

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

March 21, 2007

7:35 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Anna Fairclough, Vice Chair
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Andrea Doll

COMMITTEE CALENDAR

HOUSE BILL NO. 156

"An Act relating to mining licenses, to the mining license tax, and to production royalties on minerals and rents for property involved in mining; and providing for an effective date."

- HEARD AND HELD

HOUSE JOINT RESOLUTION NO. 1

Proposing amendments to the Constitution of the State of Alaska creating and relating to the gas revenue endowment fund, relating to deposits to the fund, limiting appropriations from the fund based on an averaged percent of the fund market value, relating to deposits to the permanent fund, and relating to deposits to the budget reserve fund.

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HJR 1

SHORT TITLE: CONST. AM: GAS REVENUE ENDOWMENT FUND

SPONSOR(s): REPRESENTATIVE(s) HAWKER

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) W&M, JUD, FIN
03/21/07 (H) W&M AT 7:30 AM HOUSE FINANCE 519

BILL: HB 156

SHORT TITLE: MINING PROD. & LICENSE TAXES/ROYALTIES
SPONSOR(S): REPRESENTATIVE(S) SEATON

02/26/07 (H) READ THE FIRST TIME - REFERRALS
02/26/07 (H) W&M, RES, FIN
03/16/07 (H) W&M AT 8:30 AM HOUSE FINANCE 519
03/16/07 (H) Heard & Held
03/16/07 (H) MINUTE(W&M)
03/21/07 (H) W&M AT 7:30 AM HOUSE FINANCE 519

WITNESS REGISTER

ROGER C. BURGGRAF, Mining consultant
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to HB 156.

STEVEN C. BORELL, P.E., Executive Director,
Alaska Miners Association, Inc.
Anchorage, Alaska
POSITION STATEMENT: Testified on behalf of Alaska Miners
Association, Inc., in opposition to HB 156.

KATE TROLL, Executive Director
Alaska Conservation Alliance (ACA)
Douglas, Alaska
POSITION STATEMENT: Testified in support of HB 156 and answered
questions.

ERIC UDHE, Public Lands Advocate
Alaska Center for the Environment (ACE)
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 156 and answered
questions.

JOHANNA BALES, CPA, Excise Audit Manager
Tax Division
Department of Revenue (DOR)
POSITION STATEMENT: Answered questions about the tax effects of
HB 156.

ACTION NARRATIVE

CHAIR MIKE HAWKER called the House Special Committee on Ways and Means meeting to order at [7:35:48 AM](#). Present at the call to order were Representatives Hawker, Fairclough, Seaton, Roses, and Wilson. Representatives Cissna and Gruenberg arrived as the meeting was in progress. Representative Doll was also in attendance.

HB 156-MINING PROD. & LICENSE TAXES/ROYALTIES

[7:36:07 AM](#)

CHAIR HAWKER announced that the only order of business would be HOUSE BILL NO. 156, "An Act relating to mining licenses, to the mining license tax, and to production royalties on minerals and rents for property involved in mining; and providing for an effective date."

[7:36:41 AM](#)

REPRESENTATIVE SEATON, sponsor of HB 156, said that as a result of discussions with mining industry representatives, he will be offering two amendments. The first will propose to change the allowable length of lease terms; the second will adjust the mining license tax brackets.

[7:41:19 AM](#)

ROGER C. BURGGRAF, Mining Consultant, provided testimony on HB 156, and paraphrased from a prepared statement, which read as follows [original punctuation provided]:

I am opposed to 156.

It is a seriously flawed bill obviously proposed by someone that does not understand the potential of the mining industries' contribution to the state and the people of Alaska.

If the bill is enacted it would seriously impair the mining industry in Alaska and would discourage investment in Alaska in areas that need development and jobs.

There has been a concerted effort by this legislature to stop mining on state lands. The legislature should

be supporting the industry which creates revenues for both state and local communities and jobs for rural residents in economically depressed areas. Developing a mine is a lengthy and costly process. It requires a lot of up front capital to be spent on a project which may or may not become a mine. In the meantime the industry is spending millions of dollars on trying to locate viable deposits and providing jobs in Alaska.

