MATANUSKA-SUSITNA BOROUGH INFORMATION MEMORANDUM **IM No. 20-014**

SUBJECT: A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY CONSENTING TO AND APPROVING THE LOCATION OF INTERIOR ALASKA NATURAL GAS UTILITY (IGU) EXPANSION PROJECT FUNDED THROUGH THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

AGENDA OF: February 18, 2020

Assembly Action:
2.18.2020 Approved under the consent agenda. KBJ

MANAGER RECOMMENDATION: Adoption of Resolution Serial No. 20-009.

APPROVED BY JOHN MOOSEY, BOROUGH MANAGER: _____

Route To:	Department/Individual	Initials	Remarks
	Originator: J. Moosey		
	Community Development Director		
	Finance Director	for Cheyenne	
	Borough Attorney		
	Borough Clerk	2/10/19	

ATTACHMENT(S): Fiscal Note: YES _____ NO X
Resolution Serial No. 20-009 (2 pp)
IGU Power Point of December 17, 2019 (11 pp)
Agreement for PILT (5 pp)

SUMMARY STATEMENT: Alaska Natural Gas Utility ("IGU") is seeking bond financing through Alaska Industrial Development and Export Authority ("AIDEA") for the expansion of its liquified natural gas production and distribution facilities at or near 25849 West Ayrshire Road, Big Lake, Alaska (the "Project"). The bonds will be issued by AIDEA. AIDEA is required to seek consent from the political subdivisions in which the projects are located. A copy of IGU General Manager Dan Britton's presentation to the Assembly on December 17, 2019 is attached for reference.

In evaluating the impacts of the Project upon the community in which it is located, the Borough Manager developed concerns over the provisions of public services and the burden the Project will place upon those services. The Project will place additional burden on the MSB local road infrastructure in the area, and the Project may also have impacts on the provision of services such as ambulance, permitting, and planning services. If the property is tax exempt, these burdens will be borne by the local residents of the MSB who will be paying taxes to support the local governmental services delivered to the Project, while the Project itself will not contribute to the provision of local governmental services. However, these concerns have been addressed because IGU has signed an agreement for Payment in Lieu of Taxes.

Therefore, the Borough Manger supports and requests full approval of the project and passage of the resolution required under AS 44.88.095(c) to enable IGU to proceed with the Project.

RECOMMENDATION OF ADMINISTRATION: Adoption of Resolution.

IGU
INTERIOR
GAS UTILITY

MATANUSKA-SUSITNA BOROUGH ASSEMBLY
INTERIOR ENERGY PROJECT
UPDATE – December 17, 2019

Presented by : Dan Britton, General Manager

IM 20-014
RS 20-009

Interior Energy Project

PURPOSE AND GOALS

"...to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible..."

Stabilize the Economy

Help Improve Air Quality

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RS 20-009

HISTORY

- 1998 - Fairbanks Natural Gas, LLC (FNG) began operating in Fairbanks and Pt. Mackenzie; giving Interior residents a natural gas heating option for the first time.
- 2013 – SB 23 signed into law establishing the Interior Energy Project (IEP), providing AIDEA with the financing package to finance and develop the supply and delivery of natural gas to Interior Alaska.
- 2015 – HB 105 signed into law, enacted to renew and advance the IEP and requiring the AIDEA Board of Directors to approve, by resolution, a project plan prior to deploying additional financing.
- 2015 – AIDEA purchases Pentex Alaska Natural Gas Company, LLC (Pentex) to further the goals of the IEP and facilitate consolidation of the Interior gas utilities.
- 2018 – IGU purchases Pentex from AIDEA and the parties establish a Finance Agreement governing AIDEA's financing of IGU; utilizing the tools established by the IEP.
- 2019 – IGU implementing plan, constructing storage in Fairbanks and North Pole and preparing for Liquefaction expansion and customer additions.

