

ALASKA LEGISLATURE

1079

HOUSE and SENATE FINANCE COMMITTEE FILES,

1993-1994

153

Alaska State Pension Investment Board



P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

March 3, 1994

The Honorable Eileen MacLean
Alaska State Legislature
State Capitol, Room 507
Juneau, Alaska 99801-1182

Dear Representative MacLean:

The Treasury Division in the Department of Revenue as restructured by HB 494 will be able to improve earnings to the General Investment Fund by \$10 Million. This sum is actually a lower case expectation. Recent history shows that enhanced forecasting would have increased revenue in a range between \$23 Million and \$30 Million.

This can be achieved through enhanced cash flow forecasting and investing the funds using the improved information. However, as you would expect, there is nothing simple about the process.

The current cash flow forecasting system provides general information which is not sufficient for the investment process. The focus of the existing system is on unexpended General Fund assets. A greater emphasis towards monitoring the daily ebbs and flows of cash during the fiscal year will allow Portfolio Management staff of the Treasury Division to take greater advantage of investment opportunities. First, significant improvement can be achieved by monitoring the daily cash flows. Secondly, a significant working relationship can be established with financial officers of the appropriate departments and agencies of the State. This dialogue will educate and increase the level of communication regarding the need for timely information.

The improved level of cash flow information, as noted earlier, will allow staff to take advantage of investment opportunities. In a normal interest rate environment, an investor of fixed income securities will receive a higher return (increased yield) by investing in securities that have a longer maturity date. For example, a three-month U.S. Treasury Bill will pay a greater interest rate than an overnight investment; a six-month U.S. Treasury Bill typically has a higher payout than a three-month U.S. Treasury Bill, etc. With a greater understanding of the daily cash flow, it will not be necessary to maintain

Representative Eileen MacLean

March 3, 1994

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as high a level of residual cash on hand to meet unanticipated demands on the General Investment Fund. Not only can staff reduce the amount of cash on hand, they can take advantage of the interest rate environment and invest more comfortably in longer dated U.S. Treasury Fixed Income Securities. I emphasize that this can be achieved in the context of safety of principal and liquidity.

An example of how an improved forecast would have increased the returns in Calendar Year 1992 and for the twelve months ending October 31, 1993, is listed below. The columns represent the General Investment Fund balance, actual returns and the returns of the most representative published index. This low risk index is structured in a manner consistent with investment objectives that would be applicable given the ability to enhance cash flow forecasting.

Date Year Year Ending	GIF balance ('000's)	Actual Performance	Lehman Government 1-3 Year Index
12-31-92		4.87%	6.25%
11-30-92	\$1,420,000	0.15	<0.15>
12-31-92	\$1,423,000	0.48	0.93
1-31-93	\$1,368,000	0.49	1.05
2-28-93	\$1,374,000	0.39	0.80
3-31-93	\$1,397,000	0.29	0.31
4-30-93	\$1,417,000	0.34	0.61
5-31-93	\$1,356,000	0.13	<0.24>
6-30-93	\$2,034,000	0.38	0.75
7-31-93	\$1,050,000	0.29	0.22
8-31-93	\$1,849,000	0.37	0.83
9-30-93	\$2,312,000	0.30	0.32
10-31-93	\$2,028,000	0.26	0.22
Average 12 months ending 10-31-93	\$1,660,000	3.92%	5.77%

For the twelve months ending October 31, 1993, the additional return would have been:

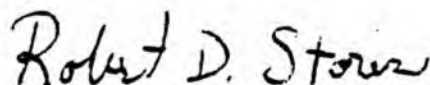
$$\$1,660,000,000 \times (5.77\% - 3.92\%) = \$30,710,000.$$

The same monthly average for Calendar Year 1992 would have increased revenue by \$22.9 Million. These returns are indicative of why staff believes an increase in revenue of \$10 Million is very conservative and achievable.

Representative Eileen MacLean
March 3, 1994
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I hope you find this information useful and I would be happy to provide additional information that may be required.

Sincerely,

A handwritten signature in cursive script that reads "Robert D. Storer".

Robert D. Storer
Chief Investment Officer

94-043

cc: Darrel J. Rexwinkel, Commissioner
Laraine L. Derr, Deputy Commissioner

Alaska State Pension Investment Board



P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

Position Paper

An Act Establishing the Alaska Pension Investment Authority

Position

The Trustees of the Alaska State Pension Investment Board (ASPIB) passed a motion without opposition to request legislation to establish the Alaska Pension Investment Authority (APIA). This action signifies the Trustees' strong belief that a separate authority is in the best interest of the beneficiaries and employers participating in the retirement systems for which the Trustees have fiduciary responsibility. The Trustees respectfully request support for this important legislation from members of the legislature and the Governor.

Background

SB 329 created the Alaska State Pension Investment Board and gave the Trustees the fiduciary responsibility for management and investment of the State's retirement assets. This proposed legislation to create the APIA provides the Trustees direct authority over staff to carry out the Trustee's fiduciary responsibilities. Conversely, SB 329 requires that staff for the ASPIB be provided by the Department of Revenue, Treasury Division. Therefore, many staff members have dual roles that are potentially conflicting and multiple organizations to which they are responsible. Creating the APIA, and staffing it with employees directly accountable to the APIA, will clearly define responsibilities for management of retirement system assets. The Trustees believe that it is imperative to have a staff responsible solely to them to provide a more focused effort. This will assure their ability to properly manage the funds.

Implementation Costs

Two fiscal notes associated with this legislation identify budgetary impacts from the formation of the APIA - one for ASPIB/APIA and one for the Treasury Division.

ASPIB/APIA Fiscal Note

The ASPIB/APIA fiscal note provides detail of the annual 2.7% increase over that budgeted for the ASPIB. The increase is primarily from staffing requirements and the need for additional office space. This legislation would result in the addition of only one-half full time equivalent

(FTE) position for the ASPIB/APIA budget. The increased cost for office space is due to the fact that the APIA will require separate facilities. ASPIB is not currently charged for the use of space within the Treasury Division. Other overhead costs for the Treasury Division are expected to decrease.

Treasury Fiscal Note

The revised structure for the Treasury Division would result in the generation of an additional \$10 million of revenues available for General Fund appropriation. This would occur as a result of the redirection of staff to enhance forecasting and management of the General Fund cash resources and would require the addition of 6.8 FTE positions. The additional \$10 million far outweighs any additional costs and further demonstrates the benefit from a more concentrated focus of effort.

Summary

Actuarial soundness of the retirement systems would not be adversely impacted as a result of this legislation. In fact, formation of the APIA, with a proper operational structure to direct staff, should result in increased returns over time, enhancing the actuarial soundness and overall integrity of the systems.

This legislation provides amendments to Alaska Statutes necessary for the establishment and operation of the APIA. This will allow the Trustees to properly manage and invest the retirement funds for which they currently have fiduciary responsibility. The trustees of the ASPIB strongly believe that this action is in the best interest of all of the beneficiaries and employers who participate in the various retirement systems under their control.

William A. Corbus

William A. Corbus, Chair

Gail R. Oba

Gail R. Oba, Vice-Chair

Gary M. Bader

Gary M. Bader, Secretary

3/3/94

Date

RETIREMENT FUND ORGANIZATIONAL SURVEY
March 4, 1994

In order to ascertain the fiduciary responsibility and structure of large public retirement funds, a survey was conducted by staff of the Department of Revenue. The survey was designed to gather information about boards, staff, and accountability. The following questions were asked:

- In regard to investment of pension funds, who is the fiduciary?
- If a Board, is there a sub-committee?
- If an individual, is the position elected or appointed?
- To whom does the chief administrative officer report?
- To whom do investment staff report?

Respondents were selected from Pensions & Investments, January 24, 1994, which listed the top 200 pension funds in the United States. Only public funds above \$5 billion were surveyed. This group included 46 public retirement funds.

Results were as follows:

- Thirty-seven (37) had boards with fiduciary responsibility and staff reporting to the administrative officer hired by the Board
- Six (6) had sole fiduciaries, either state treasurers or chief financial officers, with staff reporting directly. Of the six, four were elected and two appointed.
- Three (3) had boards, Oregon PERS, New York City and Alaska State, where the staff reported to the treasurer or other individual

- New York City has a comptroller who is on the board of trustees. The comptroller is elected and investment staff report to the comptroller

- Alaska State has a commissioner who is on the board of trustees. The commissioner is appointed and investment staff report to the commissioner

- Oregon has a state treasurer that is elected and reports to the investment council. Investment staff report to the treasurer.

WHY SHOULD THE PENSION FUNDS BE INVESTED SEPARATELY FROM THE PERMANENT FUND?

The two Boards have a different focus for investment of funds. Significant points that detail those differences are as follows:

- Pension funds have a Constitutional mandate that there can be no diminishment of benefits - liabilities accrue and must be paid
- Permanent fund has discretionary liabilities - dividend payments are not mandatory

- Pension funds manage assets for four different defined benefit programs with different investment objectives. Deferred compensation and Supplemental Benefit System funds are participant directed.

- Pension funds are managed on a market basis as mandated by GAAP
- Permanent fund is managed on a cost basis

- Pension funds need elected membership on the Board who represent the beneficiaries
- Permanent fund Board is appointed by the Governor

- Each Board operates with a different set of investment objectives

- Permanent fund manages funds to a legal list
- Pension funds are managed with the prudent investor rule and is generally bound by ERISA guidelines.

- Competition and shared information leads to better results for both funds

- Pension funds must coordinate with PERS and TRS Boards and have different reporting guidelines than the Permanent Fund

- Pensions funds are able to be managed with greater rate of return giving the funds greater returns over time than the Permanent Fund

- Redundancy in the funds work to everyone's benefit -- currently the Permanent Fund is back-up for the Pension Funds with disaster control in the data processing area and vice-versa. The funds are able to help one another and it would not be in anyone's best interest to have 85% of the State's assets under control of one Board (the old eggs in one basket theory!)

RECEIVED

FEB 19 1994

7021 Hunt Ave.
Anchorage, Ak. 99504
February 24, 1994

Rep. Eileen MacLean
State Capitol
Juneau, Alaska 99811

Dear Eileen:

I have just read through your bill, HB 494, changing the Alaska State Pension Investment Board to an independent authority. I am delighted that you have introduced this bill and want to lend my strong support.

Ironically, HB 494 puts forward the original intent of my pension investment legislation introduced in 1990 and subsequently vetoed by the Governor. At that time it was felt that the costs of maintaining an independent authority or corporation were excessive. There may have also been some old fashioned territorialism involved.

However, in 1992 the Administration, largely through the efforts of Commissioner Rexwinkle, and I and others worked out compromise legislation which subsequently passed and established the Pension Investment Board which exists today. This legislation gave the Board fiduciary responsibility and independent investment power over the State's pension funds, but did not authorize a staff to carry out its policies. That function remained with the Department of Revenue.

I think everyone has been generally pleased with the functioning of the new Board and the work of the Department of Revenue. Now, however, Board members are beginning to turn their sights to the future. I share their view that the investment policies of the Board have to be followed over a reasonably long time horizon, regardless of changes in Administration. Having an Executive Director and investment officers who work exclusively for the Board would provide much greater assurance that the Board receives all the assistance it requires in its decision-making, and that Board policies and directions are strictly followed.

As we found out with SBS funds, investment of these billions of dollars is serious business, and that considerable attention and safeguards are needed. This legislation will further ensure long-term protection and enhancement of these funds to the advantage of employees as well the state and participating municipalities.

If I can be of any help, please let me know.

