

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 21, 2005

8:31 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Peggy Wilson
Representative Carl Moses

MEMBERS ABSENT

Representative Max Gruenberg

COMMITTEE CALENDAR

OVERSIGHT HEARING ON THE EDUCATION TAX, NATURAL RESOURCES AND
NON OIL TAX

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MICHAEL WILLIAMS, Auditor
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Reviewed the education tax and recent
proposals to reinstate it.

DAN BECK, Superintendent
Delta Junction School District
Delta Junction, Alaska

POSITION STATEMENT: Testified in support of an education tax
such as proposed in Senate Bill 137.

WILLIAM H. CORBUS, Commissioner
Office of the Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: During discussion of the mining license tax, related that the administration isn't proposing any changes to the mining license tax.

BRETT FRIED, Economist IV
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Discussed the natural resource revenue of the state.

AL CLOUGH, Deputy Commissioner
Department of Commerce, Community, & Economic Development
Juneau, Alaska

POSITION STATEMENT: Reviewed the mines in Alaska and their connection to the area in which they are located, specifically in regard to the formation of regional governments.

BOB LOEFFLER, Director
Division of Mining, Land and Water
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Discussed the mining industry in Alaska.

RICH HEIG, General Manager
Greens Creek Operation
(No address provided)

POSITION STATEMENT: In representing the Alaska Miners' Association and the Council of Alaska Producers, reviewed the mining industry in Alaska.

ACTION NARRATIVE

CHAIR BRUCE WEYHRAUCH called the House Special Committee on Ways and Means meeting to order at [8:31:30 AM](#). Representatives Weyhrauch, Samuels, Seaton, Wilson, and Moses were present at the call to order. Representative Rokeberg arrived as the meeting was in progress.

OVERSIGHT HEARING ON THE EDUCATION TAX, NATURAL RESOURCES AND NON OIL TAX

[8:31:49 AM](#)

CHAIR WEYHRAUCH announced that the first order of business would be to discuss the education tax. He reminded the committee that an education tax was implemented in Alaska during the 1950s and

was repealed in 1980. During the Twenty-Third Alaska State Legislature Senate Bill 137 proposed an education tax of \$100 per employee, which is basically an income tax that is placed in the general fund (GF) to be appropriated for education. He added that some Alaskans believe an individual employment tax [education tax] would give people in the state a vested interest in education.

[8:33:37 AM](#)

MICHAEL WILLIAMS, Auditor, Tax Division, Department of Revenue, reiterated the history of the education tax as explained by Chair Weyhrauch. He informed the committee that the highest grossing years for the education tax were in 1979, during which the tax generated \$2.5 million, and in 1980 when it generated \$2.6 million. During the Twenty-Third Alaska State Legislature Senate Bill 137 proposed reinstating an employment tax for education of \$100 per employee. The education tax would have affected employees, 19 years of age and older, once their gross wage exceeded \$1,000. According to the Department of Revenue's fiscal note, during the out years this employment tax would have generated \$39 million with an operating cost of \$1.1 million. In addition, during the Twenty-Third Alaska State Legislature, a similar proposal on the education tax was introduced, House Bill 236, by Representative Wilson. The fiscal note of House Bill 236 projected revenue, in the out years, to amount to approximately \$43 million with an operating cost of \$1.1 million. He turned attention to a chart which details the impact of inflation on the \$10 education tax from 1960 to 2004. That \$10 would've been adjusted upwards to \$49. Even if the \$10 in 1980 had been adjusted for inflation the education tax would be \$19.50 [in 2004]. He placed this in terms of the state's median household income average. According to the U.S. Census Bureau the median household income for Alaska in 1979, was \$29,585 and the equivalent of that median household income in 2004, if it were adjusted to reflect inflation, was \$63,555. He offered that the median household income in Alaska from 2001 to 2003, averaged \$55,143, and thus reflects a 15 percent differential because Alaska hasn't kept pace with inflation.

