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SENATE COMMITTEE REPORT

FURTHER

4/11/89

DATE TURNED INTO OFFICE

4/22/89

Mr. President:

FINANCE

Committee considered

SB 129

providing for rent and royalty payments for a mining claim, leasehold location, or mining lease; relating to annual labor requirements for, and abandonment of, a mining claim, leasehold location, or mining lease; etc. and recommended

- replace with \_\_\_\_\_ CS SB 129 (Fin) )  same title
- or adopt \_\_\_\_\_ CS \_\_\_\_\_ )  new title
- attached amendment(s) and  technical title change (HB only)
- \_\_\_\_\_ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

- FISCAL NOTE(S)  zero  <sup>DNR (281.9 GF)</sup> fiscal impact  appropriation no FN
- new  updated  previous
- same as previous fiscal note(s) published \_\_\_\_\_

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

*Tom Duca*

*Bob St. George*

*Daryl Guill*

*True Coarce*

*Rich [Signature]*  
Chairman signature and recommendation

Committee Backup attached

*John [Signature]* Co-CHAIR  
No PASS

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

R/0 3FC 4-22-89

BILL VERSION: CSSB 129 (Finance)

PUBLISH DATE: 20-Apr-89

FISCAL NOTE

REQUEST:

Revision Date: 20-Apr-89  
Title: An Act relating to rent and royalty payments for mining claims.  
Sponsor: Senate Rules  
Requestor: Governor

Agency Affected: Natural Resources  
BRU: Mining Management Management/Administration  
Components: Mining Management Administrative Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		35.9	37.0	38.2	39.4	40.8
TRAVEL		0.0	0.0	0.0	0.0	0.0
CONTRACTUAL		1.5	1.5	1.5	1.5	1.5
SUPPLIES		0.5	0.5	0.5	0.5	0.5
EQUIPMENT		4.0				
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	41.9	39.0	40.2	41.4	42.8

CAPITAL		240.0	0.0	0.0	0.0	0.0
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REVENUE		750.0	750.0	770.0	770.0	800.0
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FUNDING: (Thousands of Dollars)

GENERAL FUND		281.9	39.0	40.2	41.4	42.8
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	281.9	39.0	40.2	41.4	42.8

POSITIONS:

FULL-TIME		1.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

See Attached

Prepared by: Gerald Gallagher Phone: 762-2165  
Division: Mining Management Date: 20-Apr-89

Approved by Commissioner: Lennie Gorsuch Date: 20-Apr-89  
Agency: Department of Natural Resources

Distribution (by preparer) :  
Legislative Finance 4/21/89  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

## ANALYSIS OF CSSB 129 (Finance)

Assumptions: As a result of the May, 1987, Alaska Supreme Court opinion, the State's mining laws will need to be amended to require the payment of a cash rent and production royalty. There are currently over 40,000 state mining claims and 200 mining operations on state land. Each claim will be assessed a rent of \$20. Producing claims and leases will be assessed a royalty of three percent net profits. DNR estimates revenue derived from rents and royalty will be \$750,000 in FY 90 and increase to \$800,000 by FY 94. Rental payments should be \$700,000 and the royalty payments are estimated to be \$50,000 annually.

Program Summary: This funding is necessary to complete the additional work load of administering, collecting, and auditing rent and royalty payments, while maintaining both the current mining records system and the state's revenue and billing system.

Positions: A new "Accounting Technician I" position is needed in the Management and Administration BRU. This position will maintain accounts in the LAS's Revenue and Billing System, audit billing registers, and prepare worksheets and reports as necessary to assure proper accounting and coding of these funds.

Other Expenditures: A one-time capital appropriation of \$240,000 is necessary to purchase a new computer system in the "Mining Management" BRU. This new system will allow the Division of Mining to handle the additional workload of rent and royalty payment tracking and lease status verification without additional staff. Over 35,000 individual mining claims and 100 mining leases will have to be administered under this new system.

Revenues generated under this proposal will exceed expenditures in every year. Beginning in FY 90, new annual revenues of \$750,000 are projected. Expenditures for the first year (FY 90) will be \$281,900, which includes the one time capital expenses. After FY 90, the continued annual operating cost of this new work load will be approximately \$40,000, while revenue will continue to be \$750,000.