The way to create a viable and healthy industry is to support it and not kill the goose who lays the golden egg.

If you look at other industries in Alaska and analyze what taxes they pay you will find industries that supposedly generate higher revenues which pay less tax. Much of this revenue goes out of state and only peripherally benefits a few Alaskans. Mining is labor intensive and Alaska and its people benefit directly from mining.

The present tax I feel is well balanced and the Mining License Tax taxes all mines regardless of whether they are on Federal lands, State lands, and private lands. The seven (7%) net profits tax is reasonable.

In addition a three (3%) Net Profits Production Royalty is placed on mines developed on state lands. Mining claim holders must pay claim rentals on state lands and claim maintenance fees on Federal lands.

Mining companies in addition to the mining license tax must also pay Alaska Corporate Income Tax at nine percent (9%).

Most small mines are marginally profitable and many can be related to a subsistence type of income in small communities. They provide jobs, but they do not generate a lot of revenue.

There are only five large mines operating in Alaska today. They are the mines that are generating the bulk of the mining revenues in the State of Alaska.

Proposed large mines must go through a costly permitting process today and are facing one lawsuit after another by environmental groups funded by

outsider interests opposed to the development of our resources in Alaska. The Kensington Mine near Juneau and Rock Creek Mine in Nome are recent examples.

7:45:43 AM

If the state wants more revenue from mines on state, federal, or private lands they should encourage the development of large mines on those lands.

Alaska has a progressive tax standard for mining which means when a miner is successful, the state shares in that success.

During the past period of low metal prices the Fort Know mine was having a hard time keeping open. No revenues were being received to pay down the huge capital expenditure it had to make to permit, construct, and operate the mine. Still they operated, paid property taxes, paid their creditors, and their workers. Now with higher global metal prices they are able to pay down their capital expenditures. A company should be allowed to make a profit when times are good. The state benefits also.

The mining industry averages about five percent (5%) return on investment-much below other major industries in Alaska. With the low rate of return, a net profits tax is the only type of tax that can be paid on a sustainable basis. The mining industry must be able to operate in a stable regulatory climate and have a stable tax basis for it to continue to invest in Alaska.

The present taxation system is well thought out and has allowed large mining companies to invest billions of dollars in Alaska. We hope you will not tamper with it and that HB 156 will be regulated to the circular waste basket file.

7:49:23 AM

MR. BURGGRAF explained that he developed and worked the Grant hard rock mine in the Fairbanks area around 1959, which at one point had 150 employees. He has also explored for prospects for larger mining companies to develop, oftentimes in remote areas.

These smaller operations may have had around 30 employees. He said he is now a consultant.

[7:52:16 AM](#)

STEVEN C. BORELL, P.E., Executive Director, Alaska Miners Association, Inc., stated he was testifying on behalf of the association. Paraphrasing from a written statement, he testified [original punctuation provided]:

We are pleased to explain to the Committee, and all Alaskans, why the current rental, royalty and tax regime is appropriate at the current levels and why the changes proposed in House Bill 156 are not appropriate and why the changes proposed will hurt Alaskans, especially in the rural areas of the state, and especially Alaska Natives and Native Corporations.

Most people living in the population centers of Alaska do know of the hopelessness that is felt by many residents in rural Alaska, and especially the young people. The only jobs in many areas are working for the State DOT or the Department of Education.

Mining can change that situation. Before the Red Dog mine began operating, the Northwest Arctic Borough had the highest level of unemployment in the state, and all the attendant social problems. Today there are more than 500 good paying, high quality, skilled, year around jobs because of that one mine. The Northwest Arctic Borough no longer has the highest unemployment in the state. How much is it worth to the State of Alaska to replace the former situation in NW Arctic Borough with the current vibrant economy and the hope for the future and personal satisfaction that now exists because of the Red Dog Mine?