With warm regards,


Pat Pourchot

PUBLIC EMPLOYEES' RETIREMENT BOARD

March 11, 1994

Honorable Al Vezay
Chair
House State Affairs Committee
Room 102
State Capitol
Juneau, Alaska 99801-1182

***** F A X T R A N S M I T T A L M E M O *****	
TO: <u>David Hardin</u>	
DEPT: <u>Rep. Ingleton</u>	FAX #: <u>463-224</u>
FROM: <u>Lorraine Devr</u>	PHONE: _____
CO: <u>TREASURY</u>	FAX #: _____
Post-IT and fax transmittal memo 707	

NO. OF PAGES
2

RE: Support for Creation of Alaska State Pension Investment Authority

Dear Representative Vezey:

My colleagues on the Public Employees' Retirement Board have requested that I, as chair, convey to you the support of the Public Employees' Retirement Board for enactment of legislation which would create an Alaska State Pension Investment Authority. As we understand it, HB 494, "An Act Changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority and Relating to the Authority" is presently before your committee. We have reviewed that bill and believe that the intentions of the bill to convert the Alaska State Pension Investment Board into an authority is clearly an idea whose time has come and would serve the interests of the State's public employees.

As you undoubtedly know, the Public Employees' Retirement Board has advised on many issues relating to investment and administration of Alaska's public employee retirement pensions. The Board includes two elected members and three appointed members representing the retirement and benefit interests of public employees, both current and retired. The Board supported creation of the Alaska State Pension Investment Board in 1983, and has been pleased with the operations of that Board as an independent manager and fiduciary of the substantial assets of the retirement funds for public employees. Two members of the Pension Investment Board are elected representatives of the same constituency as is represented by the Public Employees' Retirement Board.

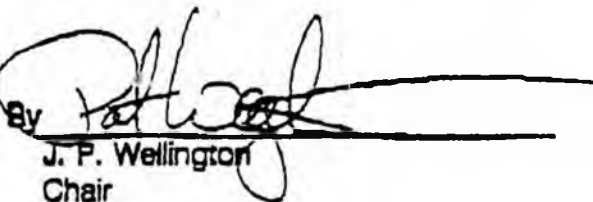
Given the substantial size of the assets now being administered by the Pension Investment Board (over \$8.5 billion), we believe that the scope of that Board's duties has evolved enough to warrant creation of an independent authority

Honorable Al Yeazy
March 11, 1994
Page 2

to in fact handle its responsibilities. Creation of a new authority will not compound bureaucracy. Rather the creation of an authority will constitute an appropriate acknowledgment of the fact that pension funds are indeed separate from the general funds of the State of Alaska. The independent authority (consisting of staff and officers) supporting the Alaska Permanent Fund is an example of a self-supporting entity which is reflective of the importance given to the administration of that fund. The sizeable pension funds of public employees deserve similar treatment and we believe that an authority created through legislation such as HB 494 would indeed be self-supporting and protect the interests of our public employees.

We urge your support of a bill such as HB 494 creating an Alaska Pension Investment Authority. Should you have questions regarding the position or role of the Public Employees' Retirement Board in this process please feel free to contact me or other members of our Board. Thank you very much for your attention.

PUBLIC EMPLOYEES'
RETIREMENT BOARD

By 
J. P. Wellington
Chair

cc: Members, House State Affairs Committee
Members, Public Employees' Retirement Board
Members, Alaska State Pension Investment Board
Deputy Commissioner Laraine Derr

To: Eileen MacLean, Co-Chair, Finance Committee

From: Dorothy Wells, Alaska State Pension Investment Board
Trustee

Date: March 15, 1994

Subject: HB 494, An Act changing the Alaska State Pension
Investment Board to the Pension Investment Authority

Since I will not be coming to Juneau to testify at the hearing regarding this bill, which I understand is scheduled for this coming Monday, March 21, I'd like to submit the following comments.

As a member of this board, I feel strongly that this change would be an excellent one. As you know, the present law gives the trustees fiduciary responsibility; however, the accountability to go along with this fiduciary responsibility is less clear. As it works now, one Board member, the Commissioner of Revenue, is in charge of hiring staff and implementing the policies of the Board. This is working well now; however, it might not always work, and then, it seems to me, it gets a little muddy about who is really responsible. It seems that if the Board has the fiduciary responsibility for the pension funds, then it has to truly be where the "buck finally stops." I think this bill would cause that to be the case.

Additionally, when the law which created the present Pension Board was passed, there was a lot of testimony about why not using the Permanent Fund Board to manage this money also. If that comes up again, I think that is an especially bad idea because of significant differences in the two funds.

1. The Pension Funds are managed with a whole different set of investment objectives than is the Permanent Fund. The payment of pensions is mandated in the Constitution -- no such mandate exists for the permanent fund dividends.

2. The Board manages assets for four different defined benefit pension plans, plus deferred compensation and the SBS funds, which are participant directed.

3. The Pension Board must coordinate with the TRS and PERS Boards and have different reporting requirements than the Permanent Fund Board.

To: Eileen MacLean, Co-Chair, Finance Committee
From: Teachers Retirement System Board, Dorothy Wells, Chair
Date: March 15, 1994
Subject: HB 494, An Act changing the Alaska State Pension
Investment Board to the Pension Investment Authority

The Teachers Retirement Board expresses strong support for HB 494, changing the Investment Board to an Investment Authority.

We feel that the continuity to be gained by creating an Investment Authority would be invaluable. Not only would there be continuity of investment policy, but also continuity of carrying out this policy -- both could only enhance investment returns, which is, of course, the ultimate goal of the Authority.

Thank you for your support of this bill.

Post-It™ brand fax transmittal memo 7671		# of pages 2
To MacLean	From Wells	
Co. Finance	Co. TRS, ASPIB	
Dept.	Phone #	
Fax # 463-3241	Fax # 488-6955	



NEA-ALASKA

Affiliated with the National Education Association

NEA-ALASKA POSITION STATEMENT

HB 494

NEA-Alaska, representing members of both the Teacher Retirement System and the Public Employee Retirement System, supports changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority.

By establishing a public corporation with a legal existence independent of and separate from the state, active and retired participants in the retirement systems will become more confident in the integrity and security of their vested benefits.

Creating an Authority with an executive director and other employees will provide greater opportunity to keep pace with rapid and continuous change occurring in the employee benefits field. Even though the Alaska Pension Investment Board executes its fiduciary responsibility in a dependable manner, an Authority has the potential of enhancing the financial stability of investments and promoting greater economic security for the retirement systems.

The Alaska Permanent Fund Corporation provides a good example of successful management of funds independent of state government. A system that manages the volume of investments the size of TRS and PERS must carefully evaluate investment strategy to determine if investment objectives can be better achieved. HB 494 creates a system with greater accountability between the Board and the Executive Director and the Department of Revenue to achieve economic security for the system. The Authority will have the capacity to evaluate system performance against the employees it hires to achieve the investment returns necessary for a sound system.

One of the biggest employee needs is the need for economic security. In retirement years, economic security is the insurance against poverty and low income, and it is the assurance that one will have the ability to obtain the medical care that grows more important, and more expensive, as we age.

We believe that HB 494 will help achieve economic security for the system in the short term so that our employees enjoy economic security in the long term.

3-12-94

SENATE FINANCE COMMITTEE REPORT

DATE: 4/20/94

FURTHER:

DATE TURNED INTO OFFICE: 5-8-94

The Finance Committee considered CS FOR HOUSE BILL NO. 494(STA) am

"An Act changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority and relating to the authority; and providing for an effective date."

and recommends:

- replace with S CS CS HB 494 (FINANCE)
- or adopt previous _____ CS _____
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

- do pass
- do not pass
- no recommendation
- individual recommendations

*SCS (Fin)
+
Fiscal Note Info
to Follow*

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

Steve Rie
[Signature]
[Signature]
 1. *True Lance. No Rec*
 Co-Chair: Signature/Recommendation

OTHER RECOMMENDATIONS:

Tim Kelly - Do Not Pass
[Signature]
Don Sharp Do Not Pass
 2. *[Signature] NO REC*
 Co-Chair: Signature/Recommendation

FISCAL NOTE

No. 3
 Bill Version: CSHB 494 (STA)
 (H) Publish Date: 3/23/94

STATE OF ALASKA
 1994 LEGISLATIVE SESSION

Revision Date: March 21, 1994 Dept. Affected: Revenue
 Title: An Act Relating to the Establishment of the BRU: Revenue Operations
Alaska Pension Investment Authority (APIA) Component: Alaska State Pension Investment
 Sponsor: Representative MacLean Board (See Note (2))
 Requestor: House State Affairs Committee COMPONENT SERIAL NO. #1961

Expenditures/Revenues Sec. 3 303 CSHB 494 (Fin) efd. 7/1/95 (Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	159.6	159.6	159.6	159.6	159.6	159.6
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	325.6	325.6	325.6	325.6	325.6	325.6
SUPPLIES	1.8	11.8	11.8	11.8	11.8	11.3
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	497.0	497.0	497.0	497.0	497.0	497.0

CAPITAL EXPENDITURES	200.0	200.0				
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHT/A						
Other - Pension Svstms	697.0	497.0	497.0	497.0	497.0	497.0
TOTAL	697.0	497.0	497.0	497.0	497.0	497.0

Estimate of any current year (FY94) cost: \$ 0

POSITIONS

FULL-TIME	Note (1)	0	1.0	1.0	1.0	1.0	1.0
PART-TIME							
TEMPORARY							

ANALYSIS: *Erroneous notes originally T/O of committee but subsequently replaced by House Notes 3 & 4*

Note (1) Net increase of 0.5 FTE positions over the 19.5 FTE employees the Department of Revenue State Pension Investment Board. *replaced by House Notes 3 & 4*

Note (2) This fiscal note represents the net impact from establishing a separate pension investment authority over that previously submitted for the Alaska State Pension Investment Board. If passed, the operating budget for the Board would be required to be used for operations of the new Authority.

Note (3) See attached analysis for additional detail.