[8:37:53 AM](#)

REPRESENTATIVE WILSON highlighted that the original education tax included a penalty [provision] which was 100 times the amount of the tax, hence the tax was \$10 and the penalty was \$1,000. She suggested that the committee should consider similar penalty provisions.

MR. WILLIAMS related if the employment tax is reinstated under Title 43 of the statutes, Section 5 of Title 43 already includes penalty provisions. Later drafts of House Bill 236 and Senate Bill 137 included non-payment provisions in order to safeguard the money from being remitted to the state. In further response to Representative Wilson, Mr. Williams agreed that the provisions in the bills from the Twenty-Third Alaska State Legislature placed the penalty on the employer.

[8:39:57 AM](#)

MR. WILLIAMS, in response to Chair Weyhrauch, replied that the individual [employment] tax was \$100 for both Senate Bill 137 and House Bill 236. He added that in House Bill 236 there was an incremental percentage such that "once your wages ... hit \$1,001, ... it was actually a percentage of that each incremental dollar until you hit the \$100 withholding." In further response to Chair Weyhrauch, Mr. Williams explained that the statute repealed in 1980 was a \$10 per person tax and that the aforementioned threshold for House Bill 236 was not a provision of the original statute. Mr. Williams reiterated that the original \$10 tax amounts to \$49, when one accounts for inflation.

[8:40:46 AM](#)

REPRESENTATIVE SEATON related his understanding reinstating the 1960 [employment] tax and accounting for inflation would generate \$20 million with an administrative cost of \$1.1 million.

MR. WILLIAMS agreed, but noted that the administrative costs are a relatively flat rate regardless of the volume generated.

[8:41:45 AM](#)

REPRESENTATIVE SAMUELS highlighted [House Bill 263] includes a definition of compensation. He asked if the aforementioned definition includes the permanent fund dividend.

MR. WILLIAMS answered that the definition doesn't include the permanent fund dividend however, it would include income from self-employment.

REPRESENTATIVE WILSON opined that [House Bill 263] didn't provide any provisions for the permanent fund dividend because

it's used for other things, such as owed back taxes, court fines, child support, et cetera.

[8:42:59 AM](#)

DAN BECK, Superintendent, Delta Junction School District, related his support for Senate Bill 137. He opined that the bill would allow residents from rural education attendance areas (REAA) to pay their "fair share." He highlighted that "hundreds of people from out of state" have made huge salaries and left the state with those dollars and yet the pressure is on the [state] to educate and train a workforce.

[8:43:57 AM](#)

CHAIR WEYHRAUCH clarified that no specific bill is before the committee; this is merely an oversight meeting regarding the aforementioned bills [from the prior legislature]. Therefore, Chair Weyhrauch took Mr. Beck's testimony to mean he would support an education tax, he said.

[8:44:48 AM](#)

REPRESENTATIVE WILSON asked if Mr. Beck's school district is an REAA.

MR. BECK replied, "yes," and related his belief that most residents [of Delta Junction] support the institution of an education tax.

[8:45:11 AM](#)

REPRESENTATIVE SEATON related that the collected funds [from an education tax] would not be dedicated back to the district where the employee was hired.

MR. BECK related that was his understanding of the bill, and added that the funds wouldn't necessarily be used for education either.

[8:45:30 AM](#)

CHAIR WEYHRAUCH inquired as to the appeal of this type of tax.

MR. BECK explained there has been controversy over the unorganized boroughs not [contributing] for services, primarily education, and this type of tax would level the "playing field."

He opined that the unorganized boroughs should offer something to the state for the services they receive.

[8:46:56 AM](#)

CHAIR WEYHRAUCH announced that the committee would turn its focus to the mining license tax.

[8:47:40 AM](#)

WILLIAM H. CORBUS, Commissioner, Department of Revenue, stated that the administration has supported mining and will continue to encourage keeping existing mines in operation and developing new mines. Therefore, the administration is not proposing any changes to the mining license tax. The revenues received from the mining license tax are minimal in comparison with the overall state revenue. However, mining provides other forms of taxes and provides employment, he opined.

