

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

February 19, 2020

3:30 p.m.

**MEMBERS PRESENT**

Senator Peter Micciche, Chair  
Senator John Coghill, Vice Chair  
Senator Click Bishop  
Senator Cathy Giessel  
Senator Joshua Revak  
Senator Scott Kawasaki  
Senator Jesse Kiehl

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

PRESENTATION: REVENUE FROM ALASKA'S RESOURCES BY THE DEPARTMENT OF NATURAL RESOURCES & THE DEPARTMENT OF REVENUE

- HEARD

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 155

"An Act relating to exploration and mining rights; relating to annual labor requirements with respect to mining claims and related leases; relating to statements of annual labor; defining 'labor'; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 155

SHORT TITLE: EXPLORATION & MINING RIGHTS; ANNUAL LABOR

SPONSOR(S): SENATOR(S) BISHOP

01/21/20	(S)	READ THE FIRST TIME - REFERRALS
01/21/20	(S)	RES, FIN
02/03/20	(S)	SPONSOR SUBSTITUTE INTRODUCED-REFERRALS
02/03/20	(S)	RES, FIN
02/05/20	(S)	RES AT 3:30 PM BUTROVICH 205

02/05/20 (S) Heard & Held  
02/05/20 (S) MINUTE (RES)  
02/14/20 (S) RES AT 3:30 PM BUTROVICH 205  
02/14/20 (S) Heard & Held  
02/14/20 (S) MINUTE (RES)  
02/19/20 (S) RES AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

COLLEEN GLOVER, Director  
Tax Division  
Alaska Department of Revenue  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the overview of Alaska's resources revenue.

DAN STICKEL, Chief Economist  
Revenue Economic Research  
Alaska Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Participated in the overview of Alaska's resources revenue.

DEANTHA CROCKETT, Executive Director  
Alaska Miners Association  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions regarding the state's mining taxes.

SARA LONGAN, Deputy Commissioner  
Alaska Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the overview of petroleum revenue.

MARTY PARSONS, Director  
Division of Mining, Land and Water  
Alaska Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the overview of mining revenue.

CHAD HUTCHINSON, Senate Majority Counsel  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Provided an explanation of the committee substitute for SB 155.

BRENT GOODRUM, Deputy Commissioner  
Alaska Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Discussed the fiscal note for SB 155.

DAVID WRIGHT, representing self  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of SB 155.

## **ACTION NARRATIVE**

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**CHAIR PETER MICCICHE** called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Bishop, Kiehl, Revak, Giessel, Coghill, Kawasaki, and Chair Micciche.

### **OVERVIEW: Revenue from Alaska's Resources by the Department of Natural Resources & the Department of Revenue**

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**CHAIR MICCICHE** announced that the first order of business would be two presentations, the first by the Alaska Department of Revenue (DOR), Tax Division, and the second by the Alaska Department of Natural Resources (DNR).

He emphasized that "Resource development is what we do for a living in Alaska." He said the presentations will address where the state's revenues come from and how it all works. They are a good way to start any future discussions the committee may have the subject matter fits with what legislators have been dealing with lately.

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**COLLEEN GLOVER**, Director, Tax Division, Alaska Department of Revenue, Anchorage, Alaska, introduced herself and stated that DOR was asked to give an update on revenues from mining, oil, gas, and fishing industries.

[3:33:06 PM](#)

**DAN STICKEL**, Chief Economist, Revenue Economic Research, Alaska Department of Revenue, Juneau, Alaska, introduced himself and stated that DOR was asked to give a high-level overview of the state's revenue sources from the different resource industries.

MR. STICKEL reviewed slide 2, Total State Revenue: Resources a Primary Source:

- FY 2019 Total State Revenue by Source, \$ millions
  - Investment, \$4,004
  - Federal, \$3,311
  - Oil & Gas, \$2,623
  - Other Non-Petroleum, \$962
  - Fisheries, \$89
  - Mining, \$72
  
- FY 2019 Unrestricted General Fund Revenue by Source, \$ millions
  - Investment, \$2,816
  - Oil & Gas, \$2,047
  - Other Non-Petroleum, \$407
  - Mining, \$54
  - Fisheries, \$31

He pointed out that resources contribute one-quarter of the total state revenue. He explained that unrestricted general fund revenue is revenue that is available for general appropriation with no spending restrictions. Most of the public and legislative debate around the budget focuses on the unrestricted general fund category.

MR. STICKEL detailed that investments are the largest source of unrestricted general fund revenue, which is primarily the percent of market value draw from the Alaska Permanent Fund which came into being several years ago.

He noted that the resource industry contributes about 40 percent of the unrestricted general fund revenue. Investment revenue originally came primarily from resource extraction. Combined, resource extraction and investments contribute over 90 percent of the state's unrestricted general fund revenue.

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He reviewed slide 3, Types of Resource Revenue:

- Royalties
  
- Property Taxes
  
- Severance Taxes
  - Fisheries Business Tax, Resource Landing Tax
  - Oil and Gas Production Tax

- o Mining License Tax

- Corporate Income Taxes Other Fees and Assessments

MR. STICKEL explained that royalties are what the state receives from oil, gas, or minerals extracted from state land.

He detailed that property taxes are levied on all property in the state and within the three-mile limit. The state levies property tax on oil and gas property and municipalities levy mining and fishing property taxes. He said this presentation does not reflect mining and fishing taxes, but those resources are important contributors to municipal revenue sources.

MR. STICKEL said severance tax is a broad term for any tax on the taking of any resource within the state. The name of the tax differs for each of the industries. For example, the Resource Landing Tax applies to fisheries resources harvested outside the three-mile limit but landed within the state. For oil and gas, the tax is called the Production Tax, and the Mining License Tax is the severance tax on minerals resources.

CHAIR MICCICHE asked if defining renewables in the severance tax category is a recent change because it is a new concept to him. He said there are taxes on renewable resources like fish and timber, but the definition of a severance tax is that the industry severs the material from the people of Alaska forever.

MR. STICKEL answered that he classified the fisheries taxes strictly for this presentation.

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MR. STICKEL reviewed slide 4, Corporate Income Tax (CIT):

- Applies to C-Corporations
  - o Many but no all, companies in Alaska
- "Alaska Taxable Income" determined using an "apportionment factor"
  - o Non-Petroleum - based on U.S. "water's edge" activity, apportioned to Alaska based on Alaska's share of property, payroll, and sales.
- Petroleum - based on worldwide activity, apportioned to Alaska based on Alaska's share of property, production, and sales/tariffs.

- 9.4 percent rate applies to taxable income above \$222,000

MR. STICKEL said the Corporate Income Tax does not apply to individuals or pass-through entities, as defined by the Internal Revenue Service.

He reviewed slide 6, Fisheries Revenues: Overview:

- General Fisheries Taxes
  1. Fisheries Business Tax, AS 43.75
  2. Fishery Resource Landing Tax, AS 43.77
  3. Corporate Income Tax (attributable to fisheries), AS 43.20
- Self-Imposed Taxes and Assessments:
  1. Common Property Fishery Assessment, AS 16.10.455
  2. Dive Fishery Management Assessment, AS 43.76.150
  3. Regional Seafood Development Tax, AS 43.76.350
  4. Salmon Enhancement Tax, AS 43.76.001
  5. Seafood Marketing Tax, AS 16.51.120
  6. Commercial Fisheries Entry Commission Receipts, AS 16.43.160

He noted that the fisheries revenue in the overview strictly refers to commercial fishing, not sportfishing.