Position Title <b>Accounting Technician I</b>			No. of Positions <b>1</b>	Range/Step <b>12A</b>	Barg. Unit <b>GGU</b>
Time Status <b>PFT</b>	Staff Months <b>12</b>		Location <b>Anchorage</b>		Election District
Justification					
The position will receive balance and code funds over the counter and by mail for payments received for the Division of Mining leases and claims. The position will determine the proper customer account, the Department handles approximately 40,000 mining leases belonging to 2500 to 3000 individual customers. The proper coding will be impacted by number of properties owned by payee. The position will do acct functions, plus provide customer information, auditing billing register to insure proper billing and researching address changes.					
Type of Expenditure			Amount		
1	2	3			
Salary	24,900				
Benefits	11,000				
Premium Pay					
Other					
Total Personal Services		35,900			
Travel					
Contractual			1,500		
Commodities			500		
Equipment			4,000		
Other					
Total Cost			41,900		
Funding Source for Total Cost					
Federal Receipts	1002				
G. F. Match	1003				
General Fund	1004	41,900			
I-A Receipts	1006				
CIP Receipts	1061				
Other					

**Request For  
New Position**

Agency NATURAL RESOURCES  
 BRU MANAGEMENT & ADMINISTRATION  
 Component Administrative Services

Page 1 of 1  
 Revised Date

**FY 90**

Original sponsor: Rules/Governor

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 129 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to mining; and providing for an  
7 effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 38.05.205(c) is amended to read:

10 (c) A mining lease shall be for any period up to 55 years, and  
11 is renewable if requirements for the lease remain satisfied. Annual  
12 rental and production royalties shall be paid as required under  
13 AS 38.05.211 and 38.05.212 [THE LESSEE HAS A RIGHT TO A NEW LEASE AT  
14 THE END OF EACH LEASE PERIOD. THE COMMISSIONER MAY MAKE REASONABLE  
15 ADJUSTMENTS OF THE RENTAL RATE AT THE END OF EACH 20 YEAR PERIOD,  
16 BASED UPON CHANGED CONDITIONS IN PRODUCTION COSTS AND MARKETS]. A  
17 valid mining claim located and held under AS 38.05.195 may be con-  
18 verted to a lease at any time upon application by the owner, and  
19 issuance by the commissioner. Rights [NO RIGHTS] granted by a mining  
20 lease may not be exercised until the lease has been filed for record  
21 in the recording district where the land is located.

22 \* Sec. 2. AS 38.05.210(a) is amended to read:

23 (a) Labor shall be performed or improvements made annually on or  
24 for the benefit or development of each mining claim, leasehold lo-  
25 cation, and mining lease on state land except that where adjacent  
26 claims, leasehold locations, or mining leases are held in common, the  
27 expenditure may be made on any one claim, leasehold location, or  
28 mining lease. The commissioner shall establish the date of the com-  
29 mencement of the year during which the labor or improvements are to be

1 performed. Labor shall be performed at the annual rate of \$100 [\$200]  
2 per claim or leasehold location, and \$100 for each partial or whole 40  
3 acres of each mining lease. If more work is performed than is re-  
4 quired by this section to be performed in any one year, the excess  
5 [WORK UP TO A] value [OF \$800] may be applied against labor required  
6 to be done during the subsequent year or years, for as many as four  
7 years. Instead of performing annual labor, the holder of a claim,  
8 leasehold location, or mining lease may make a cash payment to the  
9 state equal to the value of the labor required by this subsection.

10 \* Sec. 3. AS 38.05.210(b) is amended to read:

11 (b) During the year in which [THE PERFORMANCE OF] annual labor  
12 is required or within 90 days after the close of that year, the owner  
13 of the mining claim, leasehold location, or mining lease, or some  
14 other person having knowledge of the facts shall record with the  
15 recorder of the district in which the claim, leasehold location, or  
16 mining lease is located a signed statement setting out the informa-  
17 tion, as may be required by the commissioner, concerning the annual  
18 labor of the preceding year, [AND] any labor in excess of that re-  
19 quired for the preceding year, and any payment of cash instead of  
20 annual labor. The statement, properly recorded, is prima facie evi-  
21 dence of the performance of the labor. The failure of one of several  
22 co-owners to contribute the proportion of the expenditures required  
23 for annual labor from the co-owner shall be treated in accordance with  
24 AS 38.05.215 - 38.05.235.

