

# MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD

September 23, 2015

1:00 p.m.

Taken at:

Fairbanks North Star Borough Assembly Chambers  
809 Pioneer Road  
Fairbanks, Alaska

## MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD:

Commissioner Randall Hoffbeck, Chair  
Commissioner Mark Myers (via telephone)  
Deputy Commissioner Fred Parady (via telephone)  
Mayor Clay Walker  
Mayor Larry DeVilbiss (via telephone)  
Mayor Mike Navarre  
Robert Venables  
Mayor Luke Hopkins  
Robert Bartholomew  
Ona Brause (via telephone)  
Jacob Adams

Others participating:

Stephanie Alexander, Department of Revenue  
James Wilson, Mat-Su Borough

## PROCEEDINGS

CHAIR HOFFBECK calls the September 23, 2015 meeting of the Municipal Advisory Gas Project Review Board to order. He asks Ms. Alexander to call the roll.

MS. ALEXANDER calls the roll.

CHAIR HOFFBECK asks for a motion to approve the agenda.

MAYOR WALKER makes a motion to approve the agenda.

MAYOR HOPKINS seconds.

*There being no objection, the motion is approved.*

CHAIR HOFFBECK moves on to approval of the minutes for July 22, 2015.

MR. VENABLES makes a motion to approve the minutes of July 22, 2015.

MAYOR WALKER seconds.

*There being no objection, the motion is approved.*

CHAIR HOFFBECK recognizes Mr. Venables.

MR. VENABLES states that the Southeast Conference had their annual meeting in Prince Rupert where there is a significant presence for LNG development. He continues that there are 18 or 19 conceptual projects being explored for export in British Columbia. He adds that Pacific Northwest Project is at their FID benchmark and is waiting for an environmental approval from the federal government. They are moving forward. He states appreciation for this group's efforts in doing this work, but adds that they are being very pro-active in workforce development initiatives. He adds that it is important to be aware of what is going on outside of this group in moving forward with our own project.

CHAIR HOFFBECK states appreciation for the comments, adding the importance of continuing in moving this agenda forward wherever possible. He asks for any other comments from the board members. He then asks for any public comments. There being none, he moves into the agenda. There are three major components to the agenda: The PILT discussion of the impact payments; discussion on the distribution of payments; and discussion of the annual report that is due December 15 to the Governor's office. He begins walking through the PowerPoint on the PILT and impact payments during construction. He states that the structure will lay out how the total value was derived and then turned into a PILT. He continues that a tentative alignment with the producers on the amount of impact payments during construction and the structure and target amount for flow-related property tax has been reached. He moves to the impact payments during construction and states that the total amount of payments is \$800 million. It is a 4/4ths, which means that it is all four parties within the pipeline ownership: BP, ConocoPhillips, Exxon, and the State of Alaska. He adds that TransCanada as well as AGDC are parties in the process. He explains that the \$800 million is a negotiated number because the project is not far enough along to know what the construction schedule is going to be. He continues that the Kenai Peninsula Borough has put together a program on how that can be distributed, which he explains. He states that the \$800 million will be paid out evenly through the five-year construction period. He continues that the impacts do not include infrastructure, road, bridges, and things like that, which will be paid separately from the project.

A discussion and explanation ensues.

CHAIR HOFFBECK states that it is important to address appropriately, in any fiscal contract, what the PILT covers and does not cover.

MAYOR NAVARRE makes a motion to accept the \$800 million number as proposed for the impact payment.

CHAIR HOFFBECK asks if any other parties are ready to go that far.

MAYOR NAVARRE withdraws his motion.

CHAIR HOFFBECK appreciates the positive comment on it and continues his presentation, moving into the time period during the operation of the pipeline. He states that the total target amount on this is \$15.7 billion in full payments during the 25 years. He explains the reasoning behind this.

A short discussion ensues.

CHAIR HOFFBECK explains the formula and payment process more fully.

The discussion continues.

CHAIR HOFFBECK walks through the history of the calculation and development of the formula, which was the capital cost times inflation times the depreciation factor times the actual throughput divided by the design throughout. There was an exponent on that that would allow for the fact that there really is no linear relationship between cost volume. He continues explaining the process.

A discussion clarifying the details more fully ensues.

