by Commissioner: Nico Bus for John Swirey Date: 2-8-98
 Agency: Natural Resources

Revision Date: _____ Dept. Affected: Revenue
 Title: N. Slope Gas Line BRU: Administration and Support
 Component: Commissioner's Office
 Sponsor: Rules
 Requestor: Governor COMPONENT SERIAL NO. 123

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	81.6	82.7	84.0	85.3	86.6	87.9
TRAVEL	30.0	30.0	30.0	30.0	30.0	30.0
CONTRACTUAL	375.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	5.0	5.0	5.0	5.0	5.0	5.0
TOTAL OPERATING	491.6	117.7	119.0	120.3	121.6	122.9

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*** 191.6	117.7	119.0	120.3	121.6	122.9
1001 CBRF						
1048 University of AK receipts						
Other	300.0					
TOTAL	491.6	117.7	119.0	120.3	121.6	122.9

Estimate of any current year cost \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

*** The legislation as currently drafted allows for the \$300,000 in contractual costs to be recovered from future applicants. This bill could be modified to provide that all costs would be borne by an applicant.

See Attached

Prepared by: Mary Marshburn, Roger Marks
 Division: Office of the Commissioner
 Approved by Commissioner: Wilson L. Condon
 Agency: Revenue

Phone: 343-9242
 Date: February 9, 1998
 Date: February 9, 1998

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COMMITTEE COPY

Fnoilgas.xls

This bill would authorize the executive branch to negotiate a contract with sponsors of proposed projects to develop stranded gas in Alaska. The payments required by the contract would replace some or all of the state and local taxes that would otherwise pertain to major economic activity engendered by the project.

A negotiated contract would make it possible to tailor the fiscal arrangements to meet the needs of the proposed project while, at the same time, ensuring the public benefits from the project. A set of arrangements providing for contractual payments in lieu of taxes is likely to provide fiscal terms that potential investors will believe are likely to remain permanently in place over the life of the project.

Given the extended time frame to develop and market the large volumes of stranded gas, revenues expected as a result of the bill are outside the time horizon of this fiscal note.

The fiscal note breakdown is as follows:

Personal Services: \$81,600.00

Salary and benefits to fund one DOR person devoted to the gas project.

Travel: \$30,000.00

The state must continue to inform Alaska communities of and involve them in discussion of contract and project issues. Some of the issues that affect them are community impacts induced by project development, payments to municipalities in lieu of taxes, availability of gas to communities and Alaska hire and contracting. In addition, the state will propose and advocate changes to the federal tax structure to improve project economics and evaluate federal regulatory changes to allow for regulatory certainty. This line item will fund travel within Alaska, to consultants and to Washington, D. C. for these purposes.

Contractual: \$375,000.00

\$75,000.00 to fund a socioeconomic study on the impacts induced on the local communities by project development. This study is a necessary step in constructing the foundation for discussion with municipalities and negotiations with project sponsors about payments to municipalities in lieu of taxes for the costs of and impacts from additional services and construction resulting from project development.

N. Slope Gas Line
Bill Analysis
February 9, 1998
Page 3

\$300,000 to fund contractual services and advice from experts in fiscal, regulatory, contract negotiation, legal, and financial areas. These technical and evaluative services would be necessary to the tax and regulatory work planned for the federal level; they would be required to assist the state in substantive and complex contract development and negotiation, potentially with multiple sponsors. The state does not have all of this expertise in-house. \$75,000 of these costs will be incurred in preparation for the application process regardless of whether there are applicants.

As per the proposed bill, contract applications may be made until June 30, 2004. Expenditures for contractual services, therefore, may be necessary any time between July 1, 1998 and June 30, 2004. Because there is no way of knowing now specifically when expenditures would be required, it may be beneficial to treat this \$300,000 as a continuing appropriation

The proposed legislation allows reimbursement of the state by the applicant for the expenses of an independent contractor used to assist in the evaluation of an application. We estimate that \$100,000 of the \$300,000 expenditure would be from this non-general fund source, leaving \$200,000 from the general fund.

Miscellaneous: \$5000.00

To fund supplies, LNG conference participation, purchase of technical reports, etc.

SENATE COMMITTEE REPORT

DATE: 4/18/98

FURTHER: Resources
Finance

DATE TURNED
IN TO OFFICE: 4-30-98

Labor and Commerce Committee considered

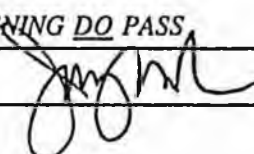
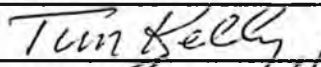
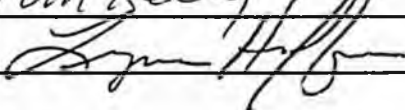
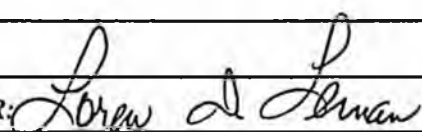
CS FOR HOUSE BILL NO. 393(RES)

DEVELOP STRANDED GAS RESOURCES

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached a amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
	✓	 			✓
CHAIR: 	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

Department	Date	Zero	Fiscal
DNR	2/11/98		10.0
Revenue	2/11/98		491.6

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

Testimony for Senate Labor and Commerce Committee - 30th April, 1998

For the record my name is David Brooks. I hold the post of Manager Alaska Gas in BP Exploration Alaska Incorporated and I am responsible for BP's initiatives to commercialize the gas reserves on the North Slope of Alaska.

Mr. Chairman I should like to thank you for this opportunity to testify before this committee and to explain BP's views on this Bill.

Today in Prudhoe Bay we have proven approximately 25 trillion cubic feet of gas, and the US geological survey suggests that there could be in excess of another 100 trillion cubic feet yet to be found on the North Slope.

That is a lot of gas, equivalent to another oil field at least the size of Prudhoe Bay - and a large amount of value or revenue for the resource owners and the State and people of Alaska if we can find economic ways to get that gas to market, in some form or other.

I would like to assure the members of this committee that BP is taking the issue of the commercialization of those gas resources very seriously and continues to dedicate resources to exploring routes for its commercialization.

Over the past year or so we have worked with the legislature, the state administration, other gas owners and interested parties on the commercialization of the North Slope gas. The state's Gas Commercialization Report published in January of this year was an outcome of that work and we consider it to be a very sound and professional review of the challenges surrounding the commercialization of stranded gas. BP considers this Bill to be the next logical step following the recommendations of that Report.

We believe that this Bill is important for the State, it encourages the creation of options to unlock the value in its vast resources of stranded gas.

However, as it is currently written the Bill focuses on only one option, LNG and a gas pipeline. Whilst we agree LNG is a very important option, we believe there are others and are concerned that legislators seem to wish to exclude those options from consideration in this Bill.

BP believes that gas-to-liquids, the so called white oil, technology is also key option.

Although, like LNG, the technology is currently uneconomic, many companies including BP have work programs in progress to drive down the costs of the process and to make it competitive.

And we should like to emphasize that the options of LNG and gas-to-liquids are not mutually exclusive. The vast quantities of gas already proven on the North Slope means that we could do both an LNG project and a gas-to-liquids project.

The inclusion in the Bill of a sunset clause limiting its applicability to projects making an application before the end of June, 2001 could also restrict the options available to the State for the commercialization of the gas resources.

Although BP is committing significant resources to both the LNG and the gas-to-liquids options, we cannot control the development of technology nor of markets for the gas. We cannot say when additional Stranded Gas fields might be found.

By having a cut off date, any cut off date, in the Bill we believe that the State is further potentially reducing its options and possibly even giving a negative message to the potential developers of technology and stranded gas resources.

Mr. Chairman, members of the committee, BP views this legislation as enabling legislation, not committing the State to anything, not giving anything away.

We believe that the Bill provides a positive signal to industry and to developers of stranded gas that the State is prepared to discuss any fiscal impediments that there may be in the way of a stranded gas development project . We believe that the signal could be strengthened and the options for the State widened by the inclusion in the Bill of reference to gas-to-liquids and the removal of the sunset clause.

Mr. Chairman, members of the committee with those comments please be assured that BP supports this legislation.

Thank you for your attention. I would be happy to answer any questions that you might have.

**Commissioners of Revenue and
Natural Resources Review
Application**

**Parties May Proceed to Contract
Negotiation Upon Commissioner
of Revenue's Approval of the
Application for a Contract**

CSHB 393
Flow Chart
3/17/98 :
page 2

**Commissioner of Revenue must
answer the following questions:**

1. Is the gas stranded?
2. Do the proposers meet the standards for Qualified Sponsors?
3. Is the proposed project a Qualified Project?

**Commissioner of Natural
Resources and Commissioner
of Revenue must answer the
following questions:**

1. Does the Project Plan provide for diligent development?
2. Is there a satisfactory plan for providing gas to local communities?

If the answer is "yes" to all five questions pertaining to the review of the application, then the Commissioner of Revenue may decide to proceed to contract negotiations to provide for periodic payments in lieu of taxes.

The Commissioner of Revenue and the Commissioner of Natural Resources Negotiate a Contract with Sponsors that Provides for Payments in Lieu of Certain Taxes, Alaska Hire, Certain Royalty Arrangements, Gas for Communities and Revenue Sharing with Communities

CSHB 393
Flow Chart
3/17/98:
page 3

The Commissioner of Revenue may, with respect to contract fiscal terms, develop payments in lieu of certain state or municipal oil and gas, income, property, or other taxes. Fiscal terms shall:

1. Improve the competitiveness of the Alaska project
2. Function effectively under a wide range of economic and market conditions
3. Link the State's share to project profitability (make tax "progressive")
4. Make State's share "backend loaded"-lower tax rates in earlier years, higher rates in later years
5. Allow Sponsor a share of the project's return commensurate with the Sponsor's assumed risk
6. Have the State's share increase under favorable price and cost conditions
7. Be clear and unambiguous
8. Base payment terms on actual costs if possible, or formulae

In addition to fiscal terms, the contract shall also:

1. Provide for Alaska Hire within the limits of Constitutional restrictions
2. Provide gas for Alaska communities
3. Provide for a fair and reasonable sharing of revenue with affected communities. Development of municipal revenue sharing terms shall be based on the following:
 - i. The size of the tax base that would be exempted
 - ii. The anticipated economic and social burdens imposed on a municipality from a project
 - iii. The need for stable and predictable payments
 - iv. The eight fiscal principles outlined above.

With the concurrence of the Commissioner of Revenue, the Commissioner of Natural Resources may negotiate terms to include in the contract that:

- A. Provide for a method for valuing the gas for royalty purposes; and
- B. Modify the rights of the State to take royalty in-kind rather than in-value.

The Commissioner of Revenue notifies the mayors of the affected communities and they establish the Municipal Advisory Group. One member from each affected community is appointed to serve on the group. The Commissioner of Revenue must:

1. Consult with the Municipal Advisory Group on the development of municipal revenue sharing terms
2. Consult with the Municipal Advisory Group about issues affecting the communities during negotiations.

**The Commissioner of Revenue
Completes Contract and Makes
Preliminary Findings**

**Public and Legislature
Review Proposed
Contract**

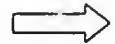
CSHB 393
Flow Chart:
3/17/98
page 4

Commissioner of Revenue completes contract and makes preliminary findings and a determination that the contract is in the long term fiscal interests of the State. With an affirmative finding the Commissioner shall:

1. Submit the proposed contract to the Governor.
2. Make the findings, contracts and supporting data available for public and legislative review



A period of at least 30 days begins for the public and the legislature to review and comment upon the proposed contract and findings.



**The Commissioner of Revenue
Reviews the Contract in Light of
Public Comment and May Seek to
Amend the Contract**

**The Legislature Considers
Legislation to Authorize the
Executive Branch to Execute
the Contract**

CSHB 393
Flow Chart.
3/17/98:
page 5

The Commissioner submits the proposed contract and final findings to the Governor. The Governor submits the findings and proposed contract together with a bill requesting authority to execute the contract to the legislature.

The Commissioner of Revenue prepares a summary of public comments. After consultation with the Commissioner of Natural Resources and the Municipal Advisory Group, the Commissioner of Revenue:

1. May develop proposed amendments to the contract and attempt to secure Sponsor agreement to the proposed amendments
2. Make final findings and a determination that the contract is in the long term fiscal interest of the State.

**The Executive Branch and the
Sponsors Execute the Contract**

If the legislature grants the executive branch the authority to execute the contract, then the Governor must do so within 60 days of the effective date of the authorizing legislation.

CSHB 393 Flow Chart

*The Alaska Stranded Gas
Development Act*

CSHB 393
Flow Chart,
3/17/98: page 1

Project Sponsors Apply

Project Sponsors
Requirements

Defined terms

What is STRANDED GAS?

Gas that is uneconomic or uncompetitive to develop.

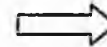
What is a QUALIFIED PROJECT?

A project that would develop and market 500 bcf of STRANDED GAS over a twenty year period and make gas available to local communities.

What does it take to be a QUALIFIED SPONSOR?

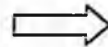
- An intent to own an equity interest in the project or have the major permits necessary to construct the project; and
1. Own some or all of the stranded gas; or
 2. Have a right to purchase some of the stranded gas; or
 3. Have the financial strength to construct the project.

A QUALIFIED SPONSOR may apply to the Commissioner of Revenue for a contract to make payments in lieu of certain state and local taxes for a QUALIFIED PROJECT to develop STRANDED GAS



Proposed project sponsors applying for a contract must establish:

1. That gas is stranded gas.
2. That they are Qualified Sponsors.
3. That the proposed project is a Qualified Project.
4. That there is a Project Plan that reflects a proposal for diligent development of the gas, and includes reasonable provisions for providing gas to local communities.



**Commissioners of Revenue and
Natural Resources Review
Application**

**Parties May Proceed to Contract
Negotiation Upon Commissioner
of Revenue's Approval of the
Application for a Contract**

CSHB 393
Flow Chart
3/17/98 :
page 2

**Commissioner of Revenue must
answer the following questions:**

1. Is the gas stranded?
2. Do the proposers meet the standards for Qualified Sponsors?
3. Is the proposed project a Qualified Project?

**Commissioner of Natural
Resources and Commissioner
of Revenue must answer the
following questions:**

1. Does the Project Plan provide for diligent development?
2. Is there a satisfactory plan for providing gas to local communities?

If the answer is "yes" to
all five questions
pertaining to the review
of the application, then
the Commissioner of
Revenue may decide to
proceed to contract
negotiations to provide
for periodic payments in
lieu of taxes.

The Commissioner of Revenue and the Commissioner of Natural Resources Negotiate a Contract with Sponsors that Provides for Payments in Lieu of Certain Taxes, Alaska Hire, Certain Royalty Arrangements, Gas for Communities and Revenue Sharing with Communities

CSHB 393
Flow Chart
3/17/98:
page 3

The Commissioner of Revenue may, with respect to contract fiscal terms, develop payments in lieu of certain state or municipal oil and gas, income, property, or other taxes. Fiscal terms shall:

1. Improve the competitiveness of the Alaska project
2. Function effectively under a wide range of economic and market conditions
3. Link the State's share to project profitability (make tax "progressive")
4. Make State's share "backend loaded"-lower tax rates in earlier years, higher rates in later years
5. Allow Sponsor a share of the project's return commensurate with the Sponsor's assumed risk
6. Have the State's share increase under favorable price and cost conditions
7. Be clear and unambiguous
8. Base payment terms on actual costs if possible, or formulae

In addition to fiscal terms, the contract shall also:

1. Provide for Alaska Hire within the limits of Constitutional restrictions
2. Provide gas for Alaska communities
3. Provide for a fair and reasonable sharing of revenue with affected communities. Development of municipal revenue sharing terms shall be based on the following:
 - i. The size of the tax base that would be exempted
 - ii. The anticipated economic and social burdens imposed on a municipality from a project
 - iii. The need for stable and predictable payments
 - iv. The eight fiscal principles outlined above.