[8:50:04 AM](#)

CHAIR WEYHRAUCH relayed that although there is no specific proposal to raise taxes on the mining industry, it's important to review the industry, its contribution to the state, and its tax structure.

[8:50:45 AM](#)

REPRESENTATIVE SEATON opined that every major industry in the state is a vital contributor to the economy; for instance, fishing is the largest employer in the state and yet there's no proposals to cut fish industry taxes. He requested a comparison of spin-off [benefits] and capital intensiveness regarding the industries, because currently the treatment of industries is based different political realities rather than economic impact.

COMMISSIONER CORBUS replied that if the presentation doesn't address Representative Seaton's question, then the department will have further conversations before the committee.

[8:52:30 AM](#)

BRETT FRIED, Economist IV, Tax Division, Department of Revenue, presented that the natural resource revenue comes to the state through three means, including taxes, rents and royalties, and other revenue sources. The direct taxes on natural resource businesses include the fisheries business tax, the fishery

resource landing tax, which is collected at the local and statewide level, the local mining tax, and the corporate income tax for Sub Chapter C Corporations. The indirect taxes are for purchases made by natural resource businesses and their employees, including: motor fuel taxes, local sales taxes, and property taxes. The rents and royalties are paid by businesses located on state land. The other revenue sources are those charged for services, fines, forfeitures, licenses, and permits. He turned to the table entitled, "Statewide Alaska Fish Revenue", which breaks down the revenue into its component parts:

Fish Taxes (includes municipal share)	Fiscal Year (FY) 04 Revenue
Salmon and Seafood Marketing Taxes	\$5.3 million
Salmon Enhancement Tax	\$3 million
Dive Fishery Management	\$0.2 million
Fisheries Business Tax	\$29.2 million
Fishery Resource Landing Tax	\$6.9 million
Total Fish Resource Taxes	\$44.6 million
Corporation Fish Income Tax Revenue	\$3.2 million
Total Fish Tax Revenue	\$47.8 million

MR. FRIED added that the salmon and seafood marketing taxes are appropriated to the Alaska Seafood Marketing Institute (ASMI); both the salmon enhancement and dive fishery management taxes are appropriated to qualified aquaculture organizations; the fisheries business tax and fishery resource landing tax have a 50 percent share with the [qualifying communities]; and the corporation fish income tax revenue, includes sub chapter C corporations and processors. He related that the aforementioned data was based on actual tax returns as filed, which means most of the revenues reference calendar year (CY) 2002, and the total fish tax revenue is about \$48 million.

MR. FRIED detailed that other fish revenue, not including charge for services, fines, or forfeitures, as follows:

Other Fish Revenue	Revenues for FY 04
Licenses and Permits	\$23.2 million
Test Fisheries	\$1.6 million
Total Other Fish Revenue	\$24.8 million
Total Fish Revenue	\$72.6 million

MR. FRIED added that the revenue from licenses and permits goes to the Alaska Department of Fish & Game fund.

[8:57:17 AM](#)

REPRESENTATIVE WILSON recalled that some of the aforementioned taxes were imposed by the fisheries [industry] in order to supplement the research the state wasn't conducting. She asked what percentage of the taxes were self-assessed.

MR. FRIED answered that the salmon enhancement and dive fishery management are both self-assessed taxes.

[8:58:31 AM](#)

REPRESENTATIVE SEATON clarified that the salmon and seafood marketing tax, salmon enhancement tax, and dive fishery management tax are self-assessed taxes and appropriated back [to the local communities]. He pointed out that 50 percent of the fisheries business tax and the fishery resource landing tax is shared with the local communities. The total of the aforementioned two taxes in FY 04 was \$36.1 million, and therefore \$18 million went into the state treasury. Add to that the \$3.2 million from the corporate fish income tax and in FY 04 the fisheries industry generated just over \$21 million that was placed in the state general fund (GF), excluding licenses and permits, he added.

MR. FRIED agreed.

[8:59:56 AM](#)

REPRESENTATIVE ROKEBERG asked if there were other local taxes that were incident to fisheries assets or revenues that aren't shown on the chart.

