

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE**

February 28, 2007

12:09 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Gary Stevens
Senator Lesil McGuire
Senator Bill Wielechowski
Senator Thomas Wagoner

HOUSE RESOURCES

Representative Carl Gatto, Co-Chair
Representative Craig Johnson, Co-Chair
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Bryce Edgmon
Representative Scott Kawasaki

MEMBERS ABSENT

SENATE RESOURCES

Senator Lyda Green

HOUSE RESOURCES

Representative Vic Kohring
Representative David Guttenberg

COMMITTEE CALENDAR

Presentation: Alaska Mining Industry: Major Mine Projects;
Taxation; and Donlin Creek Workforce Development

PREVIOUS COMMITTEE ACTION

No action to report.

WITNESS REGISTER

STEVE BORELL, Executive Director
Alaska Miners Association
Anchorage, Alaska
POSITION STATEMENT: Spoke of large mines in Alaska

KARL HANNEMAN, President
Council of Alaska Producers
Resource Development Council
Anchorage, Alaska
POSITION STATEMENT: Spoke of mining taxation.

STAN FOO, Alaska Manager
Barrick Gold Corporation
Anchorage, Alaska
POSITION STATEMENT: Introduced Donlin Creek staff.

BILL BIEBER, Operations Manager
Donlin Creek Project/Barrick Gold Corporation
POSITION STATEMENT: Spoke of local-hire initiatives.

GEORGE GARDNER, President (retired)
Chiulista Camp Services
Anchorage, Alaska
POSITION STATEMENT: Spoke of local-hire initiatives.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the joint meeting of the Senate and House Resources Standing Committees to order at [12:09:26 PM](#). Senators Huggins, McGuire, Wielechowski, Wagoner, Stevens, and Stedman, and Representatives Edgmon, Kawasaki, Wilson, Seaton, Roses, Gatto and Johnson were present at the call to order.

Presentation: Alaska Mining Industry: Major Mine Projects; Taxation; and Donlin Creek Workforce Development

STEVE BORELL, Executive Director, Alaska Miners Association, said there are 70 placer operations in the state, but others are permitted. Production averages about 25,000 ounces per year around the state. He showed an image of a reclaimed project at Valdez Creek, which provided a new fishery in the area.

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MR. BORELL provided a list of mines in Alaska, including Usibelli coal, Greens Creek, Red Dog, Fort Knox, Pogo, and Nixon Fork. The projects under development include Kensington, Rock Creek, Chulitna coal, Donlin Creek and the Pebble project. The Usibelli coal mine has been operating for 64 years and has 95 employees and produces about 1.5 million tons of coal per year.

CHAIR HUGGINS noted that Agrium wants to use Usibelli coal.

MR. BORELL showed a photo of Greens Creek, which is now attached to the Juneau intertie system. The added demand will allow Alaska Electric Light and Power to build a plant at Dorothy Lake. It has 294 employees, and 63 live in Juneau. He said a dormitory was constructed to allow some people to live on site. He showed a photo of the Red Dog zinc and lead mine, and it has a newly-paved runway. It has 450 employees and 56 percent are NANA shareholders. He said they will be drilling for natural gas, because energy is a major cost for them.

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MR. BORELL showed a picture of the area prior to mining. Sometimes acid rock drainage would kill fish for several miles, he said. He showed the Fort Knox open pit mine. It employees 440 people and has \$39 million in annual wages and benefits. There have been no lost-time accidents in four years. He showed the Pogo surface facilities near the Goodpasture River. It expects full production in May, and it is a computerized modern mill. The Nixon Fork mine has 86 employees, 90 percent are Alaskans, and the annual payroll is \$5.9 million. There have been no lost-time injuries in the past four years. He spoke of the Kensington project north of Juneau. Crews will be brought across Berners Bay by boat and taken up to the worksite by bus. It expects to join two sides of an 800-foot tunnel in July. The mine has 60 permits in hand, and 416 employees are on site. During operations it will employ 200 workers, he explained.

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MR. BORELL said the Rock Creek Mine is in construction and has spent \$66.4 million to date. It will employ 135 people with an annual payroll of \$10.4 million. Chuitna coal will have a supplemental environmental impact statement by the fall of 2007. An EIS was completed many years ago, but the coal prices fell and it halted operations. It has a 12 million-ton per year capacity. The coal will be loaded in Cook Inlet into vessels with a draw of up to 60 feet. The Donlin Creek project has eight drills operating, and it is completing its feasibility study.

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MR. BORELL said the Donlin Creek project has employees from 23 villages in the region. He said the Pebble project has invested \$128 million to date. In 2006 they had four deep drills. Over 700 people worked on the project last year, and 70 percent were Alaskans. In 2007 there will be eight deep drills operating and it will continue with its engineering studies.

