Municipal Advisory Group Resolution 2006-01

Alaska Natural Gas Pipeline Construction Impact Fund

A. Whereas construction of an Alaska gas pipeline will bring impacts to municipalities;
B. Whereas the Alaska Stranded Gas Fiscal Contract establishes an impact payment schedule to municipalities;
C. Whereas the impact payments will be made to the State of Alaska and distribution will be subject to appropriation by the Alaska Legislature;
D. Whereas the impacted communities require continuation of the Municipal Advisory Group, in part to make recommendations on the allocation of construction impact payments;

Be it therefore resolved:

The Municipal Advisory Group recommends that proposed legislation clarifying the Stranded Gas Development Act, as contained in Appendix I: Stranded Gas Development Act Conforming Amendments, of the Fiscal Interest Finding, be amended as follows:

***Sec. 15.** AS 43.82.505 is amended by adding new subsections to read:

(b) A special account is established in the general fund into which the Department of Revenue shall deposit impact payments received by the state under (a) of this section.

(c) The Alaska Natural Gas Pipeline Construction Impact Fund is established in the Department of Revenue. The legislature may appropriate money deposited in the special account established in (b) of this section, as well as any additional money considered necessary, to the Alaska Natural Gas Pipeline Construction Impact Fund to address the economic and social impacts incurred by a municipality, or incurred by a non-profit organization serving the unorganized borough, during the construction of a project that is the subject of a proposed contract developed under this chapter.

(d) Nothing in this chapter exempts money deposited into the special account in the general fund established in (b) of this section from the requirements of AS 37.07 (Executive Budget Act) or dedicates that money for a specific purpose.

(e) The commissioner of commerce, community and economic development, in consultation with the Municipal Advisory Group, shall use funds appropriated to the Alaska Natural Gas Pipeline Construction Impact Fund to make grants exclusively to a municipality, or to a non-profit organization serving the unorganized borough, for impacts to transportation, infrastructure, law enforcement, emergency services, health and human services, education, labor force, population, wages or subsistence and socio-cultural impacts brought about by the construction of the gas pipeline. In determining whether an expenditure or proposed expenditure by a municipality or non-profit organization is eligible for a grant under this program, and in allocating funds among grant proposals, the commissioner shall consider the recommendations of the municipal advisory group established under this act and whether the proposed expenditures meet the purposes of this act.

The Municipal Advisory Group shall serve to the latter of 90 days following final distribution of impact funds or project commencement of operations, as called for under AS 43.82.510(c). Expenses of the Municipal Advisory Group are eligible for reimbursement under AS 43.82.505.

RESOLUTION 2006-02: ISSUES RELATED TO PREVIOUS RESOLUTIONS

A Resolution Requesting Changes to the Alaska Stranded Gas Fiscal Contract to Reflect Original MAG Requests Relating to Offtake Points, Construction PILTs and Suspension/Termination

Whereas MAG Resolution 2004-03: In-State Use, requested the State of Alaska to include the placement of multiple, strategic takeoff points in the rural and urban areas of Interior, South Central and Southeast Alaska as part of the construction project ;

Whereas the Alaska Stranded Gas Fiscal Contract precludes an offtake point in Canada that could provide natural gas to Southeast Alaska;

Whereas MAG Resolution 2004-05: Construction PILT requested adequate construction PILT funds for construction impacts and need for services;

Whereas the Municipal Advisory Group also requested that construction impact payments begin prior to construction in order for municipalities to provide timely, effective services to residents;

Whereas the Alaska Stranded Gas Fiscal Contract states that impact payments that extend beyond nine years from the effective date are subject to an inflation adjustment;

Whereas the contract states the first impact payment is payable at the end of the calendar year immediately following project sanction;

Be it therefore resolved:

1. The Alaska Stranded Gas Fiscal Contract should be amended to accommodate an offtake point within the Alaska to Alberta segment with participant support in order for Southeast Alaska to have access to natural gas.
2. Construction Impact Payments should be subject to an inflation adjustment beginning immediately upon the effective date of the contract.
3. The first impact payments are to be payable at the end of the calendar year in which project sanction occurs.

