Municipal Advisory Gas Project Review Board draft 2016 report

Though the Municipal Advisory Gas Project Review Board has not met since February 2016, its members are as committed as ever to successful development of an Alaska North Slope natural gas project. Changing global energy economics, however, resulted in delays in the project timeline, and there was no immediate need for the board to meet this past year.

Additionally, the effort by the state to take over management and financial control of the Alaska LNG project from its North Slope producer partners (ExxonMobil, ConocoPhillips and BP) added a new level of uncertainty to payments in lieu of property taxes during project construction and operations. As the structures for payments in lieu of property taxes are a central issue for the board members and their communities, it seemed reasonable to hold off on any further meetings until the board had more information on how the state might structure project ownership and responsibility for the payments.

That is not to say the board members and their communities are in total agreement on how to structure the payments. While the members generally accept the need for structured, predictable payments in lieu of property taxes (PILT), rather than the annually contentious method of assessed valuation of the property, the members concluded their last meeting in February 2016 with agreement on general terms, but without agreement on specifics for distributing the funds.

Although additional discussions must occur before the board's final recommendations on the allocation of construction PILT and operations PILT, the board last year agreed:

- Construction PILT should be distributed based on the merit of applications by impacted communities.
- Operations PILT should be allocated on a formula-driven calculation based on two criteria: Physical location of the project's real property and a per-capita distribution.

Aside from those general terms, the board left unresolved last year the specifics of any distribution calculation. The unresolved issues raised in the last meeting still exist:

- Will the state pay into the construction-related PILT fund the same as private-sector partners?
- How exactly will impacted municipalities draw on the fund, and how will their requests be decided?
- Will the state be allowed to draw on the fund the same as municipalities?
- And will municipalities outside of the footprint of the project be allowed to draw on the fund for direct or indirect impacts?

The issues are similar for the operations-related PILT:

- Will the state pay unto the operations-related PILT the same as private-sector partners?

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- How will the funds be distributed to municipalities? Strictly based on project mileage or value within each municipality's boundaries? Or based on some hybrid formula? What amount, if any, should be assigned to a statewide municipal per-capita sharing of the PILT money?
- Will the state receive funds from the account for the project mileage/value not within a municipal tax jurisdiction?

Of course, the board members understand that the legislature will make the final determination on any payment of state funds into the construction and operations PILT accounts, and on the distribution of those funds to municipalities. In particular, sharing the PILT funds with municipalities will require statutory provisions approved by the legislature. Regardless of that overriding eventuality, the board is eager to resume its work on a structure for PILT distribution as soon as it has more information on project ownership, including whether the state, through the Alaska Gasline Development Corp., expects to pay into the PILT accounts commensurate with its percentage of project ownership, and whether the state expects to draw on the PILT funds the same as an affected municipality.

In response to that unknown, the board's recommendation of a year ago still stands today:

> If the state, or any state-owned entity operating as an owner in the project on behalf of the state, is exempt from contributing toward the construction PILT or the operations PILT, or contributes less than at its full ownership percentage, the board recommends that the state's share of disbursements be reduced proportionally.

Additionally, recent discussions about improving the project's tight economics by securing tax-exempt status under state ownership raises concerns over any financial impacts to municipalities.

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