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COMMITTEE REPORT
SENATE

FURTHER: YOUNG

Date: 5 19 50

Mr. President:

The Committee on GOVERNMENT has had 2 20 50

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for CS 1000 same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

I. REQUEST

Bill/Resolution No: SCSCSSHB 258(SA)
 Title: Special Investment Tax Credit
 Sponsor: Hayes & Szymanski
 Requestor: Senate State Affairs

II. FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: Coll. & Mgmt
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC.	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis.

Prepared By: Vincent D. Wright
 Division: Revenue - Research

Phone: 465-2173
 Date: 6/13/83

Approved by Commissioner: *[Signature]*
 Department: Revenue

Date: 6/14/83

Distribution:

- Original to Legislative Finance
- Copy to Office of Management and Budget (for Legislature introduced bills)
- Copy to Department (for Governor introduced bills)
- Copy to Sponsor

IV. Analysis of SCSCSSHB 258 (SA)

The incorporation of this expanded credit in effect would reduce state taxes as a deductible item at the federal level and thus increase the federal tax take.

The impact of this bill is negative to the state in terms of lost revenues. Since the bill is intended for new facilities, the effect cannot be assessed until they are completed and in operation.

FILE WITH HVS 218

ALASKA FEDERATION OF NATIVES, INC.
LAND CLAIMS BOARD



411 W. 4th Avenue, Suite 1A • Anchorage, Alaska 99501 • Phone 907-274-3611

June 16, 1983

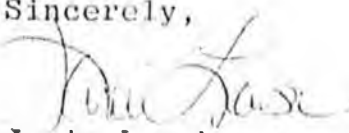
Senator Bill Ray
Pouch V
Juneau, Alaska 99811

Dear Senator Ray:

The Alaska Federation of Natives, Inc. Land Claims Board which represents all of the twelve Regional Corporations established under the Alaska Native Claims Settlement Act met in a Board meeting on Tuesday, June 14th and passed the enclosed resolution in support of the investment tax credit legislation.

We ask your support for the legislation with the suggested changes outlined in the resolution.

Thank you for your consideration and please call our office should you have any questions.

Sincerely,

Janie Leask
President

ALASKA FEDERATION OF NATIVES, INC.



411 W. 4th Avenue, Suite 1A • Anchorage, Alaska 99501 • Phone 907-274-3611

ALASKA FEDERATION OF NATIVES, INC.

RESOLUTION 83-01

WHEREAS, the Alaska Federation of Natives, Inc. (AFN) firmly believes that the development of gas processing facilities and the development and mining of minerals in the state will have substantial beneficial long- and short-term effects, including promoting full and stable employment, creation of export markets, promotion of the development of other natural resources, and diversification of the economy of the state; and

WHEREAS, AFN firmly believes that an investment tax credit designed to stimulate private investment in gas processing facilities and mineral development will achieve the above goals on a highly cost-effective basis for the state.

NOW THEREFORE BE IT RESOLVED by the Board of Directors of the AFN that AFN supports the enactment of investment tax credit legislation. AFN supports legislation substantially in the form of the attached Senate Committee Substitute for the Committee Substitute for Sponsor Substitute for House Bill No. 258 with three exceptions:

First, in order to have a meaningful impact in achieving the goals noted above, the limitation applied in subparagraph (k) (p. 3, line 8) should be applied only on a per project basis.


Secondly, the automatic repeal of the bill contained in section 4 (p. 3, line 29) either should be replaced with a "sunset" or legislative review date, or at least should be limited to new projects rather than long-term projects already in existence and in the process of completion.

Finally, AFN firmly believes that any amendment creating a form of "ITC Review Board" will operate to severely politicize the process of major investment in the state and effectively negate the benefits of the tax credit in its present form.

CERTIFICATION OF RESOLUTION

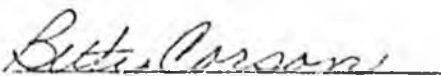
I hereby certify that the foregoing is a full, true and correct copy of the resolution adopted by the Land Claims Board of the Alaska Federation of Natives, Inc., at a meeting of said directors called and held on the 14th day of June, 1983 at which a quorum was present and voting and that said resolution was spread upon the minutes of said meeting and is now in full force and effect.