With the concurrence of the Commissioner of Revenue, the Commissioner of Natural Resources may negotiate terms to include in the contract that:

- A. Provide for a method for valuing the gas for royalty purposes; and
- B. Modify the rights of the State to take royalty in-kind rather than in-value.



The Commissioner of Revenue notifies the mayors of the affected communities and they establish the Municipal Advisory Group. One member from each affected community is appointed to serve on the group. The Commissioner of Revenue must:

1. Consult with the Municipal Advisory Group on the development of municipal revenue sharing terms
2. Consult with the Municipal Advisory Group about issues affecting the communities during negot. cons.

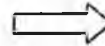
**The Commissioner of Revenue
Completes Contract and Makes
Preliminary Findings**

**Public and Legislature
Review Proposed
Contract**

CSHB 393
Flow Chart:
3/17/98
page 4

Commissioner of Revenue completes contract and makes preliminary findings and a determination that the contract is in the long term fiscal interests of the State. With an affirmative finding the Commissioner shall:

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CSHB 393
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3/17/98:
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The Commissioner submits the proposed contract and final findings to the Governor. The Governor submits the findings and proposed contract together with a bill requesting authority to execute the contract to the legislature.

**The Executive Branch and the
Sponsors Execute the Contract**

If the legislature grants the executive branch the authority to execute the contract, then the Governor must do so within 60 days of the effective date of the authorizing legislation.



Official Business

Alaska State Legislature

SENATE

State Capitol
Juneau, AK 99801-1182

Senate Labor & Commerce Committee

*=expected to be present

*CHAIRMAN, Senator Leman
*VICE CHAIRMAN, Senator Mackie
*Senator Miller
*Senator Kelly
*Senator Hoffman

AGENDA
Thursday, April 30, 1998
1:30 p.m.
Fahrenkam? Room

Teleconference: ANC, FBX, Kenai, Valdez, offnets

CONFIRMATION HEARING:

Occupational Safety and Health Review Board
Dennis Davidson - Anchorage (ANC LIO)

HB 393: Develop Stranded Gas Resources
By House Rules Committee by Request of the Governor,
Sponsor

Expected Witnesses:

Representative Mark Hodgins to present legislation
Commissioner Wilson Condon, Commissioner, Department of Revenue
Commissioner John Shively, Commissioner, Department of Natural
Resources

Mike McCarthy, Senior Advisor for Alaska Interests Organization
(offnet: (713) 656-6146)

Jack Keating/Paul Reichart, University of Alaska (offnet: (907) 474-7096)

NEXT MEETING:

To be announced: 24 Hour Rule begins today

ADJOURN

04/30/98
13:50:37

LEGISLATIVE TELECONFERENCE NETWORK SYSTEM
PARTICIPANT LIST (ALL PARTICIPANTS)
TCN:80751 SCHEDULED FOR:04/30/98 13:30 TO 15:00
PUBLIC HEARING SENATE LABOR & COMMERCE

LTN1150
BY:ANC
FOR:ANC

LOCATION: ANCHORAGE

✓HB 393	MIKE	MACY		TESTIFY
HB 393	BARBARA	HUFF (LEFT)		TESTIFY
✓HB 393	JIM	SYKES	OILWATCH AK	TESTIFY
✓ALL ITEMS	DENNIS	DAVIDSON (CONFIRM)	OSHA BD APPT	TESTIFY
ALL ITEMS	JOHN	ABSHIRE (CONFIRM)	WORKERS COMP BD	TESTIFY

04/30/98 14:05:26 LEGISLATIVE TELECONFERENCE NETWORK SYSTEM
MESSAGE FROM: LIOCJEN IN ANCHORAGE

LTN1120
JNU

RE TCN: 80751 SCHEDULED FOR:04/30/98 13:30 TO 15:00
SPONSOR: SENATE LABOR & COMMERCE PURPOSE: PUBLIC HEARING

MESSAGE TEXT: MIKE MCCARTHY IS ON LINE AND IN LO (LISTEN ONLY)
OFFNET

04/30/98 14:04:57 LEGISLATIVE TELECONFERENCE NETWORK SYSTEM
MESSAGE FROM: LIOCJEN IN ANCHORAGE

LTN1120
JNU

RE TCN: 80751 SCHEDULED FOR:04/30/98 13:30 TO 15:00
SPONSOR: SENATE LABOR & COMMERCE PURPOSE: PUBLIC HEARING

✓MESSAGE TEXT: DR. JACK KEATING, OF FAIRBANKS IS ON
LINE AND MAY WANT TO T.
OFFNET



COMMITTEE: SENATE
LABOR AND
COMMERCE

Subject of meeting:
HB 393 - DEVELOP STRANDED GAS
RESOURCES

DATE: APRIL 30

SIGN-IN

PLEASE PRINT!

NAME

ADDRESS (MAILING) & (ZIP)

PHONE

REPRESENTING

DO YOU
WANT TO
TESTIFY?

✓ GEORGE FINDERLING	Box 100360 Anchorage, AK 99570	243-4174	ARCO	Yes
✓ David Brooks	P.O. Box 196612 Anchorage AK 99519	564-4201	BP Exploration	Yes
✓ Beverly Mendzer	P.O. Box 2180 Houston, TX 77005	913- 656-6145	Exxon USA	Yes
Paul Fullis		790 - 3030	YP	Yes
Pam LaBalle	217 2nd St #174 Juneau	586-2323	AK State Chamber	Yes



TELECOPY COVER SHEET

Anchorage Legislative Information Office
Office - (907) 561-7007 Fax - (907) 562-4376

TO: Senate Labor & Commerce

ATTN: _____ FAX: 465-3810 PHONE: _____

FROM: Jim Sykes PHONE: _____

INSTRUCTIONS: Testimony for HK.393

SENT: Date 4-30 Time 1:30

DISPOSAL OF ORIGINAL: Discard _____ Hold for Pickup _____

NUMBER OF PAGES: 5 (counting cover sheet)

TRANSMITTED BY: AS

APR 30 1998

OILWATCH ALASKA

PO Box 101553 Anchorage, AK 99510 ●● Ph: 907-277-8910 Email: oilwatch@alaska.net

April 29, 1998

TESTIMONY ON HB 393

TO: Senate Labor and Commerce Committee, Chairman Lemman and Senators Mackie, Kelly, Miller, and Hoffman

FR: Jim Sykes, Executive Director of Oilwatch Alaska, a nonpartisan, nonprofit, independent organization of Alaskans who work for open government and fairness on matters of our commonly owned oil and gas resources.

Mr. Chairmen and Members of the Committee,

Serious questions remain to be worked through before HB393 can become a viable piece of enabling legislation to take advantage of a potential opportunity which may or may not happen. The legislature has the constitutional obligation to ensure that Alaskans get a fair return for our nonrenewable oil and gas resources. We must reflect carefully on Alaska's role in the world's energy picture as we proceed. The March issue of Scientific American cites forecasts that by the year 2010 crude oil demand will outstrip production by 10 billion barrels. As Alaskans we need to be extremely careful how we use our one-time savings account of petroleum resources. Meetings between Oilwatch board members and the State's consultant Dr. Pedro Van Mueres and Yukon Pacific Corporation have helped to shed light on some areas of concern that we bring forward:

- 1) In the course of optimism for a gasline project and hope for high gas prices there has been almost no discussion about the downside risks and effects that a project could impose on the State.
- 2) In the current form of HB 393 there is no legal assurance that a renegotiated contract by the administration will in fact "fully and fairly compensate the people of the State of Alaska" for the severance of publicly-owned resources or other public costs.

- 3) The payment in lieu of taxes scheme is risky in several ways.
- 4) How do we ensure a competitive environment for development of gas resources that is free from anti-trust concerns that have recently come to light regarding the Trans-Alaska Oil Pipeline in "The Big Squeeze" by Dr. Richard Fineberg?

House
The Resources Committee has heard testimony about hopeful opportunities for a Trans-Alaska gas line. While it is true there may be an opportunity for Alaska because of the current Asian financial crisis, there are also downsides which have not been explored. Please note that the Van Mueres report was written prior to the Asian financial crisis, which is one reason that our recent conversation with him was of timely interest. Van Mueres acknowledged that there is the possibility that cash starved Asian countries may be willing to grant greater concessions to get gas extraction activities started at almost any price, which could effectively hurt Alaska's already uncompetitive position more adversely. It is also possible that large amounts of gas from other countries could flood the world market after Alaska's project came online, which could result in Alaska making no significant money for the stranded gas. A long low gas price scenario is a very real possibility. Legislators are going to great lengths to "do what it takes to make the a gasline project profitable," but in reality we can't make the project profitable if it is not. We cannot make world gas prices rise because we want them to. And we cannot afford to give our valuable resources away.

The current impetus in HB 393 for the state to negotiate a "flexible" contract where the state takes less when gas prices are low and more when gas prices are high is a true risk for Alaska's citizens and resources. As Dr. Van Mueres told us, "The world does not need Alaskan gas...Iran has 35 projects the size of Alaska's." The main question is, "What are we prepared to give up to try and make a gasline project feasible?" A Trans-Alaska gas pipeline has been on the horizon for over 20 years now, and if it could be profitable, it probably would have been built by now. Yukon Pacific has said that there will be plenty of money for everyone if the project is done right. How can we get that assurance?

We need to move conservatively to ensure that our nonrenewable resources bring their highest possible value to the State even if timing means a delay of several years. I would like to address questions raised by Representative Barnes in the earlier part of today's meeting regarding timing. Since HB393 does not specifically define whether the project will be LNG or GTL, I am reminded by Dr. Van Mueres' view that a gas pipeline would yield a ballpark \$75 billion to \$80 billion in taxable

product, i.e. natural gas. Large corporations who lease our natural gas could take the same resource and leave about \$15 billion in taxable gas liquids at one-sixth the present value of natural gas. If they made diesel with current GTL technology, which is not currently taxed by the State of Alaska, it could be extremely profitable for the petroleum companies--profit which would flow to the stockholders of the corporations rather than the State of Alaska. I asked Van Mueres why anyone in their right mind would go along with GTL when LNG is obviously more beneficial, and he replied that GTL would be a backstop opportunity if a pipeline project did not materialize. One can see there is really a lot to consider about how the downstream use of our natural resources directly affects the economic benefits to the State.

I urge this ^{Labor and Commerce} ~~Resources~~ committee to reconsider the payment in lieu of taxes scheme proposed by HB393 before passing the bill out. The two-tier system of identifying impacted communities still leaves the open question whether or not "periodic payments" to municipalities will be adequate to compensate for the real costs of providing schools, public safety and other services for the influx of workers associated with a big project. One can easily envision a scenario where Anchorage and Mat-Su might be more impacted than communities in the pipeline corridor. Both corridor and non-corridor communities could make their case to the Revenue Commissioner who is obligated to come up with some sort of payout directly from the qualified company. It is easy to imagine that the needs of the communities would outstrip the ability of the pipeline builder to pay for the up front costs. It is hard to see how advance payments will be substantially different than raising revenue through taxes, since the needs will be the same regardless of which method is used to pass money from the qualified company to municipalities. Fairbanks Borough Mayor Hove stated that if they added up all the potential funds that need to be addressed it could turn this project upside down. Hove said the sum would exceed the sum of taxes that could be gathered the first 5 years.

As former Governor Hammond would probably say, the only way to ensure that those who benefit from working in Alaska support the services that are required is to have an income tax--something that is not part of HB393. There is the larger question of whether local communities should go into bonded indebtedness for the benefit of a for-profit corporation which may or may not succeed.

The area of anti-trust is important, because the State of Alaska has left an estimated \$4.5 billion to \$9.2 billion in royalties and taxes [*The Trans-Alaska Pipeline System: The Causes of Regulatory Failure*, Antony Scott, 1996] that Alaska's citizens probably deserved in return for the extraction of their petroleum resources. That would raise our permanent fund to the neighborhood of \$30 billion dollars

instead of where it is today. The state has not demonstrated its ability to adequately regulate the oil industry for maximum the benefit of its citizens. Please refer to *The Big Squeeze* written by Dr. Richard Fineberg for a history of settlements that bring to light questions of anti-trust violations and enormous losses of revenue for Alaskans. The legislature should be aware that there are anti-trust actions before Federal Energy Regulatory Commission, [Oxy] and before courts in Alaska, [Maritime Endeavor v. Alyeska]. Not only do we need to consider our gas as a competitive product on the world market, but we need to ensure competition in producing the gas provides Alaskans the maximum possible value for the extracted resources.

HB 393, in its current form, risks reasonable return on resources and adverse impacts to affected communities. A thorough examination of potential economic downsides needs to take place as well as inquiry into the anti-trust realm. In short, HB 393 needs some additional work.

Thank you for the opportunity to testify. I will be glad to answer any of your questions.



Jim Sykes, Executive Director

TONY KNOWLES
GOVERNOR



HB 393
P O Box 11000
Juneau Alaska 99811 0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 9, 1998

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear ^{Gail} Speaker Phillips:

Today I am transmitting the Alaska Stranded Gas Development Act to advance the development of Alaska's vast supply of North Slope natural gas. This legislation follows the recommendations of the North Slope Gas Commercialization Team which was established by legislation last year to build a framework to improve the economic feasibility and competitiveness of a North Slope gas project.

The bill authorizes the state to negotiate contracts with project sponsors to improve the economic feasibility of developing stranded gas on the North Slope. Contract payments would replace some or all of the state and municipal taxes applicable to the gas project including: 1) state and municipal ad valorem property taxes; 2) production or severance taxes; and 3) state corporate taxes. The state's royalty share of produced gas would not be subject to such a contract. Contract payments would be designed to improve project economics by "back-end loading" tax liabilities to allow project investors to begin to recoup some of their investment before facing a heavy tax burden. The contract payments would also be designed to provide the state with an increased share of the project's revenue if energy prices increase or if the sponsors are able to substantially decrease anticipated project construction costs.

Such contract payments were envisioned in both the House Concurrent Resolution relating to North Slope gas and the gas commercialization team bill passed last year. While the bill is unique in many respects, there are precedents for this type of incentive. For example, the LNG project on the Kenai Peninsula, which provides significant jobs and production and property tax revenue, benefited directly from the Alaska Industrial Incentive Act which provided tax advantages critical for development.

There are several major benefits to the approach authorized in the bill. Fiscal arrangements can be tailored to the specific economics of a gas project. Contractual

The Honorable Gail Phillips
February 9, 1998
Page 2

payments are more likely to provide predictability for potential investors in a project. This method also addresses the critical element of local taxes by providing a mechanism for ensuring a steady payment stream to municipalities over the life of the contract.

Local hire and the use of local businesses in any project are also stressed in the legislation. Employers participating in the project are required to advertise locally for available positions, use Alaska job service organizations, and employ qualified Alaska residents and Alaska-owned businesses to the full extent permitted by law.