MR. STICKEL explained that the Fisheries Business Tax is on processing or export of fish from Alaska. The tax is based on the price paid for the unprocessed resource or the fair market value if the fish is marketed directly. It applies to any fish caught within the three-mile limit. Fish caught outside the three-mile limit and first landed in Alaska would not be subject to the business tax, but the department would instead levy the Fishery Resource Landing Tax. Fish caught outside the three-mile limit and not landed in Alaska would not be subject to state taxation at all. The Corporate Income Tax applies to any corporations doing business in the state.

He said there are a variety self-imposed taxes and assessments. DOR has the mechanisms in place to collect taxes on the fishing industry so it will levy taxes and assessments on behalf of the industry. DOR takes care of the administration and collection and remits the taxes and fees back to various industry groups.

MR. STICKEL detailed that the Common Property Fishery Assessment is a cost-recovery program for hatcheries. The Dive Fishery Management Assessment is revenue shared with relevant dive

fishery associations. The Regional Seafood Development Tax and the Salmon Enhancement Tax are revenues shared with associations for specific fisheries. The Seafood Marketing Tax that is levied on all seafood resources in the state, funds the Alaska Seafood Marketing Institute. Receipts from the Commercial Fisheries Entry Commission include any revenue from permits and licensing activities.

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MR. STICKEL reviewed slide 7, Fisheries Revenues: Tax Rates:

- Fisheries Business Tax
  - Established Species
    - Floating: 5 percent
    - Salmon Cannery: 4.5 percent
    - Share-Based: 3 percent
    - Direct Marketers: 3 percent
  - Developing Species
    - Floating: 3 percent
    - Shore-Based: 1 percent
    - Direct Marketers: 1 percent
- Fisheries Resource Landing Tax
  - Established Species: 3 percent
  - Developing Species: 1 percent
- Salmon Enhancement Tax
  - Southern Southeast: 3 percent
  - Cook Inlet: 2 percent
  - Kodiak: 2 percent
  - Yakutat: 2 percent
  - Northern Southeast: 3 percent
  - Prince William Sound: 2 percent
  - Chignik: 2 percent
- Dive Fishery Management Assessment
  - Geoduck: 7 percent
  - Sea Cucumber: 3 percent
  - Sea Urchin: 1 percent
- Corporate Income Tax:
  - Taxable Income & Marginal Tax Rate:
    - \$0-\$25,000/0.00 percent
    - \$25,000-\$49,000/2.00 percent
    - \$49,000-\$74,000/3.00 percent
    - \$74,000-\$99,000/4.00 percent

- \$99,000-\$124,000/5.00 percent
- \$124,000-\$148,000/6.00 percent
- \$148,000-\$173,000/7.00 percent
- \$173,000-\$198,000/8.00 percent
- \$198,000-\$222,000/9.00 percent
- \$222,000 +/9.40 percent

MR. STICKEL said the rates vary by species and locations for a lot of the tax assessments. The most common tax rate for the Fisheries Business Tax and the Fisheries Resource Landing Tax is 3 percent of gross value. There is a higher tax rate for certain types of processors and lower tax rates for certain developing species to encourage investment in those resources.

He noted that slide 7 also shows the bracketed rate structure for the Corporate Income Tax, which is the same rate structure that applies to all businesses in all industries.

CHAIR MICCICHE noted the 4.5 percent Salmon Cannery Tax and asked if it is based on the net value or the gross value.

MR. STICKEL answered that the Fisheries Business Tax is based on the unprocessed value of the fish, which is typically is the value the fishermen get when they sell to the cannery. There is an additional element of value-added when the fish goes from the unprocessed to canned.

SENATOR KAWASAKI asked what year DOR created the current Corporate Income TAX structure.

MR. STICKEL answered that DOR amended the bracket structure in 2013.

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MR. STICKEL reviewed slide 8, Fisheries Revenues: Historical and Forecasted Revenues (\$ millions):

- Unrestricted General Fund
  - FY 2019 / FY 2020 / FY 2021
    - Fisheries Business Tax
      - 21.3 / 21.2 / 21.6
    - Fishery Resource Landing Tax
      - 6.5 / 5.4 / 5.5
    - Corporate Income Tax (attributable to fisheries)
      - 2.8 / 3.0 / 3.0
    - Subtotal Unrestricted

- 30.6 / 29.6 / 30.1
- Designated General Fund
  - FY 2019 / FY 2020 / FY 2021
    - Fisheries Business Tax (Municipal Share)
      - 24.1 / 25.0 / 24.1
    - Fishery Resource Landing Tax (Municipal Share)
      - 6.0 / 6.7 / 7.3
    - Commercial Fisheries Entry Commission Receipts
      - 6.9 / 6.9 / 6.9
    - Subtotal Designated General Fund
      - 37.0 / 38.6 / 38.3
- Other Restricted
  - FY 2019 / FY 2020 / FY 2021
    - Cost Recovery Fisheries Assessment
      - 0.0 / 0.0 / 0.0
    - Dive Fishery Management Assessment
      - 0.8 / 0.8 / 0.8
    - Salmon Enhancement Tax (Aquaculture Association Share)
      - 6.6 / 6.7 / 6.9
    - Seafood Development Tax (qualifying regional association)
      - 3.6 / 3.7 / 3.8
    - Seafood Marketing Assessment (seafood marketing programs)
      - 10.0 / 10.3 / 10.5
    - Subtotal Other Restricted
      - 21.0 / 21.5 / 22.0
- Total
  - FY 2019 / FY 2020 / FY 2021
    - \$88.6 / \$89.7 / \$90.4

MR. STICKEL stated that the chart, which summarizes data from the 2019 Fall Revenue Sources Book, shows all sources of fisheries revenues for FY 2019 as well as DOR forecasts for FY 2020 and FY 2021.

MR. STICKEL explained that DOR sorts revenue into three categories for purposes of the revenue forecast. Unrestricted revenue is the state's share of the business. The landing tax as well as other revenues are available for general appropriation.

MR. STICKEL said appropriations from the designated general fund are typically for a specific purpose, but they are technically available for legislative appropriation.

He said the other restricted revenues for fisheries are basically the flow-through taxes that are self imposed by the industry. The state collects the revenues and remits it to the industry. If the state were to spend the other restricted monies on something else, the industry would opt out of having the taxes. Unrestricted fish revenue is relatively stable at \$30 million per year and total fisheries revenue is around \$90 million per year.

SENATOR KIEHL asked if the fisheries revenues in the chart accounts for test fisheries where the state has common property fish removed from the opportunity to harvest and sells it for services that the state provides.

MR. STICKEL answered no; the chart does not include test fisheries receipts.

CHAIR MICCICHE said he assumes that test fisheries would fall under the revenue categories listed on slide 2 for other non-petroleum, along with sportfishing licensing receipts and other fish related income.

MR. STICKEL agreed and noted that test fisheries receipts average between \$1 million and \$2 million per year.

