Municipal Advisory Group Resolution 2004-01 Final

Whereas the intent of the Stranded Gas Development Act is to provide 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 natural gas to market;

Whereas the Stranded Gas Development Act allows the state to contract away municipalities' ability to collect property tax under AS 43.56, municipal sales and use tax, municipal special assessments, a comparable tax or levy imposed by the state or a municipality, or other state or municipal taxes or categories of taxes identified by the commissioner;

Whereas the Stranded Gas Development Act requires a Municipal Advisory Group be established to provide advice to the State of Alaska Department of Revenue;

Whereas the State of Alaska has received and accepted an application from a qualified sponsor group under the Stranded Gas Development Act, is considering other applications, and is reviewing other proposals for the development of Alaska North Slope Gas;

Whereas the Stranded Gas Development Act offers sponsors of stranded gas projects an opportunity to negotiate fiscal contracts with the State of Alaska, thereby potentially increasing the certainty for calculating taxes and royalties over the life of the project and thus increasing the competitiveness of the project and reducing fiscal risks;

Whereas under the Stranded Gas Development Act, the Commissioner of Revenue may negotiate terms for inclusion in a proposed contract with a qualified sponsor providing for periodic payment in lieu of one or more taxes that otherwise would be imposed by the state or a municipality;

Whereas the Stranded Gas Development Act requires a qualified sponsor to provide a detailed description of options to mitigate the increased demand for public services and other negative effects caused by the project;

Whereas the Stranded Gas Development Act requires applicants to provide a description of the methods and terms under which the applicant is prepared to make gas available to meet the reasonably foreseeable demand in the state for gas within the economic proximity of the project during the term of the proposed contract;

Whereas the State of Alaska has established a Municipal Advisory Group consisting of representatives of revenue-affected municipalities, economically-affected municipalities, and the unorganized borough;

Whereas the purpose of the Municipal Advisory Group is to make recommendations to the State on an acceptable revenue stream and structure to local governments in lieu of taxes and for the commissioner to report periodically on the development of the contract provisions that affect the municipalities;

Whereas the Stranded Gas Development Act implies a payment in lieu of traditional municipal taxes may be needed to make a gasline project viable;

Whereas another purpose of the Municipal Advisory Group is to assist the State of Alaska in determining the social and economic impacts on municipalities of the construction and post-construction of an Alaska gasline project, and the attendant costs of those impacts to municipalities;

Whereas a fixed line-wide payment in lieu of taxes may not allow for changing conditions within a municipality or the state, such as those changes created by new voter approved bonds, increased mill rates, and formation of new local governments;

Whereas it is incumbent upon municipal officials to communicate clearly to residents about public revenues;

Whereas the Municipal Advisory Group desires the Alaska gasline project to maximize training and hiring of workers and contractors from within the state, leading to enhanced workforce and economic development;

Therefore be it resolved by the Municipal Advisory group that:

1. No reduction or deferral in municipal taxes is acceptable without appropriate justification from the State of Alaska and the project sponsor;
2. The State of Alaska should weigh the cost benefit of a tax exemption with the difficulty of administering an exemption from specific taxes;
3. The State of Alaska should devise a payment in lieu of taxes structure that provides certainty for municipalities at least through the end of the stated contract period;
4. The State of Alaska should ensure the payment in lieu of taxes structure recognizes the loss to present and future forms of local government of the opportunity to respond to changing conditions through changing tax rates;
5. The State of Alaska should provide incentives to the successful applicant under the Stranded Gas Development Act to ensure the training and hiring of Alaskans for the construction, operations and maintenance of the gasline;
6. The State of Alaska should require that the successful applicant will include take-off points at strategic locations along the pipeline to make gas available to meet the reasonably foreseeable demand for in-state natural gas use;
7. The State of Alaska should ensure there will be a fair tariff to the points of in-state takeoff of gas;
8. The State of Alaska should ensure that affected municipalities' combined share of the economic rent of the approved project should correlate with the revenue stream of the project by negotiating that the present value of the aggregate amount of payment in lieu of taxes is not less than the amount that would have been collected under AS 43.56, AS29.45 and 29.46.

