

ALASKA LEGISLATURE

1337

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

# FISCAL NOTE

No. 1

Bill Version: C5HB 192(CRA)

(H) Publish Date: 3/17/95

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: An Act relating to housing programs of the AHFC, the corporation's supplemental housing development program BRU: AHFC  
 Sponsor: Foster, Eiton Component: AHFC Operations, AHFC Rural Housing  
 Requester: \_\_\_\_\_ COMPONENT SERIAL NO. 110.1937

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>5,000.0</b>	<b>5,000.0</b>	<b>5,500.0</b>	<b>5,500.0</b>	<b>6,000.0</b>	<b>6,000.0</b>
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

102 Federal Receipts						
103 GF Match						
104 GF						
105 GF/Program Receipts						
106 GF/MHTIA						
122 State Corporation Receipts	5,000.0	5,000.0	5,500.0	5,500.0	6,000.0	6,000.0
<b>TOTAL</b>	<b>5,000.0</b>	<b>5,000.0</b>	<b>5,500.0</b>	<b>5,500.0</b>	<b>6,000.0</b>	<b>6,000.0</b>

Estimate of any current year (FY95) cost: \$ 0.0

**POSITIONS**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

AHFC Operations: No affect on operating costs - language change only.

AHFC Rural Housing: Capital increase for the Supplemental Housing Development Grant  
\$5,000.0 FY96 & FY97, \$5,500.0 FY98 & FY99, \$6,000.0 FY00 & FY01

The Supplemental Housing Development Grant funds can be used for cost of on-site water and sewer facilities, extension of electrical distribution systems, roads to project sites and energy efficient design features in the homes of Indian Housing projects developed by the Regional Housing Authorities with U.S. Dept. of HUD funds.

When the Supplemental Housing Grant Program was instituted in 1982, the State of Alaska's match to HUD funds was established at 20% of the HUD total development cost of the housing projects.

con't next page

Prepared by: [Signature] Phone: 561-1900  
 Division: Alaska Housing Finance Corporation Date: 2/27/95  
 Approved by: \_\_\_\_\_ Date: 2/27/95  
 Commissioner: Deborah Voat  
 Agency: Revenue

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ANALYSIS con't

Since that time, the cost of housing development and infrastructure has increased dramatically. When the program was expanded in 1991 to include use for energy efficient design features, the funding level did not increase.

HB192 provides for an increase of 10% by the AHFC to more adequately cover these increased costs. It allows for expanding the Supplemental Housing grant funds so the housing authorities can use them for off-site water and sewer facilities that are required for developing of the HUD housing projects. The state has resolved to recognize the dire water and sanitation conditions in rural Alaska and improve this critical health threatening situation. A Task Force has even been formed to respond to this problem.

The 1988 and 1991 Alaska Rural Housing Needs Assessment showed an immediate need for an additional 6500 housing units in rural Alaska. Because of our continued commitment to alleviating the sub-standard housing conditions of so many of our rural residents, we took this information to HUD headquarters and encouraged HUD to dramatically increase their funding for Indian Housing to the State of Alaska. For example, the HUD contribution for the past 5 years follows:

FFY90	FFY91	FFY92	FFY93	FFY94
\$17,400.0	\$25,300.0	\$30,200.0	\$33,600.0	#####

We were instrumental in getting HUD to lift the Cap on the total development cost allowed per unit from \$92,200 to the cost of development established by the geographical area.

In order for the state of Alaska to continue receiving the much needed funding from the U.S. Dept. of HUD in order to build Indian housing, we need to continue our commitment to provide decent, sanitary housing which is affordable to our rural residents. A 10% increase in the Supplemental Housing Development Grant funds is needed.

**HB**

**192**

**SFIN**

**FILE**

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: AHFC Housing Loans BRU: AHFC  
 Component: AHFC Operations, AHFC Rural Housing  
 Sponsor: Rep. Foster  
 Requestor: (H) Rules COMPONENT SERIAL NO. 110, 1937

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1022 State Corporation Receipts	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY96) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

AHFC Operations: No affect on operating costs - language change only.