These same benefits are now occurring wherever mineral development is taking place: at Pogo near Delta Junction there are now over 300 new jobs; at Kensington there are now 416 people at work building that mine; at Rock Creek near Nome there are 130 people working right now, during one of the coldest winters we have had in many years, constructing that mine; at Donlin Creek there are now 150 at work (again in the winter) and this project is still in the exploration stage; at Pebble three drills are already

at work and 5 more are slated to begin as soon as they can be placed into operation. So again I ask, how much are these kinds of jobs worth to the State?

Not to cast stones at our fellow industries, the mining industry has a >75% resident hire record. In contrast, the fishing industry averages closer to 26% resident hire.

During the presentation on Mach 14 by Johanna Bales of the Department of Revenue, some specific questions were raised by committee members that I wish to address: Rep Gruenberg commented on the Mining License Tax and asked what has transpired historically? There are at least 3 main factors that must be mentioned to answer this question:

1. From the late 1800s until WW II mining was the largest employer in the State. During the war, all precious metal mining was stopped by Presidential Order. After WW II there was tremendous over-capacity in the free world for base metals (Pb, Zn, Cu, Ni, iron) and Alaska was a very expensive place to explore. Regarding gold - the price was set by the government at \$35/oz, but costs for labor, fuel, equipment, supplies, etc. had continued to increase during the war and only a few mines re-started and no one explored for gold.

2. Then came 1968 and the discovery of Prudhoe Bay. This began a 13 year period of extreme land tenure uncertainty, which lasted until passage of ANILCA in 1980.

3. From 1980 until 1989 two large mine projects (Greens Creek and Red Dog) were in advanced exploration, followed by permitting and then construction. These mines proved to the world that all of Alaska was not locked up in parks and refuges.

In Summary to Rep Gruenberg's question - the history is that from WW II until 1989 there was no essentially no hard rock/lode mining in the entire State of Alaska.

However, based in part on Alaska's stable tax and regulatory structure, many companies have invested

more than \$900 million in exploration during the past two decades. This is not mine construction, it is just exploration. To now change that structure, just when metal and coal prices are the high, would be seen as "bait and switch". It would be destructive to attracting new investment and the associated jobs and tax base it brings to our state.

Rep Cissna asked why revenues were so low? One of the DOR tables titled "Mining License Tax Revenue" showed mining from FY-97 thorough FY-04 the total MLT was less than \$5 million per year. There are 2 primary reasons for this:

1. There were so few major mines operating. During that period there were only 4 major mines. There were also fewer small family mines than in the past. It is also important to note that only one of the major mines, Usibelli Coal Mine, is on State land.

2. Metal and coal prices were so low that these four mines were not making much, if any money, and the MLT is a net proceeds tax. However, those 4 major mines operated -- they provided excellent jobs to many Alaskans; they purchased millions of dollars of supplies and services from local Alaska vendors; they paid property taxes to local governments, with the result that the State Legislature did not have as large a funding burden for basic community services in those areas.

3. Conversely, as shown I the chart handed out during DOR's testimony, the state's general fund has directly benefited from current commodity prices. In face, as projected by DOR, FY-07 Mining License Tax receipts are forecast to exceed \$34 million, up from \$18.6 million in FY-06.

Rep Gruenberg also asked about non-producing properties and whether companies hold these for a tactical reason?

This question reaches to the heart of the claim rental system that is now in place. Under the existing system, the rental rates are established to discourage non-producing properties. This is done by charging a lower rent during the first few years and then

increasing that rent over time. The effect is that in the early years the claimant can focus his funds on exploration to determine whether the claims are worth further investment. At this stage the claimant does not have any incoming cash flow from the claims. If the claimant does not find the area promising, he will drop the claims and the area will be available for someone else. If the claims are promising, he can continue to hold the claims and continue exploration, but he must pay higher claim rental. This is exactly what has happened west of Pebble where Liberty Star explored for the past several years but did not make findings that justified continued exploration and therefore have now dropped their claims.

