ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE
February 24, 2016
3:31 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bert Stedman
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: UPDATE ON THE MINING INDUSTRY IN ALASKA

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KAREN MATTHIAS, Manager
Council of Alaska Producers (CAP)
Anchorage, Alaska
POSITION STATEMENT: Presented mining industry update.

DEANTHA CROCKETT, Executive Director
Alaska Miners Association (AMA)
Anchorage, Alaska
POSITION STATEMENT: Presented mining industry update.

ACTION NARRATIVE

3:31:47 PM
CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:31 p.m. Present at the call to

order were Senators Stedman, Wielechowski, Costello, Stoltze, Micciche and Chair Giessel.

Overview: Update on the Mining Industry in Alaska

3:32:07 PM
CHAIR GIESSEL announced the annual Alaska mining industry update by both the Alaska Mining Association (AMA) and the Counsel of Alaska Producers (CAP). She said it's fitting that this committee listens to the update in the context of budget talks and this legislation in the committee: SB 137, "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." was in the committee.

KAREN MATTHIAS, Manager, Council of Alaska Producers (CAP), Anchorage, Alaska, said CAP is a statewide trade association formed in 1992 and serves as a spokesperson for the large metal producing mines and some of the advanced major development projects in Alaska.

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DEANTHA CROCKETT, Executive Director, Alaska Miners Association (AMA), Anchorage, Alaska, said AMA's members include the members Ms. Matthias mentioned plus coal operators, placer miners, sand and gravel miners, and the vending and contracting sector that does business with the mining industry.

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SENATOR COGHILL joined the committee.

MS. CROCKETT highlighted the importance of safety in the mining industry. One of the recent safety milestones Fort Knox Mine achieved is a strict prohibition on cell phones in the shop and in moving vehicles even though they are one of the few mines that has cell phone coverage. If a worker is found using it in one of those places, they could be dismissed.

MS. CROCKETT said they are pleased that in recent speeches Governor Walker highlighted the fact that if Alaska was a country, it would be the eighth most mineral-rich nation in the world. The fact is that Alaska has world class deposits, but with just six mines it is not producing to its potential.

Alaska's two oldest metal mines started in 1989, after the national environmental laws, like the National Environmental Act and the Clean Water Act, were implemented. Alaska's only coal mine has operated for 70 years and is still going strong today through three generations of the Usibelli family. She wanted to focus on mining's potential moving forward.

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She said Alaska's six large mines provide significant economic benefits to the state. In 2014, the industry employed 8,700 people in direct and indirect jobs that pay an average annual salary of $108,000. The jobs are year-round and many are in remote and rural areas of the state. In 2014, mining contributed $83.7 million to state government and $18.5 million to local governments. One mostly sees major economic drivers from the mining industry at the local level. Mines are the largest taxpayers in the Fairbanks North Star Borough, the City and Borough of Juneau, and the Northwest Arctic Borough, and the major economic driver in the Denali Borough and Nome.

MS. CROCKETT said in 2014, mining contributed $144 million to Alaska Native Corporations through the ANCSA 7(i) and 7(j) revenue sharing provisions. To date, NANA has received over $1 billion in net proceeds from the Red Dog Mine and it shared $705 million of that with the other Alaska Native Claims Settlement Act (ANCSA) corporations. So, it's fair to say that the benefits of Red Dog have touched every corner of Alaska.

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She said their most recent study showed that mines spent $500 million annually with over 600 Alaskan businesses. All of this spending comes while mines maintain the highest environmental and safety standards. She pointed out that their Annual Economic Benefit Brochure's insert includes economic benefits from placer mining activity in Alaska and that the economic benefits it provides is really important "It's Alaska's seventh large mine," she said, since the economic survey showed that its aggregate numbers in terms of jobs and economic benefits equal the size of another large mine in Alaska.

SENATOR STOLTZE noted that Fort Knox and other mines across the state have potential development that will also benefit the Mental Health Trust beneficiaries. The trust has a responsibility to develop those resources that have a much higher value than that of a view shed, he opined.