Any contract negotiated by the Administration would be subject to legislative review and public hearing. Additionally, I would encourage the legislature to require legislative approval of a contract because of the appropriate role of the legislature in such a unique and significant decision. Furthermore, if such a contract in lieu of taxes was considered a tax, the legislature may well be required to approve such action by law.

The bill recognizes that in the process of negotiating a contract it may be necessary to review confidential company data if the state's best interests are to be advanced. The bill strikes a balance between the public's right to review the basis for the contract and the company's right to protect proprietary information from their competitors. Confidentiality of proprietary information is limited to items that, if revealed, would both affect a company's competitive position and significantly diminish the commercial value of the information.

The Stranded Gas Development Act is a critically important step in our efforts to realize the benefits of the enormous gas resources on the North Slope. While it is true a number of other factors must be addressed before a North Slope gas project becomes a reality, such as project cost reductions, market conditions, and the need for more favorable federal tax laws, this bill lays the necessary groundwork for our success. I urge your prompt and favorable action on this measure.

Sincerely,



Tony Knowles
Governor

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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

March 11, 1998

SUBJECT: Gas projects (CSHB 393(O&G))

TO: Representative Mark Hodgins, Chair
House Special Committee on Oil and Gas

FROM: Tamara Brandt Cook
Director *TBC*

Here is a draft committee substitute you requested of a bill originally introduced by the governor. I have some comments.

(1) The bill as introduced does not seem to comply with Art. IX, sec. 1 of the state constitution which states:

The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided in this article.

Under AS 43.82.210 in the bill, a contract will contain terms that substitute periodic payments in lieu of taxes. These contract terms will, I suppose, be expected to prevent the state from later changing the law and imposing those taxes as a result of the federal and state prohibitions on the impairment of contracts. (Art. I, sec. 15, Constitution of the State of Alaska) The problem is that this is exactly the kind of contract that is prohibited under Art. IX, sec. 1. While the state may certainly provide for a tax exemption, I do not think it is possible for the state to give up its power to repeal the exemption and impose the tax in the future. Any contract that has that effect will probably be void as against public policy.

(2) AS 43.82.230(a) requires the commissioner of revenue to include in a contract a term requiring contracting with and employment of state residents, "within the constraints of law..." As a practical matter, there is little chance that such a term could ever be included. (*Hicklin v. Orbeck*, 565 P.2d 159 (Alaska 1977), rev'd on other grounds, 437 U.S. 518 (1978)) To the extent that the change made in this CS to the definition of "Alaska resident" adds a durational residency requirement of one year or longer, it is likely to be constitutionally invalid.

(3) The requirement added in AS 43.82.435 of this CS that the authority to enter into a contract be authorized by the legislature may violate the separation of powers doctrine. While the legislature may enact standards for the exercise of an executive power, it may generally not reserve the power to approve or authorize a particular action. For example,

Representative Mark Hodgins

March 11, 1998

Page 2

former AS 37.05.280, requiring legislative approval of certain leases of state office space, was held to violate the principle of separation of powers. (Marine View Chapter Juneau Tenants Association v. Alaska State Housing Authority, Superior Court, First Judicial District, 1JU-80-1037 Civ., Nov. 3, 1981) Currently the Procurement Code contains a similar lease approval requirement in AS 36.30.080, but at the time of the Code rewrite, a representative of the Attorney General's office testified that the provision was invalid. Likewise, the executive branch has, for many years, taken the position that the requirement for legislative approval of royalty oil contracts is unconstitutional (See Governor's transmittal letter for SB 164 dated April 22, 1995, Senate Journal, pages 1190-1191) Note, however, that while the executive branch has consistently, and, in my view, correctly, asserted that legislative approval provisions are unconstitutional, it has often conformed to them to accommodate the legislative desire for oversight.

pg 20
(4) AS 43.82.400 uses the term "^{STATE}public revenue." I don't know what that means.

pg 22
(5) The definition of "uneconomic or uncompetitive" added in paragraph 12 of AS 43.82.900 in this CS is not useful. That phrase is not used in the bill at all except in the paragraph (11) of the same section. Taken together the net result of both the definitions is to define "stranded gas" as follows: (11) "stranded gas" means gas that is not being marketed due to prevailing cost or price conditions as determined by an economic analysis by the commissioner. Is that a good definition for your purpose? If so, I suggest you substitute it for paragraphs (11) and (12).

(6) In AS 43.82.510 added by this CS it is presumed that more than one municipality will be affected and so several members will be appointed to the group. What if only one municipality is affected? **THERE IS MORE**

(7) In AS 43.82.200(2)(A) and (B) are mutually exclusive. Does this make sense?

(8) AS 43.82.300 is unclear to me. Upon approval of an application, a commissioner can request certain information, but, if the information is not provided, the commissioner is prohibited from continuing to review the application. Hasn't the application already been approved? What, then, is left to review?

TBC:lmb
98-035.lmb

Enclosure

TONY KNOWLES, GOVERNOR

PLEASE REPLY TO

■ 1031 WEST 4TH AVENUE SUITE 200
ANCHORAGE, ALASKA 99501-1251
PHONE (907) 269-5100
FAX (907) 276-3697

□ KEY BANK BUILDING
100 CUSHMAN ST SUITE 400
FAIRBANKS ALASKA 99701-3477
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FAX (907) 451-2848

□ P.O. BOX 110300-DIMOND COURT
JUNEAU, ALASKA 99811-0300
PHONE (907) 465-3600
FAX (907) 465-6725

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 13, 1998

Representative Marc Hodgins
Chairman, Special Committee on Oil and Gas
State Capitol Room 110
Juneau, AK 99801-1182

VIA FACSIMILE AND FIRST CLASS MAIL

Re: CSHB 393 (Stranded Gas Development Act)

Dear Representative Hodgins:

At the March 10, 1998, Special Committee on Oil and Gas hearing on CSHB 393 (Stranded Gas Development Act), you asked whether the proposed legislation could go further in requiring Alaska hire without running afoul of the Alaska and U.S. Constitutions. For the reasons set out below, in our opinion the provisions in the legislation before you, with the changes proposed by Commissioner Condon, likely go as far as the courts would allow.

As I briefly discussed at the hearing, the courts have historically found Alaska local hire laws unconstitutional, either under the privileges and immunities clause of the U.S. Constitution or under the equal protection clause of the Alaska Constitution. In *Hicklin v. Orbeck*, 437 U.S. 518 (1978), under the privileges and immunities clause, the U.S. Supreme Court struck down an Alaska local hire law that applied to all employment which was the "result" of state oil and gas leases and required Alaskan residents be hired in preference to nonresidents so long as Alaskans were available. The *Hicklin* court held that employment in the construction industry was a fundamental right entitled to the protection of the privileges and immunities clause, and discrimination against nonresidents would only be permitted if there were a substantial reason justifying the discrimination. The State failed to prove that nonresidents were a "peculiar source of the evil of unemployment."

Following the *Hicklin* decision, the Legislature enacted a narrower local hire statute which required public construction contractors to have a work force that included at least 90% Alaska residents. In *Robison v. Francis*, 713 P.2d 259 (Alaska 1986), the Alaska Supreme Court, again, under the privileges and immunities clause of the U.S. Constitution, held the statute unconstitutional. The court rejected the State's argument that nonresident construction workers were a "peculiar source of unemployment problems in Alaska" because they took construction jobs that would otherwise be taken by Alaska residents. The court upheld the superior court's finding that the nonresidents were no more a peculiar source of unemployment in the construction industry in Alaska than they would be in any other state. *Robison*, 713 P.2d at 266. In addition, the court upheld the superior court's finding that in Alaska there may be many other sources of unemployment -- climatic extremes, the absence of construction activities in rural areas, and the lack of training in rural areas.

TO: MARC HODGINS, Chairman, Special Committee on Oil and Gas
RE: HB 393 (Stranded Gas Development Act)

March 13, 1998

Page 2

Following *Robison*, in 1986, the Legislature amended AS 36.10 to require contractors on public construction projects to give hiring preferences to residents of economically distressed zones. In *State v. Enserch Alaska Constr. Inc.*, 787 P.2d 624 (Alaska 1989), the Alaska Supreme Court held that the hiring preference for economically distressed zones provided for in AS 36.10 violated the equal protection clause of the Alaska Constitution. The court reasoned that the disparate treatment of unemployed workers in one region in order to confer an economic benefit on similarly situated workers in another region is not a legitimate legislative goal. *Enserch*, 787 P.2d at 634.

With the background of these cases, in our opinion it is unlikely that CS HB 393 could contain significantly more substantial, or quantifiable, Alaska Hire provisions without running afoul of the Alaska and U.S. Constitutions. At this time, far in advance of pipeline construction, it would be highly questionable whether one could reasonably establish nonresident workers as a peculiar source of evil, not knowing future employment conditions in the State.

It is our understanding that CS HB 393 contains a new subsection (c) to Section 43.82.230 which would provide that "[s]ubject to the voluntary agreement of the qualified sponsors the commissioner may include a term in the contract providing for incentives to encourage training and hiring of Alaska residents." As I briefly discussed at the hearing, for a variety of reasons, a sponsor may, in a manner similar to the Northstar example, voluntarily commit to substantive Alaska hire goals that the State may not mandate through legislation. Moreover, these incentives would be more contemporaneous with pipeline construction and could, presumably, be more closely tailored to addressing future employment conditions in the State. Therefore, this proposed language may help address your concern that the legislation contains the tools by which the State may obtain more solid assurances of Alaska hire.

I hope this letter addresses your questions. If you have additional questions or concerns, please let me know.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By:



Lawrence Z. Ostrovsky
Assistant Attorney General
Oil, Gas & Mining Section

cc: Commissioner Condon
Pat Pourchot
Jack Griffin
Ed Flanagan
Mary Marshburn

LZO/mb

DEPARTMENT OF REVENUE

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MAR 28 1998

March 26, 1998

The Honorable Representative Mark Hodgins
Alaska State Legislature
State Capital
Room 110
Juneau, Alaska 99801-1182

Dear Representative Hodgins:

At a recent hearing on HB 393 – The Stranded Gas Development Act – you asked how the difference between real and personal property may have a bearing on the implementation of the oil and gas property tax in this state. I apologize for the delay in getting this response to you.

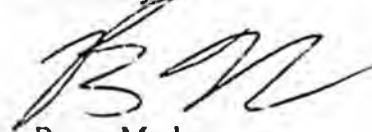
AS 43.56, the state's 20-mill property tax on oil and gas property, makes no differentiation between real and personal property. It simply taxes any property used for production, exploration, or pipeline transportation of oil or gas.

Municipalities also collect taxes on this property under AS 29.45.080. Taxes paid to the municipalities under AS 29.45.080 are credited against amounts owed to the state under AS 43.56. The municipal portion is at the same mill rate applied to other property taxed by the municipality.

As long as a municipality has a property tax it can collect taxes on oil and gas property if taxed by the state. Thus the distinction between real and personal property is moot.

I hope this answers your question. If you have any questions please call me at 343-9257. Thank you.

Sincerely,



Roger Marks
Petroleum Economist

State of Alaska
Office of the Governor

Tony Knowles
Governor
P.O. Box 110001
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NEWS RELEASE



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FOR IMMEDIATE RELEASE: February 9, 1998

98-031

KNOWLES' BILL ENCOURAGES GASLINE DEVELOPMENT. JOBS
Bill includes Provisions for Alaska Hire, Gas for Alaska Communities

Legislation that encourages development of Alaska's enormous North Slope natural gas reserves, while providing for the hire of Alaska workers and use of Alaska businesses and gas for Alaska communities, was transmitted to the Legislature by Gov. Tony Knowles today.

"The challenge we face is to bring the North Slope's vast natural gas reserves to market in a cost-effective manner, while still making sure it's a good deal for Alaskans," Knowles said. "This legislation allows the state to negotiate a tax structure that provides the incentives producers need to develop this resource in a highly competitive world market, while securing commitments from the producers to hire Alaskans, use Alaska businesses and provide gas for Alaska communities."

The result of nearly a year's work by Knowles' Gas Commercialization Team, the legislation authorizes the state to negotiate with the sponsors of a gas line project for payments in lieu of taxes that otherwise would be imposed by the state or a municipality. This would include state and local property taxes; sales and use taxes; production or severance tax; and state corporate income tax. For municipalities, the bill provides the option of an equity interest in the project in lieu of taxes.

The idea is to create a progressive tax structure that shifts the tax burden from the beginning of a project to later years when producers are realizing the profits from their investment. Such "back-end loading" of the tax burden is intended to reduce the risks and improve the economics of a gas project that might not otherwise be developed.

In return, the bill clearly spells out that Alaska communities must have access to the clean-burning energy and describes terms regarding the notification, recruitment and employment of Alaska residents and Alaska businesses on the project. The bill requires contractors to advertise in-state and use Alaska job service organizations in recruitment efforts.

Experts estimate there are 35 trillion cubic feet of natural gas on the North Slope, some of which is currently re-injected into the Prudhoe Bay fields to increase oil production. This gas is America's second largest reserve of hydrocarbon energy, second only to

Prudhoe's oil fields. Alaska's major gas owners are BP, ARCO, Exxon and the state. The state's 12.5 percent royalty share of the gas is not changed in Knowles' legislation.

"An Alaska natural gas project makes good sense for many reasons," Knowles said. "It will create an estimated 10,000 construction jobs and 600 permanent jobs for Alaskans. It will help stimulate the American economy, improve our balance of payments, and strengthen Alaska's relationship with our Pacific Rim trading partners. It provides millions of dollars to the state and federal treasuries and will make natural gas available to Alaska communities along pipeline route."

The bill requires that the Revenue Commissioner compare the projected in lieu payments with the estimated cost of additional state and local government services; address the effect of the proposed contract on the state's revenue; and determine whether the proposed contract terms are in the best interests of the state. Knowles called for the legislature to review and formally approve any contract terms after extensive public hearings.

In order to make that best interest finding, the legislation requires the disclosure of financial, technical and market information regarding the project that is necessary for the development of contract terms and describes the treatment of proprietary information.

Knowles' legislation is the culmination of several years of work. Knowles first negotiated a memorandum of understanding with North Slope gas owners on the steps needed to move the proposal ahead. Noted natural gas economist Dr. Pedro Van Meurs provided expert analysis on the world natural gas market and recommendations on state actions to make the project feasible. Last year, Knowles and the Legislature created the Gas Commercialization Team to examine the complex issues involved and draft the proposed legislation.

"In the past few years we have seen the gas line project go from impossible to improbable to now the doable," Knowles said. "This legislation is the next step forward. It allows the state to negotiate a long-term contract that improves the competitiveness of the project and provide the state with its fair share of the benefits. That contract must also address Alaska hire and contracting and payments to municipalities in lieu of taxes for social impacts of development. And it includes a plan to make gas available to Alaska communities.

"The major reason Alaska is as close to a natural gas project as it is today is the partnership between the legislative and executive branches of state government and industry," Knowles added. "This is a bipartisan issue that all Alaskans can support. I urge the Legislature's quick and careful consideration of this bill."

LNG demand, shipping will expand through 2010

Warren R. True Pipeline/Gas Processing Editor

The 1990s, especially the middle years, have witnessed a dramatic turnaround in the growth of liquefied-natural-gas (LNG; Fig. 1) demand which has tracked equally strong natural-gas demand growth.

Much of this growth has been for power generation in Asia, but even U.S. LNG demand in 1996 made a strong recovery (OG), Jan. 12, 1998, p. 33).