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MR. STICKEL reviewed slide 9, Fisheries Revenues: Revenue Sharing Methodology:

- Within Eligible Municipality
  - 50 percent municipality
  - 50 percent State of Alaska
- Within Incorporated City
  - 25 percent incorporated city
  - 25 percent municipality
  - 50 percent State of Alaska
- Outside of Eligible Municipality
  - 50 percent distributed through the Department of Commerce, Community and Economic Development (DCCED)
  - 50 percent State of Alaska

MR. STICKEL noted that any tax credits on the fisheries taxes generally comes out of the state's share. The one exception is the DCCED quota credit which comes out of the municipality share of the landing tax.

CHAIR MICCICHE asked him to provide a chart of the revenue sharing payments broken out over the past three years to organized boroughs, incorporated cities, and the State of Alaska.

MR. STICKEL agreed to provide the chart.

MR. STICKEL reviewed slide 11, Mining Revenues: Overview:

- Mining License Tax, AS 43.65
- Corporate Income Tax (attributable to mining), AS 43.20
- Mining Rents and Royalties, AS 38.04.212
- Note: Miscellaneous mining revenues are not included in this presentation. Some of these include fuel taxes, penalty fees, filing fees, bid bonuses, and AIDEA facilities use fees.

He detailed that the Mining License Tax is the state's severance tax on mining that is based on net income of mining operations. The Corporate Income Tax applies to all resource industries. DNR administers mining and royalties on state lands.

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MR. STICKEL reviewed slide 12, Mining Revenues: License Tax Calculation:

- Mining Net Income / Tax Rate
  - \$0 - \$40,000 / No Tax
  - \$40,001 - \$50,000 / \$1,200 plus 3 percent over \$40,000
  - \$50,001 - \$100,000 / \$1,500 plus 5 percent over \$50,000
  - Over \$100,000 / \$4,000 plus 7 percent over \$100,000
- Net Income = Gross Income - Allowable Deductions
  - Gross Income
    - Sales price or value received from mined material
    - Royalties from property
    - Production payments received

- Fair Market value of the material if it is not sold but shipped out-of-state
- Allowable Deductions
  - Depletion (available only to owner of mining property)
    - Cost Depletion (total development cost)
    - Percentage Depletion (percentage of gross income less royalties, dependent on mineral mined)
  - Direct Expenses
  - Indirect Expenses

MR. STICKEL said the Mining License Tax is a progressive income tax levied against the net income of all mining operations.

SENATOR KAWASAKI asked what year DOR published the net income tax rates for mining.

MR. STICKEL answered that the rates have been in place for a long time.

SENATOR KAWASAKI noted that the cost depletion deduction allows a mine to base its deduction on the estimated life of the mine. He asked who makes the estimate, where does the estimate come from, and what happens when a mine annexes an adjacent property that uses already built infrastructure.

MR. STICKEL answered that he will follow up with the information.

CHAIR MICCICHE remarked that knowing when the state implemented the mining tax rates would be interesting. He asked if Ms. Crockett from the Alaska Miners Association knew when the state established the mining rates.

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DEANTHA CROCKETT, Executive Director, Alaska Miners Association, Anchorage, Alaska, answered that she did not know and will get back to the committee with the information.

MR. STICKEL confirmed that Alaska established its mining net income tax rate in 1955.

MR. STICKEL reviewed slide 13, Mining Revenues: Historical and Forecasted Revenues (\$ millions):

- Unrestricted
  - FY 2019 / FY 2020 / FY 2021
    - Mining License Tax
      - 45.1 / 50.0 / 50.0
    - Corporate Income Tax (attributable to mining)
      - 6.9 / 12.9 / 11.9
    - Mining Rents and Royalties
      - 1.9 / 1.3 / 1.3
    - Subtotal Unrestricted
      - 53.9 / 64.2 / 63.2
  
- Designated General Fund
  - FY 2019 / FY 2020 / FY 2021
    - Mining Rents and Royalties
      - 8.9 / 6.4 / 6.5
    - Subtotal Restricted
      - 8.9 / 6.4 / 6.5
  
- Other Restricted
  - FY 2019 / FY 2020 / FY 2021
    - Settlements to Constitutional Budget Reserve Fund (non-petroleum Taxes)
      - 2.9 / 0.0 / 0.0
    - Mining Rents and Royalties
      - 6.7 / 9.9 / 10.0
    - Subtotal Other Restricted
      - 9.6 / 9.9 / 10.0
  
- Total
  - FY 2019 / FY 2020 / FY 2021
    - \$72.4 / \$80.5 / \$79.7

MR. STICKEL said the chart shows all sources of mining revenues and forecasts. He noted that the designated general fund category includes some royalties identified as program receipts.

He noted that the other restricted revenue category includes the Permanent Fund and school fund's share of mining royalties as well as any settlements of royalty and tax disputes that go to the Constitutional Budget Reserve Fund.

MR. STICKEL pointed out that the mining revenue chart is slightly different than what committee members will see when DNR presents its mining revenue numbers. One of the key issues is the Corporate Income Tax that DNR is reporting is from FY 2018,

which was an unusually high fiscal year for mining corporation income tax collections.

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SENATOR BISHOP noted the last update for mining rents and royalties was 20 years ago. He pointed out that recalculations for the mining rents and royalties occurs every 10 years with a tie-in to the Anchorage Consumer Price Index (CPI). He disclosed that his lease payments to the state increased by 23 percent after his recent 10-year lookback.

MR. STICKEL reviewed slide 15, Oil and Gas Revenues: Overview:

1. Royalties, AS 38.05.180
2. Petroleum Corporate Income Tax, AS 43.20.144
3. Petroleum Property Tax, AS 43.56
4. Oil and Gas Production Tax AS 43.55

He said royalties are based on the gross value of production of oil and gas on state lands. The Petroleum Corporate Income Tax applies to all the resource industries.

MR. STICKEL detailed that the Petroleum Property Tax is 20 mills or 2 percent of the value of oil and gas property in the state. Oil and gas property tax is 20 mills or 2 percent on oil and gas property. Any municipal taxes on the property is available as a credit to offset against the state paid. The majority of petroleum property tax does go to the municipality even though the state has a tax on that property.

He explained that the Oil and Gas Production Tax is the state's severance tax on oil and gas.

[3:56:19 PM](#)

MR. STICKEL reviewed slide 16, Oil and Gas Revenues: Property Tax:

- Based on value of oil and gas property
- State rate is 2 percent of assessed value
- Municipalities can levy property taxes at same rate it taxes all non-oil and gas property
- Taxes paid to municipalities acts as credit towards tax due to state
  - Municipalities receive large majority of total revenue

CHAIR MICCICHE asked who does the assessments on oil and gas properties that are outside of a municipality.

MR. STICKEL answered that DOR has a State Petroleum Property Tax assessor within the department.

CHAIR MICCICHE asked if they assesses oil and gas properties within municipalities as well or is it separately assessed.

MS. GLOVER answered that DOR issues state oil and gas property assessments for the whole state and they coordinate with municipalities on those assessments.