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KARL HANNEMAN, President, Council of Alaska Producers, said the president of Alaskan Minerals and Energy Resource Education Fund provided materials for the committee. He said Legislative support for the industry is important and he expressed appreciation for support of that program. His council represents a consortium of the major mining operations in Alaska. He said there is a state mining license tax, which was a significant component of the resource policy at statehood, and it has been amended twice since statehood. It provides for 7 percent net profits tax on major operations payable from all operations regardless of land status or mineral ownership.

CHAIR HUGGINS said there is an ongoing debate about net versus gross tax, and he asked how long it has been a net tax.

MR. HANNEMAN said since 1913.

SENATOR STEDMAN asked for the definition of net and all the deductions.

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MR. HANNEMAN said the state mining license allows a depreciation schedule that is consistent with the federal schedule. It provides for deduction of operating expenses and cost or percentage depletion, and it is a one-year look at the operating cash flow of the operations. There are no carry forward losses or carry back. It is transparent and simple from an accounting standpoint.

SENATOR STEDMAN said it is different from the net oil tax.

CO-CHAIR GATTO asked what the tax would be if it was on gross income.

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MR. HANNEMAN said the objective of a net profits tax is to provide for a tax that responds to the health of the industry

based on world market prices, so you would have to pick a point in time to calculate what a gross tax would be.

CHAIR HUGGINS asked if profits in mining are relatively small.

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MR. HANNEMAN said the profit margin is low as compared to oil or telecommunications. Commodity prices have increased a lot in the past few years, so mining operations are doing very well.

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MR. HANNEMAN said another tax component is rents on mining claims and royalties on state leases, which came about when the state attorney general questioned whether the state was getting adequate return from its resources. The legislature worked with the industry in 1982 and tried a tax policy modification that ended with years of litigation. The Alaska Supreme Court said the state must charge rents or royalties on top of the mining license tax from production on state land. In 1989 a consensus was reached that imposed both rents and royalties—"kind of a belts and suspenders approach, but one that was developed in a consensus-building process that ultimately went through the legislature." It provides for rents of up to \$3.30 per acre per year in addition to a royalty of 3 percent of net profits. It applies only to state land, he noted. He said it is important to note that this occurred prior to a "major industry expansion." It set the groundwork to allow that expansion, he opined, and provided sound fiscal policies that the industry could understand prior to investing.

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MR. HANNEMAN showed the total value of mineral production in Alaska and the production from state land. The increases over the past years have been from federal or Native lands. He said that zinc has the highest value, and it is produced at Greens Creek and Red Dog. Gold is also a major driver of Alaska's mineral industry, he added. The price of zinc was depressed for many years and the mines were only hanging on. Fort Knox had a tough time with several capital write-downs when gold prices were low. It takes a long-term perspective, he stated.

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MR. HANNEMAN said the Red Dog, for the first time in 21 years, has announced "a full capital recovery including interest factor as of the end of 2006." He showed a graph of the cumulative net investment in the Pogo project, which is now transitioning to production after more than a decade since its substantive

investment began. The increased commodity prices show increasing profitability and payments. He showed the payments to municipalities, which are generally stable and not based on commodity prices. A smaller increment is state rents and royalties, but the mining license and income taxes increase rapidly with commodity prices.

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MR. HANNEMAN said Fort Knox mine is on Alaska Mental Health Trust land, and he showed the payment to the trust. He spoke of a Department of Commerce report and the net return to Alaska from timber, tourism, minerals, and commercial fisheries. Mining provides smaller revenue, but there is less cost to the state regulators.

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MR. HANNEMAN said he has been asked if mineral payments to municipalities are relevant or significant. He showed a graph of "the state sharing of the fish tax that goes back to the municipalities, and when that sharing does occur, the mineral industry is paying a reasonable share compared to other industries." He showed the gross value of the industries and the net returns. He pointed out the data for FY05, but he believes it missed the rentals paid by the mining industry. He then showed the same chart with the same gross value of the industries and the net return to the state as a percent of that gross value.

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MR. HANNEMAN said the Red Dog mine has paid NANA Regional Native Corporation \$185 million since 1989, and payments are increasing substantially. He showed a chart of distributions to other Native corporations through the 7(i) sharing. He believes the mining industry can support economic development in diverse areas of Alaska. He summarized that mining can provide regionally significant private-sector economic opportunity, "but we'll never compare to the magnitude of oil and gas." He said mining pays its fair share to the state, compared to other industries. It pays taxes on profits whether it is extracted from state, federal or private land. Tax payments are rising commensurate with commodity prices. The tax regime is working, and stable fiscal and regulator policy is needed to attract the capital to allow the industry to reach its potential, he concluded.

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SENATOR WAGONER asked when the tax structure was last changed.

MR. HANNEMAN said it was when the rent and royalty issue was resolved in 1989, other than regulatory adjustments.

SENATOR WAGONER asked why Mr. Hanneman made taxation comparisons to fishing and tourism, and but not to oil and gas.