Sen
 Changes in CSHB 494 (STA) reflect NO FISCAL CHANGE from the original fiscal note. This fiscal note is appropriate.
 date _____ Comte Aide (initial) _____

Prepared by: Mark W. Prussing, Comptroller Phone: 465-2350
 Division: Treasury Date: 3/21/94
 Approved by: Darrel J. Rexwinkel, Commissioner William A. Corbus, Chair Date: 3/21/94
 Agency: Department of Revenue Alaska State Pension Investment Board

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COMMITTEE COPY

Alaska State Pension Investment Board
Comparison of FY '95 Costs To Those For A Separate Authority (APIA)

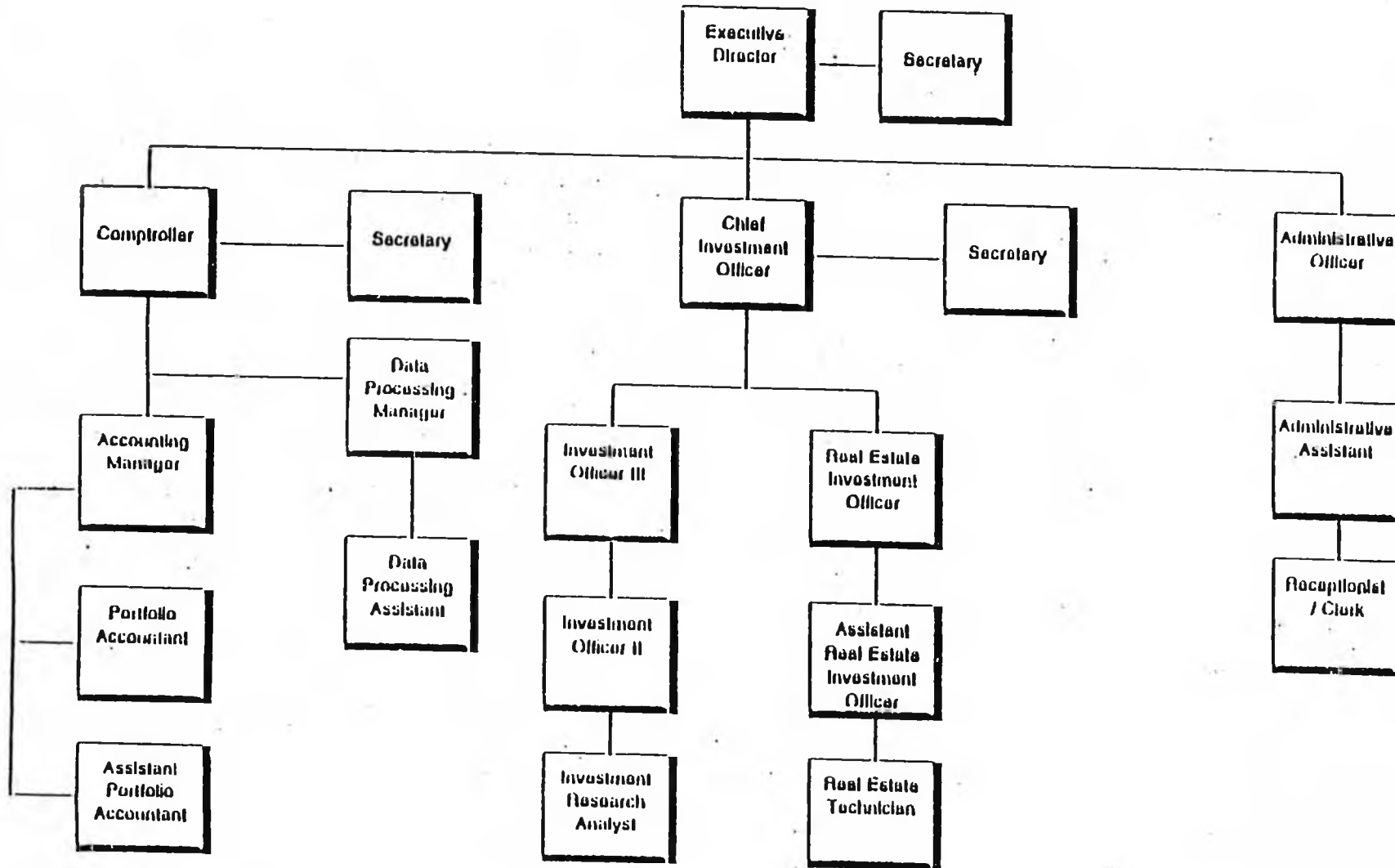
Revenues

	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Public Employees' Retirement Trust Fund	\$10,891,600	\$11,303,807	\$412,207	\$293,919	\$293,919	\$293,919	\$293,919	\$293,919
Teachers' Retirement Trust Fund	7,255,700	7,530,302	274,602	195,801	195,801	195,801	195,801	195,801
Judicial Retirement Trust Fund	90,900	94,340	3,440	2,453	2,453	2,453	2,453	2,453
Military Retirement Trust Fund	29,100	30,201	1,101	785	785	785	785	785
Supplemental Benefit System Fund	74,000	76,801	2,801	1,997	1,997	1,997	1,997	1,997
Deferred Compensation Fund	74,000	76,801	2,801	1,997	1,997	1,997	1,997	1,997
Total Revenues	\$18,415,300	\$19,112,252	696,952	\$496,952	\$496,952	\$496,952	\$496,952	\$496,952

Expenditures

	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Salaries & Benefits	\$1,380,900	\$1,540,502	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602
Investment Management Fees	14,827,700	14,827,700	0	0	0	0	0	0
Custody Fees	1,334,700	1,334,700	0	0	0	0	0	0
Travel	159,000	159,000	0	0	0	0	0	0
Performance Measurement	84,300	84,300	0	0	0	0	0	0
Investment Advisory	190,000	190,000	0	0	0	0	0	0
ASPIB Expenses	56,000	56,000	0	0	0	0	0	0
Professional Fees	109,000	119,000	10,000	10,000	10,000	10,000	10,000	10,000
Information Services	110,950	172,000	61,050	61,050	61,050	61,050	61,050	61,050
Software Support	121,050	121,050	0	0	0	0	0	0
Office Expenses	41,700	308,000	266,300	266,300	266,300	266,300	266,300	266,300
Equipment & Furniture	0	200,000	200,000	0	0	0	0	0
Total Expenditures	\$18,415,300	\$19,112,252	\$696,952	\$496,952	\$496,952	\$496,952	\$496,952	\$496,952

ALASKA PENSION INVESTMENT AUTHORITY
(Proposed)



REPORTED 3/27/94

3FO

FISCAL NOTE

No. 4

Bill Version: CSHB 494 (STA)

(H) Publish Date: 3/23/94

STATE OF ALASKA 1994 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act Relating to the Establishment of the BRU: Revenue Operations
Alaska Pension Investment Authority (APIA) Component: Treasury Management
 Sponsor: Representative MacLean
 Requestor: House State Affairs Committee COMPONENT SERIAL NO. #121

Expenditures/Revenues Sec. 3 Sec 505 CSHB 494 (Fix.) *cf'd 7/1/95* (Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	50.5	550.5	550.5	550.5	550.5	550.5
TRAVEL	17.7	17.7	17.7	17.7	17.7	17.7
CONTRACTUAL	(69.7)	(169.7)	(169.7)	(169.7)	(169.7)	(169.7)
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	98.5	398.5	398.5	398.5	398.5	398.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (Note (2))	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	278.0	278.0	278.0	278.0	278.0	278.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other - Other State Funds	20.5	120.5	120.5	120.5	120.5	120.5
TOTAL	98.5	398.5	398.5	398.5	398.5	398.5

Estimate of any current year (FY94) cost: \$ 0

POSITIONS

	Notes (1) & (2)	7.0	7.0	7.0	7.0	7.0	7.0
FULL-TIME							
PART-TIME							
TEMPORARY							

ANALYSIS:

- Note (1) Net increase of 6.8 FTE positions over the 9.5 FTE employees currently charged to it
- Note (2) The change in staffing is expected to increase the amount available to the General Fund by \$9.7 million annually.
- Note (3) See attached analysis for additional detail.

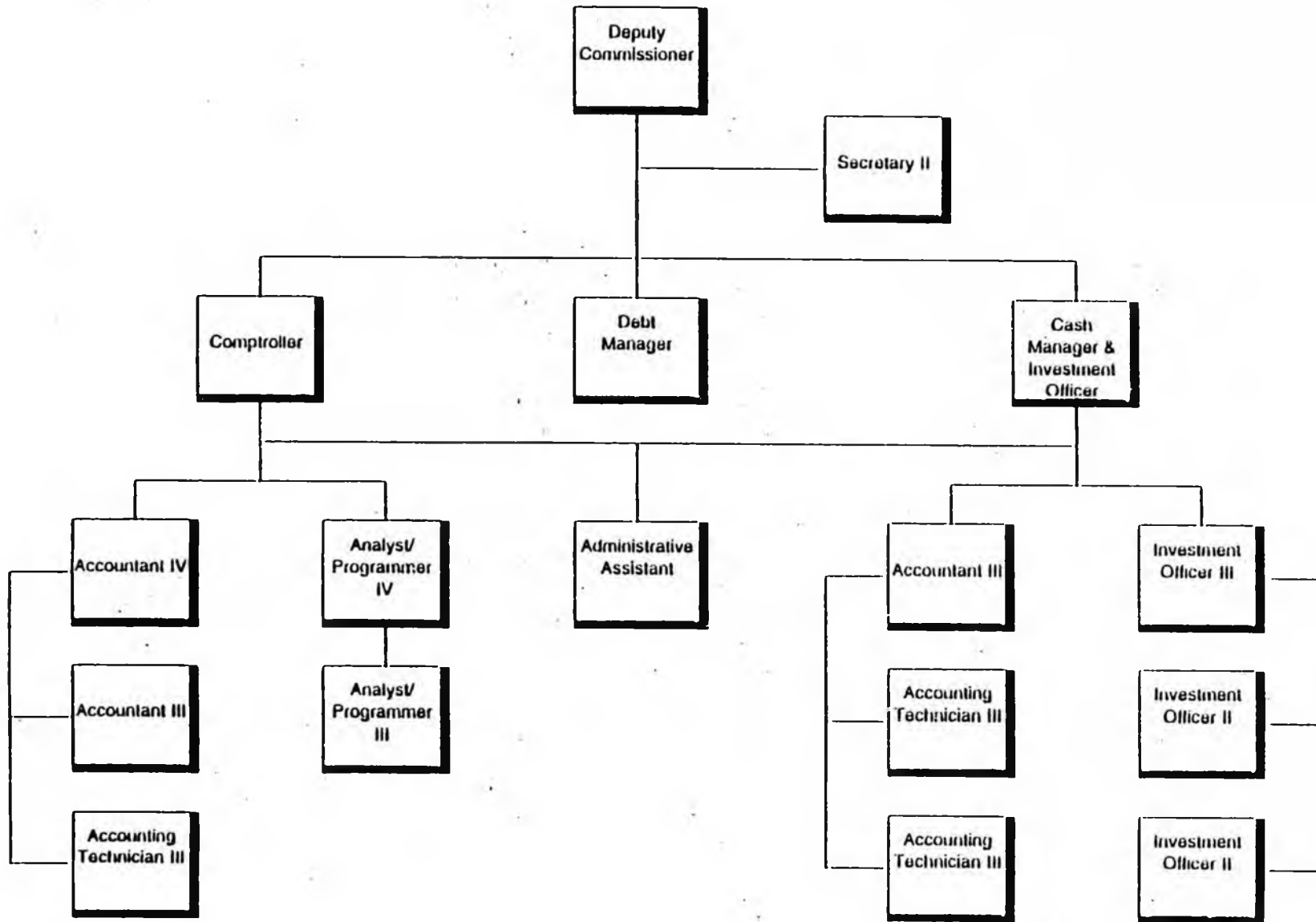
Changes in Sen CS CSHB 494 (STA)
 reflect NO FISCAL CHANGE from the original
 fiscal note. This fiscal note is appropriate.
 4/20/94
 Date: _____
 Name: Alisa Initial: _____

Prepared by: Mark W. Prussing, Comptroller Phone: 465-2350
 Division: Treasury Date: 3/4/94
 Approved by: Darrel J. Rexwinkel, Commissioner Date: 3/9/94
 Agency: Department of Revenue

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COMMITTEE COPY

**ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION ORGANIZATIONAL CHART
(Proposed)**



HB

498

HFIN

FILE

A M E N D M E N T

OFFERED IN THE HOUSE

TO: CSHB 498(RES)

Page 2, line 30, after "CREDITS.":

Delete "The"

Insert "(a) Subject to (b) of this section, the"

Page 3, following line 14:

Insert a new subsection to read:

"(b) A qualified applicant may not apply the credit authorized by this chapter to reduce the applicant's total cumulative liability for taxes and mineral production royalty payments based on production against which the exploration incentive credit may be applied under this chapter by more than 50 percent during any year."