RESOLUTION 2006-03: ISSUES RELATED TO AFFECTS OF A STRANDED GAS ACT CONTRACT ON EDUCATION FUNDING

A Resolution Requesting Changes to the Alaska statutes to protect local education funding from adverse effects of provisions of any proposed Stranded Gas Act contract.

Whereas the Stranded Gas Act Municipal Advisory Group (MAG) has consistently maintained a series of positions that require the State of Alaska hold harmless local municipalities from adverse financial impacts resulting from the provisions of any Stranded Gas Act contract proposed;

Whereas the Stranded Gas Act contract currently under consideration between the State of Alaska and ConocoPhillips, Exxon and BP Exploration would exempt AS43.56 properties from inclusion in the full and true property valuation determination for all involved municipalities with a general property tax that is used for calculating annual education funding for local school districts;

Whereas if AS43.56 property values are excluded from the annual full and true value determinations for local education funding, significant losses of revenue amounting to millions of dollars could be incurred by local school districts impacted by those properties being excluded;

Be it therefore resolved:

1. The Stranded Gas Act Municipal Advisory Group strongly objects to the exclusion of AS43.56 properties from the annual full and true value determination used in calculating annual education funding in municipalities that have a general property tax.

2. The Stranded Gas Act Municipal Advisory Group requests that the State of Alaska develop and implement statutory changes that protect local education funding from any adverse financial effects resulting from the provisions of any Stranded Gas Act contract.

Local School Funding Issues
Related to the Possible Exclusion of AS 43.56 Properties
From the Full Value Determination

Under the proposed gas line contract, all AS 43.56 property which is currently assessed and taxed by the Department of Revenue will be subject to a PILT agreement which will pay about the same amount to the municipalities as they currently receive.

One of the primary differences however, is that under existing law, the property is subject to a property tax and, consequently, included in a municipalities full and true value. If the gas contract becomes law, the property is exempted from a property tax and will pay a Payment In Lieu of Tax, PILT, based upon oil and gas through-put. If the property is exempted from property taxes, it will no longer be included in the full and true value and the accompanying spreadsheet details what effects that may have on a municipality's local school funding.

The formula for school funding, although it can become complicated, is fairly straight-forward when inquiring into the amount of local funding that can be expended on education. The attached spreadsheet shows the revenue loss that the four primary municipalities, FNSB, KPB, NSB and the City of Valdez with large amounts of AS 43.56 properties will experience if the value of oil and gas properties are excluded from the full value determination.

The upper half of the spreadsheet shows how the current funding operates which includes the value of oil and gas. The lower portion of the worksheet reflects the details when the value of oil and gas are excluded. The two municipalities that will see the largest effect are the North Slope Borough and the City of Valdez, which have dramatically reduced amounts of local educational dollars, 81% and 30% respectively.

Municipalities are <u>required</u> to contribute a minimum or four mills (.004) of their full and true value, or forty-five percent (45%) of basic need, whichever is less, towards education. They <u>may</u> contribute an <u>additional</u> two mills (.002) of their full and true value, or twenty-three percent (23%) of basic need, whichever is greater. If a municipality's full value is decreased, as reflected in the lower portion of the spreadsheet, the additional contribution to education will also experience a decrease. In the example, the North Slope Borough lost 98% of its full value and the City of Valdez lost 53% of its full value. Fairbanks and Kenai each lost less than 10% of their full value and while the resulting loss of educational dollars is substantial, it is much less than the NSB and Valdez, due to the much larger percentage loss of full value.

The "Basic Need" calculation in lower left hand corner of the spreadsheet was provided by the Department of Education for this exercise and represents the latest basic need calculation of the department.

From: Steve VanSant [mailto:steve_vansant@commerce.state.ak.us]
Sent: Thursday, June 01, 2006 2:03 PM
To: Ron Woolf; Nadine Hargesheimer
Subject: Further Explanation

Ron, Nadine,

After looking at the spreadsheet I sent up yesterday, I realized that it did not really show the whole picture and I have subsequently made some additions to it. I have attached a copy in hopes that you will forward it to all members of the MAG.

