

HOUSE FINANCE COMMITTEE
February 7, 2006
2:05 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [2:05:37 PM](#).

MEMBERS PRESENT

Representative Kevin Meyer, Co-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Carl Moses

MEMBERS ABSENT

Representative Mike Chenault, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Beth Kerttula
Representative Bruce Weyhrauch

ALSO PRESENT

Irene Anderson, Chair, Bering Straits Native Corporation, Nome; Rich Heig, Member, General Manager, Kennecott Greens Creek Mining Company, Juneau; Karl Hanneman, Member, VP Teck Pogo Inc., Fairbanks; Charlotte MacCay, Member, Consultant, Bristol Environmental & Engineering Services Corporation, Anchorage; Greg Beischer, Member, Consultant, Bristol Environmental & Engineering Services Corporation, Anchorage; Neil MacKinnon, Vice Chairman, Hyak Mining Company, Juneau; Del Ackels, Member, Goldust Mines, Fairbanks; Bartly Coiley, Member, Usibelli Coal Mine, Inc., Fairbanks & Healy; Don Cook, Member, Cook International, Fairbanks; Rich Hughes, Staff, Development Specialist, Office of Mineral Development, Office of Economic Development, Department of Commerce, Community & Economic Development, Fairbanks
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GENERAL SUBJECT(S):

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 24th Legislative Session, contact 465-6814. After the 24th Legislative Session they will be available through the Legislative Library at 465-3808.

OVERVIEW:

ALASKA MINING COMMISSION

TIME	SPEAKER	DISCUSSION
2:05:46 PM	Co-Chair Meyer	Convened the House Finance Committee meeting to discuss the Alaska Mining Commission's findings and hear their presentation and overview. [Copy on File.]
		ALASKA MINING COMMISSION
2:06:33 PM	IRENE ANDERSON, CHAIR, BERING STRAITS NATIVE CORPORATION, NOME	Introduced the presenters and distributed a copy of the "Report of the 2006 Alaska Minerals Commission". [Copy on File].
2:07:07 PM	KARL HANNEMAN, MEMBER, VP TECK POGO INC., FAIRBANKS	Noted that the Commission was pleased to have the opportunity to discuss issues of the mining industry. He provided background of the Mining Commission, which was created by the Legislature in 1986. The Commission is authorized through 2014. He stated that the duty of the Commission was to provide information to the State and the Legislature on how to improve the mining industry.
2:08:36 PM	Mr. Hanneman	Summarized the work of the industry. He noted that it is composed of three different categories. <ul style="list-style-type: none"> • Exploration • Development • Production The State industry value has steadily increased and has a total overall value of \$1.6 billion dollars.
2:09:20 PM	Mr. Hanneman	Pointed out that the mines that have come along are located in diverse geographic areas throughout the State. He highlighted the new mines and projects in Southwest Alaska. The mineral industry projects provide a rare economic opportunity in diverse areas of Alaska.
2:10:18 PM	Mr. Hanneman	He noted that some of the recommendations deal with the taxation issues. There are a few key issues that need to be focused upon that relates primarily to finance concerns. He summarized the existing taxation regime.
2:10:46 PM	Mr. Hanneman	<ul style="list-style-type: none"> • Mining license tax - first enacted

		<p>by the Territorial Legislature in 1913.</p> <ul style="list-style-type: none"> • Mining rents and royalties - mineral development major factor at statehood.
2:13:17 PM	Mr. Hanneman	Pointed out the chart indicating the total growth of value of Alaska Mineral Production and subject to taxation. Growth increments come, bringing on new mines in Alaska. The last increase was in 2004 & 2005, resulting from a worldwide market price increase.
2:14:22 PM	Mr. Hanneman	From the increased profitability, the Industry is seeing growing payments from the industry to the municipalities. He spoke to the State's rents and royalties. He noted that there has been a substantial increase in the license tax since 2003 and 2004.
2:15:57 PM	Mr. Hanneman	<p>Highlighted the Mineral Commission's key issues:</p> <ul style="list-style-type: none"> • Tax Considerations • Geological & Geophysical Mapping • AMEREF <p>The commission recommends that the Governor and the municipalities work to create a fair and stable tax regime.</p>
2:18:32 PM	Mr. Hanneman	Pointed out that Alaska has one of the poorest map coverage in the world with respect to geophysical & geological concerns, which discourages investors. The Mineral Commission requests that level of funding be added and increased to \$1 million dollars this year.
2:20:34 PM	Mr. Hanneman	Identified AMEREF and noted that it is an Industry/Government partnership to support resource education. It is an excellent tool for public schools education regarding the natural resource industries. He recommended that \$100 thousand dollars be appropriated to support that program.
2:21:26 PM	Mr. Hanneman	<p>Highlighted the other findings & recommendations. He pointed out the recommendations:</p> <ul style="list-style-type: none"> • NPDES Program Primacy • Litigation Reform • Permit Efficiency • General Permits for Small Remote Work Camps