REPRESENTATIVE SEATON related that the Lake and Peninsula Borough, Kodiak, and Unalaska have severance taxes of up to 7.5 percent on fisheries resource. He related his belief that the aforementioned percent is a significant tax burden placed upon the gross income of the fishery industry.

MR. FRIED turned to the document entitled, "2004 Municipal Sales Tax, Special Tax and Revenues", which shows the different raw fish taxes that are levied in the various communities as well as the various revenues from those taxes. He noted that the

document doesn't specify any property tax or sales tax contribution that would be paid by the fishing industry.

[9:01:21 AM](#)

REPRESENTATIVE ROKEBERG asked if there are personal property taxes or other taxes on boats or fishing equipment that might include a local take.

MR. FRIED said he wasn't sure, but suggested that it would depend upon the community itself. However, he said that he was sure that there are local property taxes that are paid by the fishing industry.

REPRESENTATIVE ROKEBERG commented that this information is very helpful in terms of the gross government take and where it goes in the various industries.

[9:02:24 AM](#)

REPRESENTATIVE SAMUELS asked if the Department of Revenue runs numbers on the economic impact, particularly in regard to fishing in the State of Washington. He inquired as to what the State of Washington receives when taking Alaska's fish.

MR. FRIED said that he doesn't have such information.

REPRESENTATIVE SAMUELS related that [U.S.] Senator Maria Cantwell has relayed that those in Washington are in favor of Alaska not developing its natural resources. Therefore, he questioned whether the residents of Washington know what they receive from Alaska's natural resources.

MR. FRIED said that no economic analysis on the fishing industry or its impact on the State of Washington has been performed.

REPRESENTATIVE SAMUELS noted that 80 percent of the oil in Washington State's refineries comes from Alaska.

[9:03:53 AM](#)

REPRESENTATIVE SEATON returned attention to the document entitled, "2004 Municipal Sales Tax, Special Tax and Revenues", and asked if the Kodiak Island Borough's 9.25 mill severance tax is the fishery tax.

MR. FRIED related his belief that the 9.25 mill severance tax is from timber and fish.

9:04:37 AM

REPRESENTATIVE ROKEBERG asked if that means that the [9.25] tax is paid if the fish is landed in Kodiak, but it wouldn't be paid if the fish was landed in Unalaska.

REPRESENTATIVE SEATON answered that Representative Rokeberg is correct. He pointed out that Unalaska has a 2 percent raw fish tax. If the fish was landed in Wrangell or the City & Borough of Yakutat, one would pay a 1 percent raw fish tax while no raw fish tax would be paid on fish landed in St. George. He noted that the [raw fish tax] is a tax on the gross value.

REPRESENTATIVE ROKEBERG questioned how that would impact the natural market place.

9:05:27 AM

MR. FRIED turned attention to a chart entitled, "Statewide Alaska Mining Revenue." He explained that the chart was prepared on a calendar year basis because most of the information comes from a table prepared by the Department of Natural Resources (DNR) and the Department of Commerce, Community, & Economic Development (DCCED). The resources tax, including the mining license tax, amounted to \$1 million in revenue in FY 03 and that rose to \$3.2 million in FY 04. The rents and royalties in CY 03 amounted to \$3.9 million. Therefore, the total mining tax revenue summed \$4.9 million. He explained that the chart doesn't specify that the corporate mining income tax revenue in CY 03 was related to the timing issue with regard to corporation income taxes. He further explained that although [the division] has the filings from FY 04, most of those tax returns reference 2002. Therefore, one must return to CY 02 when the revenue amounted to \$300,000. The total other mining revenue amounted to \$1 million and when added to the material sales and fees, the total other mining revenue summed \$5.9 million for CY 03.

9:08:00 AM

MR. FRIED, in response to Representative Seaton, related his understanding that material sales are for sales of gravel, sand, and rock. In further response to Representative Seaton, Mr.

Fried confirmed that the state selling someone a material would be from where the \$1.8 million in CY 02 comes.