A M E N D M E N T

2 failed

OFFERED IN THE HOUSE
TO: CSHB 498(RES)

Page 2, line 31:

Delete "parcel or site"

Insert "mining lease or coal lease or, if the exploration activity is not under lease, then for each mining location or prospecting permit"

Page 3, line 3:

Delete "parcel or site"

Insert "mining lease, coal lease, mining location, or area described in the prospecting permit, as applicable,"

Page 3, line 6:

Delete "on the parcel or site"

Insert "within the area described in the mining lease, coal lease, mining location, or prospecting permit and"

Page 3, line 19:

Delete "site at"

Insert "mining lease, coal lease, mining location, or prospecting permit on"

AMENDMENT

1
failed

OFFERED IN THE HOUSE
TO: CSHB 498(RES)

Page 2, line 8:

Delete "AS 43.20 and"

Page 3, line 2:

Delete "AS 43.20 and"

Page 5, lines 16 - 19:

Delete all material.

Renumber the following bill sections accordingly.

Adopt

8-LS1644R.3 ✓
Chenoweth
4/5/94

AMENDMENT 3

OFFERED IN THE HOUSE
TO: CSHB 498(RES)

Page 3, lines 1 - 4:

Delete all material and insert:

"(1) 50 percent of the combined amount payable by the qualified applicant, based on the production from the parcel or site on which the exploration activity occurred, as taxes under AS 43.20 and AS 43.65 and as mineral production royalty payments due under AS 38.05.135 - 38.05.175; or"

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 29, 1994

FURTHER REFERRALS:

Date of Committee Action: 4/6/94

The FINANCE Committee considered:

HB 498

HOUSE BILL NO. 498

MINERAL EXPLORATION INCENTIVE CREDITS

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 498 (Fin)

the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) REV 3/29/94

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<u>Maclean</u>		<u>Grussendorf</u>		X	
<u>Eileen P. Maclean</u>	X	<u>Brown</u>			
<u>Ronald J. Hanson</u>	X	<u>Tam Brown Brown</u>			
<u>Mark C. Hanley</u>	X				
<u>Sean R. Farrell</u>	X				
<u>Therriault</u>	X				
<u>Richard Dorel</u>	X				
<u>Foster</u>					

Ronald J. Hanson
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. CSHB 498 (RES)

Revis. on Date:	Dept. Affected: Revenue
Title: Mineral Exploration Incentive Credits	BRU: Revenue Operations
	Component: Income and Excise Audit
Sponsor: Representatives Foster, MacLean	
Requestor: (H) RES	COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE: General	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)
------------------------------	--------------	--------------	--------------	--------------	--------------	--------------

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

MM equals millions
(See Attached)

Prepared by: <u>Larry E. Meyers</u>	Phone: <u>465-2320</u>
Division: <u>Income and Excise Audit Division</u>	Date: <u>March 29, 1994</u>
Approved by Commissioner: <u>Darrel J. Rexwinkel</u>	Date: <u>March 29, 1994</u>
Agency: <u>Department of Revenue</u>	

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Bill Analysis

This bill grants an exploration incentive credit to qualified applicants for activities related to determining the existence, location, extent and quality of a locatable or leasable mineral or coal deposits. The credit may be claimed against corporation net income and mining license taxes under AS 43.20 and AS 43.65, respectively, and royalties under AS 38.05.135 - 38.05.175.

The credit is limited in any one tax year to 60% of direct labor costs for Alaska residents and 50% of direct labor costs for nonresidents and other eligible costs that qualify for the credit not to exceed 50% of the sum amount payable as taxes and royalties under AS 43.20, AS 43.65 and AS 38.05. The credit is available as a carryforward for 15 years.

The credit may be assigned to the applicant's successor in interest for the site at which exploration activities occur if the successor is a qualified applicant.

This bill has a retroactive effective date of January 1, 1994.

Operating Costs

Department of Revenue does not anticipate additional costs to administer the provisions of this bill. The Department would modify current forms to provide for taxpayers to claim credits.

Revenue

Average corporation net income and mining license tax collections over the past three fiscal years were approximately \$186 million. According to Department of Natural Resources' publication *Alaska's Mineral Industry 1993: A Summary*, exploration expenditures in 1993 were \$28.2 million.

Since credits are limited to the lesser of the percentages of eligible costs outlined above or 50% of taxes payable, the maximum amount of credits which could have been claimed for 1993 would have been limited to 60% of expenditures (assuming all costs are for direct labor for residents) or approximately \$17 million. Total expenditures may increase as a result of the incentive program under this bill. Accordingly, the maximum amount of credits would increase over time in proportion to expenditures.

Amounts claimed as credits will vary each year depending on amounts expended for exploration, credits assigned to successor corporations, credits carried forward over the 15 year period allowed, and the effect of credits applied against royalty payments as provided for under this bill.

Sponsor Statement

HB 498

Rep. Richard Foster

HB 498: An Act Providing for Exploration Credits for Activities Involving locatable and leasable minerals and coal deposits.

HB 498 allows credits of up to 50% of qualified exploration expenditures that can be used to offset state royalty payments and income taxes. The credit must be used within 15 years after it is extended by the commissioner of Natural Resources.

The credit must be granted if the applicant is authorized to do business in the state and adequately documents the exploration activity. Data provided to the Commissioner must be kept confidential for 36 months after receipt. Credits are assignable and may be carried forward and/or apportioned between royalty and taxes, in the applicants discretion, but may not exceed the combined amount of taxes and royalties due for the period in which the credit is being used.

This bill implements one of the recommendations of the Alaska Minerals Commission contained in their January 1994 Report (Report). Over the past several years there has been a mass exodus of mineral exploration investment from the lower 48 states and to a lesser extent away from Alaska. These dollars are now being invested in Mexico, Chile, Indonesia, and Russia, to name a few.

Much of this shift is attributable to ever-increasing regulatory and political obstacles in the U.S. and pro-active foreign mineral exploration and development policies, including elimination of royalties and tax incentives. Fortunately, and while this could change at any time, Alaska's image has been improving for the past several years after a long period of disfavor; although there is still a concern that our remoteness and lack of infrastructure and access to public lands work as significant disadvantages.

Alaska is blessed with an abundance of geologically favorable terrain. This bill is one of several things the legislature can do to reinforce the distinction between Alaska and the the lower 48, address the issue of foreign competition and encourage further investment in our mining industry.

HB 498 proposes a meaningful and reasonably attractive economic incentive that will help offset real and perceived problems facing exploration here and send a clear message to the world that Alaska is a good place to do business.



Council of Alaska Producers

P.O. Box 22653 Juneau, Alaska 99802

POSITION STATEMENT: CSHB 498

House Finance Committee

The Council of Alaska Producers, otherwise known as the Producers Council, is an Alaska non-profit corporation whose members include Alaska Gold Company, American Copper and Nickel Company, Inc., Cambior Alaska, Cominco Alaska Incorporated, Echo Bay Alaska, Fairbanks Gold Mining, Inc., Greens Creek Mining Company, Kensington Venture, and North Pacific Mining. The Producers Council strongly supports CS for HB 498 (Resources) which allows tax and royalty credits for qualified mineral exploration expenditures.

Alaska is competing with a global market for mineral exploration and development dollars. Throughout the world, countries are actively courting mining companies by offering economic incentives and other inducements. These efforts have been particularly successful in Chile and Mexico where privatization and tax incentives have revitalized their mining industries.

At the same time, ever-increasing regulatory and political obstacles in the lower 48 are forcing many companies to look elsewhere. While Alaska's image has actually improved over the last several years, exploration expenditures also are down here and we still must overcome legitimate concerns about our remoteness, weather and lack of access to public lands, along with an overriding perception that state and federal agencies are not that friendly to mining in the Last Frontier.

The CS for HB 498 - which implements a key recommendation of the Alaska Minerals Commission in their January 1994 Report - begins to address these issues by proposing a modestly attractive incentive system that encourages reasonable exploration efforts, helps to offset logistical disadvantages and sends a clear message to industry that we want to see more, not less mining activity in this state. HB 498 will not solve all of our problems but it is one of several things we can and should do to draw more industry attention to Alaska and compete in this increasingly competitive global marketplace.

Our mineral industry is in its infancy and there is much room to grow. If we truly want to help diversify an oil dependent economy and fully develop our vast mineral resource potential we must take action now to encourage more exploration activity. Yes, there may be some impact on the

treasury but there also may be more money circulating in the economy. And if this strategy works as expected, expanded exploration efforts eventually will lead to more operating mines, and as important, more good jobs for Alaskans.



ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 278-7997 Telephone: (907) 276-0347

March 9, 1994

Honorable William Williams
Chairman
House Resources Committee
State Capitol
Juneau, AK 99811

RE: HB-498, Exploration Incentives

Dear Representative Williams,

The Alaska Miners Association wishes to go on record in support of House Bill 498 which provides financial incentives for companies and individuals to explore for and develop mineral deposits in the state. This is an important bill that will encourage both the small prospector as well as large international mining companies to invest here in Alaska.

In addition to being an encouragement to invest, HB-498 also insures that the state and the rest of the industry will have access to the data generated. This bill requires that the company wishing to receive the incentive credit document the expenditures it has made and provide the State Division of Geological & Geophysical Surveys with drill core, drill cuttings, sample analysis, etc. This can be a tremendous help for the other companies as they search for minerals and without this provision of the bill this data would remain proprietary and would not be available to the industry as a whole.

One important aspect of the bill is that a company can assign their exploration credit to another company. This can become very important when developing financing for a mineral project. A company that may otherwise not invest can be encouraged if they know they can assign their expenditures, if for example they are not able to continue in the project due to other unrelated financial reasons. If they can assign their credits to the next company to buy into the project, they can recover some of their expenditures. The bottom line is that more exploration will result and more mineral deposits will likely be discovered which can provide jobs, facilities that increase the local tax base, and ultimately company profits that can then be taxed by the state.

There is one location where a minor but important change is needed. That location is in Section 27.30.090. DEFINITIONS, where page 3, line 18 should be changed to read "(2) "geochemical methods" means [ore] soil, rock, water, vegetation, etc. samples collected and



ALASKA MINERS ASSOCIATION, INC.

their chemical analyses;". The term "ore" is not appropriate here because that term, by definition, means material that can be mined at a profit. Geochemical sampling on the other hand is a technique used to find minerals long before it is known if a minable deposit actually exists. Also, some geochemical samples are taken of soil or vegetation while looking for trace elements that may be present and could be an indicator of metals in the area.

HB-498 comes at an important time for encouraging the minerals investments in Alaska. There is now a mass exodus of exploration funds away from federal lands throughout the western U.S. This is due primarily to the increasingly oppressive regulatory climate in the U.S. and to the efforts to change the federal mining law. Alaska cannot correct all of these problems but Alaska can add this incentive to encourage investment. HB-498 will send the message to the international mining industry that Alaska is seeking to improve the investment climate. This bill is one more indication that Alaska is working to encourage mineral development.

If you have any questions regarding this bill please contact me.