Rep Wilson asked several questions about deductions. Ms. Bales of DOR answered these questions and pointed out several very important aspects of the Mining License Tax:

1. Mining pays the same corporate income tax as other industries.
2. The MLT is an additional form of taxation, a type which is not paid by other industries. Only mining pays this type of a tax.
3. Even though the current MLT has a 3½ year grace period when a new mine begins operation, most mines lose money during those startup years and cannot benefit from that provision.
4. Furthermore, under the MLT there is no carry forward of losses and no leveling of net income, both of which would benefit the miner.
5. The result is that the State shares in the profits when the miner is doing well; but the State does not share in risk or the losses.

Rep Fairclough asked about the exploration tax credit. This provision, which was signed into law in 1995 by Governor Knowles, allows the miner to deduct up to \$20 million of exploration expenses from future tax liability. However, no credit can be taken until the mine is permitted and in operation.

What Ms. Bales did not say in her response, was that thus far, only two projects are in a position to actually benefit from this program. Several hundred million \$ have been spent on exploration since 1995 and thus far only two projects are in a position to benefit, and it will take them many years to receive that benefit. It sounds like Alaska is getting one whale of a good deal!

In previous hearings, and elsewhere, the statement has often been made that "there have been no changes to the mining taxes since 1955". Recall that during most of that time period there were not more than three large mines: Usibelli, the dredges at Nome for part of that time, and Valdez Creek Mining Company for part of that time.

But the statement is not correct -

In 1989 the Legislature enacted a claim rental that included a built-in escalation schedule, and an adjustment based on the Consumer Price Index.

In 1990 the Legislature enacted a production royalty.

The Result --- If you staked mining claims in 1988 or before your costs for rent and royalty have now increased five times:

1. 1989 - rent established \$0.50/ac
2. 1990 - royalty established 3% of net proceeds
3. 1995 - automatic rent escalation increased rent to \$1.00/ac
4. 1999 - CPI increase \$1.00/ac to \$1.32/ac
5. 2000 - rent escalated for yr 11 on \$1.32/ac to \$3.30/ac

In conclusion, past Territorial and early State Legislatures devised a very progressive tax structure that brings benefit to the State, but even more importantly, can provide good quality, year-around jobs and an economic base for all areas of the State. The principals embodied in the current net tax structure, the current net royalty and the escalating claim rentals are best for the state as a whole.

8:08:03 AM

REPRESENTATIVE WILSON asked how many acres a large mine may cover.

MR. BORELL replied that a small miner may have about 20 claims at 20 acres each, for a total of about 400 acres in addition to other "claim blocks." Mr. Borell explained that miners need to have more than one area permitted, so as to move on once mining operations are complete in one area. A small miner may have approximately \$1.5 to \$2 million invested in the mining operation, he said. He went on to say that due to lawsuits in the mid to late 1980s, some areas could not be developed pending resolution of legal issues in other areas of the state.

MR. BORELL said he estimates that very large mines, such as the Fort Knox mine near Fairbanks, may be about 15,000 to 20,000 acres. He said that the Fort Knox mine is currently mining only a small portion of that acreage, and that the mine operates on land leased from the Alaska Mental Health Trust Authority (AMHTA).

8:11:59 AM

REPRESENTATIVE WILSON asked about the average time period from exploration to production.

MR. BORELL explained that "as a rule of thumb" a major mining company may consider 1,000 projects for mineral development, drill test holes in only 100, and perhaps get a return from only 1 drill hole. He said he believes that Teck Cominco's Red Dog Zinc Mine in northwest Alaska may have required 19 years from discovery to actual production. He went on to say that he believes that Kennecott Mineral's Greens Creek mine near Juneau was discovered in around 1974 and began operations in 1989, a period of 15 years.