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Project Scope

LNG Production
- Point Mackenzie

Transportation
- Trucking
- Possibly Rail

Storage
- Fairbanks - 5.25 MM
- North Pole – 150,000

Distribution
- Fairbanks – 140 Miles
- North Pole – 72 Miles

Customer Conversion

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RS 20-009

IGU Point MacKenzie Liquefaction
- 50,000 GPD current Capacity
- 100,000 GPD Expansions

Notice of Intent to Award Pretreatment and Liquefaction supply to Air Liquide issued on 10/25/2019

65% Design work ongoing

Scheduled for Completion End of 2019

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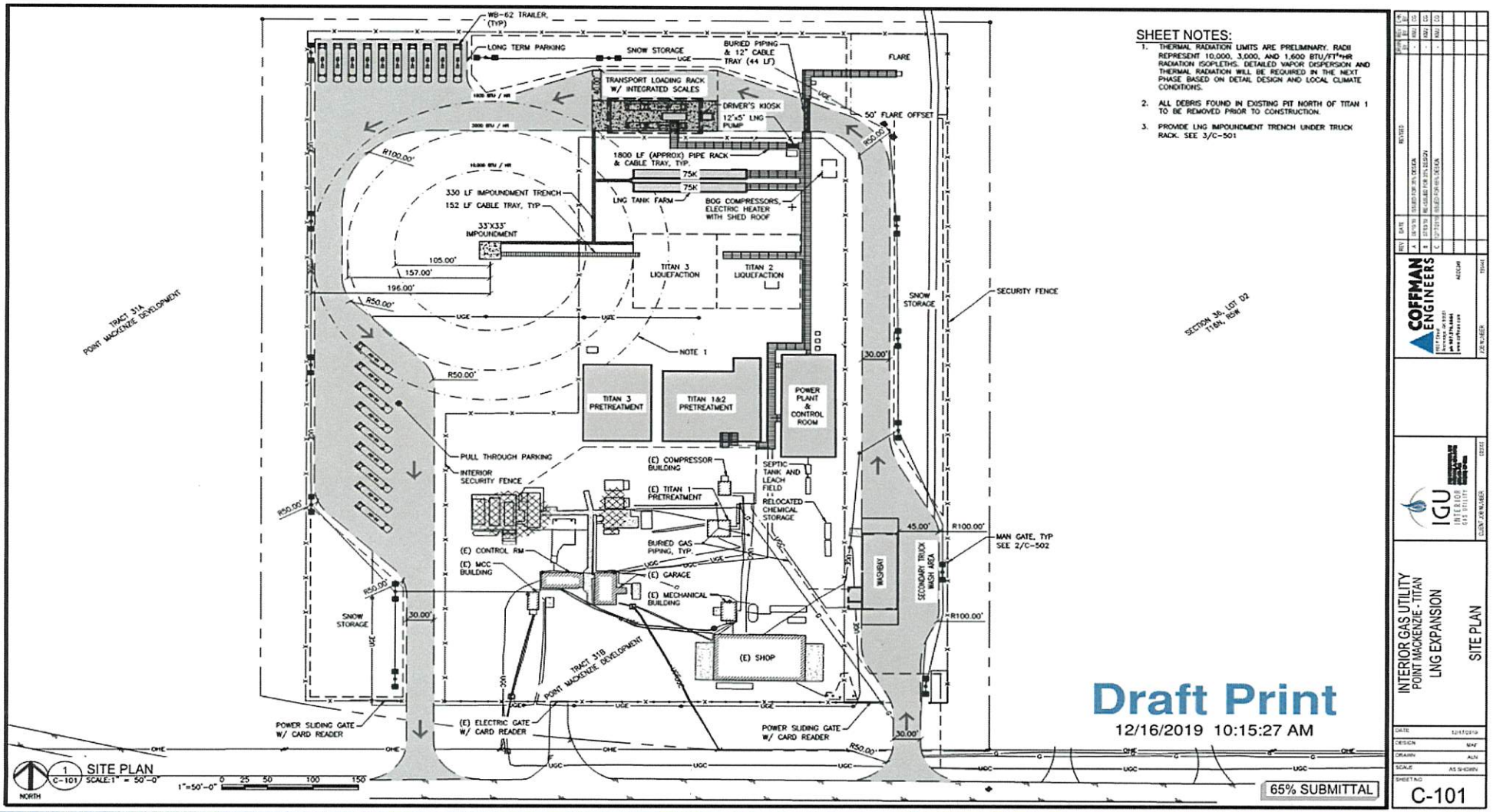
RS 20-009