Sincerely,

Steven C. Borell, P.E.
Executive Director

cc: Representative Foster
Representative MacLean

(9)

Date Referred: February 14, 1994

FURTHER REFERRALS:

Finance

Date of Committee Action: 3/25/94

The RESOURCES Committee considered:

HB 498

HOUSE BILL NO. 498

MINERAL EXPLORATION INCENTIVE CREDITS

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 498 (RES)

the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

fiscal impact Revenue

zero fiscal note

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s)

zero fiscal note(s)

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Bill Hudson</i> Hudson	<input checked="" type="checkbox"/>	<i>David Hubsten</i> Hinkelstein		<input checked="" type="checkbox"/>	
<i>John Carney</i> Carney	<input checked="" type="checkbox"/>				
<i>Robert Green</i> Green	<input checked="" type="checkbox"/>				
<i>James James</i> James	<input checked="" type="checkbox"/>				
<i>James Davies</i> Davies	<input checked="" type="checkbox"/>				
<i>Car Bunde</i> Bunde	<input checked="" type="checkbox"/>				
<i>W.R. Williams</i> Williams	<input checked="" type="checkbox"/>				

W.R. Williams
CHAIRMAN'S SIGNATURE



ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 276-7997 Telephone: (907) 276-0347

Honorable Ron Larson
 Honorable Eileen MacLean
 Co-Chairmen
 House Finance Committee
 State Capitol
 Juneau, AK 99811

April 4, 1994

RE: CSHB-498, Exploration Incentives

Dear Representatives Larson and MacLean,

The Alaska Miners Association wishes to go on record in support of the Committee Substitute for House Bill 498 which provides financial incentives for companies and individuals to explore for and develop mineral deposits in the state. This is an important bill that will encourage both the small prospector as well as large international mining companies to invest here in Alaska.

In addition to being an encouragement to invest, CSHB-498 also insures that the state and the rest of the industry will have access to the data generated. This bill requires that the company wishing to receive the incentive credit document the expenditures it has made and provide the State Division of Geologic & Geophysical Surveys with drill core, drill cuttings, sample analysis, etc. This can be a tremendous help for other companies as they search for minerals. Without this provision the data would remain proprietary and would not be available to the industry as a whole.

One important aspect of the bill is that a company can assign their exploration credit to another company that may become the owner of the project at a later date. This can become very important when developing financing for a mineral project. A company that may otherwise not invest can be encouraged if they know they can assign their expenditures, if for example they are not able to continue in the project due to other un-related financial reasons. If they can assign their credits to the next company to buy into the project, they can recover some of their expenditures. The bottom line is that more exploration will result and more mineral deposits will likely be discovered that can provide jobs, facilities that increase the local tax base, and ultimately company profits that can then be taxed by the state.

CSHB-498 comes at an important time for encouraging the mineral investment in Alaska. There is now a mass exodus of exploration funds away from federal lands throughout the western U.S. This is due primarily to the increasingly oppressive regulatory climate in the U.S. and to the efforts to change the federal mining law. Alaska cannot correct all of these problems but Alaska can add the exploration incentive of this bill to encourage investment. CSHB-498 will send the message to the international mining industry that Alaska is seeking to improve the investment climate. This bill is one more indication that Alaska is working to encourage mineral development.

If you have any questions regarding this bill please contact me.

Sincerely,


 Steven C. Borell, P.E.
 Executive Director

cc: Representative Foster

HB

498

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/18/94

FURTHER:

DATE TURNED INTO OFFICE: 5-1-94

The Finance Committee considered **CS FOR HOUSE BILL NO. 498(FIN)**

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

and recommends:

replace with S CS CS HB 498 (FINANCE)
 or adopt previous _____ CS _____
 attaches amendment(s)

same title
 new title
 technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
Revenue	5/2/94	<input checked="" type="checkbox"/>	

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

Tim Kelly
Barry Sharp

OTHER RECOMMENDATIONS:

Steve Kren No Recommendation

1. Mark do Pass
 Co-Chair: Signature/Recommendation

2. Tim Kren - No Rec
 Co-Chair: Signature/Recommendation

5/1/94
4:30pm

Call from

Chenoweth 3867

Conflicting Amendments #1 & 5

#1 (Kerhala) allows credits up to 570 based on residency

#5 (Killy) allows credits up to 570 on state land and 2570 on non-state land

with no reference to

residency.

What should he do?

Attempt to marry the two?
Sen. Pearce said to marry.

H33
4/98
Decided by
court

4-19-94
JK 3/1
Adopted

8-LS1872E.1
Chenoweth
4/18/94

A M E N D M E N T

OFFERED IN THE SENATE

TO: ~~CSSB 371~~(RES)
HB 498

SENATE FINANCE
COMMITTEE

Amendment Number: #1
Bill Number: HB 498
Sponsor: KERTTILA Date: 4/18/94
Logged In By: SJS

Page 2, line 30, through page 3, line 14:

Delete all material and insert:

"Sec. 27.30.020. LIMIT ON CREDITS. The amount of exploration incentive credits for each parcel or site may not exceed the lesser of

(1) 50 percent of the combined amount payable by the qualified applicant as taxes under AS 43.20 and AS 43.65 and as mineral production royalty payments due under AS 38.05.135 - 38.05.175 for production from the parcel or site on which the exploration activity occurred; or

(2) with reference to activities that qualify for an exploration incentive credit that occur on the parcel or site on which the exploration activity occurred, 50 percent of

(A) direct labor costs, including the cost of benefits, incurred by the applicant for employees directly associated with work described in AS 27.30.010(a)(1) - (4) who are residents; and

(B) other eligible costs."

Page 4, lines 2 - 13:

Delete all material and insert:

"(3) "other eligible costs" means the costs incurred for activities in direct support of exploration activity conducted for the purpose of determining the existence, location, extent, or quality of a mineral or coal deposit; the term

(A) includes the cost of renting or leasing equipment from parties not affiliated with the applicant, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the applicant, and costs of materials and supplies;

(B) does not include

(i) direct labor costs, including the cost of benefits, incurred by the applicant for employees directly associated with work described in AS 27.30.010(a)(1) - (4) who are not residents; and

(ii) noncash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the applicant has not incurred to complete work described in AS 27.30.010(a)(1) - (4);"

4-19-94
SF
Adopted

8-LS1644NU.9
Chenoweth
4/18/94

AMENDMENT

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

SENATE FINANCE
COMMITTEE #2
Amendment Number:
Bill Number: HB 498
Sponsor: FRANK Date: 19 APR 94
Logged In By: [Signature]

Page 1, line 8, after "(a)":

Delete "The"

Insert "Unless otherwise provided by law, the"

4-19-94
TKZ
Accepted
8-LS1644U.14
Chenoweth
4/19/94

AMENDMENT

OFFERED IN THE SENATE

TO: CSHB 498(FIN)

Page 6, lines 1 - 3:

Delete all material.

Renumber the following bill section accordingly.

SENATE FINANCE
COMMITTEE #3
Amendment Number: #3
Bill Number: HB 498
Sponsor: KELLY Date: 19APR294
Logged In By: SIS

4-19-94
TKZ

3-LS1644U.18^v removed
Chenoweth motion
4/19/94

Pending
at SF
request

AMENDMENT

ADOPTED

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

Page 2, line 30, after "CREDITS.":

Insert "(a)"

Page 3, following line 14:

Insert a new subsection to read:

"(b) The amount of an exploration incentive credit extended under this chapter may not exceed an amount per parcel or site, as determined by the commissioner by regulation."

SENATE FINANCE
COMMITTEE #4
Amendment Number: #4
Bill Number: HB 498
Sponsor: KELLY Date: 11 APR 94
Logged In By: SJA

4-19-94

Pending

8-LS1644U.17
Chenoweth
4/19/94

ADOPTED

A M E N D M E N T

OFFERED IN THE SENATE

TO: CSHB 498(FIN)

SENATE FINANCE
COMMITTEE

Amendment Number: #5
Bill Number: HB 498
Sponsor: KELLY Date: 19 APR 94
Logged In By: [Signature]

Page 2, line 30, through page 3, line 14:

Delete all material and insert:

"Sec. 27.30.020. LIMIT ON CREDITS. The amount of an exploration incentive credit may not exceed 50 percent of eligible costs relating to activities performed on state-owned land and 25 percent of eligible costs relating to activities performed on land in the state not owned by the state."

Page 3, line 28, after "(1)":

Insert ""eligible costs" means those costs incurred for activities in direct support of an exploration activity conducted for the purpose of determining the existence, location, extent, or quality of a mineral or coal deposit; the term

(A) includes

(i) direct labor costs, including the cost of benefits, incurred by the applicant for employees directly associated with work described in AS 27.30.010(a)(1) - (4); and

(ii) the cost of renting or leasing equipment from parties not affiliated with the applicant, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the applicant, and costs of materials and supplies;

(B) does not include noncash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the applicant has not incurred to complete work described in AS 27.30.010(a)(1) - (4);

over

(2)"

Renumber the following paragraphs accordingly.

Page 4, lines 2 - 13:

Delete all material.

Renumber the following paragraph accordingly.

Page 4, line 23:

Delete ";

Insert "."

Page 4, lines 24 - 25:

Delete all material.

A M E N D M E N T

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

Page 2, line 8:

Delete "AS 43.20 and"

Page 3, line 3:

Delete "AS 43.20 and"

Page 5, lines 16 - 19:

Delete all material.

Renumber the following bill sections accordingly.

716
by FRANK
MOVED &
ADOPTED

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SCS CSHB 498 (FIN)

Revision Date: _____
Title: Mineral Exploration Incentive Credits
Sponsor: Representatives Foster, MacLean
Requestor: (S) RLS

Dept. Affected: Revenue
BRU: Revenue Operations
Component: Income and Excise Audit

COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						

REVENUE FUND SOURCE: General	Up to (205.0)	Up to (205.0)	Up to (205.0)	Up to (205.0)	Up to (205.0)	Up to (205.0)
-------------------------------------	---------------	---------------	---------------	---------------	---------------	---------------

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

Average mining license tax collections for the past three fiscal years were approximately \$410,000. Since credits are limited to the lesser of 50% of taxes payable or a percentage of costs, the maximum amount of credits which could be claimed in a year is estimated to be \$205,000, assuming that the cost limitation exceeds the tax limitation.

Prepared by: Larry E. Meyers LEM Phone: 465-2320
 Division: Income and Excise Audit Division Date: May 2, 1994
 Approved by Commissioner: Darrel J. Rexwinkel Date: May 2, 1994
 Agency: Department of Revenue

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FISCAL NOTE

No. 1
 Bill Version: CSHB 498 (RES)
 (H) Publish Date: 3/29/94

STATE OF ALASKA
 1994 LEGISLATIVE SESSION

BILL

Revision Date:		Dept. Affected:	Revenue
Title:	Mineral Exploration Incentive Credits	BRU:	Revenue Operations
Sponsor:	Representatives Foster, MacLean	Component:	Income and Excise Audit
Requestor:	(H) RES	COMPONENT SERIAL NO.	113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE: General	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)	Up to (17MM)
------------------------------	--------------	--------------	--------------	--------------	--------------	--------------

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

MM equals millions
(See Attached)

Prepared by: <u>Larry E. Mevers</u>	Phone: <u>465-2320</u>
Division: <u>Income and Excise Audit Division</u>	Date: <u>March 29, 1994</u>
Approved by Commissioner: <u>Darrel J. Rexwinkel</u>	Date: <u>March 29, 1994</u>
Agency: <u>Department of Revenue</u>	

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Bill Analysis

This bill grants an exploration incentive credit to qualified applicants for activities related to determining the existence, location, extent and quality of a locatable or leasable mineral or coal deposits. The credit may be claimed against corporation net income and mining license taxes under AS 43.20 and AS 43.65, respectively, and royalties under AS 38.05.135 - 38.05.175.

The credit is limited in any one tax year to 60% of direct labor costs for Alaska residents and 50% of direct labor costs for nonresidents and other eligible costs that qualify for the credit not to exceed 50% of the sum amount payable as taxes and royalties under AS 43.20, AS 43.65 and AS 38.05. The credit is available as a carryforward for 15 years.