This trend was underscored late last year by several annual studies of world LNG demand and shipping.

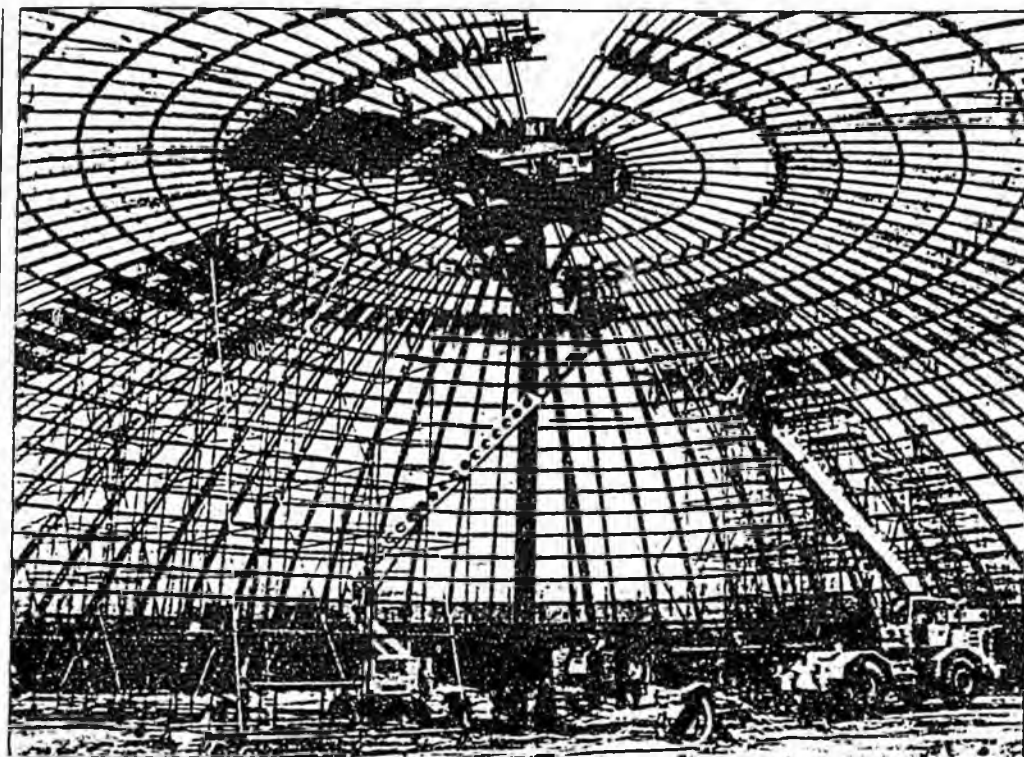
As 1998 began, however, economic turmoil in Asian financial markets has clouded near-term prospects for LNG in particular and all energy in general. But the extent of damage to energy markets is so far unclear.

Overall, nonetheless, demand growth in power-generation markets for natural gas including LNG appears likely to continue through 2000 if more slowly than was evident early in the 1990s.

A study by U.S.-based Institute of Gas Technology, Des Plaines, Ill., reveals that LNG imports worldwide have climbed nearly 8%/year since 1980 and account for 25% of all natural gas traded internationally. In the mid-1970s, the share was only 5%.

In 1996, the most recent year for which complete data are available, world LNG trade rose 7.7% to a record 92 billion cu m, outpacing the overall consumption for natural gas which increased 4.7% in 1996.

By 2015, says the IGT study, natural-gas use would surpass coal as the world's second most widely used fuel, after petroleum. Much of this growth will occur in the devel-



The dome for Tank No. 1 of Atlantic LNG's Trinidad project was installed late last year as the project moves toward start-up in 1999.

oping countries of Asia where gas use, before the current economic crisis began, was projected to grow 8%/year through 2015.

Similar trends are reflected in another study of LNG trade released at yearend 1997, this from Ocean Shipping Consultants Ltd., Surrey, U.K. The study was done too early, however, to consider the effects of the financial problems roiling Asia.

Global LNG demand will grow significantly through 2010, says Ocean Shipping's study, and result in eventual growth of seaborne shipping capacity.

World trade in LNG will expand to 122.7 billion cu m in 2000 and 155.8 billion cu m in 2005 from 92.5 billion cu m in 1995.

By 2010, LNG trade levels will reach more than 183 billion cu m, equivalent to an expansion of more than 4.5%/year during the 15-year period.

LNG trade expansion will be most dynamic near term, says Ocean Shipping, bolstered by expansion projects in Indonesia and Malaysia, along with new ones in Qatar, Oman, Nigeria, and Australia.

LNG imports, exports

IGT figures for 1996 (Table 1) show that almost 77% of the world's LNG was delivered to the three Asian countries, Japan, Korea, and Taiwan. Demand in the region rose nearly 9% that year.

Japan retained the title of world's largest LNG importer, with 61% of the total, but its

market grew only 5%. Since Korea began importing LNG more than 10 years ago, says IGT's study, its demand has grown 20%/year; in 1996, Korean imports grew 40% to 13 billion cu m.

The shock of currency devaluation and related economic woes in early 1998 will likely slow that growth.

Almost all the remainder of world LNG production went to Europe in 1996, where markets have remained static. That will change for 1997: Italy completed refurbishing its only terminal at Panigaglia and resumed imports from Algeria. Turkey nearly doubled its imports in 1996 and, says IGT, has an enormous appetite currently being fed by spot market purchases.

For exports (Table 2), Asia-

Oceania accounted for 70% of 1996 LNG production, the world's largest being Indonesia with 33% of total sales. Algeria regained its second-place standing after revamping its plants.

Exports from Malaysia rose 20% in 1996 with completion of the Dua plant. And at start of 1997, Qatar moved into ninth position as exporter and will likely be exporting more than 12 million metric tons/year by 2000.

Oman, Trinidad, and Nigeria will soon join the list of exporting countries, possibly by very late 1998.

Ocean Shipping says Japan will import nearly 80 billion cu m/year by 2010, 36% more than in 1995.

South Korea's commitment to gas use and LNG imports is reflected in a growth of about 314% in trade levels to 29.5 billion cu m/year by 2010.

Taiwan's imports will also see more than a threefold increase during 1995-2010, increasing to 14 billion cu m/year. Japan, South Korea, and Taiwan combined, the study said, will account for 70% of world LNG trade in 2010.

New markets in Thailand, India, China, and Philippines should boost LNG trade medium to long-term, although their combined share of trade by 2010 will only reach a 10% share-equivalent to 17.5 billion cu m/year.

Ships, routes

In its annual study of LNG shipping, Ocean Shipping found that, when combined with an increasing level of scrapping, worldwide natural-gas-demand projections suggest a steady rise in total newbuilding.

Records set

Near-term (to 2000) average newbuilding need, in terms of the prevailing fleet capacity, will rise to 8.2%/year from 7%/year. Medium to long-term growth rates will moderate, falling to 5-6%/year to 2010.

With Middle East exports of LNG to the Far East set to

expand the next 15 years, Ocean Shipping says improved economies of scale are likely with the construction of larger LNG carriers.

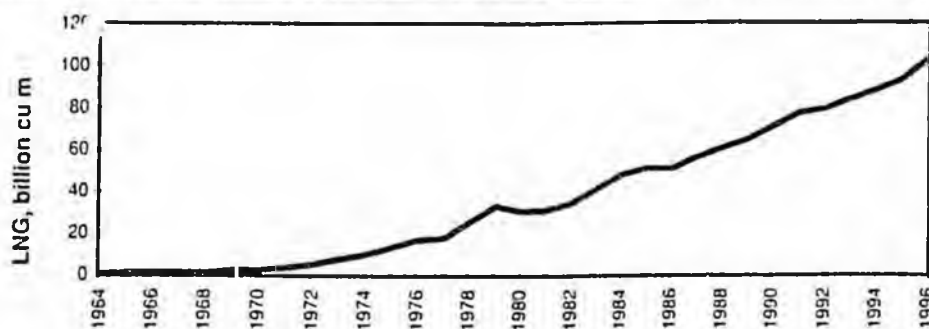
Port restrictions will be the main constraint to size expansion, with the construction of 175,000-200,000 cu m vessels considered feasible.

LNG newbuilding prices declined during the early 1990s but recovered by 1996 to within 2% of the peak 1991

level. Additional South Korean yards have entered the LNG market with first delivery in 1994, and competition has intensified.

Yards in France, Japan, and South Korea have begun tendering for new vessels, although the project-based nature of LNG trading still results in the majority of new orders being placed with domestic yards, says Ocean Shipping.

GROWTH OF WORLD LNG TRADE



Source: Institute of Gas Technology, Des Plaines, Ill.

CG

Table 1

LNG IMPORTING COUNTRIES, 1996

Country	Million metric tons	Billion cu m of gas	% of total	% change over 1995
Japan	44,237	56,034	60.93	4.50
Korea	9,470	11,995	13.05	35.99
Spain	5,568	7,053	7.67	0.19
France	5,104	6,466	7.03	0.13
France/Belgium*	0.165	0.209	0.23	-76.97
Belgium†	2,862	3,625	3.94	-5.96
Taiwan	2,575	3,262	3.55	5.55
Turkey	1,767	2,238	2.43	97.63
U.S.	0.850	1.077	1.17	124.35
Total	72,598	91,959	100	7.68

*Joint purchases from Abu Dhabi. †To this should be added 0.485 million cu m received by GdF for Distrigaz.

Source: Group internationale des importateurs du gaz naturel liquéfié, Paris.

Table 2

LNG EXPORTING COUNTRIES, 1996

Country	Million metric tons	Billion cu m of gas	% of total	% change over 1995
Indonesia	25,372	32,139	34.95	3.85
Algeria	14,412	18,256	19.85	8.94
Malaysia	12,112	15,342	16.68	29.11
Australia	7,151	9,058	9.85	2.19
Brunei	6,038	7,649	8.32	-0.64
Abu Dhabi	5,315	6,732	7.32	9.03
U.S.	1,312	1,662	1.81	-1.79
Libya	0.885	1.121	1.22	-18.99
Total	72,598	91,959	100	7.68

Source: Group internationale des importateurs du gaz naturel liquéfié, Paris.

The state of LNG shipping—volumes, vessels, and routes—is published annually by the Society of International Gas Tanker & Terminal Operators Ltd. (Sigtto), London. The most recent issue, LNG Log 22 for 1996, reflects the steady growth of LNG transport by sea.

In 1996, more than 1,750 voyages were completed by 91 vessels (Table 3). Loaded LNG vessels traveled nearly 4 million nautical miles and delivered more than 160 million cu m of LNG to 27 receiving terminals worldwide.

The number of voyages, nautical miles, and total cargoes for 1996 exceeded records set in 1995. Since 1964, says the Sigtto report, there have been only 2 years (1980 and 1981) when the amount of LNG discharged failed to exceed that of the previous year.

The year 1996 witnessed further concentration of LNG transport to and within the Far East. More than 124 million cu m (76.9% of the year's total volume) were discharged at Asian terminals to which vessels traveled on 1,129 voyages and during which they steamed 3.35 million miles, representing 84.4% of the worldwide total.

The number of vessel entries into Tokyo Bay, said the Sigtto report, increased to 429, equal to an arrival on average every 20.4 hr. In total since the maiden arrival of Polar Alaska at Negishi late in 1969, no fewer than 6,737 LNG carrier arrivals (27.2% of the 24,788 worldwide voyages logged to the end of 1996) have been

1996 LNG DELIVERIES*

Region	Voyages	%	Logged miles	%	Deliveries, cu m	%	Cu m-miles	%
Europe	619	35.1	556,299	14.0	35,414,792	21.9	42,802,552,972	10.1
Far East	1,129	64.0	3,347,277	84.5	124,232,414	76.9	375,915,663,314	88.3
U.S.	15	0.9	59,396	1.5	1,810,608	1.1	7,135,902,569	1.7
Total	1,763		3,962,972		161,457,814		425,854,118,855	

*As of Dec. 31, 1996

Source: LNG LOG 22, Sigito, London

recorded at the entrance to Tokyo Bay.

The cumulative amount of LNG landed has nearly doubled in the 7 years ending in 1996. Total number of voyages the study projected to have been completed by yearend 1997 was approximately 26,000.

Newbuildings, new routes

Five vessels made their initial cargo-carrying appearances in 1996, says LNG Log 22.

The fourth of five ships built at Chantiers de l'Atlantique for Petronas Tankers Sendirian Berhad, Puteri Zamrud, equipped with four Gaz Transport tanks of 130,568 cu m capacity, completed nine voyages from Bintulu to various terminals in Japan, Korea, and Taiwan.

Another Korean vessel, the Hyundai Greenpia, made her initial appearance late in the year and completed two voyages. She has a capacity of about 130,000 cu m contained in four Kvaerner spherical tanks.

Two new Liberian-flagged carriers for National Gas Shipping Co., Abu Dhabi, began service in 1996.

Mubaraz, the first vessel from the Kvaerner Masa yard in Finland, completed ten voyages from Das Island, Mraweh, the second of four vessels on order, made six deliveries.

Two more ships were delivered in 1997 bringing the National Gas fleet to eight vessels. Four earlier vessels were built in Japanese yards, says LNG Log 22.

Finally in 1996, the 19,474-cu m Surya Aki left the Kawasaki Heavy Industries yard at Sakaide, Japan. This Bahaman-registered ship,

owned by MCCC International and managed by P.T. Humpuss Sea Transport, Indonesia, has three Kvaerner spherical tanks and a 12,000-hp (8,827-kw) steam-turbine propulsion plant. The Surya Aki opened two new routes during the year.

There were seven routes in 1996 over which LNG was carried for the first time. Four were to Japanese destinations, including three newly opened receiving terminals; two others were in Spain; and the last, to the U.S. (Table 4).

In Japan, the three new terminals were the following:

- At Hatsukaichi, west of Hiroshima, the site of an installation of Hiroshima Gas Co. Ltd. and at which LNG from Bontang will be discharged. The Surya Aki completed five voyages over the Bontang-Hatsukaichi route in 1996.

- At Kogoshima, at the extreme southern end of the island of Kyushu, the terminal owned by Nippon Gas Co. Ltd.

- At Sodeshi, near Shizuoka, approximately midway between Tokyo and Nagoya, the terminal owned by Shizuoka Gas Co. Ltd.

In Europe, Spain's Enagas added two new port pairs to its network with routes between Marsa-el-Brega and Huelva and Das Island and Huelva.

Finally, Das Island was source of one cargo in 1996 for Everett, Mass., for Cabot; another followed in 1997.

LNG Log 22 says the first of these voyages, made by Khanur under charter to Cabot, marks the first call at a U.S. terminal since the Golar Freeze under charter to El Paso, arrived at Cove Point, Md., in March 1980.

Future vessels

Set to join the world's LNG fleet in 1997 were several vessels to serve Far Eastern receiving terminals.

Among these were the first of ten vessels to carry Qatar LNG from Ras Laffan to a new Japanese terminal at Kawagoe. Chubu Electric Corp., buyer of the gas, also has terminals at Chita and Yokkaichi in the Chubu region around Nagoya.

The first two of these vessels, actually handed over by the building yard before yearend 1996, are Al Zubarah and Al Knor, 135,000 cu m ships built by Mitsui and Mitsubishi, respectively, and to be operated by Mitsui OSK Lines and NYK.