25 \* Sec. 4. AS 38.05 is amended by adding new sections to read:

26 Sec. 38.05.211. ANNUAL RENTAL. (a) The holder of each mining  
27 claim, leasehold location, and mining lease, including a mining lease  
28 under AS 38.05.250, shall pay, in advance, annual rental for the right  
29 to continue to hold the mining claim, leasehold location, and mining

1 lease, including a mining lease under AS 38.05.250. The annual rental  
2 amount shall be based on the number of the years since a mining claim,  
3 a leasehold location, or a mining lease's predecessor claim or lease-  
4 hold location was first located, as follows:

5 Number of Years Since	6 Rental Amount Per	7 Rental Amount
8 First Located	9 Acre for Mining	10 for Each Mining
	11 Leases	12 Claim or Leasehold
		13 Location
14 0 - 5	15 \$ .50	16 \$ 20
17 6 - 10	18 \$1.00	19 40
20 11 - or more	21 \$2.50	22 100

23 (b) A claim, leasehold location, or mining lease located on or  
24 before August 31, 1989 is considered to have been first located on  
25 August 31, 1989 for purposes of determining the amount of rental under  
26 this section.

27 (c) The rental for each year shall be credited against the  
28 production royalty under AS 38.05.212 as it accrues for that year.

29 (d) The rental established under this section shall be revised  
30 each 10 years by the commissioner based on the consumer price index  
31 for Anchorage and published in regulations by the commissioner.

32 Sec. 38.05.212. PRODUCTION ROYALTY. (a) In exchange for and to  
33 preserve the right to extract and possess the minerals produced, the  
34 holder of a mining claim, leasehold location, or mining lease, includ-  
35 ing a mining lease under AS 38.05.250, shall pay a royalty on all  
36 minerals produced from land subject to the claim, leasehold location,  
37 or mining lease during each calendar year.

38 (b) The production royalty is three percent of net income as  
39 determined under AS 43.65.

40 (c) The commissioner shall adopt regulations to implement this

1 section and to provide for combined reporting and paying of production  
2 royalties for mining operations that include more than one mining  
3 claim, leasehold location, or mining lease.

4 \* Sec. 5. AS 38.05.240 is amended to read:

5 Sec. 38.05.240. LABOR DEFINED FOR AS 38.05.210 - 38.05.235. In  
6 AS 38.05.210 - 38.05.235, "labor" includes geological, geochemical,  
7 geophysical, and airborne surveys conducted by qualified experts and  
8 verified by a detailed report filed in the recording district office  
9 in which the claim, leasehold location, or mining lease is located  
10 which sets out fully (1) the location of the work performed in re-  
11 lation to the point of discovery and boundaries of the claim, lease-  
12 hold location, or mining lease, (2) the nature, extent, and cost of  
13 it, and (3) the name, address, and professional background of the  
14 person conducting the work. The commissioner, by regulation, shall  
15 define the nature of acceptable survey work and the qualifications of  
16 a person competent to perform this work. The airborne surveys, how-  
17 ever, may not be applied as labor for more than two consecutive years  
18 or for more than a total of five years on any one mining claim, lease-  
19 hold location, or mining lease, and each of those surveys shall be  
20 nonrepetitive of any previous survey on the same claim, leasehold  
21 location, or mining lease.

22 \* Sec. 6. AS 38.05.250(c) is amended to read:

23 (c) Each [LEASES FOR SUBMERGED LAND SHALL BE CONDITIONED UPON  
24 PAYMENT OF AN ANNUAL RENTAL OF \$3 AN ACRE. EXPENDITURES ON OR FOR THE  
25 BENEFIT OF THE LEASEHOLD MAY BE CREDITED AGAINST THE RENTAL. RENT  
26 SHALL BE PAID OR A STATEMENT OF ANNUAL LABOR SHALL BE RECORDED WITHIN  
27 90 DAYS AFTER EACH ANNIVERSARY DATE OF THE LEASE. ALL] submerged land  
28 mining lease [LEASES] shall be for a period of up to 20 years [,] and  
29 for so long as there is production in paying quantities from the

leased area. [THE COMMISSIONER MAY MAKE REASONABLE ADJUSTMENTS OF THE RENTAL RATE AT THE END OF EACH 10-YEAR PERIOD, BASED UPON CHANGED CONDITIONS IN PRODUCTION COSTS AND MARKET.]