The credit may be assigned to the applicant's successor in interest for the site at which exploration activities occur if the successor is a qualified applicant.

This bill has a retroactive effective date of January 1, 1994.

Operating Costs

Department of Revenue does not anticipate additional costs to administer the provisions of this bill. The Department would modify current forms to provide for taxpayers to claim credits.

Revenue

Average corporation net income and mining license tax collections over the past three fiscal years were approximately \$186 million. According to Department of Natural Resources' publication *Alaska's Mineral Industry 1993: A Summary*, exploration expenditures in 1993 were \$28.2 million.

Since credits are limited to the lesser of the percentages of eligible costs outlined above or 50% of taxes payable, the maximum amount of credits which could have been claimed for 1993 would have been limited to 60% of expenditures (assuming all costs are for direct labor for residents) or approximately \$17 million. Total expenditures may increase as a result of the incentive program under this bill. Accordingly, the maximum amount of credits would increase over time in proportion to expenditures.

Amounts claimed as credits will vary each year depending on amounts expended for exploration, credits assigned to successor corporations, credits carried forward over the 15 year period allowed, and the effect of credits applied against royalty payments as provided for under this bill.

SENATE FINANCE COMMITTEE REPORT

DATE: 4/18/94

FURTHER:

DATE TURNED INTO OFFICE: 5-1-94

The Finance Committee considered **CS FOR HOUSE BILL NO. 498(FIN)**

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

and recommends:

- replace with S CS CS HB 498 (FINANCE)
- or adopt previous _____ CS _____
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
Revenue			

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

Tim Kelly

Bob Chang

OTHER RECOMMENDATIONS:

None then No Recommendation

1. Mark do pass
Co-Chair: Signature/Recommendation

2. Tim Kelly - No Rec
Co-Chair: Signature/Recommendation

AMENDMENT

#6

OFFERED IN THE SENATE
TO: CSHB 498(FIN)

Page 2, line 8:

Delete "AS 43.20 and"

Page 3, line 3:

Delete "AS 43.20 and"

Page 5, lines 16 - 19:

Delete all material.

Renumber the following bill sections accordingly.

FISCAL NOTE

DeLong
NB 498
SBST1

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO.

Revision Date: Original Dept Affected: Natural Resources
 Title: "An Act providing for exploration incentive
credits for activities involving locatable and leaseable minerals... BRU: Resource Development
 Component: Mining Development
 Sponsor: Senate Resources Committee
 Requestor: Senate Resources Committee Component Serial No. 442

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (1004)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)

FUND SOURCE

(Thousands of Dollars)

	FY95	FY96	FY97	FY98	FY99	FY00
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GP/Program Receipts						
1008 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY94) cost: \$ None

POSITIONS

	FY95	FY96	FY97	FY98	FY99	FY00
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

SEE ATTACHED.

Prepared by: Jerry Gallagher, Director Phone: 465-2400
 Division: Mining Date: 13-Apr-94
 Approved by Commissioner: Harry A. Noah Date: 13-Apr-94
 Agency: Natural Resources

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SB 371Fiscal Impacts for Royalty

- Assume:
- 1) Calculations for this F/N only applies to royalty portions. Corporate tax impacts to be provided by Dept. of Revenue.
 - 2) Development work at existing mines does not fall under the definition, or intent, of "exploration" of SB 371.
 - 3) Credit calculated after 50% of royalty accounted to Permanent Fund. Therefore, credit is 50% of the remaining 50% of royalty paid (or 25% of total paid).
 - 4) Exploration that can be credited can only be counted after the effective date of this act. (For example, exploration conducted at a site in 1985 that's now in production cannot be used to affect current royalty obligation.)
 - 5) Ten (10) new placer mines that qualify during the first year; and at year 10, one new major hardrock and one new coal mine.

therefore:

- 1) Annual Royalty from 10 Placer Mine = \$2,000
25% x \$2,000 = \$500.00/year credit
- 2) Annual Royalty from 1 Coal Mine = \$1,000,000
25% x \$1,000,000 = \$250,000/year credit
- 3) Annual Royalty from 1 Hardrock Mine = \$100,000
25% x \$100,000 = \$25,000/year credit

Fiscal impact from SB 171 credits for royalty:

in thousands

Year 1	<0.5>
2	<0.5>
3	<0.5>
4	<0.5>
5	<0.5>
6	<0.5>
7	<0.5>
8	<0.5>
9	<0.5>
10	<275>
11	<275>
12	<275>
13	<275>
14	<275>
15	<275>

Alaska House of Representatives

Richard Foster
P.O. Box 1630
Nome, Alaska 99762-1630
907-443-5036
Fax 907-443-2162



During Session
State Capitol
Juneau, Alaska 99801-1182
907-465-3789
Fax 907-465-3242

Sponsor Statement

Sponsor's Statement

CSHB 498: An Act Providing for Exploration Credits for Activities Involving locatable and leasable minerals and coal deposits.

CSHB 498 allows credits of up to 50% of qualified exploration expenditures that can be used to offset state royalty payments and income taxes. There is an additional 10% credit for the use of Alaska Resident labor that meets specific criteria. The credit must be used within 15 years after it is extended by the commissioner of Natural Resources.

The credit must be granted if the applicant is authorized to do business in the state and adequately documents the exploration activity. Data provided to the Commissioner must be kept confidential for 36 months after receipt. Credits are site specific, assignable and may be carried forward and/or apportioned between royalty and taxes, in the applicants discretion, but may not exceed the combined amount of taxes and royalties due for the period in which the credit is being used.

This bill implements one of the recommendations of the Alaska Minerals Commission contained in their January 1994 Report (Report). Over the past several years there has been a mass exodus of mineral exploration investment from the lower 48 states and to a lesser extent away from Alaska. These dollars are now being invested in Mexico, Chile, Indonesia, and Russia, to name a few.

Much of this shift is attributable to ever-increasing regulatory and political obstacles in the U.S. and pro-active foreign mineral exploration and development policies, including elimination of

royalties and tax incentives. Fortunately, and while this could change at any time, Alaska's image has been improving for the past several years after a long period of disfavor; although there is still a concern that our remoteness and lack of infrastructure and access to public lands work as significant disadvantages.

Alaska is blessed with an abundance of geologically favorable terrain. This bill is one of several things the legislature can do to reinforce the distinction between Alaska and the the lower 48, address the issue of foreign competition and encourage further investment in our mining industry.

CSHB 498 proposes a meaningful and reasonably attractive economic incentive that will help offset real and perceived problems facing exploration here and send a clear message to the world that Alaska is a good place to do business.



ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 278-7997 Telephone: (907) 276-0347

Honorable Ron Larson
Honorable Eileen MacLean
Co-Chairmen
House Finance Committee
State Capitol
Juneau, AK 99811

April 4, 1994

RE: CSHB-498, Exploration Incentives

Dear Representatives Larson and MacLean,

The Alaska Miners Association wishes to go on record in support of the Committee Substitute for House Bill 498 which provides financial incentives for companies and individuals to explore for and develop mineral deposits in the state. This is an important bill that will encourage both the small prospector as well as large international mining companies to invest here in Alaska.

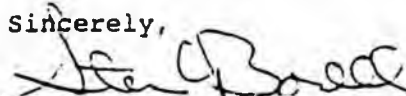
In addition to being an encouragement to invest, CSHB-498 also insures that the state and the rest of the industry will have access to the data generated. This bill requires that the company wishing to receive the incentive credit document the expenditures it has made and provide the State Division of Geologic & Geophysical Surveys with drill core, drill cuttings, sample analysis, etc. This can be a tremendous help for other companies as they search for minerals. Without this provision the data would remain proprietary and would not be available to the industry as a whole.

One important aspect of the bill is that a company can assign their exploration credit to another company that may become the owner of the project at a later date. This can become very important when developing financing for a mineral project. A company that may otherwise not invest can be encouraged if they know they can assign their expenditures, if for example they are not able to continue in the project due to other un-related financial reasons. If they can assign their credits to the next company to buy into the project, they can recover some of their expenditures. The bottom line is that more exploration will result and more mineral deposits will likely be discovered that can provide jobs, facilities that increase the local tax base, and ultimately company profits that can then be taxed by the state.

CSHB-498 comes at an important time for encouraging the mineral investment in Alaska. There is now a mass exodus of exploration funds away from federal lands throughout the western U.S. This is due primarily to the increasingly oppressive regulatory climate in the U.S. and to the efforts to change the federal mining law. Alaska cannot correct all of these problems but Alaska can add the exploration incentive of this bill to encourage investment. CSHB-498 will send the message to the international mining industry that Alaska is seeking to improve the investment climate. This bill is one more indication that Alaska is working to encourage mineral development.

If you have any questions regarding this bill please contact me.

Sincerely,


Steven C. Borell, P.E.
Executive Director

cc: Representative Foster



Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035
Phone 907-276-0700 Fax 276-3887

FOUNDED 1975

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RDC Testimony on CSHB 498 April 13, 1994:

The Resource Development Council supports CSHB 498: "An act providing for exploration credits for activities involving locatable and leasable minerals and coal deposits."

The Resource Development Council is a non-profit, membership funded organization made up of individuals, business associations, labor unions, Native corporations and local governments. RDC's purpose is to encourage a strong, diversified resource development sector in Alaska and expand the state's economic base.

This bill is important because it encourages investments, ensures that the state and the rest of the industry will have access to the data generated, and allows companies to assign their exploration credit to another company that may become the owner of the project at a later date.

Few mineral deposits are economical and it is not possible to know where these deposits are until they are discovered and evaluated by firms willing to take the very high risk involved. It's important to provide incentives so exploration will be undertaken.

The issue of multiple use is central to the future of mining in Alaska. State lands should be managed for multiple use and not restricted to limited uses in certain areas. Approximately 60% of Alaska is already closed to mineral entry or any other form of development. The lands originally selected by the State were often chosen for resource development and nothing should be done to compromise this objective. With the amount of land already protected in conservation units all around Alaska, it is reasonable and realistic to allow and promote mineral exploration on parcels of land remaining in productive status.

It's important for the State to provide economic incentives for mining activities. Mining is a vital resource activity in Alaska, and the economic driving force for many individuals and communities. The local prospector, mining companies and lending institutions need to be re-assured that the State of Alaska supports mining and minerals development.

Thank you for the opportunity to submit comments on CSHB 498.

**CS FOR SENATE BILL NO. 371(RES)
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - SECOND SESSION**

BY THE SENATE RESOURCES COMMITTEE

**Offered: 4/14/94
Referred: Finance**

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for exploration incentive credits for activities involving locatable
2 and leasable minerals and coal deposits on certain land in the state; and
3 providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 27 is amended by adding a new chapter to read:

6 **CHAPTER 30. EXPLORATION INCENTIVE CREDITS.**

7 **Sec. 27.30.010. EXPLORATION INCENTIVE CREDITS AUTHORIZED.**

8 (a) Unless otherwise provided by law, the commissioner shall grant to a qualified
9 applicant an exploration incentive credit for each of the following activities performed
10 on or for the benefit of land in the state for the purpose of determining the existence,
11 location, extent, or quality of a locatable or leasable mineral or coal deposit, regardless
12 of whether the land is state-owned land:

13 (1) surveying by geophysical or geochemical methods;

14 (2) drilling exploration holes;

1 (3) conducting underground exploration; or
2 (4) performing other exploratory work, including aerial photographs,
3 geological and geophysical logging, and sample analysis, for the purpose of
4 determining the existence, location, extent, or quality of the deposit.