WITNESS my hand and official seal this 16th day of June, 1983.



Janie Leask, President

WITNESSED:



Betty Corson
Recording Secretary



Alaska State Legislature



Speaker of the House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3720

SPECIAL INVESTMENT TAX CREDIT LEGISLATION

As projections of declining revenue loom in Alaska's near future, we must begin to diversify our economy so that both state government and local economies are not so heavily dependent on oil derived revenues. I have introduced legislation which would accomplish this goal by establishing a special investment tax credit. Such a credit would apply for investments to develop gas processing facilities South of the Arctic Circle and to investments for exploration, development and mining of minerals other than oil and gas throughout Alaska. A major priority of both myself and the House Majority is diversification of our economy. I believe enactment of this legislation would go a long way towards achieving that goal.

Currently state law limits the amount of investment tax credit (ITC) which is allowed to corporations in computing their Alaska income taxes to 18% of the amount of investment tax credit which is allowed for federal income tax purposes. So while the Federal ITC is 10%, the Alaska investment tax credit is only 1.8%. Current law also limits the ITC which is allowed in computing Alaska income taxes to the first \$20 million of qualified investment put into use in the state for each taxable year. That limitation would be removed by this bill.

The Alaska tax credit would only apply to investments which also qualify for the federal credit. This is primarily personal property such as trucks, machinery and manufacturing equipment.

It would not include roads, buildings, mine sites and such things as feasibility studies. Using the \$1 billion Quartz Hill mine project for example, a very limited amount of that development would qualify for the tax credit. But enough of an incentive would be created to attract industry to Alaska that currently is lacking.

The promotion of exploration, development and mining of minerals and other natural deposits in the state will encourage development of Alaska's non oil and gas mineral resources. This legislation would also accelerate the diversification of the state's economy and employment base.

One new addition to this legislation, not included in the version which passed the House last session, is inclusion of gas processing facilities South of the Arctic Circle. There are areas in Alaska where established infrastructure, access to ice free ports and substantial amounts of uncommitted reserves of natural gas combine to provide great potential for gas processing development and export activity. The development of these gas processing facilities will promote full and stable employment and minimize adverse population and environmental impacts.

I expect the impact on state revenues upon enactment of this legislation would be minimal. While initially there would be a slight loss of revenue, the long range goal to promote investment and development would increase non petroleum related revenue in future years. The investment tax credit is a temporary tax reduction directly tied to profitable investment that will produce increased revenues in the future. Additionally, investments in targeted industries may substantially expand local governments sales and property tax bases. If the Prudhoc bay curve is accurate, and oil revenues begin to decline in the late 1980's, it is our responsibility to plan to offset that decline. I am confident it will have the support of the administration, which has stated a desire to reach this goal as well.

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The distinction of areas north & south of the Arctic Circle has not been made.

exceed 50 percent of the taxpayer's taxable income from the property (computed without allowance for depletion). For purposes of the preceding sentence, the allowable deductions taken into account with respect to expenses of mining in computing the taxable income from the property shall be decreased by an amount equal to so much of any gain which (1) is treated under section 1245 (relating to gain from disposition of certain depreciable property) as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231, and (2) is properly allocable to the property. In no case shall the allowance for depletion under section 611 be less than it would be if computed without reference to this section.

(b) Percentage depletion rates.—The mines, wells, and other natural deposits, and the percentages, referred to in subsection (a) are as follows:

(1) 27½ percent—oil and gas wells.

(2) 23 percent—

(A) sulfur and uranium; and

(B) if from deposits in the United States—anorthosite clay, laterite, and nephelite syenite (to the extent that alumina and aluminum compounds are extracted therefrom), asbestos, bauxite, celestite, chromite, corundum, fluor spar, graphite, ilmenite, kyanite, mica, olivine, quartz crystals (radio grade), rutile, black steatite talc, and zircon, and ores of the following metals: antimony, beryllium, bismuth, cadmium, cobalt, columbium, lead, lithium, manganese, mercury, nickel, platinum and platinum group metals, tantalum, thorium, tin, titanium, tungsten, vanadium, and zinc.