Equipped with five Kvaerner spherical tanks, both are owned by a consortium consisting of Mitsui OSK, NYK, Kawasaki Kisen, Showa Line, and Iino Kaiun.

These were followed in 1997 by Al Rayan, from Kawasaki Heavy Industries, and Al Wajbah, from Mitsubishi. Later, six more vessels now being built will join the Qatar fleets. LNG Log 22 says that still more would undoubtedly serve the Ras Laffan plant in the future.

The last two vessels for Abu Dhabi's National Gas Shipping Co., Alhamra and Umm Al Ashtan, will be delivered by the Kvaerner Masa yard in Finland.

NKK Corp.'s Tsu, Japan, shipyard in mid-1997 launched Aman Sendai (OGJ, Oct. 20, 1997, p. 52), the second LNG carrier NKK has launched that uses the membrane-tank system. The 18,800-cu m Aman Sendai was built for Asia LNG Transport Sdn. Bhd. (ALT), Malaysia.

ALT is a shipping joint venture between Japan's Nippon

Yusen K.K. and Malaysia's PMSL Bhd. The first and sister vessel, the 18,800-cu m Aman Bintulu, was also built at NKK's Tsu works and delivered to ALT in October 1993.

The Aman Sendai was to be chartered by Malaysia LNG Sdn. Bhd. (MLNG) to transport LNG from Malaysia's Sarawak gas fields to Gas Bureau of Sendai, Miyagi Prefecture, on the Pacific Coast about 350 km north of Tokyo, according to NKK.

The city concluded a 20-year agreement with MLNG to purchase 150,000 metric tons (more than 7.3 bcf) of LNG annually from June 1997 and built a new LNG receiving terminal at its port.

Sendai's Gas Bureau is Japan's third medium-sized regional city gas utility to supply natural gas by directly importing LNG. Japan's three largest gas companies, in Tokyo, Osaka, and Nagoya, have already switched to LNG from LPG/naphtha.

In addition, NKK said in late 1997 that it had received a third order from ALT for another LNG carrier. The vessel, also to transport LNG for Saibu Gas, is under construction at NKK's Tsu shipyards and expected to be completed in September 1998.

LNG Log 22 reports that the last of the five "princesses" for Petronas Marine Sendirian Berhad was to be delivered in 1997 by Chantiers de l'Atlantique, of St. Nazaire. She is to be named Puteri Firuz.

In the future, Korea Gas Corp. has six ships on order for 1999 delivery, split among Hyundai, Samsung, Daewoo, and Hanjin. Moreover, seven additional vessels to be built by the same shipyards will follow in 2000 and later.

OPERATING LNG RECEIVING TERMINALS

Terminal and country	Owner	Start-up date	Vaporization design capacity, million cu m/day	Storage capacity, cu m of LNG	Source of supply	Expansion plans
Japan Negishi	Tokyo Gas Tokyo Electric	1959	53	1.25 million (16 tanks)	Alaska, Brunei	
Senboku I	Osaka Gas	1972	9	4 x 45,000	Brunei	
Sodegaura	Tokyo Gas Tokyo Electric	1973	110	2.66 million (35 tanks)	Brunei, Abu Dhabi, Malaysia, Indonesia	
Senboku II	Osaka Gas Kansai Elec Nippon Steel	1977	50	1.405 million (17 tanks)	Indonesia, Australia	
Tobata	Kyushu Elec. Nippon Steel et al	1977	25	8 x 60,000	Indonesia, Australia	
Chita	Chubu Elec Toho Gas	1977	25	4 x 75,000	Indonesia	
Himeji	Kansai Elec.	1979	17	6 x 80,000 1 x 40,000	Indonesia, Australia	
New Chita	Chubu Elec. Toho Gas	1983	33	6 x 80,000 1 x 160,000	Indonesia, Australia	
Nigata	Tohoku Elec. Nihonka LNG	1984	40	520,000 (6 tanks)	Indonesia, Australia	
Himeji Joint Terminal	Osaka Gas Kansai Elec.	1984	15	1 x 40,000 6 x 80,000	Indonesia, Australia	
Higashi-Ogishima	Tokyo Electric	1984	55	9 x 60,000	Malaysia, Indonesia	
Futtsu	Tokyo Electric	1985	60	4 x 90,000 2 x 125,000	Malaysia, Australia, U.S., Abu Dhabi	+250,000 cu m storage 1999. 250,000 cu m 2002. 250,000 cu m 2004
Yokkaichi	Chubu Elec.	1987	23	4 x 80,000	Australia, Indonesia	
Yanai	Chugoku Electric	1990	9	6 x 80,000	Australia, Indonesia	
Oita	Kyushu Elec. Oita Gas	1990	12	4 x 80,000	Australia, Indonesia	
Yokkaichi Works	Toho Gas	1991	2.4	2 x 80,000	Australia, Indonesia	
Fukuoka	Saibu Gas	1993	4.1	2 x 35,000	Malaysia	
Kagoshima	Nippon Gas Co.	1996	0.3	1 x 36,000	Indonesia	
Hatsukaichi	Hiroshima Gas	1996	0.4	1 x 85,000	Indonesia	+1.1 million cu m sendout cap.
Kawagoe	Chubu Electric	1997	20	4 x 120,000	Qatar	
Sodashi-Shimizu	Shizuoka Gas	1997		1.80,000	Malaysia	
Other Asia Pyeong Taek (Korea)	Korea Gas Corp.	1986	50	7 x 100,000	Indonesia, Malaysia, Brunei, Australia	+3 x 100,000 cu m storage in 1998
Inchon (Korea)	Korea Gas Corp.	1996	25	3 x 100,000	Indonesia, Malaysia	+700,000 cu m storage in 2000
Yung-An (Taiwan)	Chinese Petroleum Corp.	1990	28	6 x 100,000	Indonesia, Malaysia	Adding 390,000 cu m storage
Europe Panigaglia, Italy	Snam	1969	11	1 x 40,000 6 x 80,000	Algeria	
Barcelona, Spain	Enagas	1970	24	2 x 50,000 2 x 80,000	Algeria, Libya	
Fos-sur-Mer, France	Gaz de France	1972	22	2 x 35,000 1 x 80,000	Algeria	
Montoir, France	Gaz de France	1980	36	3 x 120,000	Algeria	
Zeebrugge, Belgium	Distrigaz	1987	16	3 x 87,000	Algeria	
Huelva, Spain	Enagas	1988	10.8	1 x 65,000 1 x 100,000	Algeria	
Cartagena, Spain	Enagas	1989	4.2	1 x 55,000	Algeria	+6.6 million cu m send out 105,000 cu m storage by 1999
Marmara Ereghisi, Turkey	Botas	1994	16	3 x 85,000	Algeria	
U.S. Everett, Mass.	Distrigaz	1971	12	1 x 60,000 1 x 95,000	Algeria	+4.0 million cu m sendout cap. by 1998
Lake Charles, La.	Trunkline LNG	1980-1981 reopened 1989	19	3 x 94,400	Algeria	
Cove Point, Md.	Cove Point LNG	1975-80, now operating as storage peak shaving facility	27	3 x 60,000	Algeria	

Source: Institute of Gas Technology, Des Plaines, Ill.



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March 18, 1998

Representative Mark Hodgins, Chairman
Special Committee on Oil and Gas
Alaska State Legislature
State Capitol (MS 3100)
Juneau, AK 99801-1182

Dear Representative Hodgins:

RE: Support for HB 393, relating to development of Alaska's stranded natural gas resources.

The Resource Development Council for Alaska, Inc. (RDC) supports HB 393 and urges its passage. RDC has long advocated for the exploration, development and production of Alaska's oil and gas resources. This legislation allows the state to create favorable fiscal conditions for the development of Alaska's stranded gas reserves on the North Slope.

RDC realizes HB 393 alone will not create a situation in which a North Slope natural gas project is economically feasible. The costs, profitability and risk of any potential project must be thoroughly examined. A restructuring of the state's current "front-end loaded" tax scheme, will likely help to attract an appropriate investor or investor group.

By providing a mechanism from which a suitable tax and royalty scheme may be created, HB 393 grants the state the power and flexibility needed to maximize the economic benefit of a North Slope gas project.

The development of a North Slope natural gas project will create substantial permanent and temporary jobs for Alaskans. HB 393 addresses the need to have a strong Alaska hire policy for a North Slope gas project.

It is important that measures be taken to address potential impacts that a project may have on local communities. The legislation provides for a socio-economic study to quantify these impacts. The current legislation addresses the issue of revenue sharing with municipalities and we encourage the committee to consider input from all effected parties.

The development of Alaska's stranded natural gas resources would bring great benefits to the people and communities of Alaska. RDC encourages the State Legislature to establish a fiscal and regulatory regime which provides stranded gas projects in Alaska the best possible opportunity to become economically feasible. HB 393 gives the state the ability to accomplish this goal and RDC urges its passage.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.


Ken Freeman
Executive Director

ALASKA STATE CHAMBER OF COMMERCE

Resolution 98-12

Development of Stranded Alaska North Slope Gas

WHEREAS, Alaska has at least 26 trillion cubic feet of natural gas resources in the Prudhoe Bay field and five to ten trillion cubic feet of additional natural gas resources in other North Slope fields; and

WHEREAS, these natural gas resources are currently stranded, without a transportation means to reach a market; and

WHEREAS, possible favorable conditions for the sale of North Slope gas to Pacific Rim markets beginning after 2005 may exist; and

WHEREAS, the Alaska Legislature recently expressed their support for intensified activities to advance economic North Slope gas sales through their unanimous passage of House Concurrent Resolution No. 1; and

WHEREAS, the Alaska State Chamber also recognizes that the petroleum industry is developing technologies which may offer other alternatives to produce the gas in the future; and

WHEREAS, the Alaska State Chamber believes commercial development of stranded natural gas from the North Slope and the construction of associated facilities would greatly benefit the future economic health of the State of Alaska, its local governments and private enterprise; and

WHEREAS, the Alaska State Chamber supports the commercial development of natural gas from the North Slope including the construction and operation of the associated facilities;

THEREFORE, BE IT RESOLVED that the Alaska State Chamber urges the Governor and the Alaska State Legislature to continue to take those steps, particularly to provide a stable and appropriate fiscal and regulatory environment, which will give an Alaska stranded gas project the best opportunity to become commercially viable, thus enabling the earliest possible development of the resource.

ADOPTED

December 5, 1997

BY

Pamela LaBolle

Pamela La Bolle
President

BY

David W. Marquez

David Marquez
Chairman, Board of Directors

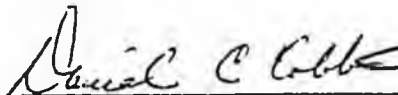
PROPOSED AMENDMENTS TO HB 393 BY PIPELINE MAYORS

1. The Commissioner has the power to defer municipal taxes - not exempt pipeline owners from them.
2. The taxes may be deferred for a maximum of 5 years from the first year in which the taxes could have been collected.
3. The agreement must provide that any deferred taxes be repaid with interest (at the long bond rate calculated as of January 1) during the first five years after the period of deferment.
4. Municipalities that defer taxes must be able to issue bonds up to the amount necessary to accommodate expenditures required to be made by the municipality as a result of the impact of the project. The bonds must be guaranteed by the State of Alaska.
5. No deferrals of property taxes may be permitted for facilities which are presently subject to the ad valorem property tax.
6. The deferral of taxes may only apply to (1) projects that require construction of a Trans-Alaska natural gas pipeline; and (2) facilities in existence during the initial exemption period.
7. Communities in proximity to the pipeline must have guaranteed access to gas at a price equal to the wellhead value plus the allocated transportation costs to the pipeline connection.

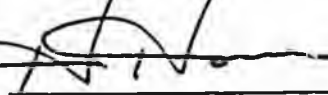
MAYOR DAVID C. COBB

MAYOR HANK HOVE

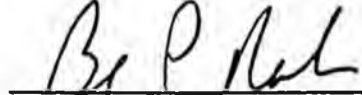
MAYOR BENJAMIN NAGEAK



City of Valdez



Fairbanks North Star Borough



North Slope Borough

w/m/c/s/vch/la

advance and with as much certainty as the Constitution of the State of Alaska allows; 1
and 2

(3) maximize the benefit to the people of the state of the development 3
of the state's stranded gas. 4

**Sec. 43.82.020. Contracts for payments in lieu of other taxes and for 5
royalty adjustments.** The commissioner may, under this chapter, enter into a contract 6
with a qualified sponsor or qualified sponsor group providing for (1) periodic payment 7
in lieu of one or more taxes that otherwise would be imposed by the state [OR A 8
MUNICIPALITY] upon the qualified sponsor or members of the qualified sponsor group as 9
a consequence of the sponsor's or group's participation in an approved qualified 10
project under this chapter; and (2) certain adjustments regarding royalty under 11
AS 43.82.220. 12

Article 2. Qualification and Application Procedures. 13

Sec. 43.82.100. Qualified project. Based on information available to the 14
commissioner, the commissioner may determine that a proposal for new investment is 15
a qualified project under this chapter only if the project 16

(1) would produce at least 500 billion cubic feet of stranded gas within 17
20 years from the commencement of commercial operations; and 18

(2) [IS CAPABLE, SUBJECT TO APPLICABLE COMMERCIAL
REGULATION AND TECHNICAL AND ECONOMIC CONSIDERATIONS, OF MAKING]
would make gas available in sufficient quantities to meet reasonably foreseeable [DEMAND IN THIS
STATE FOR GAS] present and future needs of communities within proximity to the project at a
price equal to the wellhead value plus the allocated transportation costs to the pipeline connection. 19

Sec. 43.82.110. Qualified sponsor or qualified sponsor group. The 22
commissioner may determine that a person or group is a qualified sponsor or qualified 23
sponsor group if the person or a member of the group 24

(1) intends to own an equity interest in a qualified project or commit 25
gas that it owns to a qualified project; and 26

(2) meets one or more of the following criteria: 27

(A) owns a working interest in at least 10 percent of the 28
stranded gas proposed to be developed by a qualified project; 29

(B) has the right to purchase at least 10 percent of the stranded 30
gas proposed to be developed by a qualified project; 31

Sec. 43.82.180. Withdrawal of applications. Subject to the terms of a 1
reimbursement agreement under AS 43.82.240 or other agreement with the Department 2
of Revenue, the Department of Natural Resources, the commissioner of revenue, or the 3
commissioner of natural resources affecting the withdrawal of an application, a 4
qualified sponsor or qualified sponsor group may withdraw an application submitted 5
under AS 43.82.120 at any time before the date that the commissioner of revenue 6
enters into a contract under AS 43.82.430 without further obligation under this chapter. 7

Article 3. Contract Development. 8

Sec. 43.82.200. Contract development. If the commissioner of revenue 9
approves an application and proposed project plan under AS 43.82.140, the 10
commissioner may develop a contract under AS 43.82.020 that may include 11

(1) terms concerning periodic payment in lieu of one or more taxes as 12
provided in AS 43.82.210; 13

(2) terms developed under AS 43.82.220 relating to 14

(A) timing and notice of the state's right to take royalty in kind 15
or in value; or 16

(B) royalty value; 17

(3) terms regarding Alaska hire and Alaska contracting under 18
AS 43.82.230; 19

~~(4) TERMS REGARDING PERIOD PAYMENT TO, OR AN EQUITY OR
OTHER INTEREST IN A PROJECT FOR, MUNICIPALITIES UNDER AS 43.82.500;~~ 21