Municipal Advisory Group Resolution 2004-02 Final

A resolution outlining parameters for Payment in Lieu of Taxes to Municipalities:

A. Whereas the Stranded Gas Development Act anticipates a negotiated contract between the State of Alaska Department of Revenue and revenue impacted municipalities in lieu of traditional property taxes under AS 43.56;

B. Whereas the Municipal Advisory Group, established under the auspices of the SGDA, has met regularly to discuss and review issues relating to revenue and socio-economic impacts of a gasline on municipalities;

C. Whereas it is not the intent of the SGDA to exempt or modify property taxes currently being assessed and collected under 43.56 but to modify the shape of future property taxes to be assessed and collected for the Alaska Natural Gas Pipeline;

D. Whereas the definition of taxable property under 15 AAC 56.075 is confusing in terms of defining dual use property for purposes of taxation under 43.56;

E. Whereas "stranded gas" defined in AS 43.82.900 means gas that is not being marketed due to prevailing costs or price conditions, as determined by an economic analysis by the commissioner for a particular project;

F. Whereas real and personal property that is used or committed by contract or other agreement for use within this state primarily in the exploration for, production of, or pipeline transportation of gas or unrefined oil, or for the operations and maintenance of such facilities, is taxed under AS 43.56 rather than under AS 29.45;

G. Whereas an exception to the definition of taxable property under AS 43.56 is "for property used solely for the retail distribution or liquefaction of natural gas";

H. Whereas the Municipal Advisory Group has not come to agreement on the shape, length or allocation methodology of a Payment in Lieu of Taxes to revenue impacted communities;

I. Whereas the Municipal Advisory Group has come to consensus on the general parameters in which a PILT should be negotiated;

J. Whereas a number of factors argue against sales tax exemptions, including:

    a. Complexity of administering sales tax exemptions;
    b. Onus on vendors collecting sales taxes;
    c. Difficulties of determining who is an exempt entity;
    d. The determination of exempt items;
    e. Competitive advantage/disadvantage based on entities exempted;
    f. Cost/benefit of exemption – especially given per transaction caps;
    g. Cost of sales taxes not material to the project;

Be it therefore resolved that the Municipal Advisory Group recommends the following parameters be utilized in future PILT negotiations:

1. No property that is taxed under AS29.45 or AS 43.56 prior to the start of construction of an Alaska Natural Gas Pipeline should receive a tax deferral/exemption under a SGDA contract;
2. A contract developed under the SGDA should clarify the conditions under which dual use facilities are to be taxed in order to protect municipalities' tax bases in existence prior to the start of construction;
3. No tax exemption under the SGDA should apply to a gas pipeline or gas distribution infrastructure in existence prior to the start of construction of an Alaska Natural Gas Pipeline.
4. No tax exemption under the SGDA for municipal sales and use taxes.
5. SGDA contract may include provisions to ensure sales taxes are not targeted to gas pipeline construction and operations.
6. No exemption under SGDA contract for the Alaska Natural Gas Pipeline for property that under current tax law would be taxable under AS 29.45.
7. SGDA contract may include provisions to ensure municipal severance taxes are not targeted to gas pipeline construction.

Municipal Advisory Group Resolution 2004-03 Final

A resolution advising the State of Alaska to reinforce the requirements of the Stranded Gas Development Act to make natural gas available to meet in-state demand:

A. Whereas the Stranded Gas Development Act requires applicants to describe methods and terms under which the applicant is prepared to make gas available to meet the reasonably foreseeable demand in Alaska within the economic proximity of the project;

B. Whereas the SGDA states that an element of determining if a project is qualified is whether it is capable, subject to applicable commercial regulation and technical and economic considerations, of making gas available to meet reasonably foreseeable demand in this state;

C. Whereas the Alaska Constitution requires natural resources to be developed for the benefit of all Alaskans;

D. Whereas communities in Alaska desire affordable and clean energy from the gas pipeline;

E. Whereas affordable, clean energy is a component of economic development and quality of life throughout the state;

F. Whereas a gas pipeline likely will transport large quantities of natural gas liquids under high pressure, and any takeoff on the pipeline for local access to gas likely will be expensive and may require facilities to remove the natural gas liquids, making the location of extraction of NGLs important to Alaska communities;

G. Whereas the tariff established for gas transported to takeoff points within Alaska should be calculated for the actual transportation costs to those points;

H. Whereas AS 38.35.120(a) and AS 42.05.711-42.06.370 may act to prohibit access to North Slope natural gas by many or all communities in Alaska;

I. Whereas South Central Alaska has had access to an abundant supply of low-cost natural gas from Cook Inlet Basin, which is forecasted to meet existing demand until approximately 2012;

J. Whereas Interior Alaska would benefit from having access to natural gas either for industrial uses or distribution or for generating lower cost electricity;

K. Whereas Southeast Alaska communities are isolated and largely rural, and rely on importing oil from lower 48 suppliers for most energy needs; and an alternative source of clean, efficient and cost-effective energy offers a high likelihood of beneficial effect on economic development and quality of life for residents of the Southeast region;

Be it therefore resolved:

1. The Municipal Advisory Group requests 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 along the route of any natural gas pipeline from Alaska's North Slope in its negotiations with successful applicants.
2. AS 38.35.120(a) and AS 42.05.711-42.06.370 should be amended to provide greater assurance that communities in Alaska, to the greatest extent practicable, will have access to North Slope natural gas from any trans-Alaska natural gas pipeline.
3. The State of Alaska should retain its rights to take the State's royalty share of natural gas in kind in order to provide maximum access to natural gas to meet the future needs of the communities, businesses and regions of Alaska.