Prepared by: John Bitney Phone: 561-1900  
 Division: Alaska Housing Finance Corporation Date: April 28, 1996  
 Approved by Commissioner: Wilson L. Condon *Paul L. Krumm* Date: April 28, 1996  
 Agency: Department of Revenue

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Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: AHFC Housing Loans BRU: AHFC  
 Component: AHFC Operations, AHFC Rural Housing  
 Sponsor: Rep. Foster  
 Requestor: (H) FIN COMPONENT SERIAL NO. 110. 1937

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1022 State Corporation Receipts	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY96) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

AHFC Operations: No affect on operating costs - language change only.

Prepared by: John Blitney  
 Division: Alaska Housing Finance Corporation  
 Approved by Commissioner: Wilson L. Condon *Wilson L. Condon*  
 Agency: Department of Revenue

Phone: 561-1900  
 Date: March 15, 1996  
 Date: March 15, 1996

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**COMMITTEE COPY**

# SENATE COMMITTEE REPORT

DATE: 4/15/96

FURTHER: Finance

DATE TURNED INTO OFFICE: 4/27/96

The C&RA Committee considered CS FOR HOUSE BILL NO. 192(FIN) am  
 Relating to Alaska Housing Finance Corporation loans.

and recommends:

- be replaced with Senate CS for CS HB 192 (CRA)
- adopt previous CS
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical change
  - new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<del>Paul E. Poo</del>	✓	<del>Tom Kelly</del>	✓		
<del>[Signature]</del>	✓				
<del>[Signature]</del>	✓				
CHAIR: <u>[Signature]</u>	✓				

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal


**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

Revenue-AHFC	3/15/96	5	

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# SENATE COMMITTEE REPORT

## First Committee of Referral

DATE: 3/22/96

FURTHER: C&RA  
Finance

DATE TURNED INTO OFFICE: 7/15/96

The State Affairs Committee considered CS FOR HOUSE BILL NO. 192(FIN) am  
Relating to Alaska Housing Finance Corporation loans.

PHΦ

and recommends:

- be replaced with 5 CS HB 192 (STA)
- adopt previous      CS      (    )
- attached amendment(s)
- adopt Letter of Intent by      Committee
- further referral to the      Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical title
  - new: SCR#

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
Karen L. Lerman	✓	- Michael Bouley - H. O. & C. Kelly	✓		
<b>CHAIR:</b> <i>[Signature]</i>	✓	<b>CHAIR:</b>			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal
Revenue - AHFC	3/15/96	0	

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

**HB**

**197**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred: March 22, 1995

FURTHER REFERRALS:

Date of Committee Action: 3/22/95

The FINANCE Committee considered:

HB 197

HOUSE BILL NO. 197

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."

recommends it be replaced  
with the following committee substitute

CS HB 97 (Res)

the same title  
 a new title

additional referral to \_\_\_\_\_ Committee

attached amendment(s)

ADOPTS: RESOURCES Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

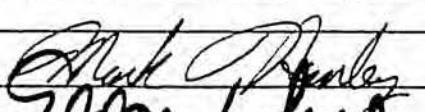
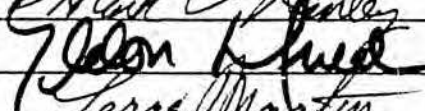
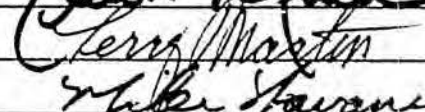
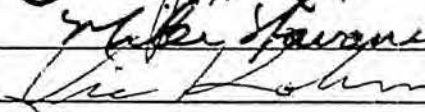
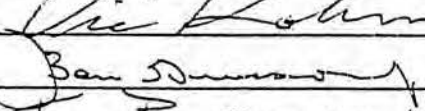
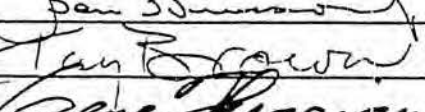
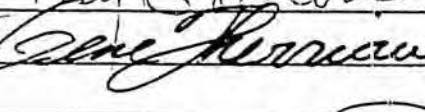
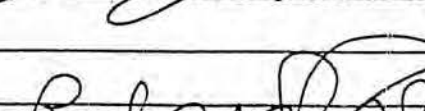