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RS 20-009

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RS 20-009

Project Financing

- Estimated Capital Cost - $50 MM
- Bonds to be issued to Finance the Project
- Estimated Construction Jobs – 60 FTE, 1 to 2 years
- Operational Jobs – 10 FTE
- Transportation Jobs – 10 to 30 FTE

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NEXT STEPS…

IM 20-014
RS 20-009

- Finalize FEED Work and Budget
- Obtain Resolutions of Support from Local Governments where projects are being constructed as required by AIDEA statute
- Submit to IGU Board for Final Investment Decision
- Complete Bond Documents and Prepare Bond Offering
- Issue Bonds (Estimated $60 MM PAR)
- Finalize Design
- Issue Request for Bids for Project Construction
- Award Contracts and Begin Construction

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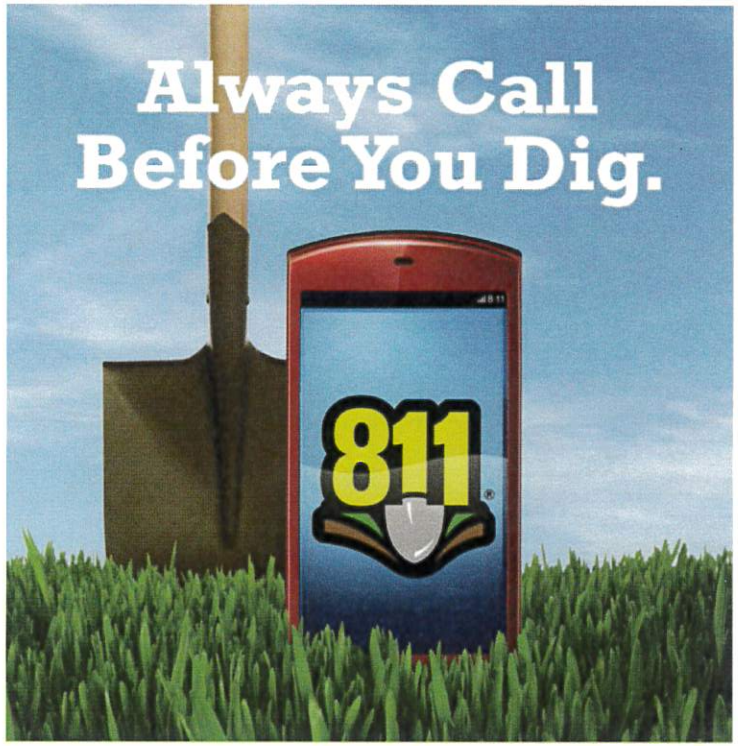

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AGREEMENT

This Agreement entered into this 7th day of February 2020, by and between the Interior Gas Utility ("IGU"), and the Matanuska-Susitna Borough ("MSB").

In consideration of the recitals and of the mutual covenants set forth, the parties do hereby agree as follows:

1. The Alaska Industrial Development and Export Authority (the "Authority") proposes to issue conduit revenue bonds in a principal amount in excess of $10,000,000 to provide funds to IGU to finance a portion of the costs of the acquisition, expansion, renovation, furnishing, and equipping of certain liquefied natural gas facilities and/or expansion of storage facilities located at or near 25849 West Ayrshire Road, Big Lake, Alaska, (collectively, the "Project"). The Project is within the boundaries of the MSB.

