

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 19, 2016

1:01 p.m.

MEMBERS PRESENT

Representative David Talerico, Co-Chair
Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Andy Josephson
Representative Geran Tarr

MEMBERS ABSENT

Representative Benjamin Nageak, Co-Chair
Representative Mike Hawker, Vice Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 253

"An Act requiring the electronic filing of a tax return or report with the Department of Revenue; establishing a civil penalty for failure to electronically file a return or report; relating to exemptions from the mining license tax; relating to the mining license tax rate; relating to mining license application, renewal, and fees; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 253

SHORT TITLE: ELCTRNC TAX RETURN;MINING LIC. TAX & FEES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	RES, FIN
02/15/16	(H)	RES AT 1:00 PM BARNES 124
02/15/16	(H)	Heard & Held
02/15/16	(H)	MINUTE(RES)
02/17/16	(H)	RES AT 1:00 PM BARNES 124
02/17/16	(H)	Heard & Held

02/17/16 (H) MINUTE(RES)
02/19/16 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

SCOTT OGAN

Palmer, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

GRAHAM NEALE, Director
Center for Mine Training
School of Career Education
University of Alaska Southeast
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

RICHARD HUGHES

Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

ROGER BURGGRAF

Fairbanks, Alaska

POSITION STATEMENT: Expressed his concerns with HB 253.

DONALD STEVENS, PhD

Anchorage, Alaska

POSITION STATEMENT: Expressed his concerns with HB 253, and offered suggestions on how mining in Alaska could be encouraged.

BILL JEFFRESS

Anchorage, Alaska

POSITION STATEMENT: Expressed his concerns with HB 253.

MARLEANA HALL, Executive Director
Resource Development Council for Alaska, Inc. (RDC)
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

JASON BRUNE

Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

ROBERT FITHIAN, Miner
Lower Tonsina, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

JULIA MICKLEY

Northern Alaska Environmental Center (NAEC)
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 253.

REBECCA LOGAN, General Manager
Alaska Support Industry Alliance
Anchorage, Alaska

POSITION STATEMENT: Expressed her organization's concerns with
HB 253.

BEN MOHR
Anchorage, Alaska

POSITION STATEMENT: Expressed his concerns with HB 253.

RANDY POWELSON, Placer Miner
Fairbanks, Alaska

POSITION STATEMENT: Expressed his concerns with HB 253.

DOUG TWEET, Placer Miner
Co-owner, NB Tweet & Sons
Nome, Alaska

POSITION STATEMENT: Testified in opposition to HB 253.

GEORGE PIERCE
Kasilof, Alaska

POSITION STATEMENT: Testified in support of HB 253.

ACTION NARRATIVE

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CO-CHAIR DAVID TALERICO called the House Resources Standing Committee meeting to order at 1:01 p.m. Representatives Tarr, Josephson, Seaton, Olson, Johnson, and Talerico were present at the call to order. Representative Herron arrived as the meeting was in progress.

HB 253-ELCTRNC TAX RETURN;MINING LIC. TAX & FEES

[1:02:33 PM](#)

CO-CHAIR TALERICO announced that the only order of business would be HOUSE BILL NO. 253, "An Act requiring the electronic filing of a tax return or report with the Department of Revenue; establishing a civil penalty for failure to electronically file a return or report; relating to exemptions from the mining

license tax; relating to the mining license tax rate; relating to mining license application, renewal, and fees; and providing for an effective date."

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CO-CHAIR TALERICO opened public testimony on HB 253.

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SCOTT OGAN stated that he was testifying on behalf of himself, and related that although he is a member of Alaska Miners Association (AMA), he does not have any direct financial interest in the outcome of the proposed legislation other than being a citizen of Alaska. He expressed his concern that the focus of the legislature is to raise taxes and figure out how to use permanent fund earnings and reduced permanent fund dividends (PFDs), rather than the topic of his testimony. He referred to a report that he had prepared when he served in the Alaska State Legislature titled, "New Programs in State Government 1981-1998." He stated that Senator McGuire had additional work done on the topic, and there is a new report that has since been completed titled "Legislative Research Report November 3, 2010, 11.018 New Programs in State Government 1988-2011." He posited that it is extremely misguided to have the focus of the financial discussion be new taxes and use of the permanent fund. One of the new taxes being discussed today is increased taxes on the mining industry.

MR. OGAN surmised the committee may be aware of new mining prospects in the state. He recounted that while serving on the House Resources Standing Committee, he visited the Donlin Creek prospect, where millions of dollars had already been invested and a camp set up. He said 20 years later they are still trying to figure out whether the project is viable. Mines are capital intensive, and the risk is high. He maintained that it would be misguided to add another layer of tax and uncertainty to the mining industry, which provides fantastic, high-paying jobs that positively impact local economies. He proposed that rather than looking for new taxes and ways to get into people's wallets, the collective efforts of the legislature be focused on determining exactly what type of basic, fundamental government Alaska should have. He said the cost of doing business in Alaska will always be higher than in other states. He expressed appreciation for government services, such as the Alaska State Troopers and winter road maintenance, but contended that Alaskans act like "kids that grew up with a trust account" and will have to grow

up. He reemphasized that it is misdirected for the starting place of the financial discussion to be new taxes and accessing the permanent fund, which he said is the most regressive tax possible. He warned that this sends a message to potential investors that Alaska is not a good place to do business right now. He noted that commodity prices are down concurrent with the price of oil. He said it is premature to discuss a mining tax, especially with regards to new investments. He concluded that it is ill-advised to penalize people who are exploring now and may provide a generation of jobs for young people in Alaska.

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REPRESENTATIVE OLSON asked if Mr. Ogan could provide copies of the referenced report.

MR. OGAN agreed to provide the report. He said he would like to see hearings on which parts of the statutes will be removed from the statute book, and advised that the constitution should be the driver of that discussion.

REPRESENTATIVE TARR asked what impact the tax might have on investment and noted that deterred investment may be more closely linked to commodity prices than a tax increase, which could be perceived as a relatively minor change.

MR. OGAN replied he probably isn't qualified to answer that specific question, but suggested it would be appropriate to have an objective economist conduct an analysis of the potential impacts of these taxes on the mining industry.

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REPRESENTATIVE SEATON noted the State of Alaska offers an exploration tax credit for mining that is tied to production but does not benefit investors. He noted that mines receive a 50 percent tax credit only after going into production and becoming profitable and inquired how to incentivize the exploration and developmental stages of mines. He asked whether, since there is no credit at the time of exploration or development, the tax credit on production is actually an incentive.