8:14:42 AM

REPRESENTATIVE ROSES set forth his understanding that under the current tax structure a miner with about 1,000 acres would have paid rents of \$0.50 an acre. Under the proposed changes, that miner would pay rents of \$3.30 an acre, or \$3,300. If that miner made exactly \$100,000, the tax rate would be 4 percent or \$4,000, in addition to a 3 percent royalty, for a total mining license tax due of about \$10,000. Under the proposed changes, that same miner would pay no tax on the first \$100,000 of

income. The miner would owe rental fees of \$3.30 an acre, totaling \$3,300. The royalties would be 3 percent of the net smelter returns, which he estimated would not be anywhere near the amount of \$7,000. He queried whether under this hypothetical situation, a small miner would actually pay less tax under the structure proposed by HB 156.

MR. BORELL said that he would have to further examine this, but he expressed doubt over the aforementioned conclusions of tax liability under the bill. He noted that "changing the floor" on the mining license tax may indeed work as described by Representative Roses for a miner with that income level.

REPRESENTATIVE ROSES said it appears that, under the bill, a miner would have to make more than \$250,000 to pay more taxes than that which would be owed under the current mining license tax structure.

MR. BORELL noted that under the bill, the rental fees charged would still escalate faster than under current law, and that escalation could have an adverse affect.

[8:18:10 AM](#)

REPRESENTATIVE GRUENBERG set forth his understanding that the coal industry is somewhat different from hard rock mining. He asked if other jurisdictions tax all types of mines under the same method, or whether different mining operations are taxed differently.

MR. BORELL indicated he is not aware of any other jurisdiction treating mining industries exactly the same. He noted that the coal industry pays additional charges and taxes not paid by other mineral extraction entities. Furthermore, the coal industry must comply with a unique regulatory regime called the Surface Mining Control and Reclamation Act of 1977 (SMCRA), which imposes a complex regulatory scheme that is very different from laws that affect other mining operations, he opined. Another difference in the coal industry is that cost increases can sometimes be passed on to customers by "pass-through" clauses in contracts. He said he believes that Usibelli Coal Mine, Inc., ("Usibelli"), has "pass-through" clauses in some of its domestic contracts. He went on to explain that "pass-through" clauses put a coal marketer at a disadvantage in the international market. He said that Australia and South Africa also export coal, but that these countries do not necessarily have the same tax cost structure as Alaska. He opined that an

increase of mining taxes in the state would put Alaska in a "worse competitive position."

[8:22:39 AM](#)

REPRESENTATIVE GRUENBERG described the oil and gas production industry as really "one industry." In comparison, the issues for mining seem to vary depending on the mineral being produced, he noted. He asked whether one tax regime can be applied to all aspects of the mining industry, or whether there should be differences in the taxation approach based on the particular mineral mined.

MR. BORELL agreed that precious and base metals are very different industries. He explained that many boilers will not work efficiently on Alaskan coal, so Usibelli sells coal to Korea because that country's boilers work with Alaska-grade coal. He said there is somewhat of a spot market for coal, but in reality companies must focus on buyers who are able to receive their grade of coal. Similarly with base metals, the mining company must sell to a smelter which has the ability to efficiently process the grade of ore produced. He said he believes that the Greens Creek and Red Dog mines sell to six or eight smelters around the world through set contracts, which require a certain grade of ore to achieve full price for the seller under the contract.

[8:25:43 AM](#)

REPRESENTATIVE WILSON asked what type of costs mining companies incur when they engage in core drilling activities.

MR. BORELL replied that companies may consider 1,000 areas, but may only drill in about 100 of those. He reiterated that the mining company may only find one positive result out of the original 1,000 areas considered. He explained that one cannot compare mining to oil and gas because the revenue potential for oil and gas is huge compared to mining. He noted that mining will never be able to produce the same amount of revenues as oil and gas production, but that it provides other benefits such as employment due to its labor intensive nature. He said that mining creates jobs in rural areas which have little tax base and few employment opportunities. He posed the possibility that the existence of mines in every rural school district could eliminate the state's need to fund those schools.

[8:29:09 AM](#)

CHAIR HAWKER asked for further explanation of how mining operations could contribute revenues to schools within the Rural Education Attendance Area (REAA).