SENATOR COGHILL said Alaska is the most unique and populous place for placer mining in America and all the regulations probably impact Alaska more than any other place in the United States because of that.

MS. CROCKETT agreed and added that Alaska is leaps and bounds more active in placer mining than any other state.

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She thanked Senator Stoltze for bringing up the Mental Health Trust facet. There are some great existing operations on Mental Health Trust lands and some current projects have the potential to further benefit the trust.

MS. CROCKETT said it takes a significant amount of capital and patience to bring a mine into production. Since 1981, several billions of dollars have been spent on exploration on dozens of projects around the state, yet Alaska has only five large metal mines. Fort Knox has the shortest timeline at 12 years.

Why does it cost so much and take so long? These companies aren't just building a mine, she said, they are actually building and permitting major infrastructure projects. The mine sites are small communities. Little existing mine infrastructure is one of the big differences between Alaska and other countries and states that it competes with. In addition, Ms. Crockett said, companies pay exploration, development, and construction costs, but none of these costs are deductible from their income. These modern mining projects require access to and infrastructure in remote areas. Red Dog and Kensington Mines supply their own power at their projects. Pogo built a 50-mile road and a transmission line. Greens Creek and Kensington had to build ports, and Donlin is looking at constructing a 315-mile natural gas pipeline.

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For cost comparison, Ms. Crockett said, Detour Lake in remote northern Ontario started construction in 2013 and cost $1.2 billion Canadian to build. And for perspective, it's an operation just a little bit larger than what Donlin Gold is proposing at a cost of $6-7 billion.

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She explained that mines sometimes have reimbursable service agreements with the state for the cost of permitting, monitoring, and oversight. These costs are actually billed to the industry by the state and therefore are not borne by the

public sector. Some current examples are: Fort Knox expects to pay $833,000 in reimbursable service agreements this year. Donlin expects to pay $720,000 in reimbursable service agreements this year and has spent $6.1 million since 2009.

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MS. CROCKETT related that in some cases the state, through the Alaska Industrial Development and Export Authority (AIDEA), has the opportunity to partner with industry. AIDEA's mandate is to make good investments and to stimulate economic growth, and its investment in the Red Dog Mine's port and road has been one of its most successful. By 2014, ADIEA had received $355 million in payments from its initial $265 million investment, and as of January 31, 2016, AIDEA had received $443.5 million from that investment; it will continue to receive payments at a 6.5 percent rate of return until 2034. That investment helped make the Red Dog possible. It brought a $1 billion in net proceeds to NANA and the other ANCSA corporations; it has provided jobs and contracting opportunities since 1989.

SENATOR STOLTZE said sometimes one hears AIDEA bragging about its successes, but his personal opinion is that Red Dog built AIDEA. He credited former Governor Bill Sheffield with taking a political risk in supporting that development in rural Alaska.

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MS. CROCKETT said production value numbers in her graph come from the Alaska Mineral Report produced by the Department of Natural Resources (DNR) and the Department of Commerce, Community and Economic Development (DCCED) each year. Production value from 2000 to 2015 had its ups and downs, and the report's number were an average of metal prices throughout the year and not the actual price that mines get from developing the minerals there. Jobs correlate with production value. There were sharp increases in both at the time that Pogo started production and when Kensington started production. Without those two, the graph would look quite a bit different, but if there were more, it would also look a lot different.

MS. CROCKETT explained that the mining industry in Alaska wants to employ Alaskans. It's more cost effective and local hires have a greater incentive to stay in Alaska. She said 100 percent of Fort Knox employees live in the Fairbanks North Star Borough; 70 percent of Greens Creek employees live in Alaska, and so on. The Department of Labor and Workforce Development (DOLWD) just released its 2014 report, which showed an average of 67 percent resident hire in mining, but the major mines are actually above that number and the jobs are year-round. In 2014, the number of non-residents working in metal mining fell 18 percent and the resident number decreased by 5 percent. The take-away is that thousands of Alaska miners and their families depend on a healthy mining industry highlighting the potential for new mines providing more new jobs in Alaska.