2. Under AS 44.88.095(c), the Authority must obtain a certified copy of a resolution of the governing body of the political subdivision of the state in which the Project is located consenting to the location of the Project.

3. The IGU has requested that the MSB adopt a resolution meeting the requirements of AS 44.88.095(c).

4. In evaluating the impacts of the Project upon the community in which it is located, the MSB Administration has concerns over the provisions of public services and the burden the Project will place upon those services.

5. The IGU has applied for an exemption of real property taxes which would otherwise be applicable to the Project.

6. The IGU has maintained that their Project is charitable in nature to provide a much needed benefit to the residents of the Fairbanks North Star Borough ("FNSB") by providing natural gas for the betterment of the community.

7. The Project will place additional burden on the MSB local road infrastructure in the area, and the Project may also have impacts on the provision of services such as ambulance, permitting, and planning services.

8. If the property is tax exempt, these burdens will be borne by the local residents of the MSB who will be paying taxes to support the local governmental services delivered to the Project, while the Project itself will not contribute to the provision of local governmental services.

9. Even if IGU property is found to be taxable at the present time, IGU may amend its ownership, bylaws, or operations to become tax exempt in the future, or changes to law may make it tax exempt in the future.

10. The MSB Administration is not willing to support a project location which results in financial burdens and impacts to local MSB residents when the Project is tax exempt because it alleviates cost for the FNSB residents.

11. The IGU is requesting that the MSB consent to the location of the Project in February 2020 and there is not enough time for the MSB Administration to fully analyze the issues surrounding impacts and taxability.

12. To alleviate these concerns and ensure the Project assists in defraying the impact it will have in its location and on the community, the MSB and the IGU agree that a Payment in Lieu of Taxes ("PILT") is appropriate.

13. With this PILT Agreement in place, the MSB Administration will advocate for full approval of the project by the MSB Assembly in February 2020 even though full impacts to the community may not be known.

14. This Agreement will apply only to the property owned by IGU at 25849 West Ayrshire Road to the extent that it receives approval by the MSB Assessor as being tax exempt under federal, state, or local law after following the applicable application procedures of the MSB. Tax exemption decisions are subject to appeal to the state superior court pursuant to AS 29.45.200 and MSB 3.15.030 and are not affected by this Agreement. In addition, nothing in this Agreement affects or is intended to affect any rights of IGU to challenge the MSB Assessor's determination of value of the property at 25849 West Ayrshire Road.

15. During such period in which the property at 25849 West Ayrshire Road is exempt from property taxes levied or imposed by the MSB, the IGU shall make annual payments of Payments in Lieu of Taxes ("PILT") to the MSB instead of real property taxes in payment for public services and facilities furnished from time to time without other cost or charge.

16. If the ownership or use of the Project property changes, the IGU agrees to immediately advise the MSB of the change so that MSB can reassess the Project property tax status.

17. Each such annual payment of PILT shall be made at the time when real property taxes on such Project property would be paid if it were subject to taxation and shall be in an amount equal to the following:

A) $12,500 in 2020, 2021, 2022, and 2023; and

B) $25,000 in 2024 and every year thereafter so long as construction of the Project has commenced before 2024.

18. If the annual PILT is not received by the MSB as of the due date as specified herein, interest will accrue at the rate of 10% per annum from the date due until paid.

19. IGU agrees that to enforce payment, the MSB may file a civil suit for any remedy available to collect the delinquent PILT payments and interest and/or an action for specific performance of this Agreement. In the event the MSB prevails in any such enforcement action, MSB shall be entitled to full attorneys' fees and costs regardless of remedy obtained or amount recovered.