I have added a second sheet so you can see the whole picture. In reality, Fairbanks and Kenai, will see NO CHANGE overall, due to the fact that the 2 mill additional educational dollars (calculated by multiplying 2 mills times the Full Value) represents a significant amount for the North Slope and Valdez, but the same does not hold true for Fairbanks and Kenai. These two municipalities will be allowed the same additional revenues in both scenarios (with or without oil and gas in the full value) by using the 23% of "basic need"rather than the 2 mill calculation. Therefore, Fairbanks and Kenai will not see any difference in the TOTAL amount of funding, but they will see a change (although small) in the state vs. local funding, but the allowable additional funding will not change.

I think the second sheet I included will help clarify this. Sorry for the confusion, but I hope this helps
Steve

Local School Funding Worksheet

Comparison with Oil & Gas Properties **Included** and **Excluded** from the Full & True Value

Calculation of local school funding
INCLUDING Oil & Gas property in the Full Value

	2005 AS 29.45 Full Value	2005 AS 43.56 (oil & Gas) Assessed Value	2005 Total Full Value	Min School Contribution 4 mill equiv.	OR Required Local Effort of Basic Need (45%)	PLUS Additional 2 mills of Full value Allowed For Schools	0R 23% of basic need	Total Education Revenue From Municipalities
				(whichever is LESS)		(whichever is GREATER)		
Fairbanks (FNSB)	$ 6,183,658,600	$ 275,302,600	$ 6,458,961,200	$ 25,835,845		$ 12,917,922	$ 24,609,526	$ 50,445,371
Kenai (KPB)	$ 5,204,892,000	$ 561,688,547	$ 5,766,580,547	$ 23,066,322		$ 11,533,161	$ 15,755,230	$ 38,821,552
North Slope (NSB)	$ 226,735,100	$ 10,132,394,975	$ 10,359,130,075	$ 41,436,520	$ 9,770,566	$ 20,718,260	$ 4,993,845	$ 30,488,826
Valdez	$ 576,954,900	$ 652,470,440	$ 1,229,425,340	$ 4,917,701	$ 3,067,693	$ 2,458,851	$ 1,567,932	$ 5,526,544

Calculation of local school funding
EXCLUDING Oil & Gas property in the Full Value

	2005 AS 29.45 Full Value	2005 AS 43.56 (oil & Gas) Assessed Value	2005 Total Full Value	Percent Reduction of Full Value	Min School Contribution 4 mill equiv.	PLUS Additional 2 mills of Full value Allowed For Schools	0R 23% of basic need	Total Education Revenue From Municipalities
						(whichever is GREATER)		
Fairbanks (FNSB)	$ 6,183,658,600	$ 275,302,600	$ 6,183,658,600	4.3%	$ 24,734,634	$ 12,367,317	$ 24,609,526	$ 49,344,161
Kenai (KPB)	$ 5,204,892,000	$ 561,688,547	$ 5,204,892,000	9.7%	$ 20,819,568	$ 10,409,784	$ 15,755,230	$ 36,574,798
North Slope (NSB)	$ 226,735,100	$ 10,132,394,975	$ 226,735,100	97.8%	$ 906,940	$ 453,470	$ 4,993,845	$ 5,900,785
Valdez	$ 576,954,900	$ 652,470,440	$ 576,954,900	53.1%	$ 2,307,820	$ 1,153,910	$ 1,567,932	$ 3,875,752

Education--**Basic Need**
(supplied by Dept. of Education)

Fairbanks	**$**	**106,997,940**
Kenai	**$**	**68,501,000**
North Slope		**21,712,369**
Valdez		**6,817,096**

Revenue Difference

Fairbanks (FNSB)	$ 1,101,210	**2%**	
Kenai (KPB)	$ 2,246,754	**6%**	
North Slope (NSB)	$ 24,588,041	**81%**	
Valdez	$ 1,650,792	**30%**	

}**Percent loss of (Municipal) Education Revenues**

Office of the State Assessor
Steve Van Sant
(9i07) 269-4605

Education Spending Breakdown Scenario
State & Local Contribution

Scenario #1 Including Oil & Gas in Full Value

	REQUIRED Local Contribution	State Payment	Allowable Additional Local Funding	Total Educational funds
Fairbanks (FNSB)	$ 25,835,845	$ 81,162,095	$ 24,609,526	$ 131,607,466
Kenai (KPB)	$ 23,066,322	$ 45,434,678	$ 15,755,230	$ 84,256,230
North Slope (NSB)	$ 9,770,566	$ 11,941,803	$ 20,718,260	$ 42,430,629
Valdez	$ 3,067,693	$ 3,749,403	$ 2,458,851	$ 9,275,946