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MR. STICKEL reviewed slide 17, Oil and Gas Revenues: Petroleum Property Tax Distribution and local mill rates (\$ millions), FY 2019:

- Taxing Jurisdiction
  - Unorganized
    - Gross Tax / Local Share / State Share
      - 62.2 / 0.0 / 62.2
  - North Slope Borough
    - Gross Tax / Local Share / State Share
      - 419.5 / 377.4 / 42.2
  - Fairbanks North Star Borough
    - Gross Tax / Local Share / State Share
      - 14.3 / 12.2 / 2.2
  - Municipality of Anchorage
    - Gross Tax / Local Share / State Share
      - 2.8 / 2.3 / 0.5
  - Kenai Peninsula Borough
    - Gross Tax / Local Share / State Share
      - 31.3 / 15.5 / 15.8
  - City of Valdez
    - Gross Tax / Local Share / State Share
      - 39.0 / 39.0 / 0.0
  - Matanuska-Susitna Borough
    - Gross Tax / Local Share / State Share
      - 0.2 / 0.1 / 0.1
  - City of Whittier
    - Gross Tax / Local Share / State Share
      - 0.0 / 0.0 / 0.0
  - City of Cordova

- Gross Tax / Local Share / State Share
  - 0.2 / 0.1 / 0.1
- Total FY 2019
  - Gross Tax / Local Share / State Share
    - 569.5 / 446.6 / 123.0

MR. STICKEL said slide 17 shows the total oil and gas property tax collections for FY 2019 and the distribution between the state and municipalities. He explained that the state's 20-mill tax rate is reduced by the municipal credits, but it retains all the revenue from any property in the Unorganized Borough, including a portion of the Trans-Alaska Pipeline. He highlighted that the state share for FY 2019 totaled \$123 million and municipal revenue totaled close to \$450 million, with the largest beneficiaries being the North Slope Borough and the City of Valdez.

CHAIR MICCICHE highlighted that the state's share of petroleum property taxes alone brings in more on an annual basis than the combined taxes from mining and fishing. It shows the importance of the oil and gas industry in the State of Alaska.

MR. STICKEL concurred.

[3:59:09 PM](#)

MR. STICKEL said slide 18, Oil and Gas Revenues: Production Tax, illustrates a high-level overview of the calculation for the North Slope Oil Production Tax. He noted that there are different provisions in place for areas outside of the North Slope as well as for gas.

He detailed that the first step is to determine the gross value at the point of production (GVPP). In that calculation, royalties and transportation costs are subtracted from total production. The next step is to calculate the production tax value (PTV), which essentially calculates net income. In that calculation, the eligible lease costs are subtracted from the gross value at point of production. He noted that there is no depreciation requirement for capital expenditures so the production companies are able to deduct all their expenditures in the year they're incurred.

MR. STICKEL explained that the next step is to take the higher of two calculations: 35 percent net tax based on PTV, and a 4 percent gross tax floor based on GVPP. The final calculation applies credits to the higher of the two calculations. The

primary tax credit is the per-taxable-barrel credit, which for most production cannot reduce the tax below the gross tax floor.

He reiterated that this is a high-level overview of the production tax concept for the North Slope and the department would follow up with more detail if the committee desires.

CHAIR MICCICHE asked if the break-over price point is in the \$60 per barrel range.

MR. STICKEL replied the crossover point at which most companies begin to pay the net tax instead of the gross tax is close to \$80 in the FY 2021 forecast. He said part of the reason that has increased since last year is due to significantly higher spending as well as somewhat lower production in the forecast.

CHAIR MICCICHE conceded that the state is likely looking at a minimum tax world for some time.

MR. STICKEL answered correct.; DOR foresees companies paying at the minimum tax rate throughout the forecast time horizon.

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MR. STICKEL reviewed slide 19, Oil and Gas Revenues: Historical and Forecasted Revenues (\$ millions):

- Unrestricted
  - FY 2019 / FY 2020 / FY 2021
    - Petroleum Property Tax
      - 119.5 / 121.6 / 117.9
    - Petroleum Corporate Income Tax
      - 217.7 / 210.0 / 215.0
    - Oil and Gas Production Tax
      - 595.5 / 380.7 / 328.1
    - Royalties (including Bonuses, Rents, and Interest)
      - 1,114.7 / 847.0 / 749.0
    - Subtotal Unrestricted
      - 2,047.3 / 1,559.4 / 1,410.0
  - FY 2019 / FY 2020 / FY 2021
    - Royalties, Bonuses, and Rents to the Alaska Permanent Fund
      - 374.8 / 380.3 / 337.6

- Royalties, Bonuses, and Rents to the Public School Trust Fund
    - 7.5 / 6.2 / 5.5
  - Tax and Royalty Settlements to Constitutional Budget Reserve Fund
    - 181.2 / 200.0 / 75.0
  - NPR-A Royalties, Rents, and Bonuses
    - 12.3 / 11.3 / 9.5
  - Subtotal Other Restricted
    - 575.8 / 597.8 / 427.5
- Total
  - FY 2019 / FY 2020 / FY 2021
    - \$2,623.2 / \$2,157.2 / \$1,837.6

MR. STICKEL said slide 19 shows all sources of oil and gas revenue for FY 2019, FY 2020, and FY 2021. He noted that for oil and gas, no revenue falls in the designated general fund category. It is either unrestricted general fund or other restricted revenue. The unrestricted revenues are property tax, production tax, corporate income tax, and some of the royalties. The restricted revenue is the Alaska Permanent Fund and the Public School Trust Fund share of royalties as well as any revenue from settlements on tax and royalty disputes, which go to the Constitutional Budget Reserve Fund.

He detailed that the federal government shares 50 percent of any royalties, rents, and bonuses received from activity in the National Petroleum Reserve-Alaska (NPR-A). The state considers NPR-A revenue as other restricted revenue in the budget.

MS. GLOVER said DOR will provide a higher-level view of resource value to the economy instead of focusing on resource revenue to the state.

[4:04:01 PM](#)

MS. GLOVER said slide 21, Fish Harvest and Gross Value, shows the primary fish species and annual harvest amounts for the last 10 years. The primary fish species include: pollock, non-pollock groundfish, black cod, halibut, herring, salmon, and shellfish. She said most of the species have been stable over the last 10 years except for big swings in the gross value of salmon. The gross value of the primary species fisheries is \$2 billion per year.

MS. GLOVER said slide 22, Minerals Prices, Production, and Gross Value, focuses on gold, silver, lead, and zinc, which is about \$3 billion per year. She noted that zinc and gold were volatile over the 10-year period compared to the more stable silver and lead.

SENATOR KIEHL questioned whether the minerals and fish values were an apples-to-apples comparison because the minerals value shows the final price of the refined product which is not comparable to the ex-vessel value of a fish. It's more comparable to the plate value of a fish.

MR. STICKEL replied the observation is correct; the fish values represent the unprocessed value of the fisheries paid to the fishermen whereas the mineral values are the market value.

SENATOR KIEHL pointed out that no Alaskan miner is getting final refined market value.

CHAIR MICCICHE summarized that the values comparison is ex-vessel fish prices and initial mineral value.

MR. STICKEL explained that another caveat on the fisheries data is it only includes those fisheries resources that are subject to the state's business and landing tax. There is a portion of the fishing industry that is not subject to the taxes for fish caught outside of the 3-mile limit and not landed in Alaska. DOR uses its own fisheries data and the minerals data comes from DNR. He suggested that DNR can speak to the nuances in their data set.

[4:07:44 PM](#)

MS. GLOVER turned to slide 23, Alaska North Slope (ANS) Prices, Production, and Gross Value, and pointed out that the gross value of ANS oil production has been very volatile for the last 10 years, from a high of \$25 billion down to a low of \$12 billion in 2016. She explained that the gross value is a function of oil price and production volumes on an average per year.