CHAIR GIESSEL asked how the DOLWD arrives at 67 percent resident hire when it's hard to reach 67 in averaging the numbers Ms. Crockett used.

MS. CROCKETT explained that the department has a different calculation method.

MS. MATTHIAS explained that the department looks at the entire industry including exploration jobs, which are not year-round. Many of them are seasonal, because of Alaska's climate, and often there is a lower number of Alaska residents in those shorter term jobs. Some of the exploration work requires very technical skills that isn't always available in the local workforce - although all of the companies try really hard to find local people who can do certain jobs onsite. So, that exploration number pulls the average down a little bit.

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MS. CROCKETT showed the development timelines for Alaska's five metal mines [still seeking success] and a snapshot of permitting cycles. Niblack and Bornite Mines have been around for much longer than the other mines, but all the mines represent thousands of potential jobs, and any one of them coming into production would be a large increase of revenue for Alaska. All the mines have lone timelines and require a lot of money and patience. They are all looking for capital and must convince investors that Alaska is a good place to invest, and that is hard to do right now. There are fewer investment dollars for global exploration right now and much tougher competition.

She shared a graph of an electronically traded fund that tracks the S&P Metals and Mining Index, and it indicates that investor interest in mining generally reflects commodity price swings. It shows robust growth in the mid-2000s and a decline as a result of the 2008 financial crisis. Through 2011 there was a pretty good recovery because of China, and then there were four years of declining prices and investor interest until today. She also showed a graph of spending declines in exploration on a global level and in Alaska that indicated a 50 percent decline globally from 2012 to 2014, but Alaska had a 71 percent decline in the same timeframe. That lack of investor interest has made it harder to raise exploration financing worldwide, and Alaska has been hit worse than average.

MS. CROCKETT said exploration spending also declined for smaller projects referred to as the "Farm Team" of mining exploration. These projects want to move into pre-permitting or the advanced exploration phase. In 2012, 24 exploration projects across the state spent $100,000 to $5 million apiece. They were not spending enough or in a stage in which they would not be in their brochure's centerfold (like Donlin or Pebble), but still important exploration investment that AMA would like to see come on line someday. In 2013, just 17 exploration projects spent $100,000 to $10 million each. She explained that the placer mining industry insert used to be in this smaller exploration project insert to let people know what kinds of exploration is going on in Alaska that wasn't in the advanced exploration phase, but in 2014 it wasn't a pretty picture and it got replaced.

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Another way to look at the impact of exploration spending is to count the "dots" throughout Alaska. In 2012, there are more dots; 120 communities had mining industry employees living in them. Two years later there were 50 communities. Mining still has an impressive regional impact, but more is needed.

MS. CROCKETT said their question is: "What are we doing as a state to increase that economic impact and to spread those jobs throughout other areas of Alaska?" She said Ms. Matthias would answer that.

CHAIR GIESSEL noted that 70 communities no longer have their residents employed, and asked Ms. Crockett if she knew if those residents transitioned to another job or became unemployed.

MS. CROCKETT answered that they didn't track where all of the former employees went, but they have a couple of anecdotal examples of folks who lost their jobs and currently don't have one. She couldn't speak for all of them.

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MS. MATTHIAS said the next phase of their presentation is on tax policy and economics, the fundamental question being: "What should Alaska's mineral tax policy be?" Presumably, they want to find a reasonable share for the state at the same time encouraging a competitive rate for industry that attracts

investment. Why? Because of all the reasons Ms. Crockett just went through. A robust responsible mining industry provides good jobs for Alaskans and many local communities, state and government revenue, procurement and contracting opportunities for Alaskan companies, and in many cases, revenue sharing for Alaska Native Corporations.