Municipal Advisory Group Resolution 2004-04 Final

A Resolution Outlining the Parameters of a Revenue PILT Acceptable to Municipalities:

A. Whereas no reduction or deferral in municipal taxes is acceptable without appropriate justification from the State of Alaska and the project sponsor;

B. Whereas a payment in lieu of taxes structure should provide certainty for municipalities;

C. Whereas the State of Alaska should ensure any payment in lieu of taxes recognizes the loss to present and future forms of local government of the opportunity to respond to changing conditions through changing tax rates;

D. Whereas a payment in lieu of taxes does not mean a reduction in taxes;

E. Whereas the State of Alaska should ensure that affected municipalities' combined share of the economic rent of the approved project should correlate with the revenue stream of the project by negotiating that the present value of the aggregate amount of payment in lieu of taxes is not less than the amount that would have been collected under AS 43.56, AS 29.45 and AS 29.46;

F. Whereas project sponsors have indicated the existing tax structure front-loads their expenses and property taxes are due before a revenue stream is in place;

G. Whereas revenue affected municipalities want to avoid the drastic decrease in revenues that would be possible at the end of the contract term if valuation methods changed and the Alaska Natural Gas Pipeline continued;

Be it therefore resolved that:

1. In the event that a payment in lieu of taxes is found to be acceptable to the municipalities, a PILT based on the throughput of the proposed natural gas pipeline indexed * for inflation is preferable to other methods.
2. The throughput rate per mcf established under the Stranded Gas Development Act for the PILT should approximate taxes that would have been collected under AS 43.56.
3. The negotiated PILT should include a continuation clause in the original contract for the Alaska Department of Revenue to have the option to extend the throughput method of payment in lieu of taxes through the life of the project, rather than the life of the contract.
4. PILT payments should be made directly to affected municipalities and should not be subject to appropriation by the legislature.
5. The structure of the State of Alaska PILT for property taxes in the unorganized borough should allow that as new local governments form, they will have access to a share of State PILT revenues in order to provide a reasonable tax base.
6. PILT payment should be made proportionally to each municipality based on its mill rate on an annual basis.

** Indexing instrument needs to be added*

Municipal Advisory Group Resolution 2004-05 Final

A Resolution Outlining the Parameters of a Construction Impacts PILT to Municipalities:

A. Whereas construction of an Alaska gas pipeline will bring impacts to municipalities;

B. Whereas construction impacts of the project will begin prior to gas pipeline construction, continue through the projected three-year construction period, and phase out a year after construction ends;

C. Whereas the State has eliminated or reduced assistance to potentially impacted municipalities and has begun the discussion of gas pipeline construction impacts to municipalities;

D. Whereas funding for construction impacts and need for services as a result of construction may not parallel each other;

E. Whereas adequate construction PILT funds must begin prior to construction to provide timely, effective services to residents;

F. Whereas maximum Alaska hire will result in fewer construction impacts to municipalities by reducing unemployment, in-migration and need for increased services;

G. Whereas an increase in general wages within the affected municipalities will result from limited availability of personnel for jobs during construction of the gas pipeline, and the effects of that wage inflation are likely to linger after construction ends;

H. Whereas municipalities have particular concerns about the impacts of gas pipeline construction on their road systems and infrastructure;

Be it therefore resolved:

1. Payment in lieu of taxes must fund impacts of gas pipeline construction with phasing appropriate to provide funds for specific service delivery.
2. Project sponsors and the State of Alaska should expend maximum efforts to ensure Alaska hire, thus mitigating the need for new municipal services to support an influx of Outside workers.
3. Apart from construction or revenue PILTs, the State of Alaska Legislature and Administration should provide financial assistance to impacted communities not receiving a revenue PILT.
4. PILT payments should be transmitted directly to municipalities by the payors, as would be the case for tax payments.