MS. GLOVER reviewed slide 24, Alaska North Slope Prices and Production:

- Prices and production by fiscal year
  - 2008
    - Prices (\$ per barrel): \$95.51
    - Production (thousand barrels per day): 715.4

- 2009
  - Prices (\$ per barrel): \$68.34
  - Production (thousand barrels per day): 692.8
- 2010
  - Prices (\$ per barrel): \$74.90
  - Production (thousand barrels per day): 642.6
- 2011
  - Prices (\$ per barrel): \$94.49
  - Production (thousand barrels per day): 599.9
- 2012
  - Prices (\$ per barrel): \$112.65
  - Production (thousand barrels per day): 579.4
- 2013
  - Prices (\$ per barrel): \$107.57
  - Production (thousand barrels per day): 531.6
- 2014
  - Prices (\$ per barrel): \$107.57
  - Production (thousand barrels per day): 530.4
- 2015
  - Prices (\$ per barrel): \$72.58
  - Production (thousand barrels per day): 501.0
- 2016
  - Prices (\$ per barrel): \$43.18
  - Production (thousand barrels per day): 514.7
- 2017
  - Prices (\$ per barrel): \$49.43
  - Production (thousand barrels per day): 526.40
- 2018
  - Prices (\$ per barrel): \$63.61
  - Production (thousand barrels per day): 518.5

MS. GLOVER pointed out that prices have been more unstable than production. ANS oil production has steadily decreased, but prices show significant change over the years.

[4:08:49 PM](#)

MS. GLOVER reviewed slide 25, Gross Value of Resource Industries: Fisheries, Mining, and Oil and Gas:

- Calculated Gross Value (\$ millions)
  - 2008
    - Fisheries (FY) \$1,836
    - Mining (CY) \$2,260
    - Oil and Gas (FY) \$25,200
  - 2009
    - Fisheries (FY) \$1,497

- Mining (CY) \$2,318
  - Oil and Gas (FY) \$17,281
- 2010
  - Fisheries (FY) \$1,699
  - Mining (CY) \$2,899
  - Oil and Gas (FY) \$17,568
- 2011
  - Fisheries (FY) \$2,038
  - Mining (CY) \$3,372
  - Oil and Gas (FY) \$20,690
- 2012
  - Fisheries (FY) \$2,035
  - Mining (CY) \$3,295
  - Oil and Gas (FY) \$23,823
- 2013
  - Fisheries (FY) \$2,001
  - Mining (CY) \$3,275
  - Oil and Gas (FY) \$20,872
- 2014
  - Fisheries (FY) \$1,873
  - Mining (CY) \$3,205
  - Oil and Gas (FY) \$20,825
- 2015
  - Fisheries (FY) \$1,754
  - Mining (CY) \$2,701
  - Oil and Gas (FY) \$13,272
- 2016
  - Fisheries (FY) \$1,720
  - Mining (CY) \$2,858
  - Oil and Gas (FY) \$8,112
- 2017
  - Fisheries (FY) \$2,046
  - Mining (CY) \$3,185
  - Oil and Gas (FY) \$9,497
- 2018
  - Fisheries (FY) \$1,955
  - Mining (CY) \$3,203
  - Oil and Gas (FY) \$12,039

MS. GLOVER pointed out that there is a significant difference in the gross value of each of the three industries to the state.

[4:09:11 PM](#)

CHAIR MICCICHE asked if DOR could provide a comparison of the tax value to the state for the three key resource industries.

MS. GLOVER answered yes.

SENATOR KIEHL pointed out that the gross values of the industries in slide 25 is not an apples-to-apples comparison. The mining industry has tremendous value and there is a lot of income to individuals and municipal tax bases, but using the metals price for the final refined metal and multiplying by the tons of metal that comes out of Alaska overstates how much cash is coming in. Revenue analysis should look at actual cash and not an overstated number.

CHAIR MICCICHE agreed with Senator Kiehl and said the committee would welcome an apples-to-apples comparison on the previous revenue charts.

MR. STICKEL replied DOR will do its best to refine the data set.

CHAIR MICCICHE thanked the two DOR presenters.

He announced that DNR will conduct the next presentation on resource revenue.

[4:11:49 PM](#)

SARA LONGAN, Deputy Commissioner, Alaska Department of Natural Resources, Anchorage, Alaska, said she and Director Parson will share an overview of the revenues received by the State of Alaska from the oil and gas, and mining industries.

[4:12:16 PM](#)

MARTY PARSONS, Director, Division of Mining, Land and Water, Alaska Department of Natural Resources, Anchorage, Alaska, stated that mining has played a fairly significant role in the development of the state from the AJ Mine in Juneau and the goldfields in Nome to the present day income and job opportunities from the Fort Knox Mine in Fairbanks and the Red Dog Mine in the Northwest Arctic Borough.

MR. PARSONS reviewed slide 2, In 2018, Division of Mining, Land and Water (DMLW) Examples from Resource Development:

- In 2018, Alaska's mining industry provided:
  - 4,500 direct mining jobs in Alaska.
  - 9,200 total direct and indirect jobs attributed to Alaska mining industry.
  - \$715 million in total direct and indirect payroll.

- o Some of Alaska's highest paying jobs with an estimated average annual wage of \$112,857, almost twice the state average for all sectors of the economy.
- o \$34 million in local government revenue.
- o \$129 million in state government revenue through mining licenses, rents, royalties, fees, taxes, and other government-related payments.
- o \$358 million in payments to Alaska Native corporations.
- o Mostly year-round jobs for residents of more than 60 communities throughout Alaska, half of which are found in rural Alaska where few other jobs are available.

[4:14:47 PM](#)

MR. PARSONS reviewed slide 3, Mining Revenues through Rentals, Royalties, Fees and Taxes:

- Mining Claim Rentals (DNR) \$ 7,192,888
  - o Annual Rentals (per acre)
    - \$0.88 (1-5 years)
    - \$1.75 (6-10 years)
    - \$4.25 (>10 years)
  - o Payment in lieu of Labor (DNR) \$ 392,085
- Coal Lease Rentals (DNR) \$ 231,159
- Mining & Coal Royalties (DNR) \$ 4,444,557
- Miscellaneous Fees (DNR) \$ 133,436
- Payment to Municipalities \$34,282,140
- Taxes (DOR) \$81,893,109
- Total: \$128,569,374

MR. PARSONS reviewed slide 4, Alaska's Total Revenue from Mineral Resource Development:

- Revenue Distribution from Fees and Royalties: \$144,675,075
  - o Mining License Tax, Rents, and Royalties: \$59,559,353
  - o Corporate Income Tax Collection: \$34,595,545
  - o Payments to Municipalities: \$34,282,140
  - o AIDEA for use of facilities: \$9,081,619
  - o State material Sales, Misc. Fees, other taxes: \$7,157,418

MR. PARSONS noted that slide 4 considers material sales that include gravel to build roads into mines and other infrastructure necessary for mining. The slide includes fees paid for the use of AIDEA roads like the road that goes from the Red Dog Mine to the port.

[4:16:27 PM](#)

MR. PARSONS reviewed slide 5, Mineral Resource Development:

- Value of Alaska's Mineral Industry - \$2,902,300,000
  - Production - \$2,428,100,000
  - Development - \$334,100,000
  - Exploration - \$140,100,000

He said slide 5 shows approximately \$2 billion in expenditures that comes into the state. These range from actual mining activity to exploration and mining development. Income comes through wages, subcontracts, and materials purchases.