MR. OGAN responded that it is certainly one of the components that mining companies consider when considering development. He stated that most companies operate worldwide and the time it takes for a mine to go from exploration to production in Alaska can be decades. He said his opinion is not as valuable as an

objective study by an economist qualified to assess the impact, and added that he fought for and believes in the idea that Alaska must remain open for business. He said what struck him when he visited the Donlin Mine was the discussion regarding the impact that hiring for the mine had on the social fabric of the area. He stated that it was a profound economic development program for the surrounding region and the same held true for the Red Dog mine. He related that at first not many young people passed the drug and alcohol screenings, but, as benefits [of the mines] were visible in the communities, more applicants began passing the screenings. He stated that this impact is more cost-effective than any government program, welfare, or a check from a village corporation. He reemphasized the importance of not giving investors the impression that Alaska is not a good place to do business.

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GRAHAM NEALE, Director, Center for Mine Training, School of Career Education, stated that the mission of the University of Alaska Southeast, Center for Mine Training (UAS/CMT), is to provide world class workforce training in occupational fields leading to employment in the mining industry. The gateway to mining employment is the semester-long introduction to mining occupation and operations class offered at University of Alaska Southeast (UAS), which has enrolled approximately 200 students since 2011. He said most of the students are high school students who are ready to train for and work in what should be a developing workforce. Alaska's mining industry has tremendous potential for growth, he noted, but that growth can only occur if projects are explored, permitted, and developed. He acknowledged the state's financial issues and said now is the time to evaluate how the state can attract investment in order to multiply future revenues and economic benefits.

MR. NEALE related his specific concern with the removal of the 3.5-year tax exemption for new mines, describing it as "a shortcut to a problem that doesn't exist." He said it would not contribute much to state revenue, as there are not any large-scale projects that are slated to become new mines in the near future. However, there are several advanced-stage projects in the state that are anticipated to become future mines and would be forced to re-evaluate their feasibility in the absence of the tax exemption. The UAS/CMT has been working with these projects to develop training timelines and put Alaskans on pathways to mining careers. He said, like any business, a mine's financial load occurs at start up and during construction. If these

projects are unfeasible to develop due to an initial tax-heavy burden, the program could be putting Alaskans on pathways to careers that don't exist.

MR. NEALE warned that removal of the 3.5-year exemption could also discourage investment, not only in existing projects, but also in any exploration activities. Investment in the future of Alaska's mining industry, and subsequent government revenues, begins with exploration, and many program students begin their mining careers working on these types of projects near their home communities. Alaska competes for limited global capital, with jurisdictions having competitive mineral potential in fiscal terms. He said Alaska has excellent mineral potential, one of the top-rated in the world, but a discouraging tax regime does not make for attractive fiscal terms.

MR. NEALE said that as a University of Alaska employee, he would be remiss if he did not mention a recent report from University of Alaska Anchorage's Institute of Social and Economic Research (ISER). The report researched the economic effects of Alaska's fishing, tourism, and mining industries and shows that mining revenue to the State of Alaska is 6-8 times the cost of managing the industry, and that mining pays its way in the state through state government revenues, property taxes, Native corporation revenues, services and supplies spending, and jobs. Alaska's miners pay taxes and contribute to the economy, he added, so it behooves Alaska to encourage investment in development, because it would offer more opportunities for Alaskans to work in Alaskan mines - precisely the mission of the UAS/CMT training.

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REPRESENTATIVE JOSEPHSON asked whether Mr. Neale is a professor or professor equivalent.

MR. NEALE replied he is the director. He explained that he does not teach the courses and that there is an instructor on staff who actually teaches the courses.

REPRESENTATIVE JOSEPHSON inquired if Mr. Neale's position was equivalent to a provost, chancellor, or vice-chancellor.

MR. NEALE explained that he is the director of the program; he works under the dean, who works under the provost.

REPRESENTATIVE JOSEPHSON remarked that Mr. Neale's testimony is particularly interesting in that it could describe the entire

session. He explained the legislature's conundrum: it is being proposed that the University of Alaska's undesignated general fund (UGF) budget be cut by 20 percent, but to keep the University's budget robust, the state needs revenue. He asked how it is possible for the two competing demands to be met.

MR. NEALE answered that this specific university program is primarily funded by industry donations or gifts, especially from Hecla Greens Creek Mining Company. He said the program does still receive funding from restricted funds, but the majority is from industry funding. He said he does not know the answer to that question and he recognizes Alaska is in a difficult situation and that there is no easy answer. He stated that looking for shortcuts is also not an option.

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REPRESENTATIVE TARR asked for the name of the center.

MR. NEALE replied that it is the UAS/CMT.

REPRESENTATIVE TARR asked whether Mr. Neale was representing UAS in an official capacity in presenting opposition to the proposed legislation.

MR. NEALE replied that he was representing the UAS/CMT in an official capacity and that UAS/CMT is affiliated with UAS.

REPRESENTATIVE HERRON asked whether Mr. Neil believes the proposed mineral licensing tax rates are competitive and would stimulate investment in Alaska.

MR. NEALE stated he is not an economist and does not know the answer to the question.

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RICHARD HUGHES stated that although he is a member of the Alaska Miners Association (AMA), he was representing himself, as his points do not necessarily reflect those of the AMA. He said the mining industry is currently depressed globally, not just in Alaska. In relative terms, commodity prices are as low as they have been in a long time, and this economic conundrum is ongoing and appears to be long-lived. Mining companies like Kinross Gold Corporation, Barrick Gold Corporation, Rio Tinto Group, Anglo American, and others are undergoing major restructuring, which results in selling mines, layoffs, and other actions. He

stated that HB 253 would increase the mining license tax rate on net incomes over \$100,000 by 29 percent. Additionally, the 3.5-year hiatus that the mining industry currently enjoys for capital recovery purposes would be eliminated. This would have a significant effect on the economy of Alaska, he said, especially on the placer mining industry. He opined that this is not the best way to foster development of mines within Alaska. The growth potential for the mining industry in Alaska is huge, but the state competes worldwide for revenue to explore and develop mines and increasing the tax rate will discourage investment. He noted that Argentina recently decreased its tax rate by 5 percent to attract new mines and said Alaska should consider doing the same. He clarified he is not encouraging a tax reduction, but stability in the mining license tax.

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REPRESENTATIVE TARR noted that seven major mines are operating, three are in the permitting stage, and seven are in the pre-permitting process. She asked how HB 253 would affect those mines that are in the permitting or pre-permitting process.

MR. HUGHES replied that the bill would have a discouraging effect on exploration and could have a discouraging effect on developing mines, such as Donlin Creek or the Ambler project. He pointed out that those mines would have to undergo another feasibility analysis given a tax increase if HB 253 passes.

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REPRESENTATIVE HERRON asked if the industry could withstand a smaller increase in the tax.

MR. HUGHES replied he cannot speak for the industry, but that his personal opinion is the industry may be able to withstand a small increase. However, he continued, economies of the exploration and development industries would change significantly, and investment in the Alaska will be discouraged.

REPRESENTATIVE HERRON asked whether Mr. Hughes would support a scenario where the 3.5-year exemption was retained and there was a significantly smaller increase in the tax.