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) \_\_\_\_\_


fiscal note(s) DNR 3/22/95

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) REVENUE 3/22/95

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	Hanley	X			
	Muiden	X			
	Martin			<input checked="" type="checkbox"/>	
	Navarre			<input checked="" type="checkbox"/>	
	Kohnig	X			
	Grussendorf			X	
	Braun				<input checked="" type="checkbox"/>
	Therniant	X			
	FOSTER	X			

CO CHAIR'S SIGNATURE

  
Hanley

  
FOSTER

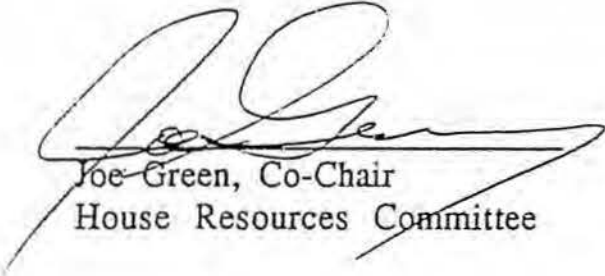



*Alaska State Legislature*  
**HOUSE OF REPRESENTATIVES**  
*Committee on Resources*

State Capitol  
Juneau, Alaska  
99801

Letter of Intent to accompany CSHB197(Res)

It is the intent of the House Resources Committee that in implementing HB197, the Division of Mining and Water make every effort to minimize and limit regulations. The committee views this legislation as a positive signal to investors who may be considering investment in Alaska. Promulgation of a complex set of regulations would send a negative message to investors who view complexity and uncertainty as undesirable.

  
Joe Green, Co-Chair  
House Resources Committee

  
Bill Williams, Co-Chair  
House Resources Committee

# FISCAL NOTE

STATE OF ALASKA

BILL NO. HB197

1995 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources  
 Title: An Act providing for exploration incentive credits BRU: Resource Development  
 for activities involving locatable and leasable minerals and coal... Component: Mining Development  
 Sponsor: Representative(s) Foster, Vezey  
 Requestor: \_\_\_\_\_ Component Serial No. 442

Expenditures/Revenues		(Thousands of Dollars)				
OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	54.0	54.0	54.0	54.0	54.0	54.0
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	2.0	2.0	2.0	2.0	2.0	2.0
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES (1004)	0.0	0.0	0.0	est. (100.0)	est. (100.0)	(1,900.0)
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FUND SOURCE		(Thousands of Dollars)				
1002 Federal Receipts						
1003 GF Match						
1004 GF	62.0	62.0	62.0	162.0	162.0	429.4
1005 GF/Program Receipts				(100.0)	(100.0)	(367.4)
1006 GFMHTIA						
Other						
<b>TOTAL</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>

Estimate of any current year (FY95) cost: \$ 10.0

POSITIONS							
FULL-TIME	1	1	1	1	1	1	
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: Jules Tileston, Director *Jules Tileston* Phone: 762-2165  
 Division: Mining and Water Date: 7-Mar-95  
 Approved by Commissioner: *John Vezey* Date: 3-7-95  
 Agency: Natural Resources

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## ATTACHMENT TO FISCAL NOTE - HB197

March 7, 1995

If exploration incentive credit for coal exploration is allowed to remain in this bill, it could result in a minimum \$1.5 million dollar loss in direct coal royalty and tax revenues in the out-years. A significant amount of exploration cost precedes mining of coal. The state already has a regulation for granting royalty relief if a coal operator applies. The state's coal royalty is 5% of adjusted gross value. Transportation costs from the mine mouth to point of sale, and beneficiation costs are deductible from the coal sales price. Rent is deductible from royalty as well. Locatable mineral royalty is 3% of net profits, and rental is \$1/acre. These costs are pretty low. A three and a half year mining tax exemption is allowed for new mining operations.

Notwithstanding the coal royalty decrease, a several hundred thousand dollar decrease in "6(i)" rental revenue (rents and royalties return on state mineral production) could also occur in the out-years if credits are not restricted to claims for which activities take place. A decrease in rental revenue will impact the division's operating budget and affect current services provided by the division to the industry. Currently approximately \$367.4 in program receipts from 6(i) goes into the division's budget to support the program. In addition, approximately \$418.0 from this program goes into the Permanent Fund. This legislation would provide for no change to the Permanent Fund amount, but the amount going to the division operating budget would be eliminated.

