



KENAI PENINSULA BOROUGH

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**MIKE NAVARRE
BOROUGH MAYOR**

October 6, 2015

Commissioner Randall Hoffbeck
Department of Revenue
Juneau, Alaska 99811

Dear Commissioner Hoffbeck:

Following up on the MAGPRB (MAG) meeting in Fairbanks on September 23rd, I offer the following comments and observations on the proposed impact payments during construction and flow-related payments in lieu of property taxes (PILT) during operations:

Impact Payments during Construction

- Consistent with my comments at the MAG meeting, the total amount of the impact payments during construction, \$800 million with payout over 5 years, seems both reasonable and adequate. But, a consistent and fair means of evaluating and prioritizing impact payments for both capital projects and operations is an important — and unknown — component at this time.
- The 4:4ths contribution structure for project partners creates a number of potential concerns if the State of Alaska's (SOA) portion of the project is determined to be tax exempt or if the legislature declines to fund the state's share of the \$800 million. I recognize that the SOA will certainly have impacts during construction, separate from municipal impacts; however, it is unreasonable to expect the SOA's impacts to be wholly accommodated from a diminished pool of impact payments during construction if the SOA's portion of that impact fund is exempt or the legislature decides not to contribute to the fund. Such a scenario could put municipalities at risk. In order to preserve sufficient impact funds for affected municipalities, it may be prudent to segregate impact payments during construction into two separate accounts, one for the SOA and one for municipalities.

Flow-Related Property Tax (PILT) during Operations

- As discussed at the meeting, the total target amount of \$15.7 billion over 25 years seems like a reasonable amount. However, it is difficult to reconcile the reasonableness of the PILT without knowing the split between the state and affected municipalities and the expected "total government take" for the project, since the SOA is the beneficiary of the remaining government take. Since negotiations on the remaining fiscal terms are ongoing, those negotiations could affect the allocation of the PILT among the SOA and local jurisdictions.

- As recognized at the MAG meeting, the allocation among the SOA and the various local jurisdictions will require significant work before it is finalized. It is a monumental change from the current local taxing authority and, unless properly structured, could undermine local taxing authority – particularly in communities where the physical assets are sited. A PILT structure (the sharing of PILT funds with municipalities) that is subject to reallocation by the legislature would be of particular concern to local governments.
- The 4:4ths contribution structure for PILT has similar concerns to those identified for impact payments during construction if the SOA's portion of the project is tax exempt or the legislature declines to fund a state contribution to cover its share of the project ownership.
- The blended mill rate for the project is one factor used to land the PILT amount at \$15.7 billion and will require clear explanation. The 7.5 mills for the liquefaction plant and marine terminal portion of the project is achieved in part by recognizing that LNG plants are currently taxed under AS 29 (municipal taxation) and not subject to the full 20-mill property taxation under AS 43.56. The blended mill rate also adjusts for an anticipated mill rate reduction (a local determination under existing statutes) resulting from the huge increase in taxable value in the Kenai Peninsula Borough where the LNG plant will be located. No similar assumptions or adjustments are made for other components of the project (pipeline and GTP) in other local jurisdictions, and there could be confusion related to these distinctions when determining the PILT allocations.
- There will need to be provisions for accommodating municipalities that organize after the PILT allocations are determined.

Sincerely,



Mike Navarre
Mayor