(4) terms regarding arbitration or alternative dispute resolution 22
procedures; 23

(5) terms and conditions for administrative termination of a contract 24
under AS 43.82.440; and 25

(6) other terms or conditions that are 26

(A) necessary to further the purposes of this chapter; or 27

(B) in the best interests of the state. 28

Sec. 43.82.210. Contract terms relating to payment in lieu of one or more state 29
taxes. (a) If the commissioner of revenue approves an application and proposed 30
project plan under AS 43.82.140, the commissioner may develop proposed terms, for 31

inclusion in a contract under AS 43.82.020, for periodic payment in lieu of one or 1
more of the following taxes that otherwise would be imposed by the state [OR A 2
MUNICIPALITY] upon the qualified sponsor or a member of the qualified sponsor group 3
as a consequence of participating in an approved qualified project: 4

(1) oil and gas production taxes and oil surcharges under AS 43.55; 5

(2) oil and gas exploration, production, and pipeline transportation 6
property taxes under AS 43.56; 7

(3) oil and gas conservation tax under AS 43.57; 8

(4) Alaska net income tax under AS 43.20; 9

[(5) MUNICIPAL SALES AND USE TAX UNDER AS 29.45.650 -29.45.680 OR 10
29.45.700 - 29.45.710;] 11

[(6) MUNICIPAL PROPERTY TAX UNDER AS 29.45.010 - 29.45.250 OR 12
29.45.550 - 29.45.600;] 13

[(7) MUNICIPAL SPECIAL ASSESSMENTS UNDER AS 29.46;] 14

(5) a comparable tax or levy imposed by the state [OR A MUNICIPALITY] 15
after the effective date of this bill section: 16

(6) other state taxes [OR MUNICIPAL TAXES] or categories of state taxes
identified by 17
the commissioner. 18

(b) If the commissioner chooses to develop proposed terms under (a) of this 19
section, the commissioner shall, if practicable and consistent with the long-term fiscal 20
interests of the state, develop the terms in a manner that attempts to balance the 21
following principles: 22

(1) the terms should, in conjunction with other factors such as cost 23
reduction of the project, cost overrun risk reduction of the project, and increased fiscal 24
certainty and successful marketing, improve the competitiveness of the approved 25
qualified project in relation to other development efforts aimed at supplying the same 26
market; 27

(2) the terms should accommodate the interests of the state, [THE AFFECTED 28
MUNICIPALITIES,] and the project sponsors under a wide range of economic conditions, 29
potential project structures, and marketing arrangements; 30

(3) the state's [AND AFFECTED MUNICIPALITIES' COMBINED] share of the 31

approved qualified project's economic rent under the contract should be relatively 1
progressive; that is, the state's [AND AFFECTED MUNICIPALITIES' COMBINED] annual
share of 2

the approved qualified project's economic rent generally should not increase when 3
there are decreases in project profitability, or decrease when there are increases in 4
project profitability; 5

(4) the state's [AND AFFECTED MUNICIPALITIES COMBINED] share of the 6
approved qualified project's economic rent under the contract should be relatively 7
lower in the earlier years than in the later years of the approved qualified project; 8

(5) the terms should allow the project sponsors to retain a share of the 9
approved qualified project's economic rent that is sufficient to compensate the sponsors 10
for risks under a range of economic circumstances; 11

(6) the terms should provide the state [AND AFFECTED MUNICIPALITIES]
with 12
a significant share of the approved qualified project's economic rent, when discounted 13
to present value, under favorable price and cost conditions; 14

(7) the method for calculating the periodic payment in lieu of certain 15
taxes under the contract should be clear and unambiguous; and 16

(8) while cost calculations for the approved qualified project under the 17
contract should be based on amounts that closely approximate actual costs, agreed- 18
upon formulas reflecting reasonable economic assumptions should be used if possible 19
to promote administrative certainty and efficiency. 20

(c) Except as provided in (b) of this section, the commissioner's discretion 21
under this section in developing proposed terms for a contract under AS 43.82.020 is 22
not limited to consideration of the approved qualified project's economic rent. 23

Sec. 43.82.215. Contract terms relating to deferment of municipal taxes and assessments.

(a) If the commissioner of revenue approves an application and proposed project plan under AS 43.82.140, the commissioner may develop proposed terms for inclusion in a contract under AS 43.82.020 for deferment of municipal property taxes under AS 29.45.10 - 29.45.250 or 29.45.550 - 29.45.600 that otherwise would be imposed by a municipality upon the qualified sponsor or a member of the qualified sponsor group as a consequence of participating in an approved qualified project.

(b) Any deferrals of municipal property taxes are subject to the following limitations which must be set out in the agreement

(1) the deferral may not exceed five years from the date the taxes were due and payable on any portion of the project.

(2) all deferred taxes must be repaid with interest calculated (at the Consumer Price Index calculated as of January 1 of each tax year) in equal annual installments during the first five years after the period of deferral.

(3) property taxes may not be deferred on facilities which are subject to taxes under AS 29.45.010 - 29.45.250 or 29.45.550 - 29.45.600 on the effective date of a contract under this chapter.

(4) property taxes may be deferred on only (1) property required for construction and operation of a Trans-Alaska natural gas pipeline; and (2) facilities that are constructed during the initial deferral period.

Sec. 43.82.218. Issuance of municipal bonds. Municipalities whose taxes have been deferred may issue bonds up to the amount necessary to accommodate expenditures required to be made by the municipality as a result of the impact of the project. The payment of principle and interest on such bonds shall be guaranteed by the State of Alaska in the event that the project sponsors fail to pay the full amount of the deferred taxes.

Sec. 43.82.220. Contract terms relating to royalty. (a) Notwithstanding any 24 contrary provisions of AS 38, the commissioner of natural resources, with the 25 concurrence of the commissioner of revenue and the affected parties holding a state 26 lease or unit agreement, may develop proposed terms, for inclusion in a contract under 27 AS 43.82.020, that modify the timing and notice provisions of the applicable oil and 28 gas leases and unit agreements pertaining to the state's rights to receive its royalty in 29 kind or in value. if 30

(1) the viability of the approved qualified project depends upon long- 31

[ARTICLE 6. PAYMENT TO MUNICIPALITIES; EQUITY OR 1
OTHER PARTICIPATION BY MUNICIPALITIES. 2

SEC. 43.82.500. PAYMENT TO MUNICIPALITIES; EQUITY OR OTHER
PARTICIPATION BY 3
MUNICIPALITIES. (A) IF THE COMMISSIONER EXECUTES A CONTRACT UNDER AS
43.82.020 THAT 4
INCLUDES TERMS THAT EXEMPT A PARTY TO THE CONTRACT, AND THE
PROPERTY, GAS, PRODUCTS, AND 5
ACTIVITIES ASSOCIATED WITH THE APPROVED QUALIFIED PROJECT THAT IS
SUBJECT TO THE CONTRACT, 6
FROM A MUNICIPAL TAX IN ACCORDANCE WITH AS 29.45.810, AS 29.46.010(B), 7
AS 43.82.200, AND 43.82.210, THE COMMISSIONER SHALL REQUIRE, AS A CONDITION
OF THE 8
CONTRACT, THAT THE PARTY INSTEAD MAKE PERIODIC PAYMENT TO THE
AFFECTED MUNICIPALITY IN 9
A FAIR AND REASONABLE AMOUNT AS DETERMINED BY THE COMMISSIONER
UNDER (B) OF THIS 10
SECTION. 11

(B) AFTER CONSULTATION WITH THE AFFECTED MUNICIPALITY, THE
COMMISSIONER SHALL 12
DETERMINE THE AMOUNT OF PAYMENT DUE UNDER (A) OF THIS SECTION. IN
MAKING THE 13
DETERMINATION REQUIRED BY THIS SUBSECTION, THE COMMISSIONER SHALL 14

(1) ESTIMATE THE TOTAL OPERATING AND CAPITAL COSTS OF
ADDITIONAL SERVICES 15
AND CONSTRUCTION THAT WOULD BE PROVIDED AND PAID FOR BY THAT
MUNICIPALITY DURING THE 16
TERM OF THE CONTRACT UNDER AS 43.82.020 AS A RESULT OF THE
CONSTRUCTION AND OPERATION 17
IN THE MUNICIPALITY OF THE APPROVED QUALIFIED PROJECT THAT IS SUBJECT
TO THE CONTRACT; AND 18

(2) AMORTIZE THE TOTAL COSTS ESTIMATED UNDER (1) OF THIS SECTION OVER THE 19 TERM OF THE CONTRACT OR A PORTION OF THE TERM OF THE CONTRACT. 20
 (C) IN LIEU OF PAYMENTS UNDER (A) OF THIS SECTION, THE COMMISSIONER, WITH THE 21 CONCURRENCE OF THE MUNICIPALITY, MAY INCLUDE A TERM IN A CONTRACT UNDER AS 43.82.020 22 THAT PROVIDES THE MUNICIPALITY WITH AN EQUITY OR OTHER INTEREST IN THE APPROVED QUALIFIED 23 PROJECT THAT IS SUBJECT TO THE CONTRACT.] 24

Article 7. Miscellaneous Provisions. 25

Sec. 43.82.600. Governing law. If a provision of this chapter conflicts with 26 another provision of state or municipal law, the provision of this chapter governs. 27

Sec. 43.82.610. Regulations. The commissioner of revenue, the commissioner 28 of natural resources, and the commissioner of labor may adopt regulations to carry out 29 their respective duties under this chapter. 30

Sec. 43.82.620. Procedures for collection of amounts due; security. (a) 31

RESOLUTION NO. 98-18

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, SUPPORTING THE FIVE (5) YEAR TAX EXEMPTION PROPOSED BY THE MAYORS OF THE FAIRBANKS NORTH STAR BOROUGH, NORTH SLOPE BOROUGH, CITIES OF FAIRBANKS, NORTH POLE AND VALDEZ FOR THE CONSTRUCTION OF THE TRANS-ALASKA GAS PIPELINE

WHEREAS, plans for a Trans-Alaska gas pipeline have been discussed and debated for many years in Alaska; and

WHEREAS, owners of the Trans-Alaska Gas Pipeline project are pursuing the construction of a natural gas pipeline; and

WHEREAS, the municipalities of Fairbanks North Star Borough, North Slope Borough, Cities of Fairbanks, North Pole and Valdez have recognized the importance of the construction of a natural gas pipeline; and

WHEREAS, the Mayors from these municipalities have agreed to offer up to a five (5) year tax exemption to the owners of the Trans-Alaska Gas Pipeline; and

WHEREAS, in exchange for this exemption, the Mayors propose that the municipalities involved would take an ownership position proportionate to the dollar value of the exempted taxes for the proposed five (5) year period; and

WHEREAS, the State of Alaska and other interested parties supporting the construction of a Trans-Alaska gas pipeline have stated that to be economically viable, a "tax holiday" would need to take place during construction as there would be little or no cash flow during that phase; and

WHEREAS, gas line take-offs would be expected so that each of these municipalities would have natural gas distributed to its citizens and businesses; and

WHEREAS, the Mayors of the affected municipalities find this a reasonable position and in the best interest of those communities involved by providing a less expensive form of energy to their citizens and will provide considerably cleaner emissions produced through combustion which will significantly affect air quality; and

WHEREAS, the State of Alaska is on record as stating that a tax exemption of some sort is necessary to move a gas line project to reality and would have to offer similar concessions for that part of the pipeline not located in an organized municipality; and

WHEREAS, through a small financial ownership interest by the municipalities in the pipeline, the revenue stream produced for at least the next fifty (50) years would diminish the amount of taxes exempted at the "front end" of the project; and

WHEREAS, this is a very positive approach to solving one of few remaining obstacles to construction of the gas line and creates a government/business partnership that is in the interest of the public and demonstrates flexibility from municipalities that show them to be part of a solution rather than part of a problem.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Valdez, Alaska, strongly supports the plan put forth by the Mayors of those municipalities involved and requests the Legislature and the Governor to support the plan by providing the same tax incentives in the unorganized areas of the State that would be affected.

PASSED AND APPROVED this 17th day of February, 1998.

David C. Cobb
David C. Cobb, Mayor

ATTEST:

Sheri L. Caples, CMC, City Clerk
Sheri L. Caples, CMC, City Clerk



CITY OF VALDEZ, ALASKA

RESOLUTION NO 98-22

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, PROVIDING COMMENTS TO HOUSE BILL 393 AND SENATE BILL 288 TITLED ALASKA STRANDED GAS DEVELOPMENT ACT

WHEREAS, House Bill 393 and Senate Bill 288 have been introduced by the Governor relating to contracts with the State establishing payments in lieu of other taxes by a qualified sponsor for projects to develop stranded gas in the State; and

WHEREAS, House Bill 393 and Senate Bill 288 change the traditional method of taxing gas property in Alaska by precluding those local governments where the gasline and liquefaction facilities would be located, from taxing that property on a traditional advalorem basis; and

WHEREAS, the Valdez City Council has had the opportunity to review House Bill 393 and Senate Bill 288 and held a work session with representatives from the State of Alaska Department of Revenue on March 1, 1998.

NOW, THEREFORE, BE IT RESOLVED that the City of Valdez makes the following comments regarding House Bill 393 and Senate Bill 288:

1. We applaud the State's efforts to encourage the building of a natural gas pipeline from Alaska's North Slope to Valdez which will provide tremendous long term benefits to all Alaskans.
2. A Gas to Liquids (GTL) project would have very different impacts on Valdez than a gasline and should be addressed separately. Therefore, reference to GTL should be removed from this bill.
3. There must be appropriate language to provide for the hiring of Alaska residents during both the construction and operational years.
4. Communities along the pipeline route will need impact funds to address the immediate impact on each community.
5. Job training should be provided in the communities within the proximity of the project.

6 There should be definitions for "affected community" and "communities within proximity of the project" in the bill which would be those communities who have been precluded from collecting traditional taxes on the gasoline as a result of this legislation

7 The affected communities should be allowed participation in the negotiations between the State and the qualified sponsor group regarding those terms that would directly impact the affected community. Any such agreement must be ratified by the affected communities.

8. The confidentiality provision should extend to representatives of the affected communities so long as the representatives sign the confidentiality agreement referenced in the legislation.

9 If the payments to the affected communities are to be derived from a total dollar amount paid to the State, the allocation methodology between affected communities and the State should be set forth in the legislation, regulation or a contract between the State and affected communities.

10. Payments to the municipality could consist of the following:

(a) During the years of construction, up to five (5) years, the property taxes would be deferred.

(b) The taxes deferred in the first five years of construction would be paid over the first five years of operation as additional payments.

(c) Revenue stability to the affected community through a maximum mill rate to be assessed by the affected communities could be established now and be inflation proofed.

(d) The valuation/methodology of the gas project should be established by statute.

(e) Depending upon the maximum mill rate established, there should be a profit sharing agreement with the affected communities similar to the financial revenue sharing arrangement between the State and contract sponsors.

11. Existing provisions of the bill ensuring that gas would be made available to communities within proximity of the project should be retained

12. Revenue payments to the affected communities should be in a first priority position before revenues are disbursed to the State.

PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA this 2nd day of March, 1998

CITY OF VALDEZ, ALASKA

Dave C. Cobb, Mayor

ATTEST:

Sheri L. Caples, CMC, City Clerk

Anchorage
750 W. 2nd Avenue, Suite 109
Anchorage, Alaska 99501
phone: 907-258-6171
fax: 907-258-6177
email: unite@akvoice.org

ALASKA CONSERVATION VOICE
Speaking Out for Alaska's Future

Juneau
P.O. Box 22151
Juneau, Alaska 99802
phone: 907-463-3366
fax: 907-463-3312
email: unite@akvoice.org

TO: Honorable Members, House Oil and Gas Committee, Alaska State Legislature

FROM: Kay Brown, executive director, Alaska Conservation Voice

DATE: February 25, 1998

SUBJECT: Comments on HB 393 — incentives for stranded gas development

Thank you for the opportunity to comment on HB 393. These comments are submitted on behalf of the Alaska Conservation Voice, a statewide coalition of conservation groups.

The Alaska Conservation Voice supports a fair return for Alaskans from the sale and extraction of public resources.

Therefore, HB 393, proposing incentives to encourage stranded gas development, raises questions:

Is it prudent for the Legislature to authorize open-ended renegotiation of tax and royalty obligations in order to encourage development of as-yet uneconomic gas resources? Is it possible or likely under the scheme proposed that the people of Alaska will receive benefits comparable to what would be obtained without this legislation?

Secs. 1 and 2 of the bill, Findings and Intent, by their nature offer no legal assurance that any renegotiated contract will in fact "fully and fairly compensate the people of the State of Alaska" for the severance of publicly-owned resources or other public costs, including the negative effects and risks that a project could impose on the State.

A shift of payments to the future as proposed entails risks that the Sponsor Group will not be able or willing to meet its future obligations to the State. What if the operation never does become profitable? What if the company has better things to do with its money? What if the leases are assigned to a new party who doesn't honor those old commitments?

We need only to look at the State's recent experience with the Northstar lease renegotiations to see that original contractual commitments may not be honored or considered binding by lessees. In that example, British Petroleum acquired leases through assignment and then refused to honor the net profit bid agreements, which would have deferred payments to the future and given the state a significant share of future net profits. BP has been able to demand new terms as a condition of development, despite prior commitments. Why should these proposed contracts be any more reliable?

Representatives of the administration have stated that any contract proposed would not reduce the state's royalty on gas. Yet, HB 393 proposes broad authority allowing renegotiation of royalty terms [Sec. 43.82.220]. Why is this needed?

What is a "significant share" of a project's economic rent, when discounted to present value, under favorable price and cost conditions [Sec. 43.82.210(b)(6)]? Could this return to the state be less than what the state would receive under the original contract terms and existing tax laws? What happens to the state's share under unfavorable price and cost conditions? How much is a job worth? How much revenue loss is acceptable to get jobs? How do environmental requirements affect the economic rent for purposes of this calculation?

What share of the rent will be deemed "sufficient to compensate the sponsors for risks under a range of economic circumstances"? Looking again at the Northstar renegotiation example, rates of return in excess of 20% from the net profit leases were not adequate to satisfy BP.

Why do municipalities, but not the State, have the option to acquire "an equity or other interest in a project"? What benefits and risks would a municipality incur with an equity share? Should the State also have this option?

Are the municipalities assured that "periodic payments" will be adequate to compensate for the real costs of providing schools, public safety and other services for the influx of workers associated with a big project? Which municipalities will be included?

Which particular items are open to renegotiation is somewhat unclear. Could environmental requirements be dropped through a negotiated contract in order to make a project more economically competitive?

Why should only an aggrieved applicant have standing to seek judicial review? [Sec. 43.82.150] Other people might be legitimately aggrieved, including Alaska citizens and royalty owners, and they should have appeal rights as well.

"Notwithstanding any contrary provisions of AS 38" is a phrase that appears many times in the bill. What precedents would be established in this legislation that could adversely affect other state interests?

Looking at the timeline, how much oil recovery would be lost due to accelerated development of North Slope gas, and how would this affect state revenues? How will this possibility be acknowledged and compensated in the balancing of considerations?

Some have suggested that legislative approval should be part of the process. While that may provide some comfort, Alaska's history with negotiated royalty oil and other contracts indicates that, once a proposal is put forth by the administration and industry sponsors, any changes legislators might suggest are likely to be resisted and difficult to achieve.

The Alaska Conservation Voice urges caution in giving the administration broad authority to change lease terms established by competitive bidding, or to change tax obligations imposed by the Legislature and now uniformly applied. This committee should carefully consider HB 393 in light of legislators' trust responsibilities for public resources and address the questions and issues posed here before moving forward with this bill. We appreciate the committee's deliberative debate thus far, and urge you to look more deeply into these issues.

Thank you for your consideration.

OILWATCH ALASKA

PO Box 101555 Anchorage, AK 99510 ☉☉ Ph: 907-277-8910 Email: oilwatch@alaska.net

March 2, 1998

Hon. Representative Mark Hodgins
Room 110
State Capitol
Juneau, AK 99801-1182

Dear Representative Hodgins,

Your attention to the North Slope Gas Line is to be commended. Many questions remain to be asked and we have some as well.

In addition to the many economic type questions, there is the issue of anti-trust which deserves consideration. There are two active anti-trust cases coming forth at the moment, one is Oxy before the FERC and the other is Maritime Endeavor which has a federal case pending against Alyeska. These cases raise some of the same questions that Dr. Richard Fineberg pointed out in his report to us entitled, *The Big Squeeze: TAPS and the Departure of Major Oil Companies Who Found Oil on Alaska's North Slope*. This report suggests that the major owners of the Trans-Alaska Pipeline (TAPS) may be using their control of the pipeline to strangle competition. One result of these actions may be costing Alaskans and their public treasury billions of dollars. I will be happy to provide you a copy of Dr. Fineberg's report as well as communications we have had with the Attorney General's office. Dr. Fineberg's report and the anti-trust actions that are cropping up reinforce the need for an independent examination of the facts. Some of these same concerns may also apply to North Slope Gas.

We understand that Pedro Van Meures is appearing before House Special Committee on Oil and Gas Tuesday morning, and there are a number of questions that come to mind that he might be able to address:

1. What are the effects of Asian economic problems on (a) demand, (b) capital for a major (grassroots) project?
2. Are there any major changes in the supply from existing projects?

3. Effects of economic changes since 2/97 on (a) timing and (b) the number of possible grassroots projects.
4. Regarding the nine projects ranked at p. 21 of his 2/97 Executive Summary, how would he rank each of the nine projects in terms of:
 - (a) changes in hurdle rate of return for project and
 - (b) gap between (a) and the probable trend of the project's projected Rate of Return (better or worse than 12 months ago)?
5. Are there other competing grassroots project on the map?
6. Would formal structure of public oversight of the very broad negotiating powers the proposed package gives the administration materially affect the project's hurdle rate of return? If so, would it enhance (lower) the project's hurdle rate of return by reducing litigation threat and instability or would it detract from the project's attractiveness (raising the project's hurdle rate of return)?

It seems that the Asian economic crisis may: a) have little effect, b) kill some potential competing projects, c) may encourage Asian producers to sell their gas at much lower prices than Alaska could compete with in order to have some income as they struggle with their financial crises.

It is not easy to sort out, but I wish you well in trying to do so in the best interest of Alaskans--we need to be well compensated for our valuable nonrenewable resources. Rushing this project forth may or may not be beneficial. If there is anything that our expertise or knowledge base can contribute to your efforts, please call or email. Thank you.

Most sincerely,



Jim Sykes, Executive Director

HB

399

FISCAL NOTF

No: 1

Bill Version: HB 399
 (H) Publish Date: 3/19/98

STATE OF ALASKA
 1998 LEGISLATIVE SESSION

Revision Date: _____
 Title: An act relating to defered municipal taxes
 Sponsor: Representative Ryan
 Requestor: HL&C

Department Affected: DCRA
 BRU: _____
 Component: _____

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary)

Zero fiscal impact.

Prepared By: Shirley Armstrong *Shirley L. Armstrong* Phone: 465-4954
 Division: House Labor and Commerce Committee Date: 3/18/98

Approved By: Representative Norman Rokeberg *Norm Rokeberg*
 Agency: House Labor and Commerce Committee Date: 3/18/98

COMMITTEE COPY

Alaska State Legislature
House of Representatives

COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE
MILITARY & VETERANS AFFAIRS
COMMUNITY & REGIONAL AFFAIRS
OIL & GAS



Representative Joe Ryan

1 800-922-3875

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SESSION:

STATE CAPITOL
ROOM 420
JUNEAU, AK 99801-1182
PHONE (907) 465-3575

SPONSOR STATEMENT for
House Bill 399

The intent of this bill is to authorize local municipalities the option to provide a tax exemption for improvements of deteriorated real property. The concept is based on other state's local economic revitalization tax programs. Local municipalities will have the flexibility of allowing renovations of real property in order to increase the value of that real property, for tax purposes.

SENATE COMMITTEE REPORT

DATE: 4/2/98

FURTHER: Judiciary

DATE TURNED
IN TO OFFICE: 4-18-98

Labor and Commerce Committee considered

HOUSE BILL NO. 399

"An Act relating to an optional exemption from, and deferral of payment of, municipal taxes on deteriorated property, and defining 'deteriorated property' for purposes of the exemption or deferral; and providing for an effective date."

and recommends:

be replaced with _____ CS _____ (_____)

adopt previous _____ CS _____ (_____)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to the _____ Committee

Senate Bill:

same title

new title

House Bill:

same title

technical title

new; SCR# _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Twin Kelly</i>	✓		
		<i>[Signature]</i>	✓		
		<i>Orville Miller</i>	✓		
CHAIR: <i>Loren A. Luman</i>	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
House H/C Committee	5/19/98	✓	

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
House H/C Committee	3/19/98	✓	

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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

March 3, 1998

SUBJECT: Sectional Summary (HB399)

TO: Representative Joe Ryan
Attn: Tracy Ashe

FROM: Tamara Brandt Cook
Director *TBC*

Sec. 1. Permits a municipality to partially or totally exempt deteriorated property from taxation or defer payment of taxes for up to five years. The exemption or deferral may be renewed. Defines "deteriorated property" to mean property (1) that has been required to be vacated, condemned, or demolished because of noncompliance with laws, ordinances, or regulations; (2) on which a structure not less than 15 years of age has been rehabilitated, renovated or replaced; or (3) located in a deteriorating or deteriorated area.

Sec. 2. The effective date is July 1, 1998.

TBC:jdr
98-129.jdr

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Approved

Date: 3/10/98

Submitted by: Assemblymembers BELL,
Begich, Wuerch
Prepared by: Assembly Office
For reading:

ANCHORAGE, ALASKA
AR NO. 98-_____

A RESOLUTION OF THE ANCHORAGE MUNICIPAL ASSEMBLY SUPPORTING HOUSE BILL 399, RELATING TO MUNICIPAL TAX EXEMPTIONS AND DEFERRALS ON DETERIORATED PROPERTY

WHEREAS, HB 399 , sponsored by State Representative Ryan, has been introduced before the State Legislature; and

WHEREAS, HB 399 provides that a municipality may by ordinance:

- Partially or totally exempt all or some types of deteriorated property from taxation for up to five years after commencement of substantial rehabilitation, renovation, or replacement of any structure or improvement on the property; and
- Permit deferral of payment of taxes on all or some types of deteriorated property for up to five years after commencement of substantial rehabilitation, renovation, or replacement of any structure or improvement on the property;

WHEREAS, these provisions will assist municipalities in ridding urban blight and encouraging economic development; and

WHEREAS, for example, these provisions may assist the Municipality of Anchorage in its efforts to resolve the McKay Building issue.

NOW, THEREFORE, the Anchorage Assembly resolves:

Section 1: That the Assembly supports House Bill 399.

Section 2: That, upon passage, a copy of this resolution be forwarded by the Municipal Clerk to the State Legislature.

PASSED AND APPROVED by the Anchorage Assembly this _____ day of _____, 1998.

Chair

ATTEST:

Municipal Clerk

Post-It™ brand fax transmittal memo 7571 # of pages ▶ |

To <u>Rep. Joe Ryan</u>	From
Co.	Co.
Dept.	Phone #
Fax #	Fax #

HB 399

Other States' Laws re: Deteriorated Property

Missouri - HB 589
SB 406

Pennsylvania, Virginia, Florida statutes
(Under Hoge & Lekisch cover)

New York

[(1)] (2) "Department" means the department of natural resources;

(3) "Eligible property", property located in Missouri and offered or used for nonresidential purposes, conduct of business, or residential rental;

[(2)] (4) "Fund" means the historic preservation revolving fund;

[(3)] (5) "Historic property" or "property" means any building, structure, district, area or site that is significant in the history, architecture, archaeology or culture of this state, its communities or this country, which is eligible for nomination to the National Register of Historic Places;

(6) "Structure in a certified historic district", a structure located in Missouri which is certified by the department of natural resources as contributing to the historic significance of a certified historic district listed on the National Register of Historic Places, or a local district that has been certified by the United States Department of the Interior.

 253.550. Any individual, partnership, trust or estate, or corporation incurring costs and expenses for the rehabilitation of eligible property as defined in section 253.401, which is a certified historic structure or structure within a certified historic district shall be entitled to a credit against the taxes imposed pursuant to chapter 143, RSMo, on that individual or entity in an amount equal to twenty-five percent of the total costs and expenses of rehabilitation which shall include development, architectural, engineering and other costs, provided the rehabilitation costs associated with rehabilitation and the expenses exceed fifty percent of the total basis in the property and the rehabilitation meets standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation as determined by the state historic preservation officer of the Missouri department of natural resources.

 253.559. If the amount of such credit exceeds the total tax liability for the year in which the rehabilitated property is placed in service, the amount that exceeds the state tax liability may be carried back for credit against the taxes imposed pursuant to chapter 143, RSMo, except for sections 143.191 to 143.265, RSMo, and in preceding years back to 1996 or back three years, whichever is

less, and may be carried forward for credit against the income taxes for the succeeding ten years, or until the full credit is used, whichever occurs first. Credits granted to a partnership or multiple owners of property shall be passed through to the partners respectively or owners respectively pro rata or pursuant to an executed agreement among the partners or owners documenting an alternate distribution method.

 253.561. To claim the credit authorized pursuant to this section, the taxpayer shall apply to the Missouri department of natural resources which shall determine the amount of eligible rehabilitation costs and expenses, and whether it meets the standards of the Secretary of the Interior as set forth in section 253.557 and may issue a certificate thereof to the taxpayer. The taxpayer shall attach the certificate to all Missouri income tax returns on which the credit is claimed.

 Section B. Because immediate action is necessary to provide tax relief to the citizens of this state, section 144.014 of this act is deemed necessary for the immediate preservation of the public health, welfare, peace and safety, and is hereby declared to be an emergency act within the meaning of the constitution, and section 144.014 of this act shall be in full force and effect on July 1, 1997, or upon its passage and approval whichever shall later occur.

 Section C. Sections 143.124 and 253.550 to 253.561 shall become effective on January 1, 1998, and shall apply to all taxable years beginning after December 31, 1997.