### Revenues

We assume that the exploration credits will result in the long-term loss of the following revenues:

Coal Royalties	\$1.5million
Mining Leases & Claims 6(i)	\$ 4 million
	\$1.9 million

Sections 27.30.020 and 30 do not specify how this credit is taken, it could be either against the Department of Revenue or the Department of Natural Resources. We assume these credits will use all of DNR's revenue stream.

### Fund Sources Changes : Long-term

Delete program receipts	\$(367.4)
General Fund	\$ 367.4

In order to maintain the existing level of service the division provides to the industry, the \$367.4 of program receipt authorization would need to be replaced with general fund over the long-term.

### Position

One new position, a Geologist II, will be needed to provide technical work associated with this legislation. This involves prequalifying work elements and review of work completed. As this bill is effective immediately, it is estimated that \$10.0 will be necessary to pay for the additional position in FY95.

One new position	\$ 62.0
and associated costs	\$ 62.0

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

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>						
<b>REVENUE FUND SOURCE: GF</b>	*****	*****	*****	*****	*****	*****

FUNDING:

(Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

As explained in the attached analysis the Department is unable to determine a reasonable estimate for this bill's impact on future State revenues. Several concerns have been raised addressing the difficulties in implementing the bill as currently written.

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320  
 Division: Income and Excise Audit *Robert N. Bartholomew* Date: 3/13/95  
 Approved by Commissioner: *Robert N. Bartholomew* Date: 3/13/95  
 Agency: Department of Revenue

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### **Bill Analysis**

This bill grants exploration incentive credits to qualified applicants for costs of activities related to determining the existence, location, extent and quality of locatable or leasable mineral or coal deposits. This bill does not apply to oil and gas exploration. It appears that this legislation applies to both existing and new operations.

Credits may be claimed against corporation income and mining license taxes administered by Department of Revenue (DOR), under AS 43.20 and AS 43.65, royalties and rents, administered by Department of Natural Resources, under AS 38.05.135 - 38.05.175 and AS 38.05.211. Credits are limited to 50% of the combined amount of taxes, royalties and rents that are payable for activities, i.e. sites on which exploration activities occur. This bill requires that credits be used within 15 years after they are granted and allows for credits to be assigned to the applicant's successor in interest for the exploration site if the successor is a qualified applicant.

To prevent future controversy it may be necessary to provide definitions as to what constitutes a mining "site". This bill has a retroactive effective date of January 1, 1995.

### **Operating Costs**

DOR does not anticipate any additional operating costs to administer the exploration incentive credit program authorized under this bill. The Department would modify corporation and mining license tax return forms to provide for exploration incentive credits.

While the Department does not anticipate the need for additional audit staff, the scope of corporation income and mining license tax audits will likely have to be expanded to include review of exploration incentive credits which may result in a decrease in overall audit coverage to other tax types.

### **State Revenue Impacts**

Overview - It is not feasible for Department of Revenue to determine the impacts of this bill on revenue since corporation income and mining license taxes are both based on net income from business or mining operations. The Department is unable to predict whether individual mining sites will incur net income after production begins and since credits are limited to the level of future taxable income no reasonable estimate can be made.

For fiscal year 1994, the state collected \$162,000 in mining license taxes and no estimate can be made for the portion of corporation net income tax collected which would be impacted by the proposed tax credits.

Overall, exploration incentive credits are limited to qualified exploration costs. According to DNR exploration expenditures during calendar year 1994 were approximately \$30 million. For 1994, credits would have been limited to \$30 million under this bill and unused portions would be available for a 15-year credit carryforward, assuming corporations had sufficient net income to qualify for the credit.

**State Revenue Impacts, continued**

Concerns - A major concern for the Department is the increased complexity in corporation tax calculations the proposed legislation would create. Currently corporation taxes are based on income from combined operations inside and outside of Alaska. Taxpayers are currently not required to account for or report income on a site-by-site basis, which would be required by this bill. The Department does not believe that there is a simple and reasonable way to calculate and apply the proposed credits within the corporation income tax structure currently in place.