MR. BORELL replied that he believes Red Dog mines pays the Northwest Arctic Borough around \$5 million a year. He conceded that he may have oversimplified his comment regarding the effect mining operations could have on school funding. He retracted his prior comment and opined that if there were two large mines in every school district, it is possible that the local governments for those school districts would have an opportunity for a tremendous tax base. Mr. Borell said the prior statement does not necessarily mean his organization supports mandatory borough formation, but noted that it supports the concept of grants to help fund borough formation for those entities that wish to pursue borough formation.

[8:32:10 AM](#)

KATE TROLL, Executive Director, Alaska Conservation Alliance (ACA), testified in support of HB 156. She said ACA is an umbrella organization of 40 Alaska conservation groups with a membership of approximately 37,000 Alaskans. She opined that now is a good time to review the state's mining taxes due to the lack of adjustment since statehood and the fact that there are two large mining projects being proposed in the state. She opined that the mining industry makes a minimal revenue contribution to the state compared to other "high value" resource industries. Title IIX of the Alaska State Constitution requires that the state use its natural resources in a manner that maximizes benefits to Alaska residents, she said. She offered that it is difficult for those in the conservation community to understand how the current mining tax system "delivers on this constitutional directive." She went on to opine that the state taxes the renewable resources of salmon, cod, and crab at a higher rate than the state's "one-time, vast, non-renewable resources." She offered that she is not prepared to discuss what exactly is the "right rate" for mining taxation, but she referenced the Fraser Report, prepared by The Fraser Institute of Canada, as evidence that the state has the ability to adjust its tax rate and make some modest tax adjustments without losing its attractiveness to the mining industry. She further opined that the state constitution does not require that the state be ranked as having the second most favorable mining tax regime in the world. Ms. Troll referenced a prior comment by Representative Gruenberg and noted that she used to represent

fishing interests and that there is great variety in the fishing industry however, the fishing industry is all taxed under the same tax system.

8:36:40 AM

REPRESENTATIVE FAIRCLOUGH asked how many persons the mining industry employs compared to the fishing industry.

MS. TROLL opined that although she does not have the exact figures before her, fishing is state's largest private sector employer. She went on to say that the fishing, oil, and tourist industries also provide employment and pay taxes in an amount which she characterized as "significantly more" than the mining industry.

8:37:44 AM

REPRESENTATIVE FAIRCLOUGH stated her concern that there are year-round employment opportunities for Alaskans. She noted that fishing seems to be seasonal, whereas mining may provide more year-round employment.

MS. TROLL referenced a study by The McDowell Group which she said calculated fishing employment based on "full-time equivalents," and concluded that the fishing industry provides the most full-time employment.

8:38:38 AM

CHAIR HAWKER said that in his experience, conservation groups have not made the state's economic development and well-being their top priority. Indeed, their reputation is one of frustrating economic development in the state, he opined. He asked whether ACA has a position on what role mining should play in Alaska's economic future.

MS. TROLL responded that ACA's mission statement recognizes the importance of economically viable communities throughout Alaska, but that ACA has no specific position on mining in general. She offered her belief that a sound economy and a sound environment go hand-in-hand. She said that she would direct some of her efforts as executive director towards the conservation community's recognition of these economic linkages.

8:40:03 AM

REPRESENTATIVE ROSES asked what level of taxation may be so high as to discourage mining activities in the state.

MS. TROLL said she believes that the proposed increases of HB 156 are reasonable and would not create an inhospitable environment. She indicated uncertainty as to when the tax threshold would be so high as to discourage mining. She opined that the oil industry is thriving despite tax rates of approximately 20 percent, although she noted that the mining industry could not afford that level of taxation. She estimated that a reasonable level of taxation for mining is somewhere between the proposals in HB 156 and the oil industry tax rates.

[8:41:41 AM](#)

REPRESENTATIVE CISSNA asked about the application of sustainability principles to resource development.