Scenario #2 Excluding Oil & Gas in Full Value

Municipality	REQUIRED Local Contribution	State Payment	Allowable Additional Local Funding	Total Educational funds		Overall Spending Including State Revenues
Fairbanks (FNSB)	$ 24,734,634	$ 82,263,306	$ 24,609,526	$ 131,607,466		No Change
Kenai (KPB)	$ 20,819,568	$ 47,681,432	$ 15,755,230	$ 84,256,230		No Change
North Slope (NSB)	$ 906,940	$ 20,805,428	$ 4,993,845	$ 26,706,214	-37.1%	Loss of Revenue
Valdez	$ 2,307,820	$ 4,509,276	$ 1,567,932	$ 8,385,028	-9.6%	Loss of Revenue

Education--**Basic Need**--
(supplied by Dept. of Education)

Fairbanks	**$**	**106,997,940**
Kenai	**$**	**68,501,000**
North Slope		**21,712,369**
Valdez		**54,687,836**

Basic Need **Less** **Local Contribution** **Equals** **State Payment**

Office of the State Assessor
Steve Van Sant
(9i07) 269-4605

Municipal Advisory Group Resolution 2006-04

A Resolution supporting the removal of A.S. §43.56 Oil Tax Concessions that lowers the 2006 value of the Trans-Alaska Pipeline

A. Whereas, the intent of the Stranded Gas Development Act is to provide for a mechanism for achieving the fiscal certainty that potential project sponsors indicate they need before proceeding with the large investment needed to bring Alaska North Slope gas to market; and

B. Whereas, the proposed contract between Governor Murkowski and the producers under the Stranded Gas Development Act has now been released in full; and

C. Whereas, the proposed contract provides significant changes in the present taxation of oil property currently taxed in Alaska; and

D. Whereas, the Stranded Gas Development Act specifically states, in A.S. §43.82.010(1), "encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production"; and

E. Whereas, the Stranded Gas Development Act specifically precludes in A.S. §43.82.010 interference with non-gas related taxation; and

F. Whereas, under the proposed contract the value of the Trans-Alaska Oil Pipeline System (TAPS) is established at approximately $3.49 Billion; and

G. Whereas, the State Assessment Review Board (SARB) ruled on May 24, 2006, that the assessed value of TAPS should be increased to $4,306,271,800.

NOW, THEREFORE, be it resolved by the Municipal Advisory Group that:

1. If changes in oil taxation remain in the proposed gas contract, the value of TAPS in the contract should be increased to the value established by the State Assessment Review Board of $4,306,271,800.

Municipal Advisory Group Resolution 2006-05

A Resolution supporting the removal of A.S. §43.56 Oil Tax Concessions that specifically target taxes presently being collected by the City of Valdez

A. Whereas, the intent of the Stranded Gas Development Act is to provide for a mechanism for achieving the fiscal certainty that potential project sponsors indicate they need before proceeding with the large investment needed to bring Alaska North Slope gas to market; and

B. Whereas, the proposed contract between Governor Murkowski and the producers under the Stranded Gas Development Act has now been released in full; and

C. Whereas, the proposed contract provides significant changes in the present taxation of oil property currently taxed in Alaska; and

D. Whereas, the Stranded Gas Development Act specifically states, in A.S. §43.82.010(1), "encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment <u>without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production</u>"; and

E. Whereas, the proposed contract makes numerous references to taxation by the City of Valdez of vessels in excess of 95 feet. Two of the participants in the gas contract have entered into settlement agreements with the City of Valdez regarding the taxes paid on their vessels over 95 feet and one has appealed a Superior Court ruling on this case to the Alaska Supreme Court; and

F. Whereas, the Stranded Gas Development Act specifically precludes in A.S. §43.82.010 this sort of interference with non-gas related taxation.

NOW, THEREFORE, be it resolved by the Municipal Advisory Group that:

1. All reference in the proposed contract making reference to the City of Valdez ordinance related to personal property tax on vessels over 95 feet be stricken in its entirety from the proposed gas contract.