\* Sec. 7. AS 38.05.265 is amended to read:

Sec. 38.05.265. ABANDONMENT. Failure to [(1)] properly record a certificate of location or a statement of annual labor, [OR (2)] file with the director within the time prescribed a lease application, [OR (3)] pay any required annual rental, pay any required production royalty [OR RECEIVE CREDIT FOR RENTAL], or [(4)] keep location boundaries clearly marked [, ALL] as required by AS 38.05.185 - 38.05.275 and by regulations adopted under these sections [,] constitutes abandonment of all rights acquired under the mining claim [LEASE], leasehold location, lease, or site involved, and the claim, location, lease, or site [IT] is subject to relocation by others. A [IF A LOCATION IS NOT RELOCATED BY ANOTHER PERSON WITHIN ONE YEAR AFTER THE FAILURE, THE] locator or claimant of an [THE] abandoned location [,] or a successor in interest [,] may not [RETURN TO] relocate the location until one year after abandonment [IT AS THOUGH IT HAD NEVER BEEN LOCATED]. A statement of annual labor that [WHICH] does not accurately set out the essential facts is void and of no effect. If an annual rental or a royalty payment is deficient but is otherwise timely paid, abandonment does not result if full payment is made within

(1) the period prescribed by a deficiency notice from the commissioner; or

(2) 30 days after a final judgment establishing the amount due if the deficiency amount due was contested.

\* Sec. 8. AS 27.05 is amended by adding a new section to read:

ARTICLE 4. RECLAMATION.

1                   Sec. 27.05.250. RECLAMATION. (a) The commissioner shall re-  
2                   quire reclamation of state land from the effects of mining.

3                   (b) The commissioner shall adopt regulations under this section  
4                   and under AS 38 to implement (a) of this section. The regulations  
5                   must require a miner to submit to the commissioner and receive ap-  
6                   proval on a reclamation plan before undertaking any mining activity;  
7                   the regulations must also establish penalties for noncompliance with  
8                   the regulations. On a determination by the commissioner that a miner  
9                   has failed to follow the reclamation plan, the commissioner shall  
10                  require proof of financial responsibility before the miner undertakes  
11                  any further mining activity.

12                  (c) In order to provide for an effective reclamation program,  
13                  when adopting regulations under this section and AS 38, the commis-  
14                  sioner shall consult with the commissioners of environmental conserva-  
15                  tion and fish and game.

16                  (d) This section does not apply to reclamation carried out under  
17                  AS 27.21.

18 \* Sec. 9. AS 43.05.230 is amended by adding a new subsection to read:

19                  (h) The commissioner shall, upon request, furnish to the Depart-  
20                  ment of Natural Resources copies of tax returns, reports, documents  
21                  filed under AS 43.65.010 - 43.65.060, and the department's deter-  
22                  minations and workpapers. The Department of Natural Resources shall  
23                  maintain the confidentiality that the department is required to extend  
24                  to the returns, reports, documents, determinations, and workpapers  
25                  furnished to the Department of Natural Resources under this subsec-  
26                  tion.

27 \* Sec. 10. AS 38.05.205(b) and 38.05.210(d) are repealed.

28 \* Sec. 11. TRANSITION. (a) Sections 1 - 7, 9, and 10 of this Act and  
29 this section apply to mining claims, leasehold locations, and mining leases

located before, on, or after August 31, 1989.

(b) The first annual rental payment due under AS 38.05.211 as enacted in sec. 4 of this Act is for the annual labor year beginning September 1, 1989.

(c) The first production royalty payment due under AS 38.05.212 as enacted by sec. 4 of this Act is for production after December 31, 1989.

(d) The commissioner of natural resources shall adopt regulations to implement the changes made by secs. 1 - 7, 9, and 10 of this Act and this section. The regulations take effect under the Administrative Procedure Act (AS 44.62) but not before August 31, 1989. The regulations may defer the date for the first annual rental payment due under AS 38.05.211 as enacted in sec. 4 of this Act.

\* Sec. 12. The commissioner of natural resources shall adopt the regulations required by AS 27.05.250, added by sec. 8 of this Act, by July 1, 1991.

\* Sec. 13. Section 11(d) of this Act takes effect immediately under AS 01.10.070(c).

\* Sec. 14. Except for secs. 8, 11(d), and 12, this Act takes effect August 31, 1989.

\* Sec. 15. Sections 8 and 12 of this Act take effect June 1, 1990.



129

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 19, 1989

The Honorable Tim Kelly  
President of the Senate  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Kelly:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill making certain changes in the laws regarding state mining claims, leasehold locations, and mining leases. The main purpose of the bill is to resolve the long-standing "6(i)" issue, which has cast a legal cloud over the state's mining laws since statehood. The bill achieves that purpose by imposing rent and royalty requirements on state mining claims, leasehold locations, and mining leases. Those in the mineral industry will benefit from the added legal security of their mining interests, while all the people of the state will benefit from the rent and royalty income to the state.