(3) 15 percent—

(A) metal mines (if paragraph (2) (B) does not apply), rock asphalt, and vermiculite; and

(B) if neither paragraph (2) (B), (5) or (6) (B) applies, ball clay, bentonite, china clay, sagger clay, and clay used or sold for use for purposes dependent on its refractory properties.

(4) 10 percent—asbestos (if paragraph (2) (B) does not apply), brucite, coal, lignite, perlite, sodium chloride, and wolastonite.

(5) 7½ percent—clay and shale used or sold for use in the manufacture of sewer pipe or brick, and clay, shale, and slate used or sold for use as sintered or burned lightweight aggregates.

(6) 5 percent—

(A) gravel, peat, pumice, sand, scoria, shale (except shale described in paragraph (5)), and stone, (except stone described in paragraph (7));

(B) clay used, or sold for use, in the manufacture of drainage and roofing tile, flower pots, and kindred products; and

(C) if from brine wells—bromine, calcium chloride, and magnesium chloride.

(7) 15 percent—all other minerals (including, but not limited to, apatite, barite, borax, calcium carbonates, diatomaceous earth, dolomite, feldspar, fullers earth, garnet, gilsonite, granite, limestone, magnesite, magnesium carbonates, marble, mollusk shells (including clam shells and oyster shells), phosphate rock, potash, quartzite, slate, soapstone, stone (used or sold for use by the mine owner or operator as dimension stone or ornamental stone), thenardite, tripoli, trona, and (if paragraph (2) (B) does not apply) bauxite, flake graphite, fluor spar, lepidolite, mica, spodumene, and talc, including pyrophyllite), except that, unless sold on bid in direct competition with a bona fide bid to sell a mineral listed in paragraph (3), the percentage shall be 5 percent for any such other mineral (other than slate to which paragraph (5) applies) when used, or sold for use, by the mine owner or operator as rip rap ballast, road material, rubble, concrete aggregates, or for similar purposes. For purposes of this paragraph, the term "all other minerals" does not include—

(A) soil, sod, dirt, turf, water, or mosses; or

(B) minerals from sea water, the air, or similar inexhaustible sources.

(c) Definition of gross income from property.—For purposes of this section—

(1) Gross income from the property.—The term "gross income from the property" means, in the case of a property other than an oil or gas well, the gross income from mining.

(2) Mining.—The term "mining" includes not merely the extraction of the ores or minerals from the ground but also the treatment processes considered as mining described in paragraph (4) (and the treatment processes necessary or incidental thereto), and so much of the transportation of ores or minerals (whether or not by common carrier) from the point of extraction from the ground to the plants or mills in which such treatment processes are applied thereto as is not in excess of 50 miles unless the Secretary or his delegate finds that the physical and other requirements are such that the ore or mineral must be transported a greater distance to such plants or mills.

(3) Extraction of the ores or minerals from the ground.—The term "extraction of the ores or minerals from the ground" includes the extraction by mine owners or operators of ores or min-

The depletion allowance bears little relationship to capital investment and continues so long as minerals are extracted, even though no money is actually invested in mineral deposit. *Id.*

Where taxpayer had no capital investment in city owned gravel quarry and all equipment and machinery used in extraction of aggregate was removable and was not specially designed, taxpayer agreed to pay the city royalty on the aggregate mined and gained the advantage of having the source of aggregate close to its

construction project at price substantially less than it would pay elsewhere and taxpayer's return on its investment and the extraction of the aggregate was not based on the sale of the aggregate, but upon the profits, if any, derived from street paving contract with the city. Taxpayer had economic advantage rather than economic interest and taxpayer was not entitled to depletion deduction. *Risler & McMurtry Co. v. U. S., D.C.Wyo., 1972, 342 F.Supp. 432.*

§ 612. Basis for cost depletion

Supplementary Index to Notes

Constitutionality $\frac{1}{2}$

$\frac{1}{2}$. Constitutionality

This section and regulation dealing with cost or substituted basis to be used in calculating depletion deduction available in determining charitable organization's net investment income are not violative of U.S.C.A. Const. Amend. 10. *Real Foundation v. U. S., C.A.Tex. 1977, 559 F.2d 330.*

2. Determination of basis

Where jury was not given chance to determine from conflicting testimony as to whether smaller size of previous sales of mineral rights rendered them noncomparable to sales by closely held corporation to its stockholders, new trial was required to determine comparability of previous sales as basis for valuation. *Green v. U. S., C.A.Miss. 1972, 490 F.2d 412.*