In discussions with Department of Natural Resources (DNR) and Department of Commerce and Economic Development it was agreed that for increased accountability credits should be applied for annually in advance of the actual expenditure. DNR would be responsible for preapproval and tracking of the eligible credits. Without this clause, a company would potentially submit documentation for expenditures many years after the costs were incurred.

For purposes of AS 43.20 and AS 43.65, for every million dollars in net income, a business would be allowed a maximum credit of \$80,500 (\$47,000 and \$33,500 credit against corporation and mining tax, respectively). Businesses gain an additional tax benefit because they would be allowed to deduct exploration costs from revenues in determining net income upon which taxes are based.

For example, a corporation's exploration activities prove to be very profitable and in a subsequent year, the combined corporation and mining taxes payable from the individual site is calculated to be \$100,000. In this case, the corporation is allowed to claim a \$50,000 credit. The same corporation has other mineral production activities outside of Alaska that are not profitable and when the corporation files its combined corporation tax return, its overall tax liability is \$50,000. Assuming the corporation claims the \$50,000 credit, the corporation would pay no taxes.

Since this bill does not specify that the credit is nonrefundable it is unclear if a corporation can actually receive a refund if credits exceed the corporation's combined tax liability. If in the example above, the corporation had a combined tax liability of \$40,000, the corporation may try to claim a \$10,000 refund after subtracting the \$50,000 credit from the tax liability. The Department recommends that the bill be amended to add "nonrefundable" before references to the credit.

Other information - New mining operations are exempt from mining license taxes for a period of three and one-half years from the date when production begins under AS 43.65.010. This may be an incentive that is already in place for purposes intended under this bill.

Given the uncertainty of estimating the impact on revenues it may be advisable to add a sunset provision which allows for the impacts to be reevaluated or establishing a cap on the annual amount of credit allowed.

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Mineral Exploration Incentive Credits BRU: Audit Operations  
 Component: Income and Excise Audit  
 Sponsor: Rep. Foster, Vezey, et. al.  
 Requestor: (S) RES COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL</b>						
<b>REVENUE FUND SOURCE: GF</b>	<b>*****</b>	<b>*****</b>	<b>*****</b>	<b>*****</b>	<b>*****</b>	<b>*****</b>

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 0.0

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

As explained in the attached analysis the Department is unable to determine a reasonable estimate for this bill's impact on future State revenues.

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320  
 Division: Income and Excise Audit Date: 4/28/95  
 Approved by Commissioner: *[Signature]* Date: 4/28/95  
 Agency: Department of Revenue

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## ALASKA DEPARTMENT OF REVENUE

SCS CSHB 197 (RES)  
9-LS0642/D  
April 28, 1995  
Page 3 of 3

**Section 3.** This section would amend corporation income tax statutes (AS 43.20) to authorize taxpayers to apply the credit against taxes payable and require them to submit an accounting of mining operation activities with their return.

**Section 4.** This section would amend mining license tax statutes (AS 43.65) to authorize taxpayers to apply the credit against taxes payable and require them to submit an accounting of mining operation activities with their return.

**Section 5.** This section provides for a retroactive date to January 1, 1995 and specifies that the bill would apply to activities that qualify for the credit undertaken after May 15, 1995.

**Section 6.** This section specifies that the bill take effect immediately under AS 01.10.070(c).

To prevent future controversy it may be necessary to provide definitions as to what constitutes a "mining operation".

### **Operating Costs**

DOR does not anticipate any additional operating costs to administer the exploration incentive credit program authorized under this bill. The Department would modify corporation and mining license tax return forms to provide for exploration incentive credits and develop a schedule for applicants to report mining license tax liabilities for each mining operation.

While the Department does not anticipate the need for additional audit staff, the scope of corporation income and mining license tax audits will likely have to be expanded to include review of exploration incentive credits which may result in a decrease in overall audit coverage to other tax types.

### **State Revenue Impacts**

Overview - It is difficult for Department of Revenue to determine the impacts of this bill on revenue since corporation income and mining license taxes are both based on net income from business or mining operations. It is difficult to predict whether individual mining sites will incur net income after production begins and since credits are limited to the level of future taxable income no reasonable estimate can be made.

