FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 344(RES)
(H) Publish Date: 2/26/04

Revision Date/Time (Note if correction):
Title: Mining Fees, Rentals and Royalties
Sponsor: Rep. Fate
Requester: House Resources

Dept. Affected: Natural Resources
RDU: Resource Development
Component: Claims, Permits and Leases
Component No. 2460

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	11.0	11.0	11.0	11.0	11.0	11.0
Travel						
Contractual	3.5	0.0	0.0	0.0	0.0	0.0
Supplies	0.5	0.0	0.0	0.0	0.0	0.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**15.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	**(8.8)**	**(8.8)**	**(8.8)**	**(8.8)**	**(8.8)**	**(8.8)**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	15.0	11.0	11.0	11.0	11.0	11.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**15.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**

Estimate of any current year (FY2004) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill provides a discount of 2.5 cents per acre on annual rentals to hard rock and placer mining claimants, who meet standards provided in the bill. The bill also reduces the state royalty from three to one percent of net profits for the first three years of production. Finally, it allows any net operating losses in the first three years of production to be taken as a credit against future royalties.

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Division: Mining, Land and Water — Date/Time 2/4/04
Approved by: Thomas Irwin, Commissioner — Date 2/4/04
Agency: Natural Resources

(Revised 9/2003 OMB)

STATE OF ALASKA **BILL NO.** CSHB 344(RES)

2004 LEGISLATIVE SESSION

ANALYSIS CONTINUATION

Rental Reduction. The bill reduces mining rent differently for owners of "placer mining claims" as opposed to those who hold a "hardrock mining claim." Federal law differentiates between placer and lode (hard-rock) claims. However, state law does not distinguish between the two. Alaskans stake a mining location that gives the rights to both the placer and hard-rock deposits. Therefore, it would not be possible to apply the provisions of this bill exactly as they are written. This fiscal note assumes that this technical issue is resolved, and the fiscal note averages the effect of the placer and hard-rock provisions of the bill. The difference is small. The amount was calculated as follows.

Placer Calculation. This bill provides that the discount may be taken by claimants who own up to 800 acres of "placer mining claims". Staff estimates that roughly 400 owners held claims that totaled less than 800 acres. The average acreage owned by these miners was 400 acres, and approximately half of the claims were owned less than five years. The rental reduction under the placer criteria would be: $2,000 [=(400 miners) x (400 acres) x (.5) x ($0.025/acre)]

Hardrock Calculation. This bill provides that the discount may be taken by claimants who own up to 2000 acres of "hardrock mining claims". Staff estimates that 600 owners held claims that totaled less than 2000 acres. The average acreage owned by these miners was 1000 acres, and that approximately half of the claims were owned less than five years. The rental reduction under the hardrock criteria would be: $7,500 [=(600 miners) x (1,000 acres) x (.5) x ($0.025/acre)]

Averaging the hardrock and placer criteria, the rental reduction would be approximately $4,800. Please note that these estimates are very rough staff estimates. More precise calculations require some computer programming. This is being done by the Department but is not expected to be available for a few weeks.

Royalty Reduction — Placer Mines. From 1997 through 2002, royalty payments have been primarily from the placer industry and the six-year annual average is approximately $10,700. Staff estimates that this bill could reduce this amount by approximately $2,000 to $6,000.

Royalty Reduction — Large, Hardrock Mines. The major producing mines in Alaska are not on state land. In addition, due to the recent few years of poor metal prices, these mines are not making significant profits. For these reasons, hardrock mines have not paid significant royalty. Also the state's Exploration Incentive Credit law allows a company to deduct up to $20 million from royalty or taxes, though the deduction may not equal more than half of the royalty or taxes owed during a single year.

In the future, as more large mines are permitted on state land and operate at stable metal prices, we expect to see significant royalties. For example, the Department expects that the newly authorized Pogo Gold Mine could eventually pay multi-million dollars in royalties over the coming 10-15 years. However, that royalty will probably not begin until after the term of this fiscal note.

FISCAL NOTE #1

STATE OF ALASKA **BILL NO.** CSHB 344(RES)
2004 LEGISLATIVE SESSION

ANALYSIS CONTINUATION

Because the state is currently receiving few royalties, this bill will not have a significant fiscal effect. In addition, large mines typically do not pay the state any royalty during the first three years after production due to capitalization and amortization of their mine construction costs. Therefore, the royalty reduction during that time will probably not have significant effect. However, the credit for the operating losses during the three years could eventually reduce the state's royalty by up to millions of dollars. The exact amount cannot be estimated. The decrease would occur after the term of this fiscal note.

Total Revenue Impact. The total revenue impact would be $8,800 which is made up of the rough estimate of rental reduction, $4,800, plus the mid-range of the royalty reduction estimate for the placer industry, $4,000.

Cost to implement. Computer programming changes to the DNR's database system would be necessary to track the mining claimants who would be eligible for the rental discounts (one-time cost of $3.5). Each year thereafter, rental accounts for claim locators eligible for the discount would have to be audited to be certain claim types, number and acreages are within the legal parameters to receive the discount. It is anticipated that this would require the equivalent of a quarter-time clerk-level position ($11.0 personal services).