SENATOR MICCICHE said he saw pieces of her picture, but when she mentioned the 6 percent return on investment (ROI) of $355 million to AIDEA until 2034 and 610 year-round jobs at Red Dog, he would love to show Alaskans "a cradle-to-grave value" of something that is as successful as Red Dog so its full value could be seen. Other industries spend a little bit more time illustrating the positive trickle-down effects of industry, and "We should be pushing hard for that level of investment in our state."

MS. MATTHIAS answered that yes, Red Dog would be able to provide updated information. She also noted that the Institute for Social and Economic Research (ISER) published an article in an economics journal last August that analyzed the economic and social impact of the Red Dog Mine in the Northwest Arctic Borough, and she would forward a copy to share with committee members.

SENATOR MICCICHE said so many Alaskans are unaware of the value of mines when one thinks of things like wages to philanthropy and how it affects the lives of Alaskans. Alaska is so starved for diversification. "Just about everything we sell in the state right now is at the bottom of its value scale."

SENATOR STOLTZE said mining could become the Borough Inducement Act with the possibility of successful productive mines. There are positives but also perils of having a local government essentially dependent on the mine as the sole or single largest taxpayer. He asked how the state can plan ahead to have diversified revenue sources.

MS. MATTHIAS responded that CAP doesn't have a position on borough formation, but the most valuable thing is to have a new mine, and they want to see those that are in development come into production and be able to work through those issues with the local communities. Ultimately, she thought a way could be found to work with any local community in return for the benefit of having an economic engine.

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SENATOR STEDMAN said an area with no cash economy has no basis on which to fund itself, and with a mine a region can evolve into a cash economy. Senator Stedman noted that the success of Red Dog could be replicated on Prince of Wales Island with the two proposed mines. Instead of focusing on incorporating a borough politically, focus instead on growing the regional economy. The incorporation question will resolve itself once there is an economy to sustain government.

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MS. MATTHIAS said Ms. Crockett pointed out that a State of Alaska (SOA) report said mining contributed $83,700,000 to the economy in 2014. The report indicates that $38,700,000 came from the Alaska mining license tax that all mines pay no matter what their land status is. State corporate income tax brought in $17,300,000, and it is paid by all mines in Alaska. The next category of state fuel tax was blank for 2014, but for 2013 it brought in just under $1 million, and that number is fairly constant for previous years. AIDEA facility user fees brought in $12 million, state mineral rents and royalties brought in $13,500,000, and she reminded members that there is only one large producing metal mine on state land (along with some smaller operations). The next category was coal rents and royalties and that brought in $1.5 million from the only operating coal mine; state material sales and state mining miscellaneous fees brought in $83,700,000. The reimbursable service agreements are not included in any of the categories and therefore they think they are not included in the total. But Ms. Crockett mentioned just two mines payed a total of $1.5 million this year in reimbursable service agreement fees. Other large mines also have reimbursable service agreements, so that number is pretty large.

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SENATOR WIELECHOWSKI asked if she or the industry would support any increase in fees or taxes to the mining industry.

MS. MATTHIAS answered that the Counsel of Alaska Producers and the Alaska Mining Association have fiscal policy positions and very much believe that the first part of the solution is budget cuts and finding efficiencies in operations, which is what the companies have done in the last four years of declining metal prices. They have cut positions, froze wages, decreased benefits and increased employee contributions to health care.

She said using the Permanent Fund (PF) earnings is the only viable solution for a major part of the budget gap. If there is any remaining gap after doing those two things, any solution should be broad-based across all Alaskan businesses and resource industries including the mining industry. But the other solutions have to be a priority.

SENATOR MICCICHE said it's a natural inclination to look at industries when one gets into a bind. He still supports the notion that the greatest savings to the state general fund are working Alaskans that are less dependent on state services, and the areas with the greatest expenses are associated with non-working Alaskans. Legislators are struggling with the general fund, but hundreds of thousands of working Alaskans are doing okay. He remarked that there seems to be a focus on Alaska from Washington, D.C. and asked if other states had experienced an Environmental Protection Act (EPA) intervention on state lands as Alaska has.

