

Municipal Advisory Group
Meeting in Fairbanks
June 24, 2004

Convened by Chair Steve Thompson

Municipal Representatives present: Lori Backes (FNSB); Pete Hallgren (City of Delta Junction); Todd Sherwood and Jason Bergerson (NSB); Bill Popp (KPB); Ron Woolf, (City of Fairbanks); Buddy Brown, Paul Mayo and Charlene Ostbloom (TCC); Jeff Jacobson (City of North Pole). Attending by teleconference: Craig Chapman (KPB); Rick Ross (City of Kenai); Robert Venables (Haines Borough)
State of Alaska: Randy Hoffbeck; Steve Porter (teleconference)
Information Insights: Brian Rogers, Nadine Hargesheimer, and Sherry Modrow
Alaska Gasline Port Authority: Jim Whitaker

Alaska Gasline Port Authority

Presentation by Jim Whitaker – the PowerPoint slides will be available on the magalaska.com website. The development team for AGPA includes Bechtel, Taylor DeJongh, Calpine, and the State of Alaska

Tentative agreements on Municipal Advisory Group recommendations

- No AS 29.45 property taxed prior to construction start would receive tax exemption under AS 29.45 or AS 43.56 in an SGDA contract
- Clarification of dual-use regulations to protect municipal investment in existing taxation and in proportion of property not used for SGDA contract purposes
- No exemption under AS 43.56 for gas pipeline beyond (south of) Wasilla or Sutton – no longer stranded gas
- AS 43.56 exemption under SGDA contract extends only to gas take-off points
- No property tax exemption necessary under AS 29.45 – any gasline property eligible under AS 43.56 only
- No personal property tax exemption necessary under AS 29.45 – any gasline personal property covered under AS 43.56

Deferred issues – possible recommendations forthcoming

- Severance taxes on gravel
- PILT allocation methodology
- Term of SGDA contract; pipeline valuation at end of term
- Municipal discount rate

Pipeline valuation alternatives – AS 43.56

1. *Replacement Costs Less Depreciation – RCLD*
2. Port Authority: Cost
3. Valuation of through-put – ¢/mcf trended over time (stand-alone pipeline)
4. Price – adjusted value – index to pricing and risk-sharing, fixed percent rather than a variable
 - Life of Contract = length of PILT (producer-owned line)

Depreciation issues

Assessment: wasting asset

No real depreciation

Economic life of proved reserves

Floor value at end of contract

Need to know length of contract

Need methodology on front end. Possibilities:

1. 20%-30% replacement cost
2. RCLD (assume contract for useful life)
3. DCF *Discounted Cash Flow*
4. ¢/mcf (suggest outcome, not method)
5. state “call”
6. WAG
7. Trended depreciation cost

Discount Rate – future revenues

Municipal is lower than industry

For industry – future expense less important than municipal

Municipal possibilities

1. Tax exempt borrowing rate + x%
2. Prime rate
3. Average T-E (Industry ROI 80/20)

Risks:

- Inflation
- Disruption of revenue stream

Risk Sharing – risk of loss of opportunity; risk of loss of \$

- Some room for negotiation: (inflation vs. production/price)
- Fixed portion (Floor) + Risk portion

Contract Term

Model	Possible terms
*Longer	More predictability over time Inflation index Risk/unforeseen Depreciation * general statement of preference by Municipal Advisory Group
Shorter	Less predictability over time
Term + annuity for deferral	a. Equal to now b. Progressive c. Risk premium

Term possibilities

1. 10 year = construction + 6 years
 - a. less inflation risk
 - b. steeper repayment
 - c. quicker return to known environment
 - d. valuation high at end
2. Construction + 10 years
3. Construction + Life of Reserves
 - a. Smoother income line, but more risk of miscalculation +/- inflation
 - b. More bond predictability

Taxes and Payment in Lieu of Taxes

The Municipal Advisory Group requests guidance from the Attorney General prior to advising the Department of Revenue on tax and payment in lieu of tax alternatives under the Stranded Gas Development Act. The following is being sent via DOR to the AG:

The municipalities need to know whether the value of gas property exempt from taxation under a Stranded Gas Development Act contract will be included:

- 1) In the calculation of "Full and True Value" of property on a statewide and municipal basis
- 2) In the property basis for the calculation of the required 4 mill municipal contribution for public education
- 3) In the calculation of the per capita limit to municipal taxation (based on average valuation, which is derived from statewide Full and True Value)

In-State Use

- Methods and terms available
- Cost/location of of-take points
- NGL extraction – cost/availability
- Community distribution
- Tariff to off-take
- Cost of intake (Impact on exploration?)
- Subject to tax reduction?

Maximize opportunity for in-state use

- Community access to gas along the line
- Gas to Cook Inlet for local use
 - Amount? (Pending further study)

Intake Opportunity? (Pending)

Amount of gas to be reserved/available: for in-state use

1. Local use (constant for all three projects)
2. New in-state industry (highly variable but same for all 3 projects)
3. LNG for export (highly variable but same for all 3 projects)
4. New in-state utility (ANGDA study)

Notes:

Include Yukon River as possible gas take-off point

Consider statement from MAG about value of state gas subsidy to Alaska communities vs. highest \$ value of gas in a pipeline.

PILT Allocation Methodologies (Open for further discussion)

1. PILT Payor – calculate amount and who
2. PILT to unorganized borough and no property tax
3. Disputes on PILT communities and calculation of amount
4. Allocation between AS 43.56 and sales taxes (also severance, others)

PILT distribution to municipalities with property tax

- 20 mills on total of real and personal taxes
- State share of each varies depending on the municipality's mill rate
- On annual basis, calculate based on local government mill rate
- As new governments form & tax property, their slice (based on A/V in jurisdiction)
- If also PILT on sales tax, the sales tax % could change over time
- Recommend annual review with PILT payments going directly to the municipalities rather than through SOA
- If a dispute, whom does PILT payor talk to?

Next meetings

- July 9: 9 AM – 3 PM, Anchorage (Atwood Building 2nd Floor)
- July 22: 9 AM – 3 PM, Anchorage (Atwood Building 2nd Floor)
- (Tentative) July 27 briefing with Enbridge, time and place TBA