MR. HUGHES responded that he would have to look at the economic impact on each mine individually to accurately assess the impact of a change like that. He said it could drive marginal projects

toward a sub-economic state, and he stated that it is difficult to give a definitive answer.

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REPRESENTATIVE SEATON noted that the tax credit is not applied during exploration and development but is deferred until the developer designates the mine as profitable; therefore, all of the currently developed mines do not receive a benefit from that until after they are actually turning a profit. He asked why removing the credit would be a burden on the exploration and development process if the credit cannot even be applied during those stages.

MR. HUGHES answered it will affect the feasibility study done for a producing mine, and an increase in taxes will drive the economics down. He posited that if Alaska wants to improve exploration, then permitting obstacles should be removed.

REPRESENTATIVE SEATON reiterated that the exploration tax credit does not apply during exploration or development, and asked how that encourages or accelerates exploration.

MR. HUGHES replied that the application of exploration incentive tax credits improves the economic feasibility of a project, which attracts industry to the state.

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ROGER BURGGRAF testified that he recently represented the Fairbanks Chamber of Commerce in Juneau and has been a long-time member of the AMA, but is speaking today on behalf of himself. He held that the state should encourage development of its natural resources and other industries, which would generate revenue and put Alaskans to work. He expressed concern regarding the proposed increase in mining taxes and explained that the mining industry is very fragile and controlled by world markets, over which it has no control. He said there are several mining projects in the proposal stages that could be adversely affected if the cost of permitting and developing a mine becomes prohibitive. [The proposed tax increase] could affect both small and large mining operations. He noted that HB 253 would require electronic filing for all mining tax returns and that many small mines are located in remote areas; therefore, it would be difficult for many of them to comply with the requirement. Removal of the 3.5-year exemption would be a significant disincentive to undertaking the regulatory process

and startup costs associated with development. He said the current exemption provides an incentive to any mining company, and assures that if a company does go into production it will recover some of its expenses. Increasing the tax rate from 7 percent to 9 percent would cut deeply into the profit margins of mining companies. [The proposed increase] is of particular concern during times when commodity prices are low and costs for equipment and fuel are high. He warned that increasing the tax fees on exploration and mining applications will also increase the burden on small mining companies. He said the mining industry is already over-regulated, and urged the committee not to "kill the goose that lays the golden egg," noting that the industry provides many high-paying jobs to Alaskans. He stated that many of the smaller mines contribute strongly to their local economies.

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REPRESENTATIVE TARR noted the state's current tax structure has been in place for over six decades, since 1955. She asked Mr. Burggraf whether the industry expected that there would never be a change in applicable tax statutes and if he believes [the tax statutes] should be reevaluated when they become "that historical in nature."

MR. BURGGRAF replied that he did not consider the current tax structure outdated, and he posited that the state needs to attract capital in order to develop mines. He stated that when taxes are increased, it is another financial factor that needs to be considered by investors. Many of these projects are on the drawing board and, if taxes are increased, smaller mines will have to reevaluate their viability. He pointed out that many of the larger mines don't have a huge margin, but if they go into production they will provide significant employment, income, infrastructure, and opportunities for Alaskans.

REPRESENTATIVE TARR asked which mines would be most impacted and, specifically, what types of mines could be categorized as "small mines."

MR. BURGGRAF replied that the placer mines would be the small mines most influenced by these changes. He stated that placer mining was once a very large industry and the federal government is making it very difficult for small placer mines to operate. The state looks favorably on placer mining and realizes that placer mines have a positive impact on small communities. He

noted that if the Donlin Creek and Tower Hill mines move into production, they will positively influence rural communities.

REPRESENTATIVE TARR pointed out that the tax increase would only apply to mines with a net income of over \$100,000, and asked whether many placer mines would fall into that category.

MR. BURGGRAF replied that some would, depending on the size of the placer mine and the number of employees.

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DONALD STEVENS, PhD, stated that he is a certified professional geologist from the University of Alaska Fairbanks (UAF) and has worked full time in the minerals exploration business in Alaska since 1970, conducting field projects in most areas of the state that have mineral potential. He related that in 1981, he discovered the "Channel A Deposit" at Valdez Creek, which became the largest placer gold mine in North America for several years. He said over 1,200 man years of employment resulted from that discovery. He stated he was testifying on behalf of himself and not any of the professional organizations to which he belongs, such as AMA. He said over the last 45 years he has observed a number of cycles in the availability of exploration funding for projects in Alaska. Much of that funding comes from other countries, with Canada being the principal source. Over the last five years it has become increasingly difficult to make a living as a consulting geologist. He stated that the Pebble Deposit is widely known in the global mining community, and the industry is aghast that development of this world-class deposit was stopped. This has seriously damaged the industry's perception of Alaska as a good place to invest in minerals exploration. He added that Shell's Chukchi Sea decision similarly hurt Alaska.

MR. STEVENS said that in Alaska the average length of time between discovery and actual production is probably the longest in the Western Hemisphere, and is due to the slow regulatory framework applied to mining. He said he was devastated by news of the potential 29 percent increase in the mining license tax and termination of the 3.5-year exemption, and that the proposal contributed to Alaska's negative reputation in the world's mining and investment community. He held that in the last 45 years, this was the worst possible timing for this proposal.

MR. STEVENS explained that even during difficult times for the mining industry, mining pays its own way; state tax revenue from

mining is approximately eight times the cost of regulating the industry. He said for years his consulting business provided a decent income, allowing him to offer the opportunity of a college education to his two daughters. However, he continued, business is now terrible - his clientele dropped from an average of five foreign mining companies a year to less than one per year over the last five years. He shared that his business has cut every possible cost in an effort to remain viable and he would like to see state government do the same.

MR. STEVENS recommended the state decrease the mining license tax to 5 percent, increase the 3.5-year exemption to 4 years, and publicize the actions among mining companies. He said this would get the attention of the mining industry and do more to increase revenue from the exploration of mining than tax increases or elimination of exemptions. He said a single new large mine going into production would create far more tax revenue for the state than the changes outlined in HB 253. In order to increase tax revenues, Alaska must take actions demonstrating that it wants a vibrant, strong mining industry. He said this cannot be done by increasing mining taxes and removing the 3.5-year exemption for new mines.

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BILL JEFFRESS stated he has been involved in resource development and mining for over 40 years and actively involved in Alaska mining for almost 25 years. He said he has worked for several of the major mining companies in Alaska, served as former Director of the Office of Project Management & Permitting for the Department of Natural Resources, and worked as a mining consultant. He related he is a member of the AMA and is honored to serve as a member of the Alaska Minerals Commission. As a member of the Alaska Minerals Commission, he noted, he supported the commission's top 2016 priority for Alaska to move quickly, on a bipartisan basis, to establish a stable fiscal climate that will protect Alaska's future and the opportunity to develop a diverse economy.