Under existing state law, rights to "locatable" minerals (those minerals subject to location under the federal mining law at the time of statehood, including such minerals as gold, silver, and zinc) may be acquired, except in offshore areas, by staking a mining claim under AS 38.05.195, or by staking a leasehold location and converting it to a mining lease under AS 38.05.205. Present state law imposes no rent or royalty upon a mining claim under AS 38.05.195 or leasehold location under AS 38.05.205, and allows the rental requirement for a mining lease to be discharged through the performance of annual labor. AS 38.05.205(b).

In Trustees for Alaska v. State of Alaska, 736 P.2d 324 (Alaska 1987), cert. denied \_\_ U.S. \_\_, 108 S.Ct. 2013, 100 L.Ed.2d 601 (1988), the Alaska Supreme Court found that the state's mining law fails to comply with the minimum requirements in sec. 6(i) of the Alaska Statehood Act. In particular, the court found that cash rents or royalties are required for mining rights in mineral land granted under sec. 6 of the Statehood Act.

This bill conclusively resolves the "6(i)" issue within the context of existing law. The bill will minimize administrative burdens for the Department of Natural Resources and will generate significantly more in general fund revenue than it will cost to administer. Passage this session will remove the threat of an injunction against mining during this upcoming season. The balance of this letter discusses the particular changes proposed.

The bill amends AS 38.05.210 to make the annual labor requirement applicable to all mining claims, leasehold locations, and mining leases, while reducing the amount from \$200 to \$100. Cash payment in place of the annual labor will also be allowed. In addition, the current dollar limit on the application of excess work to future years is being converted to a durational limit of four years, and an unnecessary reference to AS 38.05.240 and 38.05.242 is also deleted. Section 2 of the bill.

Section 3 of the bill adds two new sections. Proposed AS 38.05.211 provides for a minimum annual rental on each mining claim, leasehold location, and mining lease. The minimum annual rental will be on a sliding scale ranging from a minimum of \$.50 per acre for a mining interest up to five years old, to a minimum of \$5 per acre for mining interests held for more than 20 years.

Proposed AS 38.05.212 provides for a minimum production royalty on all minerals produced from land subject to a claim, leasehold location, or mining lease. The production royalty will be determined on a sliding scale measured on gross income. At each level of gross income, the higher of a minimum royalty or a specified percentage of net income will be payable. The details for computing gross and net income will be established by regulations.

Section 5 of the bill amends AS 38.05.265 to provide that a mining interest is considered abandoned if no annual rental or production royalty is paid by the deadline, which will be set by regulation.

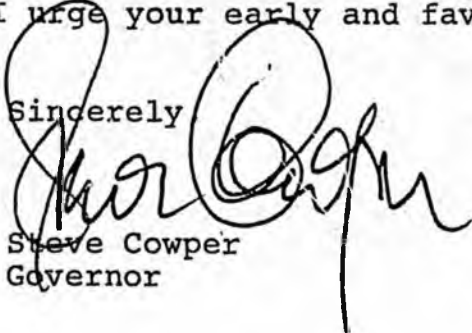
Section 6 of the bill amends AS 43.05.230 to require the commissioner of revenue to provide tax returns, reports, and documents relating to the mining license tax to the Department of Natural Resources, on the condition that confidential information be protected.

The bill includes a transition section that provides for commencement dates for the annual rental and royalty requirements. These dates will allow sufficient time for the Department of Natural Resources to adopt regulations implementing the bill.

The bill also includes technical revisions, a repealer section, and other conforming amendments, to make changes necessary to achieve the purposes generally described above.

Passage of this bill will end a long and troubled period of uncertainty under the state mining laws. It will give holders of interests in mining claims greater legal security, and the people of the State of Alaska a fair return on the public's mineral resources. I urge your early and favorable consideration of this bill.

Sincerely

  
Steve Cowper  
Governor

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 129 (Res) (b)  
PUBLISH DATE: 4/14/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: "An Act relating to rent and  
royalty payments for a mining claim"  
Sponsor: Rules/Governor  
Requestor: Resources

Agency Affected: Revenue  
BRU: Income and Excise Audit Division  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
<b>OPERATING</b>						
PERSONAL SERVICES	50.9	50.9	50.9	50.9	50.9	50.9
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	17.9	17.9	17.9	17.9	17.9	17.9
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT	10.2	0.0	0.0	0.0	0.0	0.0
LANDS & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>85.0</b>	<b>74.8</b>	<b>74.8</b>	<b>74.8</b>	<b>74.8</b>	<b>74.8</b>
<b>CAPITAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>REVENUE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>--</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	85.0	74.8	74.8	74.8	74.8	74.8
FEDERAL FUNDS	0.0	0.0	0.0	0.0	0.0	0.0
OTHER	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>85.0</b>	<b>74.8</b>	<b>74.8</b>	<b>74.8</b>	<b>74.8</b>	<b>74.8</b>

POSITIONS:

FULL-TIME	1.0	1.0	1.0	1.0	1.0	1.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

ANALYSIS: See attached.