For fiscal year 1994, the state collected \$162,000 in mining license taxes and no estimate can be made for the portion of corporation net income tax collected which would be impacted by the proposed tax credits.

Overall, exploration incentive credits would be limited to qualified exploration costs. According to DNR exploration expenditures during calendar year 1994 were approximately \$30 million. For 1994, credits would have been limited to \$30 million under this bill and unused portions would be available for a 15-year credit carryforward, assuming corporations had sufficient net income to qualify for the credit.

## ALASKA DEPARTMENT OF REVENUE

SCS CSHB 197 (RES)  
9-LS0642\D  
April 28, 1995  
Page 2 of 3

### Bill Analysis

**Section 1.** This section adds a new chapter (Chapter 30) to AS 27 relating to exploration incentive credits.

*AS 27.30.010.* This section authorizes the commissioner of Department of Natural Resources (DNR) to grant exploration incentive credits for eligible costs for mining exploration activities in the state. The credits would apply to activities associated with mineral and coal deposits. Eligible costs would include costs incurred before the mine construction commencement date for new mines and before the mine reopening date for mines that previously operated but ceased operations.

*AS 27.30.020.* To obtain the credit, the applicant must obtain approval of eligible expenditures from DNR on an annual basis. Applicants would submit to DNR a request to take credits and the commissioner of DNR would approve the taking of the credit within six months of the request's receipt date.

*AS 27.30.030.* The exploration incentive credit could be applied against corporation and mining license taxes and royalty payments. For taxes, the credit would be limited to 50% of the tax liability from the mining operation with further limitation of 50% of the tax liability reported on the respective return. Taxpayers would be required to submit an accounting for each mining operation in the state with their mining license tax form. For royalty payments, the credit would be limited to 50% of the royalty payable for production from the mining operation.

*AS 27.30.040.* This section would authorize credits to be carried forward to a subsequent tax year or royalty period.

*AS 27.30.050.* This section would require that credits be applied within 15 years after the taking of the credit is approved.

*AS 27.30.060.* This section would authorize credits to be assigned to the applicant's successor in interest for the mining operation if the successor is a qualified applicant.

*AS 27.30.070.* This section would authorize the commissioner of DNR to require persons taking the credit to provide an accounting of past use of credits and other information regarding the credit.

*AS 27.30.080.* This section would require that amounts due the permanent fund be calculated before application of a credit.

*AS 27.30.090.* This section would require that the commissioner of DNR keep exploration activity data confidential for 36 months after receipt by the department.

*AS 27.30.099.* This section defines terms used in this chapter.

**Section 2.** This section amends royalty statutes (AS 38.05.212) so that the credit applies to production royalty payments.

9-LS0642\O  
Chenoweth  
3/20/95

**CS FOR HOUSE BILL NO. 197(RES)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**NINETEENTH LEGISLATURE - FIRST SESSION**

**BY THE HOUSE RESOURCES COMMITTEE**

Offered:  
Referred:

Sponsor(s): **REPRESENTATIVES FOSTER, Vezey**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act providing for exploration incentive credits for activities involving locatable  
2 and leasable mineral 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) The commissioner shall grant to a qualified applicant an exploration incentive credit  
9 for the eligible costs of each of the following exploration activities that are 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;
- 15 (3) conducting underground exploration;

1 (4) surface trenching and bulk sampling; or

2 (5) performing other exploratory work, including aerial photographs,  
3 geological and geophysical logging, sample analysis, and metallurgical testing.

4 (b) An exploration incentive credit may not be granted under (a) of this section  
5 for exploration activity described in that subsection that occurs after the mine  
6 construction commencement date. In this subsection, "mine construction commencement  
7 date" means the date no later than which all of the following have occurred:

8 (1) there has been issued to the owner or an agent of the owner permits,  
9 leases, and title and other rights in land, and other approvals, permits, licenses, and  
10 certificates, by federal, state, and local agencies that a reasonable and prudent person  
11 would consider adequate to commence construction of a mine in the expectation that all  
12 other approvals, permits, licenses, and certificates necessary for the completion of the  
13 facilities will be obtained;

14 (2) all approvals, permits, licenses, and certificates are in full force and  
15 effect, unrevoked and without any modification that might jeopardize the completion or  
16 continued construction of the mine; and

17 (3) an order, judgment, decree, determination, or award of a court or  
18 administrative or regulatory agency enjoining, either temporarily or permanently, the  
19 construction or the continuation of construction of the mine is not in effect.