MR. JEFFRESS said he found the Department of Revenue's February 3, 2016, testimony on HB 253 and its companion bill SB 137 disconcerting. He recounted that the testimony discussed a perception by the public that the mining industry is not paying its share; to which the Department of Revenue responded that if the public does not view the mining industry as paying its way, it would help if the mines are paying more taxes. He stated he was certain that Department of Revenue employees are thankful

their salaries are not based on public perception. Referencing the December 2015 ISER report, he stated that the average state revenue from mining was \$96.4 million, while state operating expenditures were \$10.7 million, with an average capital expenditure of \$4 million, which resulted in a surplus of \$81.7 million and \$22.5 million in average municipal revenues. He stated that this indicates that the mining industry is definitely contributing more to the state than it costs to administer the program and provide oversight of the industry. The global mining industry and the industries that provide support to it are currently experiencing a long downturn in commodity prices. He said the proposed increase in the mining license tax, from 7 percent to 9 percent, results in a 29 percent higher payment for operations.

MR. JEFFRESS held that losing the 3.5-year exemption on paying the tax after production begins is not the kind of message that Alaska should be sending to potential investors. He said Alaska competes with other states and nations for investment dollars based on regulatory and fiscal certainty. Alaska's mining industry has tremendous potential for growth, which is already demonstrated by the operating mines, and has huge potential to generate revenues and economic benefits for Alaska. He maintained that HB 253 sends a message that Alaska's policies are based on perception, not real-world economic reality.

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REPRESENTATIVE TARR stated she would like to talk to the previous two witnesses off line.

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MARLEANA HALL, Executive Director, Resource Development Council for Alaska (RDC), said RDC is a membership funded, statewide business association representing the tourism, forest products, oil and gas, mining, and fishing industries. She spoke as follows:

RDC strongly opposes HB 253 as this is clearly not the time to raise taxes on Alaska's mining industry. The mining industry is suffering through a deep and prolonged downturn in commodity prices while development and operating costs continue to rise. In fact, the mining sector has been in a deep global recession for at least the last four years. Companies are cutting budgets and making tough investment

decisions. Future prospects and projects in Alaska are at risk. Exploration activities are sharply down.

Increasing taxes on the industry at this time will compound a bad situation and risks halting investment in future projects that will ultimately create new revenue streams for Alaska. Conversely, the more Alaska taxes companies to produce a commodity, the less likely a company will invest in future production. HB 253 moves us in the wrong direction.

As you've heard, the bill proposing to increase the Alaska Mining License Tax payment by 29 percent removes the 3.5-year exemption designed to attract new mines. Not only does removing the exemption offer no immediate or near-term revenue for the state, it potentially impacts the feasibility of future mining projects. [The state] should not risk projects and the corresponding jobs and increased private sector economic activity. One large mine would bring in more revenue to the state than what is estimated to be generated by this flawed bill.

A major concern RDC has with HB 253 is that the administration has not conducted a risk analysis on the bill's impact on the mining industry. The effect of this tax proposal must be fully reviewed, and unintended consequences, including potential impact on future investment, must be considered.

I would like to point out that the mining industry pays its way in Alaska and is a revenue producer for the state. Moreover, it is the largest producer of revenue for the Northwest Arctic Borough and the largest payer of property taxes in the Fairbanks North Star Borough and the City and Borough of Juneau. For more than 20 years RDC has advocated for a long-term fiscal plan, including efforts to limit unrestricted general fund spending to a sustainable level, support some use of the permanent fund earnings as part of a fiscal plan, and a tax policy and incentives that encourage future investment in Alaska's resource industries.

In closing, HB 253 will harm the industry at a time when it is struggling with low commodity prices and tight capital ... markets. The industry is not asking

for a decrease in taxes during this commodity bear market, like other countries are considering as you heard earlier, but instead asking, as the state considers changes to tax policy, that the state do no harm.

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REPRESENTATIVE TARR inquired whether Ms. Hall thought every provision in HB 253 was problematic.

MS. HALL responded that the components of the bill that she did not mention are not something RDC necessarily opposes, for example the electronic filing, although it has not been fully vetted and RDC would appreciate it if a risk-analysis were conducted.

REPRESENTATIVE SEATON noted the mining license tax was computed based on net income, which is computed by subtracting expenses from revenues. The same formula was used for the royalty payment. The oil and gas industry in Alaska pays its royalty on the point of production, the fisheries industry pays on the first wholesale value - the value of the resource to Alaska - and that applies to most industries that have a royalty. In this instance, the royalty is not based on the value of the minerals extracted, but instead based on the profitability of the company. He asked, recognizing that most of the industries Ms. Hall represents are based on net smelt return or point of production value, whether RDC opposes the state collecting royalties based on the value at the point of production.

MS. HALL replied she would get back to the committee with an answer, but suggested that the industry might be better able to answer that directly when it testifies before the committee.

REPRESENTATIVE SEATON explained that part of the purpose behind his question was to make sure that the industry is aware of it when they testify before the committee.

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JASON BRUNE said he was testifying on behalf of himself. He stated that the cost of doing business in any jurisdiction matters and Alaska is no different. Given the state's remoteness, for mines to come to fruition in Alaska, huge capital projects must also be constructed to bring necessary infrastructure such as road, power, ports, pipelines, and much

more. He said these costs are not insignificant and add to the costs of building a mine in Alaska, especially in rural Alaska. Simply put, taxes are just another cost of doing business. He said HB 253 proposes to increase the tax rate by 29 percent, which will not help attract investors to our state; it will show that Alaska is not open for business.

MR BRUNE stated that his authority on the issue is derived from being a casualty of higher costs, which caused his previous employer, Anglo American, to withdraw from Alaska. High costs were one of the leading factors which lead to its withdrawal and the loss of his job. He stated that Alaska competes worldwide for capital, and he saw it first hand in Anglo-American's boardroom in London. He maintained that rather than considering this legislation, Alaska should grow the mining industry. He said his former project has an Economic Impact Analysis on its website, which shows the amount of tax revenue the state would collect from that project going into production could be nearly \$200 million per year to both state and local governments. He said adding this single mine, or even a number of new mines, would provide more mining industry revenue to the state than the proposed legislation would, with the additional benefit of providing jobs for thousands of Alaskans.

MR. BRUNE posited that Alaska should be doing all it can to encourage this kind of development in the state, which would be executed with high levels of care for the environment. Alternatively, if Alaska increases taxes, as proposed in HB 253, it would send a message that Alaska is an expensive place to conduct business and would discourage companies from doing business here. He held that even passing HB 253 out of committee would negatively impact Alaska's investment climate.