Prepared By: Steven E. Kette *Steven E. Kette* Phone: (907) 465-2320  
Division: Income and Excise Audit Division Date: April 13, 1989

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: April 13, 1989  
Agency: Department of Revenue

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

Prepared By: Steven E. Kettel  
Income and Excise Audit Division

CSSB 129 Analysis

Personal Services

Revenue Auditor III                      \$50.9  
12 months, 18A

Travel    \$5.0

Contractual                                      \$17.9

Communications              \$9.0  
Courier                        \$0.5  
Printing                        \$3.5  
Advertising                  \$1.7  
Maintenance                 \$0.7  
Training                        \$1.0  
Postage                         \$1.5

Supplies                                         \$1.0

Equipment                                      \$10.2\*

Computer                     \$3.5  
Office Furniture            \$3.5  
Computer Printer            \$3.2

TOTAL    \$85.0

\*One Time Item

CSSB 129  
Prepared by:  
Steven E. Kettel  
Income and Excise Audit Division  
April 13, 1989

### ANALYSIS

CS SB 129 places responsibility for auditing a new production royalty on mining operations in the Department of Revenue. The royalty is computed at 2% of net income determined under AS 43.65, the Mining License Tax Act, presently administered by the Department.

Department of Natural Resources estimates that approximately 100 royalty production returns will be filed annually. Profitability of mining operations on state claims has traditionally been low for all but a few large operations. Section 9 of the bill provides that the rental for the state mining lease may be used as a credit against the royalty, further minimizing collections.

### Fiscal Impact

Continuing expenses of \$75,000 per year will fund a new position to audit royalty production returns as required by AS 38.05.036(a)(2).

### Department Position

In addition to objections raised by Department of Natural Resources, the Department opposes putting the audit responsibilities for the production royalty in this Department. This proposal is not destined to be a revenue raising measure, yet will require significant agency attention, diverting management and staff from more important tax matters, which are our primary responsibilities.

Also, with the link between the lease rental and the royalty, it would seem more logical to administer both programs in the same agency.

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: SB 129 (b)  
PUBLISH DATE: 1/19/89

FISCAL NOTE

REQUEST:

Revision Date: January 13, 1989  
Title: Rent and Royalties for  
State Mining Claims  
Sponsor: Rules Committee  
Requestor: Governor

Agency Affected: Revenue  
BRU: Income and Excise Audit Division  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Steven F. Kettel *Steve Kettel* Phone: (907) 465-2320  
Division: Income and Excise Audit Date: January 13, 1989

Approved by Commissioner: Hugh Malone *Hugh Malone FOR* Date: January 13, 1989  
Agency: Revenue

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Prepared by: Steven E. Kettel  
Income and Excise Audit Division  
Department of Revenue  
January 13, 1989

Fiscal Note Analysis

Legislative action is necessary to cure a defect in the state's mining laws which do not comply with Section 6(i) of the Statehood Act. The central problem -- Alaska's mining leasing system does not require the payment of cash rent or royalties.

This legislation introduces a system of rental and royalty charges against those miners with claims on state land. There will be no fiscal impact upon the Department of Revenue. DNR has prepared a fiscal note showing the anticipated revenues this proposal will generate.

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 129 (Resources) <sup>H/B</sup> (a)  
PUBLISH DATE: 4/12/89

FISCAL NOTE

REQUEST:

Revision Date: 11-Apr-89 Agency Affected: Natural Resources  
Title: An Act relating to rent and BRU: Mining Management  
royalty payments for mining claims.  
Sponsor: Senate Rules Components: Mining Management  
Requestor: Governor

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		673.4	52.3	52.3	52.3	52.3
TRAVEL		9.0	2.0	2.0	2.0	2.0
CONTRACTUAL		248.8	10.0	10.0	10.0	10.0
SUPPLIES		29.0				
EQUIPMENT		13.0				
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	973.2	64.3	64.3	64.3	64.3
CAPITAL						
REVENUE		75.0	75.0	77.0	77.0	80.0

FUNDING: (Thousands of Dollars)

GENERAL FUND		973.2	64.3	64.3	64.3	64.3
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	973.2	64.3	64.3	64.3	64.3

POSITIONS:

FULL-TIME		2.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY		2.0				

ANALYSIS: (Attach a separate page if necessary)