Taxpayers' proportionate shares of the amortized cost of access logging roads were capital in nature constituting part of the adjusted depletion basis of the timber sold, thereby reducing the capital gain derived from the sale of the timber, and were not deductible as ordinary and

necessary business expenses. *Casey v. U. S., 1972, 450 F.2d 495, 108 Cl.Ct. 212.*

Corporate taxpayer whose principal business activity consisted of acquisition, ownership and management of surface lands and coal thereunder, in computing and determining its deduction for depletion, should have been allowed to equitably apportion actual cost between land overlying coal, and remainder of farmland for which taxpayer was required to pay premium price in order to acquire right to strip acres under which there was coal, although taxpayer had burden of establishing by competent evidence, proportionate cost or value of each portion of the land as of date of purchase. *Beaver Dam Coal Co. v. U. S., C.A.Ky., 1996, 370 F.2d 414.*

In paying Minnesota ad valorem taxes and taxes on royalties, taxpayer-corporation which was lessee of mineral properties in fact defrayed an obligation of the lessor, so that such taxes were a part of the rent or royalties and consequently were deductible from the basis for computation of depletion allowance by lessee taxpayer-corporation. *U. S. Steel Corp. v. U. S., 146 S.Ct. 1987, 270 F.2d 353, affirmed 445 F.2d 370, certiorari denied 92 S.Ct. 910, 911, 405 U.S. 917, 30 L.Ed.2d 794.*

§ 613. Percentage depletion

(a) General rule.—In the case of the mines, wells, and other natural deposits listed in subsection (b), the allowance for depletion under section 611 shall be the percentage, specified in subsection (b), of the gross income from the property excluding from such gross income an amount equal to any rents or royalties paid or incurred by the taxpayer in respect of the property. Such allowance shall not exceed 50 percent of the taxpayer's taxable income from the property (computed without allowance for depletion). For purposes of the preceding sentence, the allowable deductions taken into account with respect to expenses of mining in computing the taxable income from the property shall be decreased by an amount equal to so much of any gain which (1) is treated under section 1245 (relating to gain from disposition of certain depreciable property) as ordinary income, and (2) is properly allocable to the property. In no case shall the allowance for depletion under section 611 be less than it would be if computed without reference to this section.

(b) Percentage depletion rates.—The mines, wells, and other natural deposits, and the percentages, referred to in subsection (a) are as follows:

(1) 22 percent—

(A) sulphur and uranium; and

(B) If from deposits in the United States—amorphous, lay, laterite, and nephelite syenite (to the extent that alumina and aluminum compounds are extracted therefrom), asbestos, bauxite, celestite, chromite, corundum, fluorapatite, graphite, kyanite, kyanite, mica, olivine, quartz crystals (radio grade), rutile, black anatite talc, and zircon, and ores of the following metals: anti-

mony, beryllium, bismuth, cadmium, cobalt, columbium, lead, lithium, manganese, mercury, molybdenum, nickel, platinum, and platinum group metals, tantalum, thorium, tin, titanium, tungsten, vanadium, and zinc.

(2) 15 percent—If from deposits in the United States—

(A) gold, silver, copper, and iron ore, and

(B) oil shale (except shale described in paragraph (5)).

(3) 14 percent—

(A) metal mines (if paragraph (1)(B) or (2)(A) does not apply), rock asphalt, and vermiculite; and

(B) If paragraph (1)(B), (5), or (6)(B) does not apply ball clay, bentonite, china clay, sagger clay, and clay used or sold for use for purposes dependent on its refractory properties.

(4) 10 percent—asbestos (if paragraph (1)(B) does not apply) brucite, coal, lignite, perillite, sodium chloride, and wollastonite.

(5) 7½ percent—clay and shale used or sold for use in the manufacture of sewer pipe or brick, and clay, shale, and slate used or sold for use as sintered or burned lightweight aggregates.

(6) 5 percent—

(A) gravel, peat, pumice, sand, scoria, shale (except shale described in paragraph (2) (B) or (5)), and stone except stone described in paragraph (7));

(B) clay used, or sold for use, in the manufacture of drainage and roofing tile, flower pots, and kindred products; and

(C) If from brine wells—bromine, calcium chloride, and magnesium chloride.