MS. MATTHIAS answered that the waters of the U.S. issue affects almost every state and has potential impact beyond federal lands because of the uncertain definition of "navigable waters."

MS. CROCKETT added that Alaska doesn't have the magnitude of state land ownership that the Lower 48 states have. Several states are having federal intervention because of the belief that the sage grouse habitat is in decline, and that has resulted in federal land plans that say what the mining industry and ranchers can't do on several different land types.

However, she assumed Senator Micciche was referring to the EPA assessment of the Bristol Bay Watershed. The EPA did exercise the same Clean Water Act, sec. 404, veto it exercised in Bristol Bay at a coal mine in West Virginia. It was a preemptive veto before the permitting process, and the coal mine was in operation when the EPA exercised its veto authority.

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SENATOR MICCICHE said he wanted that information from western states, in particular, because Alaska shares a lot of common problems with them.

SENATOR COGHILL added that the Citizens Advisory Commission on Federal Areas has probably documented those, and he would make sure this committee gets its latest land report.

CHAIR GIESSEL added that the American Lands Council has a lot of information available about land restrictions nationally from the federal government, as well as a small group called the Energy Producing States Coalition that she belongs to.

She agreed with Senator Micciche's remark about working Alaskans being a benefit to the state, but there are also folks in low-paying jobs who need assistance. Mining has some great pay scales, and she asked them to elaborate on that.

MS. CROCKETT answered that mining has some great pay scales; their average wage in large scale mines is $108,000 and these are often in rural areas where there isn't a lot of economic diversification. Some wages are higher and some are lower, but a wide gamut of different occupations is available including nurses, medics, and accountants. Mines really are a small community and a lot of workforce development opportunities are available in the industry to train its employees. Not everybody wants to go to college, she said, and the opportunity to be employed in the mining industry is something they are really proud of.

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MS. MATTHIAS said a previous slide broke down where the money comes from in the mining industry, and now she would talk about where it goes to in the state. A 2016 ISER Fiscal Effects Report, using a five-year average, indicates that a vast majority of mining revenue goes into the GF and is available to pay for schools, roads, public safety, etc. The amount spent for regulating the industry is very small - less than $20 million. Mining is highly regulated, but much of that cost is borne by the companies through the reimbursable service agreements.

SENATOR MICCICHE said he realizes there is limited funding for studies, but if the industry is contributing $90 million, they are bringing in far more than $30 million additional local revenue. He thought the numbers were low and that the value of mining is much higher than what the study is showing.

MS. MATTHIAS noted that the ISER study was based mostly on the local property tax paid by the mines and did not look at jobs and the indirect economic impact of mining and procurement in the local communities, which is the subject of the McDowell Economic Impact Report that the Alaska Miners Association produces. And yes, they are able to show economic impacts that goes well beyond the property tax.

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MS. MATTHIAS said there had been a number of questions about the tax, and they think it's important to not look at any one payment in isolation, whether it's royalty, or Alaska mining license tax or corporate income tax, because from the companies' point of view, it's all part of the cost of doing business in Alaska.

She pointed out that Alaska is the only state with multi-use state land. The state received millions of acres from the federal government for which the mineral potential was completely unknown, and having a lower royalty encourages explorers to risk capital in an attempt to find the mineral resources that could be developed, and thus impact the state's economy. It's also important to remember that there is no royalty to the state if the state doesn't own the land the mine is located on. Right now, only one large metal mine is located on state land.

CHAIR GIESSEL asked if the feds share 50 percent of the royalty on federal lands with the state. She remembered some years ago when the federal government sequestered the royalty payments to the states.

MS. MATTHIAS wondered if that was royalty from oil and gas rather than from mining.

MS. CROCKETT said it applied to coal, not to hard rock.

