

**Municipal Advisory Group**  
Anchorage, Atwood Building  
July 22, 2004

Municipal Advisory Group representatives attending:

Steve Thompson, City of Fairbanks, Chair; Jason Bergerson, NSB; Rick Ross, City of Kenai; Robert Venables, Haines; Craig Chapman, KPB; Jeff Jacobson, North Pole; Paul Mayo, TCC; Lamar Cotton, Delta Junction; Willard Dunham, Seward

Via teleconference: Mike Catsi, Skagway; Lori Backes, FNSB

Other: Jeff Logan, JL&A

Dept. of Revenue: Steve Porter, Randy Hoffbeck

Information Insights: Brian Rogers, Nadine Hargesheimer, Sherry Modrow

**Open Issues**

Method of payment: Based on annual January assessments, State of Alaska notifies municipalities. They have 30 days to determine any corrections – appeals will be between the State and the municipality(ies). Producers then cut checks directly to the municipalities.

Valuation: Discussion trended toward replacement cost at beginning, then tied to throughput at the cross-over point.

- o Assumes NPV
- o Splits the two lines
- o More progressive structure
- o Prefer extending beyond life of contract
- o Oil now based on throughput (2<sup>nd</sup> year of 3-year trial)
- o Some re-opener
- o Marginal cost difference: cost of debt
- o Issue remains open

**Producers' Presentation**

Conoco Phillips: Wendy King; Joe Mirushack, Jack Griffin, Mark Worcester

Exxon Mobil: Bill McMahon, Marty Massey

BP: Dave Van Tuyl, Paul Quesnel, Ken Konrad, David MacDowell, John White

## Shape of PILT

Randy Hoffbeck: property tax model

First year investment	2006	18% return on equity
First year production	2012	
Depreciation life	20 years	Floor value 20%
DCF life	26 years	Muni discount 5.5%
Tax rate	mills	
Throughput	4,500,000	
\$50 million	2007	RCNLD
\$500 million	2008	Starting payment – Flat \$80 M
\$1.5 billion	2009	Discounted Cash Flow
\$1.5 billion	2010	Factored replacement cost new 1.11
\$1.5 billion	2011	

\$/mcf/day

Could be btu/day

Flat PILT 4.85 cents

Escalating 2.22 cents

Quantify risks associated with each

Shape of PILT

Flat

Escalating benefits industry; steeper cliff

Declining

Flat PILT accounting for cost of money over time; expectation of

Throughput—volume and price/unit

By year 2.2 cents over time

Potentially four PILTS

- o Royalty
- o Severance
- o Corporate Income
- o Property Tax – (State could give up its share of property tax – state 20 mills, local up to 30 mills; first 20 credits to oil and gas)

## Attorney General's Opinion

No case law: cannot make a definitive statement based on legislation/statutes. Based on status quo, if tax exemption is mandatory, it is not part of tax base. Would not be part of anything... a non-entity.

**Undecided impacts**

1. Pipe delivered to Haines – drivers from Haines Junction or from Haines?
2. Direct, indirect, induced employment?
3. No dredging?
4. No railroad infrastructure upgrades?
5. Infrastructure improvements not in Transportation bill going through Congress?
6. Number of off-take valves – Resolution: valves in Fairbanks, Delta, Haines Junction, and possibly Yukon River
7. Where do the liquids come off? How expensive will it be to make the gas useable or put the liquids back into the schedule? Potentially one point should have a two-way valve. Regardless of results of the Open Season