(7) 14 percent—all other minerals, including, but not limited to, apatite, barite, borax, calcium carbonates, diatomaceous earth, dolomite, feldspar, fulgur earth, garnet, glauconite, granite, limestone, magnesite, magnesium carbonates, marble, mollusk shells (including clam shells and oyster shells), phosphate rock, potash, quartzite, slate, soapstone, stone (used or sold for use by the mine owner or operator as dimension stone or ornamental stone), thenardite, tripoli, trona, and (if paragraph (1)(B) does not apply) bauxite, fish graphite, fluorapatite, lepidolite, mica, spodumene, and talc (including pyrophyllite), except that, unless sold on bid in direct competition with a bona fide bid to sell a mineral listed in paragraph (3), the percentage shall be 5 percent for any such other mineral (other than shale to which paragraph (5) applies) when used, or sold for use by the mine owner or operator as rip rap, ballast, road material, rubble, concrete aggregates, or for similar purposes. For purposes of this paragraph, the term "all other minerals" does not include—

(A) soil, sod, dirt, turf, water, or moose;

(B) minerals from sea water, the air, or similar inexhaustible sources; or

(C) oil and gas wells.

For the purposes of this subsection, minerals (other than sodium chloride) extracted from brines pumped from a saline perennial lake within the United States shall not be considered minerals from an inexhaustible source.

(c) Definition of gross income from property.—For purposes of this section—

(1) Gross income from the property.—The term "gross income from the property" means in the case of a property other than an oil or gas well and other than a geothermal deposit, the gross income from mining.

Cook Inlet Region, Inc. supports passage of the attached investment tax credit legislation because we believe:

First, that the bill will encourage critical additional investments into the State of Alaska's mining industries. By encouraging investment in this presently marginal industry through a temporary tax decrease the State is encouraging the private sector to accelerate the diversification of the State's economy and employment base.

Second, we believe passage of this bill sends a clear policy signal that the State is interested in participating and encouraging the mining industry by rewarding successful capital investment in the State.

Some of the most common questions asked regarding an investment tax credit in the State are answered as follows:

WHO QUALIFIES FOR THE TAX CREDIT?

All corporations paying Alaska corporate income taxes to the State could utilize the special tax credit to the extent they invest in qualified investment tax property in the mining industry.

WHAT IS "QUALIFIED INVESTMENT TAX PROPERTY?"

Qualified investment tax property is primarily tangible personal property, i.e., trucks, manufacturing equipment, etc. It does not include roads, buildings, mine sites, feasibility studies, overhead, etc. In a development project the amount of qualifying property will only be a part of the total investment in the project.

HOW IS THE INVESTMENT TAX CREDIT COMPUTED?

First, the amount of the actual investment in qualifying property by a corporation is determined. Then the property is grouped by useful lives and the following percentages are multiplied times the property basis:

0 to 3 Years	-0-
3 to 5 Years	-1/3-
5 to 7 Years	-2/3-
Excess of 7 Years	-All-

The result is then multiplied by 10% to determine the tax credit.

For example, if a \$10,000 truck having a 6-year useful life was purchased and used in a mining project, \$6,667 of the basis would qualify and the amount of the credit would be \$667. The \$667 could then be used to reduce the corporate income tax due on the company's profits.

WHAT IMPACT WOULD THIS BILL HAVE ON PROJECTIONS OF STATE REVENUES?

The bill should have a very minimal impact on current projections of State revenues. At present, only minimal amounts are being invested in the mining industry by tax paying corporations. If the passage of this bill succeeds in its intended purpose of increasing the investment in these resources, the fiscal impact on State revenues of the bill should be positive rather than negative. Additionally, investments in the mining industry could substantially expand local governments' sales and property tax bases.

WON'T THE STATE LOSE \$82,000,000 ALONE ON THE U.S. BORAX DEVELOPMENT?

Certainly not. This erroneous calculation, which was raised concerning a similar bill last year, was made by assuming all of U.S. Borax's proposed one billion dollar investment would fully qualify for the tax credit. Obviously the substantial portion of U.S. Borax's investment will be for non-qualifying property such as roads, buildings, housing and the mine development itself.