MAYOR NAVARRE states that it actually quadruples the value of all of the taxable value currently in the Kenai Peninsula Borough. He continues that this is a reasonable approach, but he does not want to see it used against the Kenai Peninsula Borough in negotiations with the Legislature.

CHAIR HOFFBECK clarifies that what was done with the numbers was to model what the status quo would represent. He states that the fact that 7.5 mills was the Kenai rate has nothing to do with how Kenai is going to be allocated the PILT. It is something that is being used in going forward and hopes it will not get used again.

MAYOR NAVARRE states appreciation for that. He continues that the State needs to maintain a significant portion of the property taxes from this project in order to allocate to communities all over the state.

CHAIR HOFFBECK asks for any other comments.

MR. BARTHOLOMEW clarifies that the 15.7 is not just the allocation to the communities whether directly involved in the gasline or peripherally, it is also what the State take will be as far as the replacement for the property tax; and is kind of a total tax.

CHAIR HOFFBECK moves on to the 15.7 and turning it into a structure for paying out the PILT. He explains this more fully.

A discussion ensues.

CHAIR HOFFBECK explains that the next slide is a schematic that tries to show where this particular deal provides some economic benefit to the project. He explains in greater detail, answering questions as he goes along. He states that the final slide is about the next steps for this group. He asks if anyone could provide any recommendations on the structure of the target amount proposed for the impact payments during construction and the flow-related property tax component. He states that a call can be set up in the next few weeks, which can keep this process moving.

MAYOR HOPKINS suggests a conference call meeting where more questions can be asked about what is happening.

CHAIR HOFFBECK asks if two weeks would be a reasonable time frame for a start.

MR. ADAMS agrees.

MAYOR DeVILBISS agrees.

MR. BARTHOLOMEW suggests scheduling that one and the next one.

MAYOR NAVARRE states that he is fine with two weeks and asks what additional information will be available. He continues that on the assumption that there is \$800 million available, is comfortable making a decision today. He adds that if there is conversation about the impact of tax exemption portions of the project, until those questions are answered he does not see how agreement can be reached.

CHAIR HOFFBECK states that he would be looking for those types of comments, concerns, and questions in two weeks.

MAYOR NAVARRE asks if there could be something from the administration or the project managers as to a kind of critical path in terms of the timeline for moving the project forward.

CHAIR HOFFBECK agrees.

A discussion ensues on the matter.

CHAIR HOFFBECK asks that questions get routed through Stephanie, which she will get to him and then we will share all the questions with everyone. This way everyone knows the issues that people are thinking about beforehand. He talks about the need of looking at providing recommendations on allocation among the jurisdictions. He calls a ten-minute break.

(Break taken.)

CHAIR HOFFBECK states that next on the agenda is a discussion on the distribution of payments, specifically focusing on the impact payments during construction. He continues that the Kenai Peninsula Borough took the initial step of laying out a program where people would apply for an impact payment with a method for distributing funds based on need, as shown in the application. He asks Mayor Navarre to walk the group through the program.

MAYOR NAVARRE states that some of the funds originally appropriated from each municipality put together were used to hire someone to put together a starting point for discussion. It is a simplified program for how to deal with the impact payments and is mostly designed for direct impact from the project that could be considered indirect. He adds, that is the portion that goes to the State and how it ends up being allocated. He explains that it is an applied-for grant program. He continues that the funds are put into a capital fund that is available, nonlapsing; and communities that are going to have specific impacts and direct impacts can apply for grants in order to address those impacts. If projects are approved, the funds are paid out over a portion of time, unless they are small projects, which are paid in a lump sum.

CHAIR HOFFBECK asks if he would talk about the process for establishing a fund that would not lapse, would be available and would not be subject to annual appropriations.

MAYOR NAVARRE explains that capital projects are an appropriation. If someone is appropriated into this fund as a capital appropriation, under the plan it is available for five years.

CHAIR HOFFBECK asks if the State statutes would be broad enough to interpret the impact payments as a capital projects.

MAYOR NAVARRE replies that it could be crafted as such, but he would leave that up to the attorneys.

CHAIR HOFFBECK states the necessity to fashion this with the idea that it is critical that it does not lapse. He continues that under Reconsideration it states that: "An applicant aggrieved by a decision made under this chapter may within 45 days of the decision request reconsideration by the Commissioner." He states that missing here is a time frame for reconsideration.