HB589 MODIFIES REAL PROPERTY TAX INCREMENT ALLOCATION REDEVELOPMENT.		
Sponsor:	<i>Rizzo, Henry C. (40)</i>	Effective Date:00/00/00
CoSponsor:	<i>Cooper, Bonnie Sue (32)</i>	LR Number:1409-02
Last Action:	05/15/97 - Placed on Informal Calendar (S) SCS HCS HB 589	
Next Hearing:	Hearing not scheduled	
Calendar:	Bill currently not on calendar	
ACTIONS	HEARINGS	CALENDAR
BILLS SUMMARIES	BILL TEXT	FISCAL NOTES
HOUSE HOME PAGE	BILL SEARCH	

Available Bill Summaries for HB589
[Senate Committee Substitute](#) | [Perfected](#) | [Committee](#) | [Introduced](#) |

Available Bill Text for HB589
[Senate Committee Substitute](#) | [Perfected](#) | [Committee](#) | [Introduced](#) |

Available Fiscal Notes for HB589
[Senate Committee Substitute](#) | [House Committee Substitute](#) | [Introduced](#) |

BILL SUMMARIES

PERFECTED

HCS HB 589 -- TAX INCREMENT FINANCING (Rizzo)

This substitute makes a number of changes to Tax Increment Financing (TIF) law. In its main provisions it:

- (1) Defines "redevelopment area," "special allocation fund," "gambling establishment", and "economic activity taxes", and excludes certain sales and local use taxes from inclusion in economic activity taxes for TIF projects;
- (2) Requires projects approved on or after 8/28/97 to meet at least 3 of the factors outlined under the "conservation area" criteria;
- (3) Requires a two-year waiting period before new municipalities can use TIF, effective August 23, 1997;
- (4) Increases non-county TIF Commissions from 9 to 11 members, with the 2 new members to be appointed by the county in which the municipality is located.
- (5) Allows at the option of the municipal TIF Commission representatives TIF Commission members representing the schools or other taxing districts to be appointed to a definite term, or

to be appointed on a project-specific basis;

(6) Requires the municipality to execute an affidavit, indicating that the evidence provided suggests the project would not likely be completed without the use of TIF;

(7) Prohibits TIF plans and projects from including the development or redevelopment of gambling establishments;

(8) Requires increased amounts of sales and use tax revenues to be generated, if a facility relocates within the same county within one year and is a direct beneficiary of TIF;

(9) Requires a cost-benefit analysis as part of the redevelopment plan which enumerates the economic impact on taxing jurisdictions if the project is not built, and is built with TIF. The cost-benefit analysis must also include a fiscal impact study on the affected political subdivision, and information indicating the financial history and status of the developer;

(10) Requires municipalities or the TIF Commissions to establish procedures for obtaining competitive bids and proposals for implementation of the redevelopment projects;

(11) Provides that any surplus funds in the special allocation fund be refunded to taxing districts on a proportional basis;

(12) Allows professional fees-for-service as a recoverable redevelopment cost only if such fees are included as an initial start-up expense prior to the initiation of the TIF project. The administrative costs incurred by TIF Commissions are recoverable professional costs;

(13) Provides a process for minor changes to the redevelopment plan, project or area. Additional public hearings are not required;

(14) Allows the clerk's or other official's costs for administering TIF projects to be recovered by the municipality incurring such costs;

(15) Requires municipalities to submit a copy of the required public hearing record to the Department of Economic Development (DED);

(16) Requires municipalities to add information on the economic activity taxes within the redevelopment area to the currently required annual report submitted to the DED;

(17) Requires the DED to provide, when requested, information and technical assistance to local jurisdictions, and to submit summary information on TIF projects statewide to the General Assembly by each February 1;

(18) Establishes a joint legislative committee to review existing TIF projects beginning in 1997 and every 5 years thereafter. The committee is to submit a report based on its review, with any recommended statutory changes;

(19) Makes clear that any penalties and interest owed on property taxes in a TIF district are to be collected in the same manner as other penalties and interest are collected;

(20) Allows, beginning January 1, 1998, certain blighted TIF areas to be eligible for 50% of state sales taxes not

constitutionally dedicated, and excluding School District Trust Fund taxes, and sales and use taxes on motor vehicles, trailers, boats and outboard motors. Municipalities must apply to the Department of Economic Development for the rebate of state sales taxes. An affidavit is required attesting that without the rebate, the area is unlikely to be developed. In addition, the required cost-benefit analysis must include an assessment of the impact on the state. A new fund, the Missouri Sales Tax Increment Financing Fund is created in the Department of Revenue for the purpose of rebating state sales taxes to municipalities.

(2) Changes the residency requirement for those appointed to a Land Clearance and Redevelopment Commission so that taxpayers who reside within the municipality or the county (rather than the area of operation) for the required minimum 5 years may qualify for commission appointment.

FISCAL EFFECT: \$10,000,000 to General Revenue Fund* of \$68,815 for FY 1998, \$71,011 for FY 1999, and \$73,065 for FY 2000. (* Does not include losses due to sales taxes deposited to Missouri Sales Tax Increment Financing Fund.) Net Effect to School District Trust Fund: Unknown for FY 1998, FY 1999, and FY 2000. Net Effect to Missouri Sales Tax Increment Financing Fund of \$0 for FY 1998, FY 1999, and FY 2000.

COMMITTEE

HCS HB 589 - TAX INCREMENT FINANCING

SPONSOR: RIZZO

COMMITTEE ACTION: Passed "do pass" by the Committee on Commerce by 10-0 on 3/13/98

This bill provides for a number of changes to Tax Increment Financing (TIF). In its main provisions it:

- (1) Defines "redevelopment area," "special allocation fund," "economic activity taxes," and "gambling establishment";
- (2) Requires projects approved on or after 8/28/97 to meet at least 3 of the 7 factors outlined under the "conservation area" criteria;
- (3) Requires a 2-year waiting period before new municipalities can use TIF effective 8/28/97;
- (4) Increases the county TIF Commission from 9 to 11 members, with 2 of the new members to be appointed by the county in which the municipality is located;
- (5) Allows at the option of the municipal TIF Commission representatives, TIF Commission members representing the schools or the taxing districts to be appointed to a definite term, or to be appointed on a project-specific basis;
- (6) Requires developers to submit a signed affidavit with the redevelopment plan indicating that the project would not be developed without the use of TIF;
- (7) Prohibits TIF plans and projects from including the development or development of gambling establishments;

(8) Requires that certain amounts of sales and use tax revenues to be allocated to a municipality relocates within the same county within the year in which a direct beneficiary of TIF;

(9) Requires a cost-benefit analysis as part of the redevelopment plan which enumerates the economic impact on taxing jurisdiction if the project is not built, and is built with TIF. The cost-benefit analysis must also include a fiscal impact study on every affected political subdivision, and information indicating the financial history and status of the development;

(10) Requires municipalities or the TIF Commissions to establish procedures for obtaining competitive bids and proposals for implementation of the redevelopment projects;

(11) Provides that any surplus funds in the special allocation fund be allocated to taxing districts on a proportional basis;

(12) Allows professional fees-for-service as a recoverable redevelopment cost, but only if such fees are included as an initial and up-front expense prior to the initiation of the TIF project. The administrative costs incurred by TIF Commissions are recoverable professional costs;

(13) Provides that for minor changes to the redevelopment plan, projects in areas where additional public hearings are not required;

(14) Provides that the costs or other officials' costs for administering TIF projects to be recouped by the municipality in which such project is located;

(15) Requires municipalities to submit a copy of the required public hearing minutes to the Department of Economic Development (DED);

(16) Requires municipalities to add information on the economic activity in the redevelopment area to the currently required annual report submitted to the DED;

(17) Provides that the DED to provide, when requested, information and technical assistance to local jurisdictions, and to submit summary reports on TIF projects statewide to the General Assembly on or before January 1;

(18) Establishes a joint legislative committee to review existing TIF statutes beginning in 1999 and every 5 years thereafter. The committee is to submit a report based on its review, with any recommended statutory changes;

(19) Makes clear that any penalties and interest owed on property taxes in a TIF district are to be collected in the same manner as other penalties and interest are collected; and

(20) Allows that until January 1, 1998, certain blighted TIF areas may receive up to 50% of state sales taxes not currently being collected. Municipalities must apply to the Department of Economic Development for the rebate of state sales taxes. An affidavit is required attesting that without the rebate, the area is unlikely to be developed. In addition, the required cost-benefit analysis must include an assessment of the impact on the state. A new fund, the Missouri Sales Tax Increment Financing Fund is created in the Department of Revenue for the purpose of rebating state sales taxes to

municipalities.

FISCAL NOTE: Net Cost to General Revenue Fund of \$68,815 for FY 1998, \$1,113 for FY 1999, and \$73,065 for FY 2000. Net Effect to State District Trust Fund is Unknown for FY 1998, FY 1999, and FY 2000. Net Effect on Missouri Sales Tax Increment Financing Fund is Unknown for FY 1998, FY 1999, and FY 2000.

PROponents say that tax increment financing is a valuable economic development tool which needs to be reformed but not eliminated.

Testify in favor of the bill were Representative Rizzo; City of Mexico; Missouri Association of Counties; City of Maryland Heights; St. Charles County; City of Cameron; Jackson County Legislature; Clay County Commission; and Jim Leahy.

OPponents: Those who oppose the bill say that tax increment financing works well as outlined in the current statutes.

Testify against the bill were Missouri Tax Increment Financing Board and City of Fulton.

Debra C. Miller, Research Analyst

INTRODUCED

HB 589 - Tax Increment Financing

Spring 1998

This bill makes a number of changes to Tax Increment Financing (TIF) law. In addition provisions include:

- (1) Adds "conservation area," "special allocation fund," and "general development";
- (2) Requires projects approved on or after August 28, 1997 to meet at least 3 of the 15 factors outlined under the "conservation area" criterion;
- (3) Requires a two-year waiting period before new municipalities can use TIF effective August 28, 1997;
- (4) Increases municipality TIF commissions from 9 to 12 members, with at least 3 new members to be appointed by the county in which the municipality is located. In Jackson County, the 3 new members will be appointed by the county executive;
- (5) All TIF commission members representing the school, or other public utility, to be appointed to a definite term, or to be appointed on a project-specific basis;
- (6) Requires developers to submit a signed affidavit with the redevelopment plan indicating that the project would not be developed with the use of TIF;
- (7) Prohibits TIF plans and projects from including the development or redevelopment of gambling establishments;
- (8) Prohibits businesses from using TIF to relocate within the county in which an approved area is located, for 5 years;

- (9) Requires a cost-benefit analysis as part of the redevelopment plan which enumerates the economic impact on tax jurisdictions if the project is not built, is built with TIF, or is built without TIF. The cost-benefit analysis must also include a flow impact study on every affected political subdivision and information indicating the financial history and assets of the developer;
- (10) Requires municipalities or the TIF commissions to establish procedures for obtaining competitive bids and proposals for implementation of the redevelopment projects;
- (11) Requires that any surplus funds in the special allocation fund be refunded to taxing districts on a proportional basis;
- (12) Allows professional fees-for-service as a recoverable redevelopment cost, but only if such fees are included as an initial out-of-pocket expense prior to the initiation of the TIF project;
- (13) Provides that, for minor changes to the redevelopment plan, project or area, additional public hearings are not required;
- (14) Allows the clerk's costs for administering TIF projects to be covered by the municipality incurring such costs;
- (15) Requires municipalities to submit a copy of the required public hearing notices to the Department of Economic Development (DED);
- (16) Requires municipalities to add information on the economic activity taxes in the redevelopment area to the currently required annual report submitted to the DED;
- (17) Requires the DED to provide, when requested, information and technical assistance to local jurisdictions, and to submit summary information on TIF projects statewide to the General Assembly by each February 1; and
- (18) Requires the Joint Legislative Committee to review existing TIF statutes beginning in 1999 and every 5 years thereafter. The committee is to submit a report based on its review, including recommended statutory changes.



[Missouri House of Representatives' Home Page](#)

Last Updated August 11, 1997 at 4:16 pm •

HOGE AND LEKISCH

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JOHN W COLVER
MARGARET J. RAWITZ
JACOB H ALLMARAS
CALVIN R. JONES

March 13, 1998

Rep. Joe Ryan
State Capitol, Ste. 420
Juneau, AK 99801
Attn: Tracy

Via Fax: 907-465-4588

Re: House Bill 399
Deteriorated Property Tax Exemption

Dear Representative Ryan:

We support House Bill 399 because it will stimulate urban revitalization. When AS 29.45.050 was originally enacted in 1985, urban decay was not much of a problem in Alaska. It has since become a problem in the larger cities and this bill recognizes the fact that there are now aging, abandoned, and undesirable structures in certain urban areas in the state.

The intent of the bill is to authorize local taxing authorities to provide for tax exemption or deferral for improvements to certain deteriorated real property and for new construction in deteriorated areas. The bill does not actually create tax exemptions; it merely authorizes municipalities to do so by passing an ordinance.

The concept is generally based on Pennsylvania's Local Economic Revitalization Tax Assistance Act (LERTA), 72 P.S. § 4722 et seq., which was adopted in 1977. Proposed paragraph (o)(2) is based on Virginia Code § 58.1-3220. The language parallels Alaska's existing provisions for tax relief for "economic development property", found in AS 29.45.050(m).

March 13, 1998
Page 2

For your information, I have attached copies of the above referenced Pennsylvania and Virginia statutes, as well as some Florida statutes.

Sincerely yours,

HOGE AND LEKISCH

Margaret J. Rawitz PAL

Margaret J. Rawitz

MJR:mpt
Enclosure
cc: Tim Rogers

PURDON'S PENNSYLVANIA STATUTES AND CONSOLIDATED STATUTES ANNOTATED
PURDON'S PENNSYLVANIA STATUTES ANNOTATED
TITLE 72. TAXATION AND FISCAL AFFAIRS
CHAPTER 4. LOCAL TAXATION
EXEMPTIONS
LOCAL ECONOMIC REVITALIZATION TAX ASSISTANCE ACT

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Current through the end of 1996 Reg. Sess.
and through 1996 Sp. Sess. No. 2

§ 4722. Short title

This act shall be known and may be cited as the "Local Economic Revitalization Tax Assistance Act."

CREDIT(S)

1995 Main Volume

1977, Dec. 1, P.L. 237, No. 76, § 1, imd. effective

<General Materials (GM) - References, Annotations, or Tables>

HISTORICAL AND STATUTORY NOTES

1995 Main Volume

Title of Act:

An Act Authorizing local taxing authorities to provide for tax exemption for certain deteriorated industrial, commercial and other business property and for new construction in deteriorated areas of economically depressed communities; providing for an exemption schedule and establishing standards and qualifications. 1977, Dec. 1, P.L. 237, No. 76. Title as amended 1988, July 13, P.L. 518, No. 90.

Section 7 of Act 1977, Dec. 1, P.L. 237, No. 76 is a severability provision.

LAW REVIEW AND JOURNAL COMMENTARIES

Cooperative conversion: Is it only for the wealthy? Proposals that promote affordable cooperative housing in Philadelphia. Judith Bernstein-Baker, 61 Temp L Rev. 393 (1988).

NOTES OF DECISIONS

Construction with other laws 1

1. Construction with other laws

Local Economic Revitalization Tax Assistance Act and Improvement of Deteriorating Real Property or improvement. MacDonald, Illig, Jones & Britton v. Erie County Bd. of Assessment Appeals, 604 A.2d 306, 145 Pa.Cmwlth. 521, Cmwlth 1992, appeal denied 517 A.2d 1276, 533 Pa. 603.

Areas Tax Exemption Act did not relate to same persons and things and, therefore, were not in pari materia, although they relate to similar persons and things: one statute applies to commercial construction or improvement within deteriorated area, but other applies to residential construction or