Council of
Alaska Producers

Comments on HB253
ELCTRNC TAX RETURN; MINING LIC. TAX & FEES

February 23, 2016

For the record, my name is Karen Matthias and I am the managing consultant of the Council of Alaska Producers (CAP). Thank you for this opportunity to testify on HB 253.

CAP is a non-profit trade association formed in 1992 and serves as a spokesperson for the large metal mines and major metal developmental projects in the state.

I watched the testimony of the Administration last week so I know you have been given an overview of the mining industry and an explanation of the current tax system. I will focus my comments on the impact of this bill on Alaska's 5 large metal mines and major projects and my colleague, Deantha Crockett of the Alaska Miners Association, will be speak to the broader industry which includes coal, placer mining and exploration.

CAP has two major concerns about HB 253:

1. How does the proposed 29% higher AMLT payment impact Alaska's current mines and projects?
2. Will it attract or deter investment to Alaska?

First, I would like to state CAP's position on **fiscal sustainability.**

As businesses that have had to make tough decisions to optimize operations, cutting budgets and positions over the past four years of declining mineral prices, CAP appreciates the depth of the State's fiscal challenge and concurs with many key elements of the Governor's fiscal plan for Alaska.

CAP's position has been consistent. To achieve fiscal sustainability and a stable investment climate, we support strategic reductions in the cost of government, use of the Permanent Fund earnings and broad based revenue measures to fill the remaining gap. However, CAP believes that targeting one or a few resource industries for tax increases is divisive, discourages investment and does little to balance the budget.

The fundamental question is what should Alaska's mineral tax policy be? Presumably we want to find the balance between a reasonable share for the state and a competitive rate for industry that attracts investment. Why? Because a robust, responsible mining industry contributes to Alaska's economic diversity by providing good jobs, procurement and contract opportunities for local businesses, state and local government revenue and revenue sharing to Alaska Native Corporations.

I know the administration already touched on these points and underscored the importance of the mining industry to local communities, particularly in the Interior, Nome, Northwest Alaska and right here in Southeast.

Proposed AMLT increase

In his State of the State address in January, Governor Walker said that if Alaska were a country, we would be the 8th most mineral rich nation in the world. But despite billions of dollars spent on dozens of exploration projects since the 1980s, we currently only have five large metal mines. Why? Simply put, it is very expensive and takes a long time to develop a mine in Alaska due to our state's lack of transportation and energy infrastructure. If our rich deposits were in Nevada closer to roads, rail and power, they would probably already be operating mines.

The State's annual Mineral Industry Report recognizes the negative impact of declining metal prices and paints a grim picture: fewer jobs, lower net revenue and a significant drop in exploration spending. This prompts numerous questions from our industry. What is the rationale for raising the Alaska Mining License Tax (AMLT) at a time of low metal prices? We have not seen a detailed analysis from the Administration about the impact of a tax hike. CAP is concerned that it will it affect the economic feasibility of mines that are under consideration or in permitting. Just one new large metal mine would bring more revenue to the state than this proposed increase.

CAP has members that are very concerned that at our current low metal prices it doesn't take much to tip into neutral or negative cash flow. Yes, the AMLT is based on net income, but at these prices, net income is low and a 29% higher tax payment would be a hard blow. The Department of Revenue has clearly illustrated how difficult things are for the industry in their estimation of the revenue impact of the higher tax rate. When the Governor rolled out his fiscal plan in December, Appendix A of his narrative stated that the increase in AMLT would result in an additional $12 million to the state. The fiscal note to this bill says $5.9 million in 2018. The difference is a recalculation of estimated net income and the reality of low commodity prices.

CAP is also concerned that the tax increase will deter investment. The 2014 Fraser Institute Annual Survey of Mining Companies ranks Alaska 22nd out of 122 jurisdictions around the world in regard to mining taxation policy as approximately 70% of the respondents said that our tax policy encouraged or did not deter investment. At a time of increasing competition for few global exploration dollars, what will be the impact of the proposed AMLT increase on global perception of investing in Alaska? Many people are surprised that our major competition are not countries in Africa and South America, but Canadian provinces and other US states like Arizona and Nevada which have more attractive investment climates. They offer both lower tax rates and more infrastructure which often means a better return on investment.

We should be encouraging, not discouraging new investment in Alaska. New mines, of which Donlin Gold is just one example, could potentially bring more revenue to the State of Alaska than the modest revenue to be gained by this measure.

3.5 year AMLT exemption for new mines

It is equally important to question the proposed elimination of the 3.5 year exemption of the AMLT for new mines. Is it fair to remove the exemption for mines that are currently under consideration or in permitting and whose economic models count on the exemption? Since no new large mines have received permits to start construction, it is clear that this change will not result in any new revenue in the near term. On the contrary, it sends a negative message to potential investors and possibly tips the scale for economic feasibility of some developing projects so it could actually have a negative impact on future state revenue. Surely this is not the goal of the State of Alaska. Please consider amending the bill to remove this proposal.

In closing I want to emphasize that CAP's position on fiscal sustainability has been consistent:

- The State of Alaska cannot cut its way out of the budget deficit, however additional cost-containment and efficiencies are still needed.
- Use of the Permanent Fund earnings is a viable option to fill the greatest portion of the deficit.
- No one industry should be singled out to cover the remaining gap.
- As Alaskan businesses willing to do our share, CAP would be supportive of broad based measures to address any remaining deficit.

Thank you for the opportunity to provide these comments. We urge you to look closely at the impact of this bill on Alaska's ability to be competitive and encourage investment in the mining sector. Many Alaskan communities and thousands of Alaska miners and their families depend on a healthy mining industry.