MS. MATTHIAS said they very much value the Usibelli Coal Mine. It is not a member of CAP, and she is much less informed on coal than on metal mining.

She said it's also helpful to have a quick explanation about how net income is calculated. The royalty tax, the Alaska mineral license tax, and the corporate income tax are all based on net income, and there is a tendency to think that the gross production value is what the mining company actually receives from the mineral that they extract. But the gross revenue is actually the net smelter revenue, which is not the same as the average of the world price over the year or on any particular day. The smelter gets the world price when they have refined the product to that level of purity. What leaves Alaska is often in concentrate form; therefore, a much smaller percentage of the mineral is in the actual concentrate. Think about the different price that a fisherman gets for selling his catch to the processor and what the processor gets when he sells the processed fish to the wholesaler or the next level of consumer.

So, the net smelter revenue is the price that the smelter and the mine owner negotiate minus the transportation costs of getting it from the State of Alaska to wherever the smelter (for base metals) or refinery (for gold and precious metals) is. They have to make a profit, so they are obviously paying less for the product than what they are selling it for.

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She explained that to determine net income, operation costs (wages, consumables, on-site transportation, depreciation, interest expenses, etc.) are subtracted, but exploration costs are not. This is not a small amount of money; for example, last year, Pogo spent $15 million on exploration to further define their ore body, a common activity for operating mines.

SENATOR MICCICHE asked how an Alaska producer can compete, and is volume the only tool or can other things be acted upon.

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MS. MATTHIAS answered that is a good point, because investment costs are so high and development timelines are so long, and certain things can't be changed like the global commodity price. Alaska's advantage is its rich deposits. Even with those higher infrastructure costs, if the grade is good, a mine is able to make a profit. However, the commodity price is very volatile. Mining is a long term investment and, in general, mines make money during the peaks of the commodity price, and not in the lows like now. Nixon Fork had to suspend operations, because the economics didn't work well enough to stay in business while waiting for the commodity price to improve.

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CHAIR GIESSEL said she asked the Department of Natural Resources (DNR) and the Department of Revenue (DOR) how many Nixon Fork jobs were lost when it went into warm shutdown.

MS. CROCKETT replied that she found out that 90 jobs were lost when they suspended operations. Around seven of those were in rural communities that were next to the mine.

SENATOR STOLTZE commented that all the revenue issues seem to be driven by DOR without a lot of input from the DNR, the folks that have a greater understanding of the needs for production. A lot of policies are being proposed only with consideration for the numbers going in or out of the state treasury; there does not appear to be a heavy consideration for the complexities of those policy proposals.

MS. MATTHIAS agreed saying CAP encourages the DNR to work with the DOR. She showed a map delineating the major metal mining states among all 50 states and said it's valuable to compare Alaska's tax regime with those, the two most obvious ones being are Arizona and Nevada.

Nevada has a 5 percent net proceeds tax and is very prescriptive about exactly what can be considered an operational cost in order to determine net income. It doesn't have any corporate income tax while Alaska's is 9.4 percent. However, Nevada has a 2 percent gross payroll tax. She found that property and sales taxes on goods and materials purchased for the mines are a much larger source of revenue from the mining industry in Nevada.

Arizona has a net profits tax that is arrived at by subtracting production costs from the gross revenues and multiplying that by 2.5 percent. It has a 6 percent corporate income tax, as well as property and sales taxes.

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MS. MATTHIAS commented that some of the materials the committee has received compare Alaska's mineral taxes with states that do not have major metal mines (Wyoming, Colorado, South Dakota, and Wisconsin), but they think it's more appropriate if they want to grow the industry and attract investment to look at how Alaska's tax regime stacks up against the other major metal mining states in the country. It is also valuable to look at how Alaska stacks up against the rest of the world.