MR. PARSONS displayed slide 6, Acreage of Mining Claims, and remarked that the significant jump in acreage under claim from 2016-2018 is probably due to the price of gold being over \$1,600 an ounce. He said gold is a prized mineral, but silver, lead, and zinc also play an important part in providing steady numbers that do not fluctuate. He advised that acreage claims will continue to increase if the price of gold stays high.

SENATOR KAWASAKI asked if the acreage includes Mental Health Trust and Native corporation lands.

MR. PARSONS answered that it includes Mental Health Trust land but not Native corporation land.

[4:18:47 PM](#)

MR. PARSONS reviewed slide 7, Exploration, Development & Production:

- Alaska's metal and coal reserves ranking to other countries worldwide.
  - Coal - 12 percent, second most in the world
  - Zinc - 3.5 percent, seventh most in the world
  - Gold - 3 percent, tenth most in the world
  - Lead - 2 percent, eleventh most in the world
  - Silver - 1.5 percent, rank not calculable
  - Copper - 0.3 percent, rank not calculable

MR. PARSONS said Alaska has a plethora of mineral potential and mineral combinations that make the state a very attractive place for corporations to explore and develop mines.

SENATOR BISHOP asked how mineral reserves are calculated, if they must be economically recoverable or explorations that have been identified. He said his reason for asking is that a lot of Alaska is far behind on exploration for knowing what it has for resources.

MR. PARSONS concurred. He explained that DMLW identifies reported reserves and types of exploration taking place. The Alaska Division of Geological and Geophysical Surveys (DGGS) would have more information on the unreported and estimated reserves.

[4:20:13 PM](#)

MR. PARSONS reviewed slide 8, Exploration, Development & Production:

- In 2018 Alaska was ranked 5th out of 83 worldwide jurisdictions for overall investment attractiveness by mining and exploration companies, which takes into account geologic potential as well as government policy factors that affect exploration investment. Alaska also ranked 3rd for mineral potential assuming a "best practices" policy regime.
- Mining Activity in Alaska
  - Producing Mines
    - Red Dog
    - For Knox
    - Pogo
    - Usibelli
    - Kensington
    - Greens Creek
  - Projects in Permitting
    - Donlin Gold
    - Pebble
  - Advanced Exploration Projects
    - Upper Kobuk
    - Graphite Creek
    - Livengood
    - Palmer

CHAIR MICCICHE asked if there is a similar survey for oil and gas potential. He imagined that Alaska ranks fifth worldwide in investment attractiveness and third for mineral potential due to the state's tax policy stability, permitting, and other issues. He assumed that oil and gas would not rank as high.

MR. PARSONS replied DMLW will try to follow up with that information.

[4:22:02 PM](#)

SARA LONGAN, Deputy Commissioner, Alaska Department of Natural Resources, Anchorage, Alaska stated that she would provide an overview of the revenue the state receives from oil and gas production. She began the presentation paraphrasing the information on slide 9, Petroleum Revenue, Overview:

- AK State Revenue Sources from Oil & Gas Production:
  - Royalties
  - Production Tax
  - Property Tax
  - Corporate Income Tax
- Revenue from oil and gas is unrestricted, except:
  - 25 percent (before 1979) and 50 percent (after 1979) of royalty revenue be deposited into the Alaska Permanent Fund.
  - Payments received from the federal government representing a share of the bonuses, rents, and royalties derived from federal oil and gas leases in the NPR-A are deposited into an NPR-A special revenue fund.
  - Payments received from settlements of tax and royalty disputes between the state and producers are deposited into the Constitutional Budget Reserve Fund (CBRF), after accounting for any applicable share of royalty settlements deposited into the Permanent Fund and the Public School Trust Fund.

MS. LONGAN reviewed slide 10, Total Petroleum Revenue - By Restriction and Type, (\$ millions), that show the following breakdown between unrestricted and restricted petroleum revenue:

- Unrestricted Petroleum Revenue
  - Royalties - 54 percent
    - (including bonuses, rents, and interest)
    - \$1,114.7
  - Taxes - 46 percent

- Oil and Gas Production Tax - 29 percent
      - \$595.5
    - Petroleum Corporate Income Tax - 11 percent
      - \$217.7
    - Petroleum Property Tax - 6 percent
      - \$119.5
  - Total Unrestricted Petroleum Revenue
    - \$2,047.03
- Restricted Petroleum Revenue
  - Royalties, Bonuses, and Rents to the Alaska Permanent Fund - 65 percent
    - \$374.8
  - Royalties, Bonuses, and Rents to the Public School Trust Fund - 1 percent
    - \$7.5
  - Tax and Royalty Settlements to Constitutional Budget Reserve Fund - 32 percent
    - \$181.2
  - NPR-A Royalties, Rents and Bonuses - 2 percent
    - \$12.3
  - Total Restricted Petroleum Revenue
    - \$575.8
- Total Petroleum Revenue (FY 2019)
  - \$2,623.2 Million

[4:25:12 PM](#)

MS. LONGAN reviewed the following information on slide 11:

- Alaska State Revenue Sources from Oil and Gas (Millions of Dollars, FY 2019)
  - Royalties
    - \$1,509.3
  - Production Tax
    - \$595.5
  - Corporate Income Tax
    - \$217.7
  - Tax and Royalty Settlements
    - \$181.2
  - Property Tax
    - \$119.5

MS. LONGAN reviewed the following information from slide 12, FY 2019 Division of Oil and Gas Revenue - By Revenue Fund and Type, Millions of Dollars:

- Unrestricted General Fund - \$1,111.1
- Permanent Fund - \$374.8
- School Trust Fund - \$7.5
- Restricted General Fund - \$7.2
- Constitutional Budget Reserve - \$7.6

SENATOR REVAK asked for an explanation - for the listening audience, of the difference between royalty in-value (RIV) and royalty in-kind (RIK) and what additional value the royalty in-kind has brought to the state.

MS. LONGAN explained that the Division of Oil and Gas, commercial team, evaluates whether to receive barrels of oil as RIV or RIK on a case-by-case basis depending on the commerciality and the economic factors of the proposal. She agreed to follow up with the numbers for both RIV and RIK revenue for FY 2019.

[4:27:30 PM](#)

MS. LONGAN reviewed the following information from slide 13, Division of Oil and Gas - Funds Distribution Overview:

- Royalty
  - DL-1 Leases Before December 1979
    - Permanent Fund - 25 percent
    - General Fund - 74.5 percent
    - School Fund - 0.5 percent
  - NFC: New Form Leases After December 1979
    - Permanent Fund - 50 percent
    - General Fund - 49.5 percent
    - School Fund - 0.5 percent
- Net Profit Share Leases
  - Permanent Fund - 50 percent
  - General Fund - 49.5 percent
  - School Fund - 0.5 percent

MS. LONGAN said the amounts of revenues going to the various funds differ based on the oil and gas lease type. She directed attention to a map showing the Cook Inlet oil and gas leases that identifies DL-1 and NFC lease tracks.

SENATOR KAWASAKI asked if leases are transferrable.