See Attached

Prepared by: Gerald Gallagher Phone: 762-2165  
Division: Mining Management Date: 11-Apr-89  
Approved by Commissioner: Lennie Gorsuch Date: 11-Apr-89  
Agency: Department of Natural Resources

Distribution (by preparer) :  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

## CS for SB121 Bill Analysis

Determining whether the 104.5 million acres of 6(a) and (b) state lands are "mineral-in-character at the time of state selection" will require a comprehensive evaluation of the selection history, mineral occurrences and location of state and federal mining claims on a township (status plat) scale. The department has prepared the following 14 step process:

- 1) Conduct a literature study for mineral occurrences. These occurrences are put on the ARC/INFO system as mineral occurrence polygons. This information is made available in digital form to LRIS. Dates are associated with all of these polygons as attribute information.
- 2) LRIS gets a digital dump from BLM ALARS system of the 110,000 federal mining claims. This information is processed onto regional GIS maps that will also contain the polygons from step one. Dates are associated with this information as attributes.
- 3) LRIS gets a digital dump from LAS of the 45,000 state mining claims. Dates are associated with this information as attributes. This information is processed onto the regional GIS maps mentioned above.
- 4) DGGS and Mining personnel review the GIS regional maps showing mineral polygons from literature, the federal mining claim scatter, and the state mining claim scatter. Based on this review, LRIS is instructed as to which federal mining claims must have actual locations determined.
- 5) The federal files in Anchorage and Fairbanks are searched for the above identified location maps by knowledgeable Mining staff.
- 6) The above location maps are converted to digital format by LRIS.
- 7) This incremental location information is added to the above regional GIS information by LRIS.
- 8) Division of Mining determines which of these occurrences (literature polygons and federal mining claims) qualify as "mineral-in-character".
- 9) The final mineral occurrence polygons are processed into the GIS data. These polygons are represented relative to the scatter of state mining claims. Regional products are produced by LRIS.

- 10) Title is given these regional products. In areas where state mining claims are in the vicinity of mineral occurrence polygons, title searches are done to determine title lines and dates of selection.
- 11) Title manuscripts onto copies of state status plats, the relevant title lines, and notes the date of selection for the land.
- 12) LRIS produces map overlays at the status plat scale of all mineral occurrence polygons, with dates associated.
- 13) Number twelve will be used by Mining to determine which claims are subject to rents and or royalties.
- 14) Status graphics devises a method of standard notation for putting these mineral occurrence polygons onto the status plats for purposes of identifying for the public and the land managers what areas have a "6(i)" liability associated with staking a mining claim.

This process relies on the Departments Geographic Information System (GIS) computer to compile data and produce maps at the scale of state status plats. Over 12,000 individual maps will have to be made in this process.

The Department has determined it will be more efficient and cost effective to conduct this assessment on a statewide basis for all 6(a) and 6(b) lands rather than react to requests for such determinations on each individual mining claim. (There are approximately 45,000 claims.) As such, all costs for mineral determinations are limited to a single year, rather than spread out over several years.

Continuing expenses of \$52.0 per year will fund a new position to issue leases as required by AS 38.05.205(b). These leases require notice, agency and public comment, and land title analysis. This position will be responsible for that additional work load under this bill.

Position Title <b>Geologist IV</b>		No. of Positions <b>1</b>	Range/Step <b>20A</b>	Barg. Unit <b>SU</b>
Time Status <b>Non-Perm</b>	Staff Months <b>12</b>	Location <b>Anchorage</b>		Election District
<b>Justification</b>				
This position will serve as the Project Manager for the mineral-in-character determinations required under the CS for SB 129. Oversight and technical quality control of the compilation of geologic, land status and mining claim data and adherence to schedules will be the responsibility of this person. See attachments to bill analysis for the full scope of this project.				
<b>Type of Expenditure</b>		<b>Amount</b>		
<b>1</b>	<b>2</b>	<b>3</b>		
Salary	1	42.8		
Benefits	1	17.1		
Premium Pay				
Other				
<b>Total Personal Services</b>		<b>59.8</b>		
Travel				
Contractual				
Commodities				
Equipment				
Other				
<b>Total Cost</b>		<b>59.8</b>		
<b>Funding Source for Total Cost</b>				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	59.8		
I-A Receipts	1006			
CIP Receipts	1061			
Other				

**Request For  
New Position**

Agency Natural Resources  
 BRU Minerals Management  
 Component Minerals Management

