

Municipal Advisory Group meeting May 10, 2006 – Anchorage Atwood Building

Chaired by Bill Popp, Kenai Peninsula Borough

Municipal representatives present:

Todd Sherwood and Jason Bergerson, NSB	Ron Woolf and Pat Cole, City of Fairbanks
Robert Venables, Haines	Rick Ross, City of Kenai
Lamar Cotten, City of Delta	Willard Dunham, City of Seward
Paul Mayo, Tanana Chiefs Conference	Mike Abbott, Municipality of Anchorage
Bill Walker, City of Valdez	Craig Chapman, KPB
Lori Backes, FNSB	
Audioconference: Dennis Roper, NSB	
Department of Revenue: Steve Porter and Randy Hoffbeck	
Information Insights: Brian Rogers, Nadine Hargesheimer, Sherry Modrow	

Governor's Presentation of the contract (video)

DOR presentation of contract elements with discussion by Municipal Advisory Group

Role of Municipal Advisory Group: advise Department of Revenue on issues and recommend any necessary amendments to contract

Hearings Scheduled

Friday 5/19 Ketchikan	Friday/Saturday 6/2-3 Anchorage
Tuesday 5/23 Southeast Teleconference	Monday 6/5 Southwest Teleconference
Thursday 5/25 Fairbanks	Wednesday 6/7 Mat-Su
Wednesday 5/24 Delta	Friday 6/9 Valdez
Tuesday 5/30 Northwest Teleconference	Thursday 6/15 Kenai

Additional meetings will be posted on state website.

www.gov.state.ak.us/gasline/ -- 250 documents online. Encourage people to submit comments through state website; 1 MB limit but can break into separate documents and submit as many comments as one wants. DOR not posting public comments – will conduct thorough analysis and prepare a summary for the final FIF

CONTRACT & PRELIMINARY FISCAL INTEREST FINDINGS – OF GREATEST MUNI INTEREST

Contract

Article 11
Article 15
Article 16
Article 17
Article 18
Article 21
Exhibit F
Exhibit G
Article 36

Findings

Section 3.2.5
Section 3.2.6
Impact 4.1.6
Monetary 4.1.4
Social 6.3.2

Definitions: Cap Tax, Fiscal Stability Cap, Fixed Payable Tax, Other Tax, Political Subdivision Allocation, Midstream Element, Targeted Tax, Vessel Tax, Political Subdivision Ratio, Reimbursable Property Tax, Restricted Tax

CONTRACT SECTIONS

Article 11 Fiscal stability

11.1a(ii) PILT Oil & Gas – replacing taxes on:

Properties: Alaska North Slope

Participants: Conoco Phillips, British Petroleum, ExxonMobil (others)

ANS – existing/new

Except for:

A. Capped tax - Sales & Use (p.16)

Gravel Severance

Excise: bed/motor fuel

Limited to \$4 million per year +CPI, for each company

Over the cap: State reimburses companies – i.e. no fiscal impact to munis

B. Fixed Payable Tax (p. 22)

e.g. Local property taxes – mill rate can move within 20 mill cap

- If as is now – no change

- If changes up, only liable for current; state reimburses

Intent – state will pick up tab if dispute – not municipality/industry dispute

11.3 Taxes levied

a – Payable by participants (not subject to reimbursement)

- Capped taxes within \$4 million

- Capped tax increment

b – Exemptions from any obligation

- Restricted tax

- New tax limit \$10 million

c – Exempt/paid/reimbursable

- Capped tax > \$4 million

- Fixed payable increment

- Reimbursable property tax

- “Targeted tax” (after October 1, 2005)

- Other tax < \$10 million

MAG request was not to have municipal risk; state attempted to take the risk

11.4 Fixed payable tax subject to reimbursement

a & b – Vessel tax – hold for next meeting

c – Fixed payable tax increment – if new interpretation of an old tax: industry only pays original

d – Changes in mill rate – up or down within 20 mills ok; beyond 20 creates Fixed Payable Tax

Municipalities held harmless

\$4 million indexed to CPI from 2006

Article 15 Upstream payment

- Oil: Convert to ¢ per bbl in lieu of property taxes ~ 50 cents/bbl

PILT escalates at 70% CPI

- Upstream gas: 2.1 ¢/mcf ~ \$32 m/year at 80% CPI

PILT ratio mill rate divided by 20

Article 16 Midstream payment

Mainline 2.4¢/mmBtu – NSB; unorganized area; FNSB
GTP 1.0¢/mmBtu per mile – all NS
Gas transport 0.03 ¢/mcf per mile + 100% CPI
Mainline allocation: NSB ~ 1.0 ¢/mmBtu (\$16 m)
State – Unorganized ~ 0.9 ¢/ mmBtu (\$15m)
FNSB ~ 0.5 ¢/ mmBtu (\$8 m),
20 mill prorate; if insufficient, prorate outside NSB & FNSB

Article 17 PILT—Oil

Oil PILT – North Slope + TAPS
Equivalent to current + 70% CPI
TAPS now \$3.64 Billion -> \$3.5 Billion
If contract not signed by 6/30/06 – current law

Article 18 Impact Funds

Impact money during construction
Fixed annual payment
Subject to appropriation \$125 million
MAG – United front on this issue (Article 18.2: inflation between now and 2015)

Article 21 Allocation of payments to political subdivisions, Articles 15 – 16 – 17

New municipalities: comes from state's portion

AS 43.56 property

A: During construction: \$0
Provides for impact payments
B: After construction: State reimbursable
Trigger for line between construction and operations = Defined Term in contract;
see “Commencement of Commercial Operations

Reserves tax – state pays except \$10 million (per company?)

MAG PROCESS

Municipal representatives' questions for next meeting/for DOR/ organize through
Information Insights – Questions@magalaska.com

Questions for group to email to all representatives: municipalreps@magalaska.com

Timeframe:

45 day public comment – Public | Legislative | LB & A – Review & comment

Comments 6/23/2006 – 5:00 P.M. ADT

30 day Special Session

Review and comment

Stranded Gas Development Act amendments

Alaska Pipe legislation
(PPT)

30 days Commissioner reviews/comments

Amend contract? Negotiation – New contract and FIF

After 7/23: Legislative vote up or down to authorize execution of contract

OPEN QUESTIONS

- Effect of Fixed Payable Tax on newly-incorporated communities
- 11.4 A&B Impacts
- **18.1 Impact Payment Allocation – Impact CPI – high priority**
 - Briefing Paper (Information Insights): Statement of issues from proceedings of earlier MAG meetings – develop strategy at next meeting for municipalities to address this issue
- 21.3 State relationship – Defense of producers (“participants”) against loss
- Appendix F calculations – Randy Hoffbeck will have examples for next meeting
- 43.56 effect on property during construction – how deep does it reach? After construction?
 - Module
 - Ground under
 - Contractor
- Work commitments – Effect of contract cancellation on
 - Reserves Tax
 - Other Taxes
- Is gas stranded?
- MAG resolutions – address responses
- **How do municipalities keep ourselves in the game for allocation/appropriation – groundwork?**
 - How did Information Insights allocate PILT?
 - Fish Management Areas as possible model
- **Additional questions coming from MAG members**