MS. LONGAN answered yes; the conditions are spelled out in the terms and conditions for each of the leases which are updated over time and reflected in the annual lease sales.

MS. LONGAN displayed the map on slide 14, Distribution of Leases by December 1, 1979 Effective Date - North Slope. She pointed out that the majority of leases are NFC.

MS. LONGAN reviewed the following information from slide 15, Active NPSL lease on the North Slope:

- Active NPSL lease on the North Slope
  - Colville River
  - Duck Island
  - Kuparuk River
  - Milne Point
  - Nikaitchuq
  - Ooguruk
  - Point Thomson

She explained that there are 24 active leases, 11 of which have reached full payout. She said the net profit share rate for the NPSL leases is mostly 30 percent or 40 percent with exceptions in the Duck Island and Point Thomson units due to the higher royalty rate of 20 percent versus 12.5 percent.

4:30:54 PM

She addressed slide 16, Future North Slope Projects, as follows:

- CD5 2nd Expansion
  - Status: January 2019
    - Planned
  - Status: January 2020
    - Ongoing drilling Q1 2020
  - Production Rate Estimates
    - Adding over 10,000 barrels of oil per day to CD5 production.
- Greater Mooses Tooth #2 (GMT 2)
  - Status: January 2019
    - GMT2 sanctioned in October 2018
  - Status: January 2020
    - Under construction

- First oil expected in YE 2021.
  - Production Rate Estimates
    - Peak rate: 35,000 to 40,000 barrels of oil per day.
- Pikka
  - Status: January 2019
    - Single phased development with first oil in 2023
  - Status: January 2020
    - Now planned for 2-phases; start of production (Phase 1: 2022; Phase 2: 2024)
    - To move to FEED after 15 percent divestment of interests
  - Production Rate Estimates
    - Peak rate: 135,000 barrels of oil per day.
- Willow
  - Status: January 2019
    - Announced first oil date: Earliest 2023; 2024-2025
  - Status: January 2020
    - Plan to submit Supplemental EIS.
    - Record of decision expected Q\$ 2020
    - Announced first oil: 2025-2026
  - Production Rate Estimates
    - Peak rate: 130,000 barrels of oil per day.
- Liberty
  - Status: January 2019
    - Final EIS (August 2018). Record of Decision (Oct 2018). Start up in 2022.
  - Status: January 2020
    - Final EIS (August 2018).
    - Record of Decision (October 2018).
    - Start up in 2022.
    - Pending litigation on Fed decision.
  - Production Rate Estimates
    - Peak rate: 60,000 to 70,000 barrels of oil per day.

MS. LONGAN said the slide shows projects that can bring a significant amount of new production to the state. The slide does not include all projects. ConocoPhillips Alaska is developing the CD5 and Willow projects, Oil Search Alaska is developing the Pikka Project, and Hilcorp is developing the Liberty Project. She noted that project timelines, schedules,

and peak production are the division's best guess. She added that the peak rates almost never come online at full volume right at the first start of production.

She summarized that all the projects mean additional production in the future which means additional revenue and royalties.

[4:34:51 PM](#)

CHAIR MICCICHE thanked DOR and DNR for their presentations and what they do to address the impacts on the general fund.

He commented that there is a tendency to focus on revenue from resources and what it provides for services. There is also a tendency to forget the employment and investment in local communities from the companies as well as their employees; specifically, the services they don't require from the state because of their local investment. The result is a trickle-down effect that has a much greater effect than the impact to the general fund.

He said future presentations should bring the other economics into the discussion. He admitted that the discussion crosses over into finance, but committee members lose sight of the important pieces that do not end up in the general fund, an important discussion point.

**SB 155-EXPLORATION & MINING RIGHTS; ANNUAL LABOR**

[4:36:26 PM](#)

CHAIR MICCICHE announced that the final order of business would be SPONSOR SUBSTITUTE FOR SENATE BILL NO. 155, "An Act relating to exploration and mining rights; relating to annual labor requirements with respect to mining claims and related leases; relating to statements of annual labor; defining 'labor'; and providing for an effective date."

He announced that there is a committee substitute (CS) before the committee for SB 155.

[4:36:59 PM](#)

SENATOR COGHILL moved to adopt the CS, work order 31-LS1278/G.

CHAIR MICCICHE objected for purposes of discussion.

[4:37:28 PM](#)

CHAD HUTCHINSON, Senate Majority Counsel, Alaska State Legislature, Juneau, Alaska, explained that the changes from the

CS came from the Alaska Miners Association working group in congruence and consultation with DNR members. The themes to keep in mind from the CS is "notice" and "due process;" the intent is to provide miners with clarity on those two fronts.

He said the CS synchs the language related to all mining statutes and eliminates redundancy, which the sponsor substitute caught. The language in the bill uses terms and conditions that miners use out in the field. The legislation is for the miners and not the attorneys.

He addressed the changes for Committee Substitute for Sponsor Substitute for Senate Bill 155 (CSSSSB 155(RES))-version G, as follows:

1) On February 19, 2020 the Senate Resources Committee adopted the following changes (via Committee Substitute for Sponsor Substitute for Senate Bill 155):

a) In Section 3 (AS 38.05.190):

i) Further language clarified that written notice shall be sent to the owner via certified mail with return receipt requested to the most recent address on file with the Department of Natural Resources. The interest will be void if the unqualified person does not cure the defect within 90 days. The department may send an additional copy of the notice by regular mail.

(1) The changes are found on page 2, lines 22-26.

He paraphrased that Section 3 relates to qualifications for exploration and mineral interests in Alaska. Attention to notice and due process ensures that an unqualified person receives written notice and an opportunity to cure, and the department may send an additional notice document.

[4:39:40 PM](#)

He addressed Section 6 as follows:

b) In Section 6 (AS 38.05.210(a)):

i) Language about "common plan of development" was changed to say, "including adjacent federal or private mineral interests held in common." The intent is to distinguish between terms used in the oil and gas industry versus mining. This language "better fit" commonly understood terms in the mining industry.

- (1) The changes are found on page 4, lines 13-14.
- ii) "or mineral interest" was also added to better encompass what one may encounter when adjacent mining interests are held under common ownership.
  - (1) The changes are found on page 4, line 15.

MR. HUTCHINSON paraphrased that Section 6 has to do with the annual labor performed to improve or develop the land. The section changes language that frequently used and better understood by miners out in the field. The section adds the term, "or mineral interest," and synchs with terminology used in the mining statutes.

He addressed Section 7 as follows:

- c) In Section 7 (AS 38.05.210(b)):
  - i) In (7)(C) "equal to" was removed. "Applied toward" replaced "equal to."
    - (1) So, now a statement of annual labor must include "any cash payment to the state applied toward the value of the labor required under (a) of this section."
      - (a) Why?
        - (i) The existing statute at AS 38.05.210(a) provides that labor may be satisfied by work performed in the current year, excess value of work performed in prior years, and cash paid equal to the value of the labor required. While this language gives the miner the opportunity to use one of the three methods to the exclusion of the others, there is no obligation that such labor satisfaction method must be exclusive to the others. In fact, existing practice by some miners is to use portions of all three. Thus, a miner may use a cash payment toward the labor requirement to top off the work performed or value of work from prior years. Any cash payments must be made before the end of the assessment year on Sept 1 and generally before the labor affidavit is filed, so referring to the payment in the past tense on the affidavit is appropriate.
      - (2) The changes are found on page 5, line 25.

