

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 280(RES)
 (H) Publish Date: 5/3/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Minerals Tax/Payments to Munis in Lieu RDU Tax and Treasury
 Component Tax
 Sponsor House Resources Committee
 Requester (H) RES Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	0.0	76.1	76.1	76.1	76.1	76.1
Travel	0.0	5.6	5.6	5.6	5.6	5.6
Contractual	0.0	4.4	4.4	4.4	4.4	4.4
Supplies	0.0	1.0	1.0	1.0	1.0	1.0
Equipment	0.0	4.5	4.5	4.5	4.5	4.5
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	91.6	91.6	91.6	91.6	91.6

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	91.6	91.6	91.6	91.6	91.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	91.6	91.6	91.6	91.6	91.6

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	0	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 (see discussion on page 2)

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 Date/Time: 4/22/05 8:27 AM
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FISCAL NOTE #2

STATE OF ALASKA 2005 LEGISLATIVE SESSION

BILL NO. CSHB 280(RES)

ANALYSIS CONTINUATION

Discussion

We discuss revenue, exemptions and cost below.

Revenue

We did not include an estimate for revenue because we cannot foresee if municipalities will be formed within the unorganized borough or if planned mines will actually materialize.

This bill levies a tax rate equivalent to the mill rate "required to meet the local contribution [to schools] required of that municipality" on the full and true value of mining real and tangible personal property on land in the unorganized borough as of January 1, 2005. In general this is 4 mills or .4 percent. One exception is that the 4 mill levy on the taxable value cannot exceed 45% of the district's basic need. The tax rate does not go into effect until after production commences at the mine.

However, if a municipality is incorporated after January 1, 2005, the mill rate is two mills above the local contribution rate on mining property. This tax replaces all other potential municipal taxes imposed on the property for a period of 15 years after production starts with the exception that a municipality may levy a tax on the first \$1,000 of the retail sale or use of the taxable property and the first \$1,000 of the sale or use of services associated with the property. Although the tax sunsets fifteen years after production commences, it does not appear that the mining property exemptions under Sec. 43.67.160 (a) expire as well (see exemption discussion below). Also, until the mine starts production it is subject to municipal taxation unless it is specifically precluded by Sec. 43.67.160 (a). However, a mine is only subject to the tax if its capital costs are \$10 million or greater. A small mine would thus not have to pay the state property tax but would be subject to municipal taxation not covered under Sec. 43.67.160 (a) exemptions. A small mine could, however, elect to opt into the provisions of this bill if they so chose.

The State Assessor (Steve Van Sant) has estimated that the full value of the real and tangible property for the Pogo mine at about \$250 million. Pogo, a mine currently under construction, was located within the unorganized borough as of January 1, 2005. Consequently, if this bill passes and Pogo goes into production then for a full year of production the property tax under this bill would be about \$1 million without considering the exemptions discussed below or the basic need cap. Another proposed mine that was within the unorganized borough in 2005 and is currently in the advanced exploration phase is Donlin Creek. Construction on this mine could begin as early as 2007 and production by 2008. NovaGold, a partner in the Donlin Creek project, has estimated capital costs of \$522.5 million which would translate to possible \$2 million at a 4 mill tax rate (excluding exemptions and basic needs cap). For comparison, Fort Knox, a mine with a real property value of \$221 million pays at a millage rate of 15.2 mills and paid approximately \$3.4 million to the Fairbanks North Star Borough in 2004.

Exemptions

Sec 43.67.160 (a) exempts from municipal taxation:

- (1) property rights attached to or inherent in the right to explore for or produce minerals;
- (2) mineral leases or properties whether producing or not;
- (3) minerals in place;
- (4) minerals produced or extracted in the state;
- (5) the value of intangible exploration expenses;
- (6) tangible property used for the exploration and development of minerals;
- (7) roads, storage facilities, terminals, docks and other port facilities, and airstrips, publicly owned or privately owned and open to public use.

It does not appear that these exemptions sunset after 15 years. Consequently, it appears that a great deal of mining property would be exempt from municipal taxation after 15 years.

Sec 43.67.160 (b) exempts roads, storage facilities, terminals, docks and other port facilities, and airstrips, publicly owned or privately owned and open to public use from the state tax in 43.67.010. Also exempted is mining property that has been in production for 15 or more years. We are assuming that all mining storage facilities would be private and not exempt in our rough estimates above.

Sec. 43.67.160 (c) exempts mining property where the actual capital cost incurred or accrued with respect to the mine and related facilities is less than \$10 million from state taxation under 43.67.010.

Other Issues

There is some concern that equipment used for oil and gas exploration and development might be classified as mining equipment to take advantage of the lower tax rate.

Costs

Although we are not entirely certain of the extent of future mining that would be subject to the provisions of this bill, we are assuming that at least the Pogo mine will go into production. Consequently, we would have to hire an additional person at the Revenue Auditor III level to implement the provisions of the bill. This would involve total costs of \$91,600.