		<ul style="list-style-type: none"> • Mixing Zones • Roads to Resources • Power Supplies
2:22:22 PM	Mr. Hanneman	Summarized that if the State continues to provide stable fiscal and regulatory policy, the Industry has a lot of growth potential. He projected that it could double in the next decade.
2:23:13 PM	Representative Kelly	Asked for more information on the mixing zones.
2:23:39 PM	Mr. Hanneman	Pointed out that there was a recommendation in the report regarding mixing zones. He added that the Commission has advocated for the opportunity to mitigate to determine whether they are or are not appropriate.
2:24:08 PM	CHARLOTTE MACCAY, MEMBER, CONSTULTANT, BRISTOL ENVIRONMENTAL & ENGINEERING SERVICES CORPORATION, ANCHORAGE	Added, with the change in restrictions, there is an increased need for other water quality regulations to be fixed so that natural background criteria are considered.
2:24:59 PM	Representative Kelly	Asked if it is anticipated that there will trouble regarding that concern.
2:25:13 PM	Mr. Hanneman	Responded that with potential mining projects moving toward the next decade, there needs to be additional regulatory flexibility. He urged science-based evaluation regarding real impacts.
2:26:30 PM	Representative Hawker	Commented on the argument being proposed by the business end of the community in the State, who voice strong objection to any further funding of the budget & advocate cutting this year's budget. He referenced the increased mining request.
2:27:22 PM	Mr. Hanneman	Responded that in the context of historical spending, the request is not a significant increment. He emphasized the good policy for fiscal tracking.
2:28:13 PM	Representative Hawker	Reiterated concern on the proposed requests and noted inconsistencies.
2:28:45 PM	GREG BEISCHER, MEMBER, CONSULTANT, BRISTO ENVIRONMENTAL	Replied that in terms of mapping, when the State makes an investment there, it is an immediate economic benefit, drawing interest in companies that are willing to spend money developing. It

	& ENGINEERING SERVICES CORPORATION, ANCHORAGE	is a small investment, which comes back to the State many times over.
2:29:38 PM	Representative Foster	Commented on a recent case ruling (RS 2477) and asked the impact.
2:30:01 PM	Mr. Hanneman	Did not know and offered to provide that information after researching it.
2:30:54 PM	Representative Kelly	Requested further information on mixing zones to help with specific legislation. He offered to meet with the industry.
2:31:59 PM	Co-Chair Meyer	Inquired how Alaska taxation compares to other states and countries.
2:32:20 PM	Mr. Hanneman	Mentioned that there have been studies produced over the years and that Alaska rests somewhere in the "middle". History indicates many years of litigation.
2:32:58 PM	Co-Chair Meyer	Pointed out that legislators are looking at the oil company tax credits for those companies that invest back into the State. He asked if that type credit would work for the mining industry.
2:33:20 PM	Mr. Hanneman	Stated that several years ago, the Legislature passed the exploration credit bill, which has been viewed, extremely favorable by the industry. That legislation helped instigate exploration and development in Alaska and sent the "right message"- Alaska is "open for business".
2:34:09 PM	RICH HEIG, MEMBER, GENERAL MANAGER, KENNECOTT GREENS CREEK MINING COMPANY, JUNEAU	Informed members that there are only four large operating mines in the State of Alaska. He pointed out that the mining industry pays a corporate income tax of nearly 30%. Currently, the mining industry is "seeing good times" and in the last two years has a rate of return of 5%. It takes many years to bring a project "on" to actually produce the metal. The Mineral Commission believes that the current tax is fair on the mining industry.
2:35:53 PM	Co-Chair Meyer	Noted that it is also a very "litigated" industry and asked if they were currently at a "stop order". Mr. Heig noted that was the Kensington Mine. Co-Chair Meyer asked about projected employment growth.
2:36:29 PM	Mr. Hanneman	Stated that the projection was close to