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 Revised Date     

**FY 90**

Position Title Natural Resources Manager I		No. of Positions 1	Range/Step 18A	Barg. Unit GGU
Time Status Permanent	Staff Months 12 months/year	Location Anchorage		Election District
Justification				
During the first 12 months, this staff member will assist the project manager in the compilation and assessment of mining claims and land status data. After the final mineral-in-character determinations are completed, this position will process leases and track rent and royalty payments from these leases. See the bill analysis for a full description of this project.				
Type of Expenditure		Amount		
1	2	3		
Salary	37.4			
Benefits	14.9			
Premium Pay				
Other				
Total Personal Services		52.3		
Travel				
Contractual				
Commodities				
Equipment				
Other				
Total Cost		52.3		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	52.3		
I-A Receipts	1006			
CIP Receipts	1061			
Other				

Request For  
New Position

Agency Natural Resources  
 BRU Minerals Management  
 Component Minerals Management

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FY 90

Position Title Analyst Programmer I		No. of Positions 2	Range/Step 13A	Barg. Unit GGU
Time Status Non-Perm	Staff Months 24	Location Anchorage		Election District
Justification				
These staff will be responsible for inputting geologic, land status and mining claim data into the Geographic Information Computer System (GIS). In addition, they will perform quality control of all data and maps generated. See bill analysis for a full description of this project.				
Type of Expenditure		Amount		
1	2	3		
Salary	52.9			
Benefits	21.2			
Premium Pay				
Other				
Total Personal Services		74.1		
Travel				
Contractual				
Commodities				
Equipment				
Other				
Total Cost		74.1		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	74.1		
I-A Receipts	1006			
CIP Receipts	1061			
Other				

**Request For  
New Position**

Agency Natural Resources  
 BRU Minerals Management  
 Component Minerals Management

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 Revised Date     

**FY 90**

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: Rent & Royalty Payments for Mining Claims  
Sponsor: Rules Committee  
Requestor: Governor

Agency Affected: DNR  
BRU: Mining Management Management/Administration  
Components: Property Management Admin. Services

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		35,900	37,000	38,200	39,400	40,800
TRAVEL		0	0	0	0	0
CONTRACTUAL		1,500	1,500	1,500	1,500	1,500
SUPPLIES		500	500	500	500	500
EQUIPMENT		4,000	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>		<b>41,900</b>	<b>39,000</b>	<b>40,200</b>	<b>41,400</b>	<b>42,800</b>
<b>CAPITAL</b>		<b>240,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>		<b>750,000</b>	<b>750,000</b>	<b>770,000</b>	<b>770,000</b>	<b>800,000</b>

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	281,900	39,000	40,200	41,400	42,800
FEDERAL FUNDS					
OTHER					
<b>TOTAL</b>					

**POSITIONS:**

FULL-TIME	1	1	1	1	1
PART-TIME					
TEMPORARY					

**ANALYSIS : (Attach a separate page if necessary)**

See attached sheet

Prepared by: Gerald Gallagher  
Division: Mining  
Approved by Commissioner: Lennie Gorsuch  
Agency: DNR

Phone: 762-2165  
Date: 1/6/89  
Date: 1-6-89

**Distribution (by preparer):**

Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

Assumptions: As a result of the May, 1987 Alaska Supreme Court opinion, the State's mining laws will need to be amended to require the payment of a cash rent and production royalty. There are currently over 40,000 state mining claims and 200 mining operations on state land. Each claim will be assessed a rental of \$0.50 per acre (\$20 per claim) and each operation a minimum royalty of \$200 or 1% of the net profits, whichever is greater. DNR estimates revenue derived from rents and royalty will be \$750,000 in FY 90 and increase to \$800,000 by FY 94. Rental payments should account for \$650,000 and the royalty payments are estimated to be \$100,000 initially.

Program Summary: This expenditure is necessary to complete the additional work load of collecting rent and royalty payments and maintaining both the current mining records system and the state's revenue and billing system.

Positions: A new "Accounting Technician I" position is needed in the Mining and Administration BRU. This position will maintain accounts in the LAS's Revenue and Billing System, audit billing registers, and prepare worksheets and reports as necessary to assure proper accounting and coding of these funds.

Other Expenditures: A one-time capital appropriation of \$240,000 is necessary to purchase a new computer system in the "Mining Management" BRU. This new system will allow the Division of Mining to handle the additional workload of rent and royalty payment tracking and lease status verification without additional staff.

General fund revenues generated under this proposal will exceed expenditures in every year. During FY 90, a general fund contribution of \$468,000 after all expenses is estimated. Beginning in FY 91, general fund contribution of at least \$700,000 annually are expected after operating expenses are deducted.