5 (b) An exploration incentive credit granted under (a) of this section may be

6 (1) applied, at the discretion of the qualified applicant and subject to
7 the limit of AS 27.30.020, against

8 (A) taxes payable under AS 43.20 and AS 43.65; and

9 (B) mineral production royalty payments due the state under
10 AS 38.05.135 - 38.05.175; and

11 (2) carried forward to a subsequent tax year or payment period, except
12 as limited by AS 27.30.030.

13 (c) An exploration incentive credit shall be granted under (a) of this section
14 to a qualified applicant if the qualified applicant provides the commissioner satisfactory
15 documentation of exploration activity conducted and of the direct labor costs and other
16 eligible costs incurred to complete the work described in (a) of this section. For
17 purposes of this subsection, "satisfactory documentation of exploration activity"
18 includes, where applicable,

19 (1) a representative skeleton core for each hole cored or a
20 representative set of cuttings for each hole rotary drilled;

21 (2) chemical analytical data and noninterpretive geophysical data;

22 (3) aerial photographs or a topographic or geologic map showing the
23 location of the drill holes, sample locations, or the other exploration activities
24 undertaken; if the locations are shown on a map, the map must have a scale of not less
25 than one inch to the mile showing reference to a recognized coordinate system; and

26 (4) a cost breakdown showing amounts claimed by the applicant as an
27 exploration incentive under this subsection.

28 (d) Data provided to the commissioner under (c)(2) of this section shall be
29 kept confidential for 36 months after receipt by the commissioner.

30 Sec. 27.30.020. LIMIT ON CREDITS. The amount of exploration incentive
31 credits for each parcel or site may not exceed the lesser of

1 (1) 50 percent of the combined amount payable by the qualified
2 applicant as taxes under AS 43.20 and AS 43.65 and as mineral production royalty
3 payments due under AS 38.05.135 - 38.05.175 for production from the parcel or site
4 on which the exploration activity occurred; or

5 (2) with reference to activities that qualify for an exploration incentive
6 credit that occur on the parcel or site on which the exploration activity occurred,

7 (A) 60 percent of direct labor costs, including the cost of
8 benefits, incurred by the applicant for employees directly associated with work
9 described in AS 27.30.010(a)(1) - (4) who are residents; and

10 (B) 50 percent of

11 (i) direct labor costs, including the cost of benefits,
12 incurred by the applicant for employees directly associated with work
13 described in AS 27.30.010(a)(1) - (4) who are not residents; and

14 (ii) other eligible costs.

15 Sec. 27.30.030. USE OF CREDIT. An exploration incentive credit

16 (1) must be used within 15 years after it is extended under
17 AS 27.30.010; and

18 (2) may, for the purposes described in AS 27.30.010(b), be assigned
19 by the qualified applicant to the applicant's successor in interest for the site at which
20 the exploration activities occur if the successor in interest is a qualified applicant.

21 Sec. 27.30.040. RELATIONSHIP TO OTHER FUNDS. Amounts due the
22 permanent fund under AS 37.13.010 and the public school trust fund under
23 AS 37.14.150 shall be calculated before the application of a credit extended under
24 AS 27.30.010.

25 Sec. 27.30.050. REGULATIONS. The commissioner may adopt regulations
26 necessary to implement this chapter.

27 Sec. 27.30.090. DEFINITIONS. In this chapter,

28 (1) "geochemical methods" means soil, rock, vegetation, and similar
29 samples collected and their chemical analyses;

30 (2) "geophysical methods" means all geophysical data gathering
31 methods used in minerals exploration, including seismic, gravity, magnetic, and

1 electromagnetic measurements;

2 (3) "other eligible costs" means the costs incurred for activities in direct
3 support of exploration activity conducted for the purpose of determining the existence,
4 location, extent, or quality of a mineral or coal deposit; the term

5 (A) includes the cost of renting or leasing equipment from
6 parties not affiliated with the applicant, the reasonable costs of maintaining and
7 operating equipment, payments to consultants and independent contractors not
8 affiliated with the applicant, and costs of materials and supplies;

9 (B) does not include noncash expenses such as depreciation and
10 reserves, interest or other costs of borrowed funds, return on investment,
11 overhead, insurance or bond premiums, or any other expense that is
12 unreasonable or that the applicant has not incurred to complete work described
13 in AS 27.30.010(a)(1) - (4);

14 (4) "qualified applicant" means

15 (A) a natural person who is at least 18 years of age;

16 (B) a partnership qualified to do business in the state;

17 (C) a corporation qualified to do business in the state;

18 (D) a limited liability company qualified to do business in the
19 state;

20 (E) a legal guardian or trustee of a qualified natural person
21 described in (A) of this paragraph; or

22 (F) any association of persons listed in (A) - (E) of this
23 paragraph;

24 (5) "resident" means a person who establishes residency under
25 AS 01.10.055.

26 * Sec. 2. AS 38.05.135(a) is amended to read:

27 (a) Except as otherwise provided, valuable mineral deposits in land belonging
28 to the state shall be open to exploration, development, and the extraction of minerals.
29 All land, together with tide, submerged, or shoreland, to which the state holds title to
30 or to which the state may become entitled, may be obtained by permit or lease for the
31 purpose of exploration, development, and the extraction of minerals. Except as

1 specifically limited by AS 38.05.135 - 38.05.181, land may be withheld from lease
2 application on a first-come, first-served basis, and offered only on a competitive bid
3 basis when determined by the commissioner to be in the best interests of the state.
4 **When authorized by AS 27.30.010, the commissioner shall allow an exploration**
5 **incentive credit for activities undertaken to determine the existence, location,**
6 **extent, or quality of a locatable or leasable mineral or coal deposit and in [IN]**
7 unproven areas the commissioner may offer additional incentives, including a reduction
8 of royalty to a minimum of five percent in the case of oil and gas, and other terms in
9 and granting permit or lease for exploration and development whenever it appears to
10 be in the best interests of the state to do so.

11 * Sec. 3. AS 38.05.212(b) is amended to read:

12 (b) The production royalty

13 (1) is three percent of net income as determined under AS 43.65; and

14 (2) **is subject to the exploration incentive credit authorized by**

15 **AS 27.30.**

16 * Sec. 4. AS 43.20 is amended by adding a new section to read:

17 Sec. 43.20.044. EXPLORATION INCENTIVE CREDIT. A taxpayer may
18 apply as a credit against the tax levied under this chapter the exploration incentive
19 credit authorized by AS 27.30.

20 * Sec. 5. AS 43.65.020(a) is amended to read:

21 (a) A person subject to tax under this chapter shall make a return stating
22 specifically the items of gross income from the property, including royalty received
23 and the deductions and credits allowed by this chapter **and the exploration incentive**
24 **credit authorized by AS 27.30,** and other information for carrying out this chapter
25 that the department prescribes. The return must show the mining license number and
26 must be signed by the taxpayer or an authorized agent of the taxpayer, under penalty
27 of unsworn falsification. If receivers, trustees, or assigns are operating the property
28 or business, they shall make returns for the person engaged in mining, or the recipient
29 of royalty in connection with mining property. The tax due on the basis of the returns
30 shall be collected in the same manner as if collected from the person of whose
31 business they have custody and control.

1 * Sec. 6. This Act is retroactive to January 1, 1994, and applies to activities that qualify
2 for the exploration incentive credit authorized by AS 27.30 that are undertaken after
3 December 31, 1993.

4 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

AMENDMENT

OFFERED IN THE SENATE

TO: CSHB 498 (FIN)

Page 1 Line 10

after the word "state"
insert "before the beginning of development of the mineral or
other deposit"

Page 3 Line 28

add a new (1) to read as follows: "Development has the
meaning given in AS 27.09.060"; renumber remaining definitions.

**SENATE FINANCE
COMMITTEE**

Amendment Number: #3

Bill Number: HB 498

Sponsor: _____ Date: 19 APR 2014

Logged In By: [Signature]

SENATE COMMITTEE REPORT

DATE: 4/15/94

FURTHER: Finance

DATE TURNED INTO OFFICE: _____

Resources Committee considered CS FOR HOUSE BILL NO. 498(FIN)

"An Act providing for exploration incentive credits for activities involving locatable and leasable minerals and coal deposits on certain land in the state; and providing for an effective date."

and recommends:

- replace with _____ CS _____ ()
- or adopt previous _____ CS _____ ()
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

- do pass
- do not pass
- no recommendation
- individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

Chair: Signature and Recommendation

WAIVED TO SENATE
4/18/94

НВ

505

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: February 24, 1994

FURTHER REFERRALS:

Date of Committee Action: 3/29/94

The FINANCE Committee considered:

HB 505

HOUSE BILL NO. 505

APPROP: BUDGET RESERVE FUND TO GEN.FUND

"An Act making appropriations to and from the constitutional budget reserve fund under art. IX, sec. 17(c), Constitution of the State of Alaska, for operating and capital expenses of state government for fiscal year 1994; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 505 (Fin) the same title a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(s): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING <u>DO PASS</u>	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>maclenn</i> Eileen P. Maclean		<i>parnell</i> Sean Parnell			
Ronald J. Hanson	x	James G. Grossenord		x	
<i>MARTIN</i> Peter Martin	x	<i>Hoffman</i> Lynn Hoffman			
<i>Richard J. Foster</i> Richard J. Foster	x	<i>Mike Navarre</i> Mike Navarre			
		<i>Tom Brown</i> Tom Brown			
		<i>Gene Thorsrud</i> Gene Thorsrud		x	

Ronald J. Hanson *EP Maclean*
CHAIRMAN'S SIGNATURE

Adopted

8-GH20450 ✓
Cook
3/28/94

**CS FOR HOUSE BILL NO. 505(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - SECOND SESSION**

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): **HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

A BILL

FOR AN ACT ENTITLED

1 "An Act making appropriations to the constitutional budget reserve fund
2 established under art. IX, sec. 17, Constitution of the State of Alaska; making
3 an appropriation to the Department of Education for support of kindergarten,
4 primary, and secondary education and community schools programs and for school
5 construction debt retirement; amending certain appropriations for education
6 programs and school construction debt retirement for fiscal year 1994 and for
7 educational facilities maintenance and construction; making appropriations from the
8 constitutional budget reserve fund under art. IX, sec. 17(c), Constitution of the
9 State of Alaska; and providing for an effective date."

10 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

11 * Section 1. FINDINGS AND INTENT. (a) Following ratification by the voters, art. IX,
12 sec. 17, of the Constitution of the State of Alaska, took effect on January 2, 1991. This

1 amendment

2 (1) created a constitutional budget reserve fund:

3 (2) required that the proceeds of certain tax and mineral revenue disputes be
4 deposited into that fund; and

5 (3) established limitations on the legislature's ability to appropriate money
6 from that fund.

7 (b) That amendment dedicates to the constitutional budget reserve fund money from
8 mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing
9 payments or bonuses, and taxes imposed on mineral income, production, or property received
10 by the state after July 1, 1990," as a result of the termination, through settlement or otherwise,
11 of an administrative proceeding or of litigation in a State or federal court."