20. During the period commencing with the tax exemption of the property at 25849 West Ayrshire Road, and continuing so long as such property is exempt, the MSB, without additional cost or charge to the IGU shall furnish or cause to be furnished to the property at 25849 West Ayrshire Road and the tenants of such property any and all public services, facilities, and infrastructure of the same character and to the same extent as are furnished from time to time as would be as a consequence of property tax payments by the owners without additional cost or charge. As with all public services, the provision of services by the MSB is subject to legislative appropriation.

21. In the event the property at 25849 West Ayrshire Road becomes taxable, in whole or in part, and the resulting tax liability exceeds the PILT amounts in Section 6 of this Agreement, the resulting tax liability is due.

22. Should the Project facilities be destroyed or otherwise rendered inoperable for a period in excess of 12 continuous months, the parties agree to equitably reduce the PILT payment by the pro rata share of the lost LNG production capacity, unless and until such LNG production capacity is restored.

23. The IGU shall acquire and maintain in good standing all permits, licenses, and other entitlements necessary to its performance and operation of its business at 25849 West Ayrshire Road. All actions taken by the IGU shall comply with all applicable statutes, ordinances, rules, and regulations.

24. The IGU may, consistent with state law and borough code and in the same manner as other land owners, petition the MSB for creation of local improvement districts ("LIDS") for the purpose of constructing capital improvements for the benefit of the Project property at 25849 West Ayrshire Road.

25. Aside from the consent resolution regarding the location of the Project and this Agreement itself, no other agreement entered into between the MSB and the IGU shall be construed to apply to this Agreement.

26. The failure of the MSB or the IGU at anytime to enforce a provision of this Agreement shall in no way constitute a waiver of the provision, nor in any way affect the validity of this contract or any part hereof, or the right of the aggrieved party thereafter to enforce each and every provision hereof.

27. This Agreement shall not be abrogated, changed, or modified without the written consent of authorized individuals of both the MSB and the IGU.

28. All rights and liabilities given or imposed upon the respective parties hereto shall extend to and bind the successors and assigns of the said parties.

29. This agreement constitutes an integrated agreement. No statements, either written or oral, prior to or contemporaneous with the execution of this document may be used to vary the terms hereof.

30. Each party agrees, by signature to this document, that it has had an adequate opportunity to review its contents and consult with any agent or advisor that the party deems necessary prior to execution and, in executing this document, is fully aware of all terms and conditions contained herein.

31. If any term, covenant, or condition of this Agreement or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Agreement or the application of such term, covenant or condition to persons or circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby; and each term, covenant, or condition of this Agreement shall be valid and enforced to the fullest extent permitted by law.

32. Any civil action arising from this agreement shall be brought in the Superior Court, Third Judicial District, for the State of Alaska at Palmer. The laws of the State of Alaska shall govern the rights and duties of the parties under this agreement, except where federal law provides the applicable rules governing the matter in dispute.

INTERIOR GAS UTILITY

By: _____ Dated: February 11, 2020
Dan Britton
Interior Gas Utility General Manager

ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
FOURTH JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on this 11 day of February, 2020, before me appeared DAN BRITTON, INTERIOR GAS UTILITY GENERAL MANAGER known to me to be the person named herein and who executed this AGREEMENT and acknowledged voluntarily signing the same.

_____
Notary Public for the State of Alaska
My Commission Expires: 6-21-21

MATANUSKA-SUSITNA BOROUGH

By:_____ Dated: FEB 18, 2020
John Moosey
Matanuska-Susitna Borough Manager

ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
THIRD JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on this 18th day of February, 2020, before me appeared JOHN MOOSEY, MATANUSKA-SUSITNA BOROUGH MANAGER known to me to be the person named herein and who executed this AGREEMENT and acknowledged voluntarily signing the same.

Official Seal
STATE OF ALASKA
Notary Public
Mary Miller
My Comm. Expires: 10/26/2020

Mary Miller
Notary Public for the State of Alaska
My Commission Expires: 10/26/2020

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