MR. HANNEMAN said he was relying on a state report, but there are more similarities with timber, tourism and fishing because of the scope and worldwide capital recovery rates in the oil industry.

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SENATOR WIELECHOWSKI asked the net profits of the mining industry last year and the percentage of revenue.

MR. HANNEMAN said he doesn't have the 2006 return yet.

CHAIR HUGGINS asked for that information at the end of April.

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STAN FU, Alaska Manager, Barrick Gold Corporation and project manager for the Donlin Creek project said the project is in the Yukon-Kuskokwim region near the village of Crooked Creek. He said Placer Dome began the project and was taken over by Barrick, which has continued the local hiring efforts. The feasibility study will be complete by November, he said.

BILL BIEBER, Operations Manager, Donlin Creek Project/Barrick Gold Corporation, said work force development has been a lot of trial and error, but "it's a story that we're certainly proud to talk about."

GEORGE GARDNER, President (retired), Chiulista Camp Services, said Chiulista's parent corporation is Calista Regional Native Corporation. Donlin Creek has a five percent bidder preference built into the lease agreement for any subsidiary or joint venture of Calista. Maximum shareholder hire is required too.

MR. BIEBER said in 1995 Placer Dome entered an agreement with Calista for an exploration program. Any shareholder, descendent, or spouse will have hiring preference at the site. Problems developed early; the turnover rate was 318 percent. It would have been easy to modify the programs, but instead the company went to the villages and asked people why they quit. The program was retooled, he said.

MR. GARDNER said the villages were kept updated on what was happening, whether it was good news or bad news. It started an open dialogue. The village tours emphasized the zero tolerance of drugs or alcohol for employees. Once that was known, it contributed to an overall sobering of the villages, he said.

MR. BIEBER said the mine provided an opportunity to learn and fostered job advancement. The success of the program depended on how quickly the general workforce could advance to supervisory positions. Discussions included the cultural differences between eastern and western cultures. He said it was important to create an environment where people could be successful. It is an exploration program, so the jobs are not routine. There are different challenges each day, he explained. In 2005 the work at Donlin Creek expanded and the work force escalated.

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MR. BIEBER said there were almost 45 percent more employees, and at the end of 2005 there was over 92 percent shareholder hire; pre-employment fail rate dropped to virtually nothing; random screen fail rate was 5 percent; and turnover went down to 10 percent. In 2006 the program became bigger than could have been imagined: 275,000 feet of core were drilled and the camp was expanded to 150 people. The workforce was doubled in two and a half months. He said he expected higher rates of turnover and drug and alcohol failure rates, but an initial core group of employees mentored the new employees.

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MR. GARDNER said Chiulista Camp Services employed over 200 shareholders in 2006 with over \$6 million in wages. He saw improvement in all skill levels. Even if the mine doesn't operate there will be a great prospect for career-type employment for the people in the region. They developed a strong sense of pride, commitment, and community. It has become a model for indigenous entities in rural Alaska, he opined.

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MR. GARDNER listed villages that had employees at Donlin Creek. Chiulista Camp Services is a wholly-owned subsidiary of the Calista Corporation. It was incorporated in 1996 because of the Donlin Creek project and provides the remote-site catering camp management services. It now has an SBA 8(a) contract with the federal government to provide personnel outside of Alaska, he said. It can cater up to a 150-person remote site camp. It is developing shareholder cooks and housekeepers.

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MR. GARDNER said the company provided drilling assistants, but now there are 10 shareholders trained as drillers, and there are more on the way. It also caters other remote projects from Petersburg to Prudhoe Bay. In 2004 it purchased Mayflower Catering in Anchorage with a commercial kitchen. Mr. Gardner said there is a silent partnership with Barrick Gold, and "by working together on this over such a period of time, we've been able to have that mutual trust and respect, and we hope to go on and do bigger and better things."

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MR. BIEBER showed photos of workers and introduced two in the audience who deserve much credit for the program's success.

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MR. BIEBER listed other employees, including those in purchasing; paramedic and safety; laboratory work; geo-technical work; administration; electrical work; human resources; environmental geology; core cutting; field supervision; equipment maintenance; catering; and camp counseling. Control of alcohol has been a problem, so the project has its own counselor who has meetings on site and with the spouses in the village. The project is sponsoring a five-day session in Kako, and twelve employees and spouses will attend. He said there are many tours for elders in the region in order to listen to their concerns.

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MR. BIEBER said the project is trying to gear up to become a mine so there will be more growth. There are 214 regional employees on the payroll, and that is a good start, he said. "We do the impossible on a daily basis, and miracles, well, they take a little longer," he stated.

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CHAIR HUGGINS thanked the presenters. He said, "If you are going to have a job in some of the more remote areas, it is probably resource-related." He surmised that some of the best therapy for people is a job, which provides hope for peoples and their children. He adjourned the meeting at [1:22:10 PM](#).