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REPRESENTATIVE TARR noted that British Columbia has a 13 percent net proceeds tax and a lot of mining activity. She requested Mr. Brune to comment on that with regard to other opportunities outside the U.S. She asked what impact low commodity prices may have had on Mr. Brune's former employer's decision to scale back operation in Alaska.

MR. BRUNE responded it is important to look at the existing infrastructure in British Columbia and other jurisdictions around the world. In those instances infrastructure is not something that the industry would have to cover. [British Columbia and other jurisdictions] have significant

infrastructure that has already been paid for, often by the government. Rural Alaskan projects have to be huge projects in order to cover costs like ports, 100-mile roads, 300-mile pipelines, and all of the added infrastructure. The tax adds to the cost of doing business. Alaska already has one of the highest costs worldwide, and thus can't afford to have higher tax rates than the rest of the world. With regard to the question of commodity prices, Mr. Brune stated companies like Anglo American are in it for the long haul; they understand that there are ups and downs in the commodity cycle and make their business calculations based on a mine life of 20-40 years. They anticipate the ups and downs of the commodity cycle and understand that it must be factored into their equations. He agreed that [commodities] are in a downturn that has lasted much longer than most, and offered his belief that although the downturn impacted [the company], ultimately it did not impact their decision to leave Alaska.

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ROBERT FITHIAN, Miner, stated he is representing himself and is opposed to HB 253 for reasons he feels are in the best interest of Alaska. He said he has been involved in Alaska's mineral industry for many years and is currently working to develop a new, underground hard-rock gold mine in Southeast Alaska. This mine should complete its permitting and begin underground development this year, and that it will provide direct, local-hire, annual employment opportunities at the standard mining sector compensation of \$100,000 per year, with exceptional benefits. He stated that when reviewing the many aspects of building a new mine in Alaska, the 3.5-year tax exemption for new mines was one of the few aspects that weighed in on the positive side of the many challenges. He said the current 7 percent license tax was high relative to the risk and challenges that miners deal with, but seemed doable. He stated that the increase to 9 percent would increase the tax burden by 28 percent, which he considers a serious overreach. Without the new mine exemption and proposed tax increase, he said he possibly, not probably, would have made the decision to move forward with the much-needed project, which is located near a community that needs jobs, [an improved] economy, and children for its school. He stated that after many years of major mining companies exploring Alaska for large mineral deposits, many smaller deposits, which are not viable for larger operators, have been defined. These deposits can become environmentally friendly, smaller-scale mines and strong economic drivers for Alaska. He held that if the new mine exemption were removed and

taxes increased, these projects would become much less viable and probable. He noted that there are vast differences between sectors of the mining industry, and minerals in particular, throughout the state. A mineral deposit located near infrastructure will have different viability than a comparable deposit located in a remote region. One may be able to afford new tax burdens, while the other may not become a mine despite being located in a region in need of jobs and economy.

MR. FITHIAN recalled the Fort Knox mine as an example of the fine line between viability and non-viability, as it was working through its feasibility stages. He stated that had this proposed tax level been in place at the time, it would unquestionably have affected the decision to move forward or not. He noted that this mine has been a boon for Alaska. The challenges for miners, and especially new miners in today's world, are extreme. He encouraged the committee to take no action on the proposed removal of the new mine exemption and the mining tax increase, in order to allow the entrepreneurial spirit that has benefitted Alaska in many ways to continue to do so. Well-paying jobs and reciprocal service industry economy are more important than an additional squeeze on a challenged industry. He suggested that the committee focus on risk investment, the ultimate factor in developing many natural resources, and posed the question, "Do your actions maintain a prudent window for risk investment?" He stated his belief that HB 253 works to close that window for Alaska projects. He stated that he agreed with Mr. Stevens' comments about decreasing the tax rate and increasing the new mine exemption.

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REPRESENTATIVE JOSEPHSON requested the location of Mr. Fithian's mine in Southeast.

MR. FITHIAN answered the mine is called the Dawson Mine and is located on the Hollis-Klawock Highway near Hollis on Prince of Wales Island.

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REPRESENTATIVE TARR referenced Mr. Fithian's statement that a tax increase would have made him reconsider the viability of his mine, and she asked how increased commodity prices would have factored in to his decision making process.

MR. FITHIAN responded that Alaska's balance and the global balance for operating and producing mines frequently hinges on market values, which are nearly impossible to forecast. His project calculations were based on a \$1,100 value for gold. If gold values drop below that price, the project would become challenged. If gold prices remain above that point, the mine would stay viable. He recalled operating a mine many years ago where the same figure was \$340; if gold dropped below \$340 he was losing money. If gold prices held at \$400 or above, the mine was profitable. He noted that mines do not have control over commodity prices, especially small mines. He held that Alaska holds promise for small mine operators and he hopes to provide an example of how small to medium size mines can prove viable in Alaska. He stated that dealing with world markets is a challenge; each deposit is different in terms of both operating costs and metallurgical circumstances. He reemphasized the vast differences that exist with many aspects of the same metal commodity. He stated that Donlin Creek is dealing with a refractory ore, which demands high energy to extract gold from the ore. He stated that he will be dealing with a free-milling gold and quartz deposit on Prince of Wales. He noted that they are entirely different concepts, but both are still dependent on world markets.

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REPRESENTATIVE SEATON noted the mining license tax is based on net income and assumed that [Mr. Fithian] had taken the difference into account. He asked if increasing the threshold for the 9 percent tax from \$100,000 net income to \$200,000 would be more acceptable and diminish the impact on the smaller, more marginal operations. He explained that in this circumstance, the tax would be 5 percent from \$50,000 to \$200,000.

MR. FITHIAN replied that he would like to answer, but would like more time to evaluate the considerations. He offered that the industry may want to weigh in on that question when it testifies during the next meeting. He stated that he would be glad to answer the question via e-mail.

REPRESENTATIVE SEATON noted he was asking the question without expectation of an immediate answer, and asked that Mr. Fithian send the e-mail to Co-Chair Talerico, who could then distribute it to the rest of the committee members. He stated that the bill was designed to be balanced and provide a structure that would be functional for both the State of Alaska and the mining industry, which is a very valuable industry. He asked Mr.

Fithian to include in the e-mail any other suggestions he might have on how the bill could be structured.

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JULIA MICKLEY, Northern Alaska Environmental Center, posited that the current tax structure is outdated, and said she would like to see it addressed. Development does not come without a cost, she stated, and the public should be compensated for the minerals removed from public lands. Royalties should be structured to provide real returns to the public and provide compensation for the inevitable environmental degradation. She indicated that she would like to see an even higher tax structure implemented. Mining pays a very small percentage of state revenues, especially when compared to the oil industry, and this amount needs to be increased. She stated that the proposed 2 percent increase, only on the most profitable mines, is not enough. All portions of the mining industry in Alaska should pay increased taxes and the most profitable should be increased by 5 percent so that Alaska's tax structure is more in line with other states, like South Dakota. She pointed out that the ISER report does not include infrastructure costs, such as road construction and maintenance. She pointed to the Ambler Road as an example of these types of costs.