9:08:33 AM

REPRESENTATIVE ROKEBERG referred to the Department of Revenue's document entitled, "Alaska's Mineral Industry 2003 - Special Report 58." That document specifies that payments to municipalities in 2003 amounted to \$10.5 million.

MR. FRIED agreed that the \$10.5 million refers to payments to municipalities, which isn't included in the "Statewide Alaska Mining Revenue" document. He specified that the payments to municipalities refers to local taxes and other payments to municipalities from the minerals industry. In further response to Representative Rokeberg, Mr. Fried clarified that the document entitled, "Alaska's Mineral Industry 2003 - Special Report 58" is from the Division of Geological and Geophysical Surveys in cooperation with the Office of Economic Development of the Division of Mining, Land & Water. Mr. Fried confirmed that the numbers provided in the aforementioned document are CY numbers.

9:10:35 AM

REPRESENTATIVE SEATON expressed curiosity with placing material sales in the tax category because that means, for example, that ice sales are revenue to the state, although it's actually a sale of an item. Representative Seaton suggested considering that the sale of something to an industry doesn't mean that it's a tax on the industry.

9:12:00 AM

MR. FRIED clarified that the material sales comes from DNR's table, which is the only reason that's listed for mining although there isn't anything comparable listed for fishing.

CHAIR WEYHRAUCH pointed out that the expense to the fishing industry for buying ice would be comparable to purchasing drill bits, which are an essential part of the mining industry. He asked if the aforementioned is an appropriate comparison.

MR. FRIED replied no. He related his understanding that [purchasing ice] is like selling gravel or timber from state land.

REPRESENTATIVE ROKEBERG likened it to a severance tax. "If we're going to have a statewide severance tax on fish like they do in Kodiak, then I'd buy the argument otherwise I don't." Representative Rokeberg commented that it has always been considered a source of revenue in the state.

REPRESENTATIVE SEATON agreed, but pointed out that it's not a tax revenue. He reiterated that it's selling [an industry] something, which he suggested was mainly gravel to build roads. When a state resource is sold, it isn't the same as a tax. He expressed the need to have clarification with regard to the material sales.

[9:14:28 AM](#)

REPRESENTATIVE WILSON inquired as to why the mining license tax revenue increased in 2004 when it rose to 3.2.

MR. FRIED replied that the prices of the minerals gold, silver, and zinc have increased.

[9:15:07 AM](#)

REPRESENTATIVE SEATON turned to the [FY] 02 corporate mining tax numbers of Table 10 entitled, "Estimated mineral production in Alaska, 2001-2003" that specifies total [mineral production in 2002] as \$1,012,809,000. He asked that the same table be prepared for fisheries in order to have a comparison in tax rates versus the value of the raw product.

[9:16:14 AM](#)

AL CLOUGH, Deputy Commissioner, Department of Commerce, Community, & Economic Development (DCCED), said that he would describe the mineral industry beyond the tax revenue aspect. He noted that the committee packet should include the municipal revenue handouts. He highlighted that the Red Dog mine is a negotiated agreement of about \$5.7 million. The Northwest Arctic Borough doesn't have a property tax. He further highlighted that the Fairbanks North Star Borough receives over \$4 million in direct tax revenues from the mine. Furthermore, the mine receives many services. In regard to the Fort Knox and True North mines, Mr. Clough informed the committee that the customers of Golden Valley Electric benefit from the power usage of the mine because it decreases the power cost for residents in the area. He estimated that it amounts to about a 7 percent reduction for the residential customers. In Juneau, the Greens

Creek mine pays about \$300,000 in property tax to the City & Borough of Juneau. He highlighted that the Greens Creek mine isn't in the roaded area, and therefore Juneau receives quite a benefit without providing a lot of municipal services. Mr. Clough pointed out that the current operating mines in the state: Red Dog, Greens Creek, Fort Knox, True North, and Usibelli Coal Mine are all located within existing boroughs. However, the Northwest Arctic Borough wouldn't exist without the Red Dog mine, and the Pogo Project, north of Delta Junction, is the driver for the current discussion of the formation of the Delta Borough.