MS. TROLL responded that she believes in employing the sustainability principal as spoken to in the Alaska State Constitution and that fisheries are managed on this basis. She opined that non-renewable resources are different because once these resources are extracted they cannot be replaced. Instead, one must look at reclamation and permitting compliance to assure that the land is available for other uses once mining operations are complete, she opined.

[8:43:49 AM](#)

REPRESENTATIVE WILSON asked about the fishing industry's record of employing Alaskans.

MS. TROLL said she could not recall statistics on the number of Alaskans employed by the fishing industry. However, she opined that all resource related industries employ a significant percentage of non-residents and could provide further information to the committee.

[8:45:56 AM](#)

REPRESENTATIVE ROSES asked for examples of mines which meet the principals of sustainable and environmental development.

MS. TROLL said that the Greens Creek mine north of Juneau, and the Fort Knox mine near Fairbanks, meets the aforementioned sustainability criteria. She said that there are mines in the state that are in compliance with all the environmental

regulations. She noted that Greens Creek mine dry stacks its tailings, which she described as a preferable way to minimize environmental impacts.

REPRESENTATIVE ROSES asked whether it is fair to state that ACA is not in opposition to the Greens Creek and Fort Knox mines.

[8:47:24 AM](#)

MS. TROLL indicated her organization is not opposed to the mines mentioned and further indicated that ACA is not opposed to mining operations that comply with environmental regulations. She went on to say that her comments today are not designed to eliminate mining in the state, but are focused on the review of the mining tax structure to assure that Alaskans receive some economic benefits from mining.

[8:48:05 AM](#)

REPRESENTATIVE FAIRCLOUGH asked whether the conservation groups represented by ACA went on record during the permitting process as not opposing the mines mentioned.

MS. TROLL replied that she is unaware of whether the conservation groups represented by ACA appear as unopposed to the development of the mines mentioned, and noted she has only been the executive director of ACA for a year.

[8:48:56 AM](#)

REPRESENTATIVE FAIRCLOUGH indicated that in general conservation groups have been labeled as being in opposition to industry. She noted that Northern Dynasty Inc.'s proposed Pebble Mine is a fairly large project and expressed concern as to whether concerns put forth by various groups are really about taxation, or whether they are geared towards stymieing development of a particular project. She set forth that she will consider whether a group's concerns about the bill are genuine and consistent with its past positions.

MS. TROLL noted that ACA meets once a year to determine its legislative priorities and when this issue came up, it was not in context of the proposed Pebble Mine. She stated that ACA is on record as supporting the construction and operation of a gas pipeline.

REPRESENTATIVE FAIRCLOUGH expressed her concern with Alaska's reputation as a desirable place to do business. She noted that public opinion seems to indicate a desire to avoid property tax increases and use of permanent fund revenues. As the options for funding are reduced, it is important to balance numerous criteria of various revenue measures to make an appropriate judgment call, she opined.

[8:53:55 AM](#)

ERIC UDHE, Public Lands Advocate, Alaska Center for the Environment (ACE), an Anchorage based conservation organization with over 7,000 Alaskan members, said ACE supports HB 156 because it has been over 50 years since Alaska has amended its mining tax structure to assure a fair share of mining revenues. He opined that the bill would improve mining industry regulation by assuring that Alaskans maximize their benefits from resource extraction. He said that mining activities are on the rise due to Alaska's abundant mineral resources and high mineral prices; therefore it is an opportune time to review the taxation regime. He said that mining corporations desire to be "good neighbors," and that review of the mining taxation regime could help to achieve that goal. He stated ACE supports mining projects that are environmentally sound, pay their own way, are supported by a majority of Alaskans, and provide maximum benefits to the state. He referenced that some industry groups rate Alaska's mineral prospects, security, and tax structure as very favorable to industry. He said that one "really has to be looking out for the new projects that are coming on line," referencing that some recent projects such as Alaska Gold Company's Rock Creek mine near Fairbanks have gone from permitting to operation in less than a year. He mentioned that there are other proposed projects in the Tangle Lakes area and opined that it is important to look at the revenues the state receives from resource extraction.