		5,000, which could happen if the other major projects come to fruition. He addressed industry growth potential, highlighting the slide.
2:37:08 PM	RICH HUGHES, STAFF, DEVELOPMENT SPECIALIST, OFFICE OF MINERAL DEVELOPMENT, OFFICE OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT, FAIRBANKS	Clarified that the drop indicates the curtailing of construction activity. He noted that the number reflects both the construction and production.
2:38:20 PM	Co-Chair Meyer	Assumed that the local hire rate was good.
2:38:27 PM	Mr. Hanneman	Said it is not 99%.
	Representative Joule	Thought in his area it was around 60%. Mr. Hanneman thought that number was a shareholder number. Representative Joule agreed.
2:39:08 PM	Mr. Hanneman	Advised that there is a report from 2003, summarizing mining employment, indicating approximately 83% Alaskan hire. It is a challenge to work-under ground; there is not a lot of training in Alaska.
2:40:01 PM	Co-Chair Meyer	Asked about training efforts. Mr. Hanneman referenced the Delta Mining Training Center, working in cooperation with the Department of Labor & Workforce Development. He reiterated that recruiting people into that program is a challenge.
2:40:50 PM	Representative Joule	Pointed out that initially, training took place in Seward and the success rate was only 30% because the trainees had to go so far from home. When it was moved to the Kotzebue Tech Center, the success rate increased to 80%. He mentioned the impact of success when social environment is taken into consideration.
2:41:50 PM	Representative Joule	Asked if the School of Mines at the University in Fairbanks was providing the necessary level of education.
2:42:18 PM	Mr. Hanneman	Pointed out a recommendation to help

		solidify and strengthen the School of Mines by establishing a special professor Chair to help guide both the oil and mining industry. He requested that the Legislature provide support to fill that position. There are four mining and/or environmental engineers working with the Commission from the University of Alaska. At this time, the Commission would like two more; they are not available.
2:43:46 PM	Representative Hawker	Noted that usually the interest and beneficiary groups endow University Chairs. He asked if the mining industry would consider that.
2:44:19 PM	Mr. Hanneman	Advised that there has been discussion regarding that. During the school reorganization, short and long term funding was discussed.
2:44:33 PM	Representative Holm	Mentioned borough taxation of the boroughs and the newly formed borough. He asked how the negotiations were going with them.
2:44:56 PM	Mr. Hanneman	Replied that the Industry has signed a payment in lieu of tax agreement with the City of Delta Junction in November 2005. It provides a schedule of payments and taxation schedule structure. The public process proceeding with a vote is ongoing. The Commission has pledged support of borough formation.
2:45:50 PM	Representative Holm	If not, what happens. Mr. Hanneman stated if they do not, the Commission would evaluate what the best State policy should be.
2:46:16 PM	Representative Kelly	Asked when it is anticipated that there will be an answer. Mr. Hanneman replied that the target is first quarter, 2006.
2:46:42 PM	Representative Joule	Inquired about the effort to work with local communities when it is known that an area near them may "come on line" and how they are "warmed" to that idea. He reminded members of conflicts with potential subsistence uses in those areas.
2:47:41 PM	Mr. Hanneman	Acknowledged that was a valid concern. As mines develop and the exploration occurs, there is tremendous education that needs to take place. Some projects require many years in the community to foster that communication.

		Each project is different and has its own challenges. There are always tangible benefits by offering jobs, etc. Those are "real & hard issues", but hopefully, by leading by example, the other mines help share the message and understanding of the benefits.
2:49:47 PM	Co-Chair Meyer	<u>ADJOURNMENT</u> The meeting was adjourned at 2:50 P.M.

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