MR. CLOUGH said that when reviewing the mineral industry the following dates are critical to remember. The mineral deposit of the Red Dog Mine was first identified in the late 1960s and it didn't move into production until 1989. The Greens Creek deposit was first identified in the early 1970s, but was not in production until 1989. Fort Knox was identified as a good exploration target in 1984 and production began in 1987. Exploration at the Pogo Mine began in the mid 1980s and the actual discoveries at the site were made in 1994. Production for the Pogo Mine is scheduled for 2006. Mr. Clough highlighted that the exploration of the pebble, copper, and gold deposit in the peninsula began in the early 1990s. The earliest production from the aforementioned would be in 2010. He noted that Donlin Creek and the Upper Kuskokwim have similar dates. The modern exploration of the Kensington mine in Juneau began with placer oil in the early 1980s and the earliest production would be around 2008. Mr. Clough then turned to the Alaska Juneau Gold Mine and related that its modern exploration began in 1984 and culminated with close-out and abandonment of the project in 2000 with \$130 million invested. Similarly, the Quartz Hill (Indisc.) project out of Ketchikan, for which exploration and discovery occurred in 1974, was abandoned in 1990 following over \$100 million investment.

MR. CLOUGH related that the mineral industry will say that it's different from other resource sectors in the state, with which he agreed. From DCCED's perspective, the development of more large scale mines in the state is associated with family-wage jobs and economic engines to develop regional government formation and operation. The most obvious example of the aforementioned is the association between the Red Dog Mine and the Northwest Arctic Borough. The association between mines and regional government formation is also evidenced in the discussion to organize in the Delta Junction and Kuskokwim

regions. The aforementioned, he opined, is viewed as a positive for the state.

[9:22:24 AM](#)

REPRESENTATIVE ROKEBERG inquired as to how effective the incentives enacted to encourage mineral development in Alaska have been. He further inquired as to the impacts of those incentives on the state revenue stream.

MR. CLOUGH said that the most effective incentives have been the geophysical exploration programs. The aforementioned required modest investments of several hundreds of thousands of dollars per appropriation cycle and have immediately resulted in claim staking and exploration, from which the state has received revenue. There are several other incentives that he suggested would provide a longer term payback. Again, he stated that providing good data has been the best incentive, although the tax breaks are certainly beneficial. In particular, the phase-in and mining license tax [has been beneficial] and recognizes the high start-up costs of these projects, which is exemplified in the \$1.5 billion in start-up costs for the Pebble Gold Project. Mr. Clough noted that all of these business sectors are different.

REPRESENTATIVE ROKEBERG opined that the policy of the legislature, even since territory days, has been to incent mining activities in the state. The aforementioned is important to understand if there is a desire to review taxation that may impact the aforementioned public policy and shift it. He mentioned the need to take a broader view.

[9:25:16 AM](#)

REPRESENTATIVE WILSON recalled testimony that due to changes over the last couple of years there has been more interest in obtaining permits.

MR. CLOUGH agreed.

REPRESENTATIVE WILSON acknowledged that it takes many years from exploration to production. She inquired as to the number of years before increases in production are apparent.

MR. CLOUGH informed the committee that the data from the recent large mining projects illustrate a 15- to 20-year cycle from discovery, through exploration, and development to production.

The dynamic the [mining] industry is facing is that Alaska, geologically speaking, is a good place to be, although Alaska isn't the best place to be due to the cost of exploration, development, and discovery. In fact, most of these mineral deposits are located in areas in the state with limited public infrastructure. The average lead time from discovery to production is 15 years. He noted that the mineral's price, as with the price of many resources, is cyclical. Stability is necessary in order to encourage and maintain interest in Alaska. The aforementioned is evidenced in the taxation system at the state and municipal levels. If such certainty is lost, it would result in a large disincentive for this international investment. Mr. Clough informed the committee that from the largest minerals gathering in North America he understands that Alaska is competing against Australia, South America, and Africa as well as developing countries. He explained that certainty of the investment climate, particularly when there are such long lead times and large capitalization costs, is a major driver in how money will be spent.