REPRESENTATIVE TARR requested that Ms. Mickley share the information she referenced on South Dakota's mining tax.

MS. MICKLEY responded that South Dakota taxes its mining companies at 14 percent, which is 5 percent higher than the proposed increase.

REPRESENTATIVE JOSEPHSON noted that there is more infrastructure needed in Alaska, as everything is much closer in South Dakota. He asked Ms. Mickley to clarify her point about infrastructure.

MS. MICKLEY said Representative Josephson's point is reasonable; however, she pointed out that the proposed Ambler Road to the Ambler Mining District would cost the State of Alaska \$430 million, but the proposed tax would only provide an estimated \$6 million, leaving a \$424 million cost to the state.

REPRESENTATIVE JOSEPHSON understood Ms. Mickley's point and thanked her for her testimony.

REPRESENTATIVE JOHNSON asked which organization Ms. Mickley represents.

MS. MICKLEY said she is representing the Northern Alaska Environmental Center.

2:13:02 PM

REBECCA LOGAN, General Manager, Alaska Support Industry Alliance ("the Alliance"), testified that the Alliance represents 680 Alaska businesses and the 30,000 employees that provide support services to oil, gas, and mining operations in Alaska. She noted that HB 253 has been identified by Governor Walker as an integral component of the new sustainable Alaska plan, which is billed as providing a balanced and sustainable budget for Alaska's long-term fiscal stability. While the Alliance appreciates the governor's efforts to address Alaska's spending problem, it is concerned about bills like HB 253 that have a singular focus on raising new revenues in the short-term, without assessing potential long-term impacts on the state economy. Alaska needs to take a long-term budget view, she opined, not a one-year snapshot. As resource development companies plan projects and identify areas to invest, they use a long-term, balanced approach that accommodates the highs and lows of commodity cycles, and Alaska should do the same. Like the oil and gas industry, the mining industry is experiencing a downturn in commodity prices and is not in a position to shoulder additional costs through taxes. There is no vision for Alaska's future resource development economy in a tax bill that does not assess the impacts of that tax on the private sector. She posed the question to the committee: "Do we, as Alaskans, want slow economic progress in a low commodity environment, or do we want no economic progress?"

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REPRESENTATIVE JOSEPHSON stated that this is the fourth bill in the fiscal plan that he has looked at that calls for new money from industry, noting that the alcohol bill is a consumer tax, but it does impact industry. He said there has been push back on all of them, which he said he understands, but he stated his concern that at the end of the day, all that would be left would be taxes on individuals or a cut to the PFD. He asked Ms. Logan's opinion of the governor's plan that everyone share in the state's economic burden.

MS. LOGAN stated that if it was true that everyone was going to share in the burden, she would support the governor's plan. She said she would be very interested in seeing [proof of such

shared burden] and added that the industry is already making significant payments to the State of Alaska. She emphasized that industry is frustrated that the legislature, instead of reducing the operating costs of state government, is turning immediately to industry to solve its problem.

REPRESENTATIVE JOSEPHSON commented that the focus of the legislative session so far has been on budget cuts. There have been hearings on revenue, but cutting has been the focus. He asked Ms. Logan if she was aware of that.

MS. LOGAN responded she was aware that people were saying cutting was the focus of the session, but she had not yet seen the proposed budget to assess the state of reductions promised.

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REPRESENTATIVE JOHNSON pointed out that the proposed increases are not legislatively driven, but are instead proposals from the administration and it is the duty of the legislature to review them. He said it does not mean that any of the proposals would go anywhere, but he wanted to be clear that HB 253 was not a legislatively driven agenda.

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REPRESENTATIVE SEATON said several people had given testimony stating that no action should be taken until an economic impact analysis has been conducted for a proposed change, but questioned the possibility of getting a definitive study conducted due to the variable nature of commodity prices. Noting the Fraser Report provides comparative tax figures for Alaska and other states, he asked about the feasibility of conducting a comprehensive economic study that would indicate how the proposed mining tax increase from 7 percent to 9 percent would impact the closed-door decision making of the industry.

MS. LOGAN responded that she has seen several ISER studies that examine different financial scenarios and tax structures and their potential influence on the private sector. She said it is as simple as finding an economist to examine that specific question.

REPRESENTATIVE SEATON inquired if, given a scenario where an ISER study found that changing the tax rate from 7 percent to 9 percent would have little decisional influence on whether or not

to proceed with a mine, Ms. Logan would be in favor of the legislature proceeding with the proposed legislation.

MS. LOGAN replied, "Absolutely not." Following results like that, she continued, there would be enough information to answer the question whether the best decision would be to raise \$6 million in taxes on the mining industry or to reduce operating expenses in state government by \$6 million dollars.

REPRESENTATIVE SEATON offered his hope that testifiers would refine the answer to that question. He noted that formerly many had suggested there should be a document defining the economic impact this tax change would have on industry behavior. Now he was hearing that testifiers aren't looking for that impact study, but rather a study examining the comparative value of the options: cutting PFDs, cutting the University of Alaska budget by \$6 million, or other measures. Those are quite different studies, he pointed out.

MS. LOGAN responded that her previous statement was not made on behalf of the Alliance, but rather she was saying that the state needs a long-term plan that addresses the needs of the government and private sector, and that this was a short-term answer and there was not information to assess whether it was the best answer.

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REPRESENTATIVE TARR referenced the portion of Ms. Logan's testimony that discussed singling out the mining industry, and said testimony from the fishing industry indicated a willingness to contribute to solving the problem, provided they were not unfairly burdened. She asked Ms. Logan to explain how the mining industry saw itself differently. She acknowledged Ms. Logan's long-term service in the industry and the 61-year time period since Alaska had changed the mining tax structure, and asked if people thought it would never change. She stated that she would like to understand when people thought that it might be updated, considering it has been more than six decades.

MS. LOGAN clarified she had not said anything about singling out the mining industry, but instead said the singular focus of this bill was to raise revenue, without consideration of the impact on the private sector. She stated that she would not assess the need to change a tax based on how long it had been in place. The more appropriate assessment would be whether or not it was doing what it should.

REPRESENTATIVE TARR stated that state government has changed dramatically in 61 years and that's the reason for reassessing whether these taxes were working properly at this time.

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REPRESENTATIVE HERRON commented that because the legislature had no choice, it would reduce government services that would impact the lives of all Alaskans. He noted the budget proposal was from the governor and was being considered by the legislature. Although studies from sources such as ISER exist, when special interest groups, such as the Alliance, testify, they frequently bring their own [studies]. He asked if the industry could provide any studies supporting the stance that raising the tax rate from 7 percent to 9 percent does not make sense. He said the legislature does not need to contract an independent study, but rather that industry should provide its own justification as to why the tax is regressive if they think it is.