She said the next slide just looks at corporate income tax, because it's really important to remember that even though the state doesn't receive federal corporate income tax, the companies pay it. So, that 35 percent rate, which is one of the highest in the developed countries, is a significant amount for the companies to pay. When one adds Alaska's state corporate income tax rate of 9.4 percent that adds up to 44.5 percent. None of the other countries compare.

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Canada has an extremely competitive federal corporate income tax rate of 15 percent, and then they have variable provincial and territorial rates. But the average is still well under what just the federal corporate tax rate is in the U.S.

Alaska competes with other states that also pay the federal tax, and the next slide showed a comparison of Alaska with those.

Arizona and Nevada come in at less than Alaska in terms of their corporate tax rates. She added the two Canadian neighbors, Yukon and British Columbia (B.C.) that have higher provincial and territorial corporate taxes, but adding that to the federal tax rate for Canada still results in a percentage that is far below the U.S. federal rate.

MS. MATTHIAS said she didn't have royalty and mining license tax information for all, but she pointed out that if one takes the federal and Alaska corporate tax rate, which is 44.5 percent and adds the 7 percent Alaska mining license tax, that comes to a total of 51 percent. If the mine is on state land, add another 3 percent on top of that. This doesn't include any local property or sales taxes.

SENATOR MICCICHE said he would like to see the royalty and mining license tax rates for the other states.

MS. MATTHIAS answered that would be something to ask of the DOR: the numbers for how the department breaks down the different components of government take under the proposed increase in the mining tax, and how those metrics affect Alaska's competitiveness in investment climate.

CHAIR GIESSEL said Alaska's governor belongs to the Western Governors' Association and asking the DOR for that information might be a good idea. She would send that inquiry forward.

SENATOR COSTELLO said the committee is hearing important information today, and it highlights the significance of asking for quality information as these taxes are proposed. She had spoken to others about getting an economist and the economic modeling they need to make informed decisions on the proposals before them.

CHAIR GIESSEL remembered that in a previous Labor and Commerce Committee meeting she also had suggested the DOR use the economists they have on staff; DOR has an entire team called the Economic Research Group.

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MS. MATTHIAS wrapped up with a few slides about the 2014 Fraser Institute Survey of mining executives around the world. Their results track with investment decisions and is a pretty good barometer of what companies are seeing in terms of changes in different jurisdictions. In terms of "pure mineral potential,"

Alaska is excellent and is consistently in the top 5. Last year it was number 1 and this year it is number 3.

In 2014, Alaska ranked 23rd in policy perception which took into account environmental regulations, taxation, the legal regime, the political stability, and trade barriers. This indicates that you can have the best mineral deposits in the world, but if you have terrible policies, nobody is going to invest, and vice versa. The institute did a 60:40 ratio of pure mineral potential to potential policy perception under the very best policies in order to come up with the top 10 jurisdictions for investment attractiveness. Alaska was 10th on the list in 2014 and it was 5th in 2013. She pointed out that those other 9 jurisdictions are all in developed countries that have strong environmental laws, and said there is no reason why Alaska can't compete with them. Her question is: "What are we doing to make sure that we attract investment for exploration and mine development to Alaska, so that we can have the jobs and the opportunity here in our state?"

Another interesting thing about the study is that it also asked executives what they thought about the current mineral potential and if it encourages or discourages mining. Alaska came in 28th, which was a major slide from the previous year when it was 11th and in 2012 when it was 6th.

CHAIR GIESSEL asked what factors moved Alaska down.

MS. MATTHIAS replied there is no question that many of those factors are regulatory, mostly on the federal side, but some state regulatory issues, as well, and those are things that can be changed. The other factor is the quality of the deposits and fortunately Alaska has good ones. The things that can actually be changed are policies, and can make sure that Alaska has the best possible policies to encourage investment despite its high costs.

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SENATOR MICCICHE said the only thing that has changed since 2012 when Alaska was 6th is grass roots activism against mining among Alaskans in certain locations.