[9:29:11 AM](#)

REPRESENTATIVE SEATON pointed out that the latest year for which there is a complete tax picture is 2002 in which there was a total mining tax revenue of \$3.9 million. According to Table 10, in 2002 there was \$1,012,809,000 of extracted mineral value. He said he didn't mind a proposal by which there is a delay of taxes. However, the administration has said that the state's resources would be developed, which would place [revenue] in the state treasury. He pointed out that in the [current] tax structure after there is development, there is no time at which the state recoups any revenue from an over \$1 billion extracted industry. He inquired as to whether the [administration's] position is to maintain the aforementioned situation or is there a manner in which a time delay could be instituted.

MR. CLOUGH opined that [the state's mining] is in a marketing conundrum. He explained that [Table 10] refers to the gross value of all the dollars in the mineral resource, but it doesn't necessarily equate to the dollars paid to the mining company once extraction costs, debt service, et cetera are included. He noted that four to five years ago, the Red Dog Mine showed a \$28 million operating loss for the year. Although the gross value of the metal was still a big number, the company lost \$28 million getting it out of the ground. He also noted that in the late 1980s low metal prices forced Greens Creek to close its

doors for two-and-a-half years. Mr. Clough offered to provide the committee with more details with the equations.

[9:32:42 AM](#)

REPRESENTATIVE SEATON said that he would like to see some proposals from the administration such that the state's resources contribute to the state treasury. From the testimony today, Representative Seaton surmised that no matter the size of the mine, [the mines in Alaska, which] include the largest mine in North America, will only provide 10 percent of what a head tax for education would provide. Representative Seaton expressed interest in a program by which resource extraction [results in funds being placed in the] state treasury, which doesn't seem to be the case under the current structure.

REPRESENTATIVE ROKEBERG interjected that Representative Seaton's suggestion should be utilized for all the state's natural resources, particularly with regard to the fishing industry.

[9:34:32 AM](#)

BOB LOEFFLER, Director, Division of Mining, Land and Water, Department of Natural Resources (DNR), reminded the committee that mining taxes are net profits taxes. The aforementioned was established when Alaska became a state. Over the last couple of years, metal prices have been at a historic low. Mines that were permitted at \$400 gold and built with the expectation of \$400 gold lost a lot of money when gold dropped to \$250 an ounce. Therefore, mines in the state lost money and thus [one would expect] that net profit taxes wouldn't provide the state much money. However, as gold prices recover, he predicted that the mining license tax and the corporate income tax will recover. He predicted that 2004 would provide better returns than earlier years. Mr. Loeffler highlighted that mining is a relatively small industry with less than 3,000 employees and really only four [sizable] mines in operation. The mining industry as a whole pays municipalities and the state on the order of about \$5,000 per employee. The large mines probably pay close to double or more per employee. The aforementioned is paid in good years and bad years because the real focus and the fiscal structure of the mining industry has been to ensure that they support the local municipalities in which they operate. He opined that the mining industry does a good job of that in high and low prices.

[9:37:27 AM](#)

REPRESENTATIVE WILSON inquired as to the average metal prices for 2004.

MR. LOEFFLER informed the committee that today gold prices are roughly \$434 per ounce.

[9:38:29 AM](#)