[8:57:39 AM](#)

CHAIR HAWKER asked, in light of the witness' comments, whether the legislature should consider establishing taxes so as to create an impediment to proposed mining projects.

MR. UHDE replied "absolutely not," but reiterated his opinion that the state receive a "fair share" from mining activities. He noted that mining supplies jobs, but opined that mines employ workers from outside the state.

[8:58:44 AM](#)

CHAIR HAWKER asked for further clarification of the term "fair share," which he characterized as somewhat indeterminate, particularly in light of this committee's need to carefully examine specific provisions of any bills brought before it.

MR. UHDE responded that the 3 percent net smelter tax proposed by the bill is "pretty modest." In response to Chair Hawker's request for further clarification, he agreed that the determination of a fair rate of return is complicated. He offered that ACE is making efforts to provide further information on this issue. The reports published by The Fraser Institute provide the best data available and conclude that the mining industry looks favorably on Alaska's tax structure, he opined. He offered that the issue of what changes would deter investment is a complicated one that ACE cannot answer without further input by mining economists.

[9:01:35 AM](#)

REPRESENTATIVE ROSES asked for verification and further calculations of the bill's effect on mining taxes, referring to the "Non-renewable Resource Tax Comparison Chart." He requested some additional estimation of the bill's effect on mining operations with varying income levels.

JOHANNA BALES, CPA, Excise Audit Manager, Tax Division, Department of Revenue (DOR), said she would be able to consider the scenarios posed by Representative Roses.

[9:04:19 AM](#)

REPRESENTATIVE FAIRCLOUGH expressed concern with prior comments by Mr. Udhe which referenced that mining projects should have majority support of Alaskans and observed that position may suggest that there be a vote on oil and gas royalty lease options. She reiterated her concern that requiring a vote for project development could hurt the prices received for royalty lease projects.

[9:06:23 AM](#)

REPRESENTATIVE WILSON asked for an explanation of the difference between tailings impoundment and dry stacking.

MR. BORELL responded by noting that he is pleased ACA supports the Fort Knox mine, which he said has a large 20 acre tailing impoundment site. He opined that the Fort Knox mine would never have opened had it been required to use a dry stack tailings impoundment approach. He explained that the Fort Knox mine grinds its tailings to a fine powder, after which the gold is extracted through a solution. The tailings compact tightly to make a hard surface, and are covered with water that is consistently changed and filtered. The alternative "dry stack" method of tailings impoundment requires a series of filter presses, several steps, and is very expensive. The pressed tailings have the water removed, and are packed into a pile. He referenced that the proposed Kensington mine north of Juneau has proposed to use tailings impoundment, and is currently being sued regarding this issue.

REPRESENTATIVE CISSNA opined that tensions between various groups can result in compromise positions to achieve "better results." She said that the state is mineral rich and should receive revenues without devaluing the value of the resource.

[9:17:25 AM](#)

MR. BORELL stated he could not agree more with the aforementioned opinion that cooperation is a positive avenue, noting it is frustrating for industry when positions change in the course of development. He opined that there should be accountability for environmental groups as there is for the industry, which has to comply with various environmental regulations.

[9:20:48 AM](#)

REPRESENTATIVE ROSES set forth his questions regarding comparison of the bill's provisions with the current mining license tax regime. He used the example of a mine in the \$250,000 to \$500,000 range and posed that as written in the "Non-renewable Resource Tax Comparison Chart" a mine with income of \$280,000 would pay 7 percent on income over \$250,000, a total of \$2,850. He said that under the current tax structure a mine with that same amount of net income would pay \$16,600. He opined that what is meant is for a mine with \$280,000 in net income to pay 7 percent of its total income, not just of the portion over \$250,000.

CHAIR HAWKER noted that this would be clarified and opined that Representative Seaton's intent is for HB 156 to propose a marginal tax system.

REPRESENTATIVE GRUENBERG requested that any questions in the calculations be answered before Ms. Bales does her calculations.

[HB 156 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [9:22:39 AM](#).