12 (c) Following the ratification of the budget reserve amendment, the Department of
13 Revenue requested that the attorney general determine whether the term "administrative
14 proceeding" in art. IX, sec. 17, of the Constitution of the State of Alaska, applied to informal
15 conferences and audits or only to formal hearings. On April 24, 1992, the attorney general
16 issued a formal opinion concluding that informal conferences do not constitute "administrative
17 proceedings" for the purposes of art. IX, sec. 17, of the Constitution of the State of Alaska.
18 The attorney general reasoned that sec. 17 applied to administrative actions that were similar
19 to litigation, such as the formal hearings held by the Department of Revenue. The opinion
20 concluded that informal conferences held for purposes of discussion and negotiation "fall
21 outside the ambit of the common understanding of litigation or legal contests."

22 (d) Since July 1, 1990, the state has engaged in several formal administrative hearings
23 and judicial proceedings to resolve oil and gas tax and mineral royalty disputes. Revenue
24 from the termination of these disputes has been deposited into the constitutional budget reserve
25 fund. During this period, the state also received oil and gas or mineral tax revenue from audit
26 assessments in the informal conference phase. In conformance with the April 24, 1992,
27 opinion of the attorney general, the Department of Revenue deposited in the general fund all
28 revenue resulting from settlement of informal tax conferences.

29 (e) The money in the general fund was available for appropriation by the legislature
30 and would be applied as necessary to meet any fiscal need. [Thus, in fiscal year 1992,
31 accounting conventions show that the amounts collected from informal conferences in fiscal

1 years 1991 and 1992 were used to cover the fiscal year 1992 general fund deficit. Had that
2 money not been available, the amount transferred into the general fund from the statutory
3 budget reserve fund (AS 37.05.540) would have been significantly increased.]

4 (f) In passing the appropriation bills in 1993, the legislature authorized the expenditure
5 of anticipated revenue in the general fund, including amounts deposited in that fund as a result
6 of settlement of informal tax conferences. At the time the legislature passed those
7 appropriations for fiscal year 1994, revenue forecasts showed a surplus in the general fund.
8 However, due to the unanticipated decrease in state revenue, the state treasury has less money
9 than was anticipated at the time that the legislature made its appropriations in 1993. Because
10 of this shortfall, any anticipated surplus representing settlements of informal tax conferences,
11 and amounts received from informal tax conference settlements occurring after July 1, 1994,
12 must be expended to fully fund the capital and operation appropriations enacted in 1993.

13 (g) On July 12, 1993, the senate majority filed suit challenging the Department of
14 Revenue action of depositing into the general fund revenue resulting from informal tax
15 conferences. Halford v. Hickel, (3AN-93-6297 CI). On July 27, 1993, former Governor Steve
16 Cowper filed a similar complaint captioned Cowper v. Hickel (3AN-93-6848 CI). The cases
17 were consolidated.

18 (h) On November 19, 1993, the court issued its decision which concluded that art. IX,
19 sec. 17, of the state constitution applied to informal tax conferences. On November 29, 1993,
20 the state presented evidence that retroactive application of the court's ruling, requiring transfer
21 of over \$940,000,000 from the general fund, would disrupt state finances and put at risk the
22 justifiable reliance interest of Alaskans and municipalities throughout the state.

23 (i) The superior court dismissed the state's request that the ruling be applied
24 prospectively only. The court found the evidence of hardship "very compelling," but noted
25 that the hardship could be relieved if the legislature reappropriated the money for fiscal year
26 1994. The court ordered the governor to fully restore the constitutional budget reserve fund
27 with interest and to comply with its decision by the end of the 1994 legislative session. The
28 superior court noted "it is not clear that the Governor could legally remove the improperly
29 placed funds from the general fund [to the Budget Reserve Fund] without an appropriation
30 authorizing it."

31 (j) Following appeal to the Alaska Supreme Court, the court determined that all

1 income that resulted from the settlement or other termination of informal administrative
2 proceedings involving certain taxes since July 1, 1990, should have been deposited into the
3 budget reserve fund created by art. IX, sec. 17, of the Constitution of the State of Alaska.

4 (k) The Alaska Supreme Court ordered the governor to restore the constitutional
5 budget reserve fund, with interest from the date of receipt by the state of money described in
6 (j) of this section.

7 (l) The amount required to restore the constitutional budget reserve fund consistent
8 with judicial interpretation is \$945,636,778.27, plus interest that would have been earned upon
9 investment of this money, calculated from the date of receipt by the state.

10 (m) As of February 1994, there was not sufficient unappropriated or unrestricted
11 money in the general fund to allow the governor to unilaterally transfer the money needed to
12 fully restore the constitutional budget reserve fund.

13 (n) It is the intent of the legislature that the order of the Alaska Supreme Court be
14 complied with by an appropriation from the general fund to the constitutional budget reserve
15 fund, retroactive to July 1, 1993, of the principal and interest that should have been deposited
16 into that budget reserve fund. This appropriation will restore all money to the constitutional
17 budget reserve fund that should have been deposited there since July 1, 1990, under the
18 provisions of art. IX, sec. 17, of the Constitution of the State of Alaska.

19 * Sec. 2. The sum of \$945,636,778.27 is appropriated from the general fund to the budget
20 reserve fund established by art. IX, sec. 17, Constitution of the State of Alaska, to comply
21 with the judgment in *Hickel v. Halford* (Supreme Court No. S-6124/6134) (Alaska Jan. 27,
22 1994).

23 * Sec. 3. An amount equal to the interest that would have been earned on money received
24 by the state after June 1, 1990, as a result of termination through settlement or otherwise of
25 an informal administrative proceeding involving taxes imposed on mineral income, production,
26 or property, and subsequently deposited in the general fund, is appropriated from the general
27 fund to the budget reserve fund established by art. IX, sec. 17, Constitution of the State of
28 Alaska, to comply with the judgment in *Hickel v. Halford* (Supreme Court No. S-6124/6134)
29 (Alaska Jan. 27, 1994).

30 * Sec. 4. (a) The sum of \$696,357,088 is appropriated from the constitutional budget
31 reserve fund and from other funds in the amounts listed to the Department of Education for

1 the purposes expressed and allocated in the amounts listed for operating expenditures for the
2 fiscal year ending June 30, 1995:

3 FUND SOURCE	4 AMOUNT
5 Budget reserve fund (art. IX, sec. 17, 6 Constitution of the State of Alaska)	\$635,149,688
7 General fund/mental health trust income account (AS 37.14.011)	7,916,600
8 Public school trust fund (AS 37.14.110)	6,816,600
9 School fund (AS 43.50.140)	2,668,100
10 P.L. 81-874	21,806,100
11 Federal receipts other than 12 P.L. 81-874	22,000,000
13 PURPOSE	14 ALLOCATION AMOUNT
15 Foundation program	\$629,938,000
16 Child nutrition/student lunch program	22,000,000
17 Cigarette tax distribution	2,668,100
18 Tuition students	1,887,600
19 Boarding home grants	355,000
20 Youth in detention	800,000
21 Pupil transportation	31,638,148
22 Schools for the handicapped	3,277,500
23 Community schools	600,000
24 Additional district support	3,192,740.

24 (b) The amount allocated under (a) of this section for additional district support is
25 further allocated to the following school districts in the amounts listed:

26 SCHOOL DISTRICT	27 ALLOCATION AMOUNT
28 Annette Island School District	\$166,530
29 Cordova School District	217,160
30 Craig City School District	151,890
31 Dillingham City School District	250,100
Galena City School District	156,160

1	Hoonah City School District	126,270
2	Hydaburg City School District	102,480
3	Kake City School District	136,640
4	Kashunamiut School District	206,180
5	Klawock City School District	158,600
6	Nenana City School District	164,090
7	Nome City School District	264,740
8	Pelican City School District	56,730
9	Petersburg City School District	199,470
10	St. Mary's School District	119,560
11	Skagway City School District	115,290
12	Tanana City School District	122,000
13	Unalaska City School District	200,690
14	Wrangell City School District	151,890
15	Yakutat City School District	126,270.

16 * Sec. 5. (a) The sum of \$103,345,252 is appropriated from the budget reserve fund (art.
 17 IX, sec. 17, Constitution of the State of Alaska) to the Alaska debt retirement fund
 18 (AS 37.15.011)

19 (b) The sum of \$103,345,252 is appropriated from the Alaska debt retirement fund
 20 (AS 37.15.011) to the Department of Education for state aid for costs of school construction
 21 under AS 14.11.100.

22 * Sec. 6. (a) Section 1(a), ch. 5, SLA 1993, is amended to read:

23 Section 1. (a) The sum of \$674,531,870 is appropriated from the
 24 constitutional budget reserve [GENERAL] fund and from other funds in the amounts
 25 listed to the Department of Education for the purposes expressed and allocated in the
 26 amounts listed for operating expenditures for the fiscal year ending June 30, 1994:

27	FUND SOURCE	AMOUNT
28	<u>Budget reserve fund (art. IX, sec. 17,</u>	
29	<u>Constitution of the State of Alaska)</u>	
30	[GENERAL FUND]	\$615,783,070
31	General fund/mental health trust income account	

1	(AS 37.14.011)	7,489,700
2	Public school trust fund (AS 37.14.110)	8,452,700
3	School fund (AS 43.50.140)	2,721,000
4	Interagency receipts	100,000
5	P.L. 81-874	21,885,400
6	Federal receipts other than	
7	P.L. 81-874	18,100,000.

8	PURPOSE	ALLOCATION AMOUNT
9	Foundation program	\$615,723,100
10	Child nutrition/student lunch program	18,100,000
11	Cigarette tax distribution	2,721,000
12	Tuition students	2,012,600
13	Boarding home grants	230,000
14	Youth in detention	800,000
15	Schools for the handicapped	3,077,500
16	Pupil transportation	28,975,900
17	Community schools	600,000
18	Additional district support	2,291,770.

19 (b) Section 2(a), ch. 5, SLA 1993, is amended to read:

20 Sec. 2. (a) The sum of \$99,795,200 is appropriated from the budget reserve
 21 [GENERAL] fund (art. IX, sec. 17, Constitution of the State of Alaska) to the
 22 Alaska debt retirement fund (AS 37.15.011).

23 * Sec. 7. (a) Section 38, ch. 65, SLA 1993, page 14, line 27, is amended to read:

24	APPROPRIATION	GENERAL	OTHER
25	ITEMS	FUND	FUNDS
26	Additional district support	1,066,300	[1,066,300] <u>1,066,300</u>

27 (b) The appropriation made by sec. 38, ch. 65, SLA 1993, page 14, line 27,
 28 as amended by (a) of this section, is funded from the budget reserve fund (art. LX,
 29 sec. 17, Constitution of the State of Alaska).

30 * Sec. 8. Section 1, ch. 83, SLA 1993, is amended to read:

31 Section 1. Contingent upon the establishment of an educational facilities

1 maintenance and construction fund by the Eighteenth Alaska State Legislature, the sum
2 of \$192,408.894 is appropriated from the budget reserve [GENERAL] fund (art. IX,
3 sec. 17. Constitution of the State of Alaska) to the educational facilities maintenance
4 and construction fund (AS 37.16.010).

5 * Sec. 9. The appropriations from the constitutional budget reserve fund (art. IX, sec. 17,
6 Constitution of the State of Alaska) contained in this Act are made under art. IX, sec. 17(c),
7 Constitution of the State of Alaska.

8 * Sec. 10. Sections 1 - 3, 6, 7, and 9 of this Act are retroactive to July 1, 1993.

9 * Sec. 11. Section 8 of this Act is retroactive to July 17, 1993.

10 * Sec. 12. Sections 1 - 3 and 6 - 11 of this Act take effect immediately under
11 AS 01.10.070(c).

12 * Sec. 13. Sections 4 and 5 of this Act take effect July 1, 1994.