RICH HEIG, General Manager, Greens Creek Operation, informed the committee that he is representing the Alaska Miners' Association and the Council of Alaska Producers. As mentioned earlier, the mining industry is a small industry with only four major mines. However, it's an exciting industry, he said. The present administration, the legislature, and the regulatory agencies have done much to support the growth of natural resources in Alaska. He highlighted the streamlining of the permit process that has occurred in recent years. The existence of the large mine permit process in one agency has done much to streamline the process. In fact, the permitting of the tailings pond expansion for the Greens Creek Mine is an example of a situation in which the streamlined permitting process worked. Mr. Heig highlighted that metal prices are high and future mines will add revenue in the form of taxes and jobs. He explained that the mining industry isn't a high return industry, with a 5 percent rate of return. Furthermore, the mining industry is an extremely capital intensive industry. For example, Greens Creek Mine, Inc., spent over \$130 million before production and \$360 million in capital work since the beginning of production. Mr. Heig pointed out that there is a lack of infrastructure in the state, and therefore the industry may spend funds to build its own infrastructure while other states already have that infrastructure. He echoed earlier testimony regarding the cyclical nature of mining, and added that the hope is that the past two year's of high prices continue as China grows and India possibly follows. With regard to profitability, he highlighted that Greens Creek has only been profitable seven of its fourteen years of existence. The mining industry, he mentioned, is willing to pay its fair share of taxes in the state and has paid \$700,000 in property taxes. For the mining industry to consider developing its operations in Alaska, there needs to be a stable tax climate. Since the profits aren't always there and the industry faces capital intensive high operating costs, a net profits tax is the best option, he opined.

[9:44:19 AM](#)

REPRESENTATIVE ROKEBERG inquired as to how Alaska's environmental standards compare internationally. He also inquired as to the cost impact of those standards.

MR. HEIG specified that Alaska's environmental standards are similar to those in other areas. However, speaking as an operator, the state's environmental standards are intense and more stringent than some other states. With regard to the state taking over water discharge, he opined that the state could probably handle it better than the Environmental Protection Agency. Mr. Heig turned to the Greens Creek Mine specifically and related that its operating costs attributable strictly to adhering to environmental requirements exceed \$2 million per year. Mr. Heig specified that the firm, which is part of the Kennicott Operations in the U.S. and part of the Rio Tinto organization worldwide, does operate internationally and because of its size and desire to maintain sustainability in the industry, one set of environmental standards are administered throughout the corporation. Therefore, those standards are more stringent than the regulations in developing countries and equal the requirements elsewhere.

[9:46:59 AM](#)

REPRESENTATIVE ROKEBERG commented that clearly the minerals industry is a commodity base. In fact, all of Alaska's natural resources are commodity driven and price sensitive. Furthermore, environmental controls and other constraints on business impact investment decisions. The investment environment in Alaska for minerals sounds similar to the petroleum industry, he remarked.

[9:48:30 AM](#)

REPRESENTATIVE WILSON, referring to the fact that Rio Tinto uses the same standards in other countries whether they are required or not, asked whether those countries appreciate that.

MR. HEIG answered that he believes those other countries do [appreciate it and realize it].

REPRESENTATIVE WILSON asked if Mr. Heig believes Rio Tinto would be able to do things in other countries that other mining companies won't because of the use of environmental standards.

MR. HEIG commented that Rio Tinto would like to be the developer of choice. In further response to Representative Wilson, he

informed the committee that most all of the major mining companies operate in the same manner.

[9:49:46 AM](#)

MR. HEIG, in response to Representative Seaton, confirmed that Greens Creek Mine is on federal land. In further response to Representative Seaton, he said that net island royalty is essentially the same as net smelter return. He noted that "we" do pay the 7 percent state mining license tax on federal lands. The net island return or net smelter return is what the forest service would charge on extraction of minerals not covered under extra lateral rights, which is based on the value of the minerals similar to a net smelter return or profits tax.

[9:51:20 AM](#)

REPRESENTATIVE SEATON surmised then that the net island is based on the gross price of the minerals less certain expenses such as smelter and transportation. If the mine was on state land, he inquired as to how the net island royalty that's being paid now to the federal government would compare with what would have to be paid to the state.

MR. HEIG specified that "we" would still pay the 7 percent mineral license tax, but because it's on federal land the 3 percent additional tax wouldn't be paid. Therefore, whether the net island royalty tax would be paid depends upon the mineral prices.

[9:52:30 AM](#)

REPRESENTATIVE SEATON explained that he is trying to understand the state's royalty share on state lands in comparison to the federal government's royalties on production on federal land in Alaska.

MR. HEIG informed the committee that Greens Creek has not paid any net island royalty tax to the U.S. Forest Service at this point.

CHAIR WEYHRAUCH announced that this meeting will be continued at a later date.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 9:53:50 AM.