MS. LOGAN allowed she may have misunderstood the question and clarified she does not represent the mining industry but rather represents support industries to the mining industry. She suggested that the number of jobs being lost in a low-commodity environment is good evidence that comes from industry. She also stated that the policy and philosophy that the group she represents adheres to is that increased taxes deter investment. She said the members of the support industry are not economists and would not have access to the type of mining industry information for which Representative Herron was asking.

REPRESENTATIVE HERRON acknowledged Ms. Logan's response and clarified the industry he had referenced was the support industry. He explained that the legislature needs more information, specifically how individual support industries would be directly affected by the tax increase proposed under HB 253. He said the legislature does not have time to conduct analyses of the potential effects of the tax increase specific to the support industries.

MS. LOGAN replied it is likely the Alliance could identify the potential impact of a tax increase on many member companies.

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BEN MOHR stated he is testifying on his own behalf. The mining industry, like many commodities, is in a prolonged slump, he

said. He said Mr. Brune's company was the financial and capital partner in a project in which he was involved. When commodity prices and other factors came in to play, the company didn't just scale back in Alaska, it left. When the company left, Mr. Brune was one of hundreds of Alaskans who suffered as a result. He recounted that earlier in the day he was at his office, and told a coworker that he intended to take some time off to testify on a mining bill. The coworker inquired as to Mr. Mohr's premise, to which he replied, "How do you get more blood from a turnip?" He stated that the answer in this case is, "You have to have more turnips." He said the state can't get much more blood from the industry; the margins that the mining industry operates on are pretty slim in the first place. Thin margins combined with upfront capital expenses and the numerous regulatory and public affairs hurdles that exist in Alaska create a challenging business environment. He stated that people do want to mine in Alaska and the state has incredible resources, but the public policy perception by investors does not come close to matching the resources present. Increasing the state's mining taxes doesn't attract investors, it raises the hurdles. Decreasing the period of time that mines can enjoy tax relief before starting to pay does not encourage investment in the state. Alaska will not receive new investment by making the changes that would be implied by HB 253, he posited.

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REPRESENTATIVE TARR asked for clarification regarding what Mr. Mohr meant by his comment that the public policy perception does not match the opportunity, in light of the fact that Alaska has not changed its mining tax policy for 61 years. She asked where the public policy perception has gone wrong.

MR. MOHR referenced the 2014 Fraser Institute Report, which conducted an inventory of mining industry perceptions toward 122 jurisdictions worldwide. He said the report ranked Alaska tenth worldwide in terms of investment attractiveness but twenty-seventh in terms of public policy perception, which includes tax and regulatory hurdles.

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REPRESENTATIVE JOSEPHSON asked for clarification regarding the factors contributing to the rank of twenty-seventh in the public policy perception category.

MR. MOHR confirmed that tax and regulatory hurdles are two components within the public policy perception section of the report. He offered to follow up on the question.

REPRESENTATIVE JOSEPHSON commented that Alaska has not changed the mining tax since right after the Korean War; therefore, it must be regulatory policy that has caused the drop in rank from tenth to twenty-seventh.

MR. MOHR clarified that the 2014 Fraser Institute Report that ranked Alaska twenty-seventh under "Public Policy Perception by Investors" was based on 2013 data. He said he assumed the perception was driven by the legislature's treatment of oil and gas policy at the time and the thought that the mining industry might be next.

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REPRESENTATIVE SEATON requested that Mr. Mohr forward the applicable pages of the Fraser Institute Report to the chair for distribution to the committee.

MR. MOHR agreed to forward the documents.

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RANDY POWELSON, Placer Miner, stated he is a mining engineer, has been in the mining industry for over 20 years, and has worked for several different size companies, ranging from small to large. He currently runs a small, family owned placer mine and has work experience in a variety of mining operations. He said Alaska has a resource based economy; the state cannot survive on tourism or manufacturing. Given Alaska's geographic location it is only economical for the state to develop its resources, and if Alaska is going to survive it must do that. He explained that placer miners, like him, are "price takers, not price makers." Placer miners are subject to the variability of their market.

MR. POWELSON noted he has listened to several comments about mines becoming profitable, but pointed out that Kensington is the only major new mine in the state in the past ten years. He posited that if mines were profitable, there would be more large and small mines in the state; therefore, mines are marginal. He said he opposes the removal of the 3.5-year exemption. As a small placer miner, banks will not lend to him for equipment purchases, so he must finance out of personal savings. He

purchased and financed almost \$150,000 in equipment over a period of years, and if he had to pay taxes during the start-up years it would have made his operation uneconomical.

MR. POWELSON stated his opposition to increasing the licensing tax from 7 percent to 9 percent. The problem with referencing the 1955 tax as outdated, he posited, is that it may have been a high tax when it was implemented. He added that it may not be a tax issue so much as a regulatory issue. In 1955 the Surface Mining Control and Reclamation Act of 1977 (SMCRA) and the Clean Water Act (CWA) did not exist, the U.S. Army Corps of Engineers (USACE) was not charging thousands of dollars for wetlands disturbances, and conservation banks did not exist, all of which are problems that modern miners have to address. Anytime a small business owner hires a new employee, the rule of thumb is that 50 percent is added to the employee's wages for payroll taxes and overhead. Even if the tax hasn't changed since 1955, everything else in the world has, which makes it uneconomical.

MR. POWELSON said he spent over \$50,000 in Fairbanks last year on supplies and materials and makes a point of buying from locally-owned and run businesses, not conglomerates, in an effort to keep money in the community. He gave the example of a sporting event coming to a town and every dollar spent in association with the event turning over three or four times in the community. He said if this adage holds true then his single-family mining operation produced \$150,000-\$200,000 worth of benefit to the Fairbanks community. He said there are ways for the state to generate revenue. For example, sometime between 2010 and 2012, the Department of Transportation & Public Facilities (DOT&PF) put out a gravel crushing contract between Chitina and McCarthy near highway mile 52. The University of Alaska Fairbanks (UAF) is a land grant university, it is supposed to use that money and land to pay for UAF's operation. The university chose not to lease the gravel pit to DOT&PF. After six months of negotiation and an offer to pay six times the going rate for the gravel, UAF turned down \$200,000 worth of royalties. Conversely, the Alaska Mental Health Trust Authority (AMHTA) actively uses its land to create revenue.