[4:41:58 PM](#)

MR. HUTCHINSON explained Section 8 as follows:

- d) In Section 8 (AS 38.05.210(c)):
  - i) A statement of annual labor can be corrected or amended before the 90-day period after notice was sent under AS 38.05.210(g).
    - (1) The intent is to synch the 90 days cure provisions, throughout the statutes.
    - (2) The changes are found on page 6, lines 10-11.
  - ii) "A corrected statement following notice of deficiency under (g) of this section shall be recorded within 90 days after the notice is sent[.]" was eliminated. The sentence was redundant. The sentence previously existed on Version K, page 6, lines 15-16.

He paraphrased that Section 8 addresses the annual labor statement that provides due process and the ability to cure. The section synchs language with other mining statutes where the 90-day threshold appears and eliminates redundancy.

He explained Section 9 as follows:

- e) In Section 9 (AS 38.05.210):
  - i) "Shall" was changed to "may." On Version G, page 6, line 26. The word "may" synchs with Section 3 (which changed AS 38.05.190).
  - ii) Text was added to protect miners against third party litigation during the cure period.
    - (1) The changes are found on page 7, lines 3-4.
  - iii) Section (j) from version K was deleted as it was duplicative of the new added language in AS 38.05.283 (Section 14 in Version G).

He paraphrased that the section synchs annual labor notice language, protects miners during the cure period, and does not compel the department to go back in files to find inaccuracies or typos.

[4:44:29 PM](#)

MR. HUTCHINSON explained Section 10 as follows:

- f) In Section 10 (AS 38.05.240):
  - i) "Prospecting" was replaced with "exploring" to provide more consistency throughout the statutes.

- (1) The change is found on Version G, page 7, line 14.
- ii) The words "in support of prospecting for, developing, or producing minerals" were deleted in AS 38.05.240(1) because the text was redundant when read with the rest of the statutory language.
  - (1) The removed language previously existed in Version K, on page 7, lines 18-19.

He paraphrased that the section defines labor to synch with statutes and eliminates redundancy.

He explained Section 12 as follows:

- g) In Section 12 (AS 38.05.270):
  - i) "Evidence of" was included at the beginning of the statutory language. One can record evidence of a transaction, but not the act itself.
    - (1) The change is found on page 9, line 18.
  - ii) The language involving "heirs and assigns" was eliminated. Given existing property law, the language did not add much value. This request for removal came from the Department of Nature Resources (DNR). There was no objection from the Alaska Miners Association (AMA) working group.
    - (1) The "heirs and assigns" language previously existed under Version K, page 9, lines 25-26.

He paraphrased that the section deals with transfers to unqualified and qualified interested parties. The section focuses on mining by eliminating language involving heirs because the process already exists throughout Alaska law.

He addressed Section 14 as follows:

- h) A new Section 14 has been added (AS 38.05.283):
  - i) The section emphasizes, broadly, that the Department is not required to go back and review for compliance to these mining laws.
  - ii) This language was recommended by DNR. AMA does not object. AMA does not expect DNR to review notices or affidavits/statements.
    - (1) See Version G, page 10, lines 10-13.

[4:47:34 PM](#)

MR. HUTCHINSON detailed Section 15 as follows:

i) Section 15 - Applicability:

i) Language was added for a clear understanding of applicability:

(1) It now reads:

(a) "APPLICABILITY. (a) AS 38.05.210(a), as amended by sec. 8 of this Act, and AS 38.05.210(e)-(i), enacted by sec. 9 of this Act, apply to statements of annual labor filed before, on, or after the effective date of this Act, if, before the effective date of this Act, a final decision or judgment has not been entered invalidating the mineral interest and, after the final decision or judgment, a claim has not been located or a leasehold granted on the affected land."

(b) See Version G, page 10, lines 16-21.

ii) In (b), the effective date of section 13 is now "effective the date of this Act" instead of "July 1, 2020."

(1) See Version G, page 10, line 23.

SENATOR KAWASAKI said the changes from the CS are good. He pointed out that the CS specifies that the 90-day cure for an annual labor statement starts when the department sends the notice. He asked if starting the 90-day cure would make more sense when the miner receives notice via certified mail.

MR. HUTCHINSON agreed that starting the 90-day cure period when the department mails the notice is not necessarily fair to the miners. The court system deals with statutes based on sent out versus actual receipt. In the grand scheme of things, proper notice should be when received, something for future consideration.

[4:49:44 PM](#)

SENATOR KIEHL asked what prompts the department to send a noncompliance notice if the departmental review language specifies that the department is not determining whether there is someone out of compliance.

MR. HUTCHINSON answered third parties. He reiterated that the emphasis is on not compelling the department to look for typos or noncompliance if there is nothing else that gives probable cause that there is some sort of problem.

SENATOR KIEHL agreed that there is no need for the department to go through every file for the last hundred years of mining. He

said he is not clear on the language where the department decides whether there is a problem when a third party brings an issue to their attention.

MR. HUTCHINSON answered that Senator Kiehl's instincts are correct. He said the vision is the department does have to review the issue and respond accordingly if there is probable cause. He explained that the emphasis is not requiring the department to go back unilaterally if nothing exists.

CHAIR MICCICHE asked if there were comments on the fiscal note. He said he might have some questions before the next meeting.

[4:51:40 PM](#)

He removed his objection and announced that the committee adopted the working document, version G for SB 155.

He said the fiscal note does not apply to the CS and that is why he asked if there were questions.

MR. HUTCHINSON stated that he believes the new fiscal note does apply to the CS.

CHAIR MICCICHE asked Deputy Commissioner Goodrum if the new fiscal note applies to the CS.

[4:52:13 PM](#)

BRENT GOODRUM, Deputy Commissioner, Alaska Department of Natural Resources, Anchorage, Alaska, confirmed that the department revised the fiscal note to synch with the CS for SB 155. The department submitted the new fiscal note for the current meeting.

CHAIR MICCICHE asked that the department review the fiscal note and explain the changes to confirm that the committee is looking at the right fiscal note.

DEPUTY COMMISSIONER GOODRUM explained that the modified fiscal note reflects the departmental requirement to reduce three fulltime positions to two positions. Money would also come from designated general funds that the mining section generates.

CHAIR MICCICHE asked what the net reduction is.

DEPUTY COMMISSIONER GOODRUM replied that the reduction is about \$120,000 from the original fiscal note.

[4:54:02 PM](#)

CHAIR MICCICHE noted that public testimony remains open for SB 155.

[4:54:38 PM](#)

DAVID WRIGHT, representing self, Fairbanks, Alaska, testified in support of the CS for SB 155. He said he and his partners own a small mining operation in its fifteenth year. He disclosed that DNR required the company to re-stake its mining claim. DNR and the mining company incurred costs to address the problem. He added that the re-staking also reset the rent clock to the start so there was a loss of revenue to the state.

[4:55:51 PM](#)

CHAIR MICCICHE closed public testimony on SB 155.

[4:56:02 PM](#)

CHAIR MICCICHE held SB 155 in committee.

He commented that Alaskans live in an incredible place blessed with an enormous amount of natural resources.

[4:57:08 PM](#)

There being no further business to come before the committee, Chair Micciche adjourned the Senate Resources Standing Committee meeting at 4:57 p.m.