Only a limited amount will be expended on the actual mining equipment which would qualify for the special investment tax credit.

ISN'T THIS BILL JUST ANOTHER SUBSIDY TO A SPECIAL INTEREST?

The investment tax credit is not a subsidy but rather a temporary tax reduction directly tied to profitable investment. The impact of the bill is beyond any special interest because of the broad impact it hopefully will have on industries that are Statewide.

WHY IS CIRI SO INTERESTED IN THE PASSAGE OF THIS BILL?

CIRI's interest in passage of this bill is directly related to the company's experiences in attempting to develop its natural resource base including Beluga coal, Seldovia chrome and other hardrock possibilities. When ANCSA passed in 1971 there was great optimism about releasing the "great wealth" held by the Native lands to the Regional Corporations, the stockholders and indirectly to the State economy. To date, to the best of our knowledge, there is not one major subsurface estate development underway on Native lands. The primary reasons for this are:

1. the delay in transfer of the lands.
2. the long lead times necessary to locate and develop mineral properties.
3. the costly infrastructure required and the decline in metal prices.
4. the lack of adequate capital by the Native Corporations for the tremendous investments required, and therefore the need to locate and negotiate major joint venture partners with the expertise and capital necessary.

This bill assists in overcoming some of the problems with attracting capital and convincing joint venture partners of the positive State policy towards development.

WON'T AN INVESTMENT DECISION BE MADE IRREGARDLESS OF A TAX CREDIT?

This is an academic argument that has been debated for twenty years since John F. Kennedy introduced the first investment tax credit in 1961. Since that

time the investment tax credit has been expanded and used on a Federal tax basis to encourage investment in

- (1) Historical buildings rehabilitation
- (2) Business energy saving devices
- (3) Research facilities
- (4) Single purpose agriculture structures
- (5) Pollution control facilities

Currently discussion is underway to extend the investment tax credit to rehabilitation of the central business core of many of America's larger cities. Based on the continued expansion of the tax credit, it is reasonable to conclude that the investment tax credit is an effective tool to encourage additional investment in targeted areas.

HOUSE LABOR AND COMMERCE COMMITTEE

TESTIMONY OF DAVE HEATWOLE

for

HOUSE BILL 258

April 5, 1983

My name is Dave Heatwole and I am here to represent Alaska's mining industry. I am Chairman of the State Oversight Committee of the Alaska Miners Association, representing some 1,600 miners from large and small companies, and I have spent my entire professional career in the mining industry.

I believe all of you can agree with me that most Alaskans are very concerned about broadening out state's economic base. Why are we so dependent upon oil revenues? What are we going to do when the oil runs out?, are questions frequently asked by Alaskan public forums. What I would like to do today is give you some idea what the future mining industry could do for Alaska's economy and tell you why House Bill 258 is important to stimulate mining activity in our state.

Historically mining has always been important to Alaska -- The discovery of gold at the turn of the century led to Alaska's first great economic boom. Hard rock mining became active in the early 1900's with the development of the Kennecott and Alaska-Juneau mines. Mining was the mainstay of Alaska's economy until men and material restrictions of the second world war forced the closure of Alaska mines. After the war placer gold mining revived and is a significant part of Alaska's current economy. During 1982, the placer mining employed approximately 3,000 Alaskans and contributed approximately \$250 million to the state's economy.

In the late 1960's - early 70's, a few major mining companies returned to Alaska to begin mineral exploration programs. These companies returned to Alaska to begin mineral exploration programs, because foreign expropriations and pending domestic mineral shortages-made domestic mineral investments much more attractive. Alaska offered the United State's last great unexplored frontier. This recent mineral exploration activity has produced a few major mineral discoveries which have announced plans to be in production before 1990:

- o The Red Dog Deposits in DeLong Mts., North of Kotzebue
- o Green's Creek Deposit on Admiralty Island
- o The Quartz Hill Deposit, near Ketchikan

The development of these deposits and other known occurrences could create a substantial addition to Alaska's economy -- mining, unlike oil, is a very labor intensive business. A majority of the new wealth created would stay in the state in the form of wages and goods purchased. John Whitney, a noted mineral economist, in 1979 predicted that the development of the deposits of NW Alaska, Red Dog and Ambler, would create over 1,000 new jobs in Alaska and produce annual gross sales on the order of \$570 million (1979 dollars). The Alaska Miners Association published a report last July which predicted, that given the proper combination of world metal prices, Alaska investment climate and infrastructure development, Alaska's major mining industry, could by the year 2000 provide 6,000 new jobs and add an estimated 3.0 billion to Alaska's economy.