MS. MATTHIAS answered that her belief was that the EPA's preemptive veto on the 404(c) of the Clean Water Act, which started in January 2014, had a very chilling effect for the companies, because it has never been done before in the 40-year history of the Clean Water Act. Investors look at fiscal certainty and relative stability in the taxation regime, and it has been stable for the mining industry, but changes have been made in other industries that could well impact the way investors look at Alaska as a whole.

SENATOR MICCICHE said he thinks Alaska has public perception issues in all its major industries, and they have some work to do on educating Alaskans about why industry is important and how it affects their every-day lives, and mining is not separate from that.

MS. CROCKETT said a number of mechanisms can be used by individuals and organizations to stop resource development in Alaska; the proposed changes and what eventually happened with SB 21 and the referendum that followed, for one. She has also seen ballot measures targeted at certain projects in certain industries for the last several years, and more of those will be seen. It's relatively easy to bring litigation to stop or delay a project and she thought that would weigh on investors' perception of Alaska.

CHAIR GIESSEL said she personally wrote several letters and an opinion piece about the Pebble Project shut down in 2014 and the committee heard a water reservations bill that DNR knew was needed to encourage development by ensuring the water resource remained as a possession of the state and not held in individual hands, but it didn't pass. She could see policy things that changed perception.

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SENATOR STOLTZE asked for industry comments on the administration's water bill.

MS. CROCKETT said AMA has a position on the nomination for a water of outstanding national resource (WONR), but the executive director hadn't submitted the letter simply because the AMA was doing this presentation. AMA met with the Department of Environmental Conservation (DEC) a couple of weeks ago to mark this bill up and supports the concept of authorizing the legislature to do the designation process, but has some other issues of concern. One is that they want to ensure that a body of water is not managed as designated until it is an officially designated WONR, because a WONR designation means that a water body can't be degraded in any way.

Another concern is that DEC would actually forward its nominations at the start of each legislative session, but AMA doesn't want to see the same river on the list every year. They want sideboards put on the timeframe in which someone can nominate that water body, and they want to see the nomination process be for a specific part of a water body and not a tributary, so that upstream activity isn't affected by that tier 3 designation. The AMA would send a comment letter with specific recommendations on the bill before they would offer their support.

CHAIR GIESSEL said this committee had significant concerns about the fact that the designation was permanent. Another concern she has is that the legislature is being required - and she asked Senator Murkowski to investigate - if it is truly required and if it is constitutional, because an unconstitutional requirement can be nullified by a state.

SENATOR STOLTZE said a 2008 voter-rejected initiative had all sorts of ancillary effects prohibiting fish processing plants and community water and sewer, and asked if she saw any similar problems targeting mining.

MS. CROCKETT said any resource development industry should certainly be concerned and have feedback and the DEC had met with a number of trade associations and representatives from different industries, including oil and gas.

CHAIR GIESSEL remarked that a town planned next to a water body could be rejected, also.

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MS. MATTHIAS said the same SOA mineral industry report comparing 2013 numbers to 2014 numbers showed a reduction in mineral value, less income and, as a result, less revenue to the state. Exploration spending had taken a significant decline, and that impacts jobs, of course. Fundamentally, everyone knows minerals and metals are required in modern lives in just about everything, but given low commodity prices right now, it is difficult to raise investment dollars and there's increasing global competition for those fewer dollars.

Alaska has some serious cost challenges, but it can control the perception of the investment climate in terms of policies. Ms. Matthias stated, "We want to send a message that Alaska is open for business, because ultimately ... just one new mine would bring in so much more revenue to the state than some of the measures that are proposed in the bill that's been put forward." Our hope is to ensure that Alaska has a mineral tax policy that takes the big picture view of growing the pie, so there will be greater state revenues and all of the other good positive effects by bringing more development and investment into the state.

CHAIR GIESSEL thanked Ms. Matthias and Ms. Crockett for the robust presentation.

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CHAIR GIESSEL adjourned the Senate Resources Standing Committee meeting at 4:49 p.m.