Municipal Advisory Group Resolution 2004-06 Final

A Resolution Outlining Voluntary Measures to Ensure Maximum Alaska Hire for the Alaska Natural Gas Pipeline:

A. Whereas Alaska residents should benefit from natural resource development by having access to both construction and operation jobs of the Alaska Natural Gas Pipeline;

B. Whereas increased Alaska hire will lead to mitigated impacts on affected municipalities by reducing the need for new services;

C. Whereas in 1998 the Alaska North Slope Gas Commercialization Team (Commissioners Will Condon and John Shively and Attorney General Bruce Bothello) made recommendations for voluntary measures to ensure Alaska hire;

D. Whereas the team conducted its work against a background of U.S. and Alaska Supreme Court decisions striking down previous Alaska Hire efforts;

E. Whereas the group sought to avoid these problems by recommending requirements and voluntary measures for Alaska Hire efforts on the part of gas pipeline/export project employers;

F. Whereas the Municipal Advisory Group endorses these requirements and voluntary measures to ensure maximum training and hiring of Alaskans;

G. Whereas the realization of maximum local hire can be of benefit to the communities of Alaska and the companies involved in construction and operations of an Alaska Natural Gas Pipeline;

Be it therefore resolved:

1. The State of Alaska should require project sponsors to submit a plan outlining specific measures to hire qualified Alaskans; to train, in a timely fashion, Alaskans who are capable of becoming qualified; and to contract with Alaska businesses. The plan should include scheduled benchmarks for achieving the training and hiring of Alaskans.
2. The State of Alaska should require project sponsors and gas pipeline contractors to advertise within Alaska for positions, and to use State of Alaska job service organizations to notify the Alaska public regarding jobs.
3. The State of Alaska should require quarterly unemployment insurance submittals by project sponsors and gas pipeline contractors to identify employees and employers involved in project construction throughout the state.
4. The Alaska Department of Labor and Workforce Development should create a statistical indicator of the number of Alaska resident and nonresident employees involved in project construction by comparing quarterly UI submittals against other indexes of Alaska residency, such as PFD qualifications and drivers licenses.
5. The State Commissioner of Labor and Workforce Development should prepare and present to the legislature an annual report, by employer, that identifies the numbers of Alaska residents working on the gas pipeline project.
6. The State of Alaska should negotiate Alaska hiring goals and should develop incentives to reward project sponsors that achieve those goals.

Municipal Advisory Group Resolution 2004-07 Final

A Resolution Regarding Interruption During Construction of the Natural Gas Pipeline and Related Effects on a Construction PILT:

A. Whereas the PILT proposed for construction impacts would be phased over a five year period – one year of pre-construction, three years of construction and one year of post construction;

B. Whereas some construction impacts will require expenditures by municipalities and communities prior to commencement of service delivery;

C. Whereas preparation for some construction impacts, such as increased call volumes to local police departments, State Troopers and VPSOs, requires significant lead time for recruiting, training and hiring new employees;

D. Whereas purchase of equipment such as ambulances requires a commitment of funds and subsequent significant lead time between ordering and delivery;

E. Whereas an interruption in construction of a gas pipeline would cause negative impacts in affected communities due to economic uncertainty, changes in employment and social disruption;

F. Whereas a halt in construction would create a need for affected communities to adjust recruitment and hiring, ordering of equipment, or other issues;

G. Whereas once the recruitment and hiring of employees to respond to construction impacts has begun, it becomes imperative that construction PILT funds be maintained even if construction is interrupted;

Be it therefore resolved:

If construction of the natural gas pipeline halts, the flow of construction-related PILTs to the affected communities should continue for up to twelve months of an interruption.

Municipal Advisory Group Resolution 2004-08 Final
A Resolution Recommending Maximum Effort to Require Provisions for Expansion of a natural gas pipeline to accommodate additional exploration and production.

A. Whereas Alaska's North Slope holds the potential for tremendous reserves of undiscovered natural gas;

B. Whereas article 8, sections 1 and 2 of the Alaska State Constitution declare that it is the policy of the state that the development of its resources be made available for maximum use consistent with the public interest and for the maximum benefit of its people;

C. Whereas it is in the best interest of the state to provide for maximum competition in the development of its natural gas resources;

D. Whereas it is vital that a natural gas pipeline project make provisions to accommodate future exploration and production;

E. Whereas the state of Alaska has the authority to require certain provisions under the Right of Way leasing act and the Stranded Gas Development Act;

F. Whereas recently passed federal legislation, Section 101 of "The Alaska Natural Gas Pipeline Act" provides the Federal Energy Regulation Commission the authority to order the expansion of a natural gas pipeline under certain conditions;

Be it therefore resolved:

1. The State of Alaska should include in contract negotiations under the Stranded Gas Development Act and the Right of Way leasing act provisions for expansion of the natural gas pipeline to accommodate future exploration and production; and
2. The State of Alaska should protect Alaska's interest in the upcoming FERC rulemaking process and should utilize its standing with FERC to encourage an order for expansion when it is determined to be in the best interest of the state.

Approved by vote:

Yes: City of Fairbanks; Fairbanks North Star Borough; Kenai Peninsula Borough; City of Kenai; Tanana Chiefs Conference; City of Skagway

No: North Slope Borough