I believe these studies indicate that mining has the potential to significantly impact Alaska's future economy.

The development of major mining, depends on two factors which involve state government.

1. Availability of infrastructure.
2. A stable investment climate

I am not going to discuss infrastructure today, suffice to say it is of equal importance to investment climate.

In order to be developed, Alaskan mineral deposits are going to have to compete on a world-wide basis. Metals produced in Alaska are going to be sold at the same price as those produced in Western U.S., South America, or South Africa. To be competitive, Alaska's costs of production must be comparable. Fortunately, nature has given Alaska some high grade deposits, which will help keep them competitive, but Alaskan costs are high.

By allowing investors to recoup their risk capital quicker the investment tax credits proposed in House Bill 258 will help keep the costs of Alaskan mineral development competitive. But more importantly, enactment of House Bill 258 will send a strong signal to outside investors that the State of Alaska is serious about developing its mineral industry by providing incentives for investment.

As stated in the attached letter to Speaker Hayes, House Bill 258 should be considered an income producing bill. The immediate cost of enactment is very small, but potential impact on the Alaska's future economy is quite substantial. For a diversified economy in Alaska, I urge you to pass this bill.



ALASKA MINERS ASSOCIATION, INC.

509 W. Third Ave., Suite 17, Anchorage, Alaska 99501 (907) 276-0347

April 1, 1983

Representative Joe L. Hayes
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Hayes:

The Statewide Board of Directors of the Alaska Miners Association unanimously passed the attached resolution urging enactment of HB-258. The Alaska Miners Association represents approximately 1600 miners located throughout Alaska.

The Alaska Miners Association believes that the investment tax credits proposed in HB-258 will broaden Alaska's economic base. The people of Alaska are concerned about our state's dependence upon oil revenues and diversification of our state's economy is very important for the long term economic health in Alaska.

Many members of the legislature may be hesitant to consider a tax credit bill in the face of declining oil revenues. However HB-258 is an income-producing bill. It will send a strong signal to investors that Alaska is seriously attempting to attract mineral development and increase exploration and mining activity. The economic benefits accruing to the state will far outweigh the revenues lost by the tax credit.

The initial reduction in revenues by mineral investment would be small, less than ten million dollars annually. The tax credits will make Alaskan mineral investments more competitive on a world wide basis and lead to the establishment of a long term healthy mining industry.

We are asking for your help to obtain passage of this bill and make an investment in Alaska's long term economic future.

Sincerely yours,

ALASKA MINERS ASSOCIATION

Paul S. Glavinovich
President

PSG/vd
Attachment



ALASKA MINERS ASSOCIATION, INC.

509 W. Third Ave., Suite 17, Anchorage, Alaska 99501 (907) 276-0347

RESOLUTION - HOUSE BILL 258

Whereas the Alaska Miner's Association desires to foster the development of Alaska's mineral resources and,

Whereas the people of Alaska desire to broaden the economic basis of our state and,

Whereas the Investment Tax Credits proposed in HB-258 would provide financial incentives for the development of minerals in Alaska and indicate the strong support of the State of Alaska for a mining industry.

The Board of Directors hereby resolves to urge the Governor of Alaska, the Speaker of the Alaska State House, the President of the Alaska State Senate and the Chairpersons of House and Senate Resources Committee for expeditious passage of HB-258.

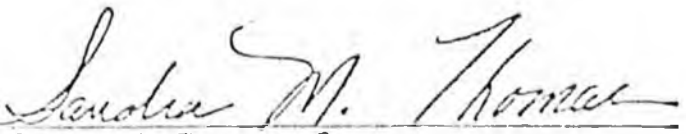
Approved

Fairbanks, Alaska

March 29, 1983



Paul Glavinovich - President



Sandra M. Thomas - Secretary