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MR. POWELSON said mining is a significant contributor to AMHTA. He said taxes are a punitive, regressive form of increasing revenue; every time money is taken from one [industry] it makes that occupation less attractive. He compared taxes to a big rubber band and recounted that a few years ago the state thought

it would be wise to tax the "rich" cruise ship industry, and cruise ship activity in Alaska and the associated revenue plummeted as a result. That regressive tax was repealed. He predicted the same pattern would occur in the mining industry. He suggested the state find a way to tax everyone, not just the miners, perhaps in the form of a small tax on cell phones, which could be considered either necessities or luxuries. If there are 400,000 cell phones in the state, a tax rate of \$1.25 per month would raise \$6 million. Such a tax, spread across the entire state and all its citizens, would be a fairly small amount compared to the \$45.00 to \$90.00 per month that people pay for cell phones. He provided the example of the Yukon Territory's aggressive promotion of the mining industry, because the Yukon Territory realizes that mining brings in money rather than costs money.

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REPRESENTATIVE JOSEPHSON said the most compelling portion of Mr. Powelson's testimony was his explanation of the vast increase in regulatory authority over the mining industry since 1955. He commented that the University of Alaska (UA) generated five times more money than AMHTA and UA owns a land area equivalent to the island of Molokai, Hawaii.

MR. POWELSON allowed that Representative Josephson's statement could be true. He said when he hears about UA claiming to have financial problems on the news it bothers him, because he knows that UA has turned down a significant amount of cash flow.

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REPRESENTATIVE TARR stated her appreciation for Mr. Powelson's views on what has changed in Alaskan mining since 1955, but said it is important to distinguish between federal and state regulatory requirements, as well as the differences between federal and state land. She said it would be interesting to hear from Mr. Powelson on whether there are regulatory challenges specific to state land.

MR. POWELSON replied that many of the federal regulations apply on state land. In terms of permitting, he said a person in 1955 could simply start mining; whereas, now it takes anywhere from 5 to 15 permits and the associated record keeping. For example, for water quality monitoring the state requires a turbidity test unit that costs about \$750. However, the state does not accept as a replacement a turbidity tube, which is a \$35.00 piece of

plastic with a slide rule on it. While the tax may be from 1955, all the other cumulative effects of regulation are massive. He maintained that saying something is bad because it is old is not valid, especially when considering all the costs associated with mining operations. As a private business man and a small, family mine operator, he is fighting for every dollar of bottom line, he continued. It costs a tremendous amount of money to run a mining business correctly.

REPRESENTATIVE TARR responded that the purpose of her previous comment was to highlight that state regulations are something the legislature can actually change. She clarified she was not referring to the overlapping jurisdiction issue, but is interested in Mr. Powelson's thoughts about what could be changed in state regulation. She related that if Mr. Powelson had other examples similar to the turbidity test kit, she would be interested in hearing them.

MR. POWELSON offered to follow up outside the meeting.

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DOUG TWEET, Placer Miner, NB Tweet & Sons, stated he is a third generation placer miner and opposes HB 253. He stated that from the perspective of a small placer miner, he understands the need for the state to increase revenue, but he posited that this legislation would lead to an overall decrease in revenue. Specifically, it would harm the economic climate for new placer miners, especially in rural areas where there is very little economic activity. He stated that for a new placer miner, the process of acquiring financing is very difficult. Having a new mine exemption for 3.5 years is very important, because miners get a return on their investment right when they need it.

MR TWEET stated that increasing the tax from 7 percent to 9 percent would have a negative impact as well; even though \$100,000 sounds like a high threshold for that increase, it isn't when there are several partners in a family-oriented partnership. For example, the large company in Nome, Nome Gold - formerly Alaska Gold - is struggling. It was not making money last year and he has heard it would be back next year but would be significantly downsized. He explained that costs are incredibly high in Nome. The Nome Port Commission recently decided to raise tariffs on the port by 10 percent. Although still subject to city council approval, the City of Nome needed the revenue increase because activity has slowed. Reiterating the high costs in Nome, he noted that fuel at the pump is around

\$5.00 per gallon. He asked the committee to please consider not lifting the 3.5-year exemption or raising the tax. He offered that it is more important to the state in general, as it will affect larger mines trying to become operational.

MR. TWEET said there is a large graphite deposit on the Seward Peninsula, and with low commodity prices, junior companies are having a hard time with financing. One company has spent approximately \$12 million on exploration on the Seward Peninsula and has found the largest deposit of high grade graphite in the U.S. and potentially the world. The deposit is large enough that it could drive the market for 100 years. For the deposit to be developed the company needs financing. The potential loss of the 3.5-year exemption and tax increase from 7 percent to 9 percent would negatively impact the company's feasibility studies and make financing the project even less likely. The vast majority of claims for graphite deposit are state claims, he pointed out, which would result in a large production royalty if the project ever came to fruition. It would be wonderful for the area to have a large mine. He concluded by stating he understands and appreciates the legislative challenges of trying to find revenue and balancing the state budget.

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REPRESENTATIVE SEATON pointed out that this tax would apply only to net income. He inquired whether it would make a difference to Mr. Tweet, as a small placer miner, for the tax to stay at 5 percent from \$50,000 to \$200,000. He explained that in this scenario the tax rate would still increase from 7 percent to 9 percent above \$200,000. This would give the small miner, with a net income of less than \$200,000, a significant tax advantage.

MR. TWEET replied that would be helpful in terms of his family's business. His business is organized as a limited liability company (LLC) and all family members own a share. He said he is a third-generation miner and his sons are fourth-generation miners. This is their only source of income and \$200,000 is not that much when divided three ways, he explained, but extending the upper limit of the tax increase would be helpful in his circumstance and for other small miners.

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GEORGE PIERCE stated that Alaska's mineral industry was worth almost \$3 billion dollars in 2009 but paid less than 2 percent, counting all forms of taxes, fees, and royalties to the state

and local governments. Taxes on other industries are much higher. The oil and gas industry paid about 20 percent of its market value, which is still the lowest in the world. The fishing industry paid about 5 percent. Coal mining was also about 5 percent. While low taxes for mining are attractive to corporations, some organizations and legislators argue that they don't represent a fair, long-term value for Alaskan resources, particularly because the vast majority of mining corporations are not Alaskan. He inquired why, given that all Alaskans are going to have to pay in the current budget circumstance, resources should not also be taxed. Everyone should pay, he opined. The state has had the same mining tax since 1955, but has visited the oil and gas taxes six times in ten years. The tax circumstance needs to be overhauled. Mines leave a mess, destroy habitat, and the damage is continuing. The resource is non-renewable. He implored the committee to raise taxes on Alaska's resources to get the best deal for Alaskans, and cited the example of numerous abandoned mines in the state. He posited that taxes should apply to gross income, not net income. He suggested the taxes be raised to 20 percent as with gas and oil, or even higher. He said government exists to provide services, and corporations exist to make money. Alaska has the best resources in the world and the legislature gives breaks and gives the state's resources away for dirt cheap. Alaska should get the top dollar because its resources are the best, he said. He concluded, "Do your job, let's fix the budget and raise the taxes on mining."

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CO-CHAIR TALERICO asked if anyone else would like to testify. [No one came forward.]

[HB 253 was held over.]

[2:56:16 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:56 p.m.