MR. VENABLES asks to take time to go through page by page and ask questions.

CHAIR HOFFBECK states that there is one hour to get done and recognizes Mayor Walker.

MAYOR WALKER thanks Mayor Navarre and the Kenai Peninsula Borough for this work, adding that there is a lot of good work here. He states that structuring it in a program administered by DCCED is a good approach, but the title, "Impact Grant Program," is not. He continues that it is a project-based grant program that is quite different than impact aid.

MR. VENABLES had the same thought, and instead of "grant" would just say Impact Payment Program; No. II: Municipal Application Process; No. 6, delete the words "of grants"; No. 7, change the word from "grant" to "funds". He asks what intent is on the words "impact on statewide and unincorporated communities" and if it could not just say "incorporated and unincorporated." He states that it is a weak spot that should be strengthened and clarified up front and in the definitions section to explain it more clearly.

A discussion continues on the difficulty of defining this.

CHAIR HOFFBECK states that a \$50 billion project is going to change the economics of the state to some extent, which makes it hard. He continues that some of those impacts will be good

and some of them are going to be bad. He adds that he does not think that this fund can cover them all.

The discussion continues as the pages are gone through.

MR. VENABLES suggests scrubbing the word “grant” from the entire document. He asks if all funds be returned or just the ones that are recoverable.

The discussion continues.

CHAIR HOFFBECK states that there has to be an end deadline.

MR. VENABLES agrees, but recommends continuing this discussion at the next meeting because there are going to be some impacts that are not related to the geographic footprint of these projects that we want to make eligible for reimbursement or support under the \$15.7 billion. He suggests that this fund could be used as a mechanism for doing that.

CHAIR HOFFBECK moves on to pages 9, 10 and 11, asking for any comments.

The discussion continues.

CHAIR HOFFBECK states concern that this is primarily intended to be government-to-government impact, covering the issues that a government entity faces.

The discussion on the language continues.

CHAIR HOFFBECK suggests talking about what the group would like included in the report. He suggests to simply go from where it was left off last year, which was broad recommendations on how to move forward and take those broad recommendations and line out how they were implemented and where it ended up. He stated that it would not be a lengthy report.

MAYOR HOPKINS asks if there are other actions to put into that for consideration next or in the near term. He adds to ask that the Governor include being able to work with Legislative Audit if there are questions.

MAYOR NAVARRE states that the recommendation on the PILT structure and amount and the impact aid money be included.

CHAIR HOFFBECK states that the final thing on the agenda is recommendations for legislation. He wants everyone to realize that as this package goes forward to the Legislature, some feedback on the language for the legislation is wanted. He continues that he expects substantial modifications to the language as part of the progress and would like feedback on that.

MAYOR HOPKINS states that SB100 takes into account both the impact and PILT, and asks if it would get amended.

CHAIR HOFFBECK replies that it would get amended and there are some issues that will need to be considered in moving forward. One is targeted access, the idea of how to provide the

ability the project needs at a municipal level without hamstringing the ability to operate the government in the process. The second is language that will solidify these payments as the totality of payments that will flow to the municipalities under this fiscal agreement and not leave it open so that ten years down the line someone chooses to say it is different.

MAYOR HOPKINS states that he will probably submit a question of the 36-inch pipe that is being laid in yards in Fairbanks and how it will affect the property tax within their boundaries.

CHAIR HOFFBECK states the issue is where to draw the line.

MAYOR DeVILBISS states his bias towards measuring the throughput in terms of energy instead of volume. He adds, that allows for a lot more changes that could happen in the content of that pipe on an equitable basis if it was thermal units.

CHAIR HOFFBECK notes that comment and asks for any others.

MAYOR HOPKINS thanks everyone and the State for coming to their house of the MAG meeting. He states that it felt like it worked really well and welcomes all back anytime.

CHAIR HOFFBECK asks for any other comments. He states that this has been a very productive meeting and this is a very productive board. He asks for a motion to adjourn.

MAYOR HOPKINS makes a motion to adjourn the meeting.

MAYOR WALKER seconds.

*There being no objection, the meeting is adjourned.*

(Proceedings adjourned at 3:53 p.m.)