20 Sec. 27.30.020. APPLICATION OF CREDIT. An exploration incentive credit  
21 granted under AS 27.30.030 may be

22 (1) applied, at the discretion of the qualified applicant, against

23 (A) taxes payable under AS 43.20 and AS 43.65 that are related  
24 to production from the site on which the exploration activities occur;

25 (B) mineral production royalty payments due the state under  
26 AS 38.05.135 - 38.05.175 and 38.05.212 for production from the site on which  
27 the exploration activities occur; and

28 (C) annual rent payable under AS 38.05.211 for the site on which  
29 the exploration activities occur;

30 (2) carried forward to a subsequent tax year or royalty or rental payment  
31 period, except as limited by AS 27.30.040.

32 Sec. 27.30.030. PROCEDURE FOR OBTAINING THE CREDIT. To obtain

1 the credit authorized by this chapter,

2 (1) the prospective credit applicant must certify annual expenditures and  
3 obtain approval of an annual certification of expenditures as follows:

4 (A) the applicant must submit a certification of expenditures for  
5 the previous calendar year not later than 60 days after the close of that calendar  
6 year;

7 (B) the certification must describe the work accomplished during  
8 the previous year, the number of employees, and the names and number of  
9 consultants, and provide a detailed list or ledger of expenditures;

10 (C) the applicant is not required to transmit copies of receipts  
11 with the certification, but the certification is subject to audit in the discretion of  
12 the commissioner;

13 (D) if the commissioner determines to audit the applicant's  
14 certificate, the commissioner may require the prospective credit applicant to  
15 justify claims of expenditures with receipts and other reliable information;

16 (E) the commissioner shall respond to the prospective credit  
17 applicant's certification of expenditures by September 30 by approving or  
18 disapproving the certification; if the commissioner

19 (i) disapproves the applicant's certification, the  
20 commissioner shall state the reasons for disapproval and give the  
21 applicant an opportunity to correct any problems or to provide additional  
22 information;

23 (ii) approves the applicant's certification, the  
24 commissioner shall certify the applicant's expenditures and specify the  
25 exploration activity data requirements for that year that must be presented  
26 to the department at the time of application for the credit;

27 (F) if the commissioner neither approves nor disapproves the  
28 certification of expenditures by September 30, the certified expenditures are  
29 automatically approved;

30 (2) the prospective credit applicant whose annual certification of  
31 expenditures has been approved under (1) of this subsection may thereafter request  
32 approval of the credit for the certified expenditures as follows:

1 (A) the credit applicant shall deliver to the commissioner the  
2 exploration activity data identified by the commissioner under (1)(E)(ii) of this  
3 section, and shall request the commissioner's approval of the exploration  
4 incentive credit;

5 (B) the commissioner shall approve or disapprove the credit  
6 application within six months after receipt of the application for credit; if the

7 (i) exploration activity data complies with the  
8 requirements identified by the commissioner under (1)(E)(ii) of this  
9 section, the commissioner shall approve the credit;

10 (ii) credit application is disapproved, the commissioner  
11 shall state the reasons for disapproval and offer the applicant an  
12 opportunity to correct any problems or to provide additional exploration  
13 activity data or other information;

14 (C) if the commissioner neither approves nor disapproves the  
15 credit application within six months after submission of the credit application, the  
16 credit is approved.

17 Sec. 27.30.040. LIMIT ON CREDITS. (a) The amount of the exploration  
18 incentive credit for each site that may be taken during a tax year or royalty payment  
19 period may not exceed 50 percent of the combined amount payable by the applicant as

20 (1) taxes payable under AS 43.20 and AS 43.65 that are related to  
21 production from the site on which the exploration activities occur;

22 (2) mineral production royalty payments due the state under  
23 AS 38.05.135 - 38.05.175 and 38.05.212 for production from the site on which the  
24 exploration activities occur; and

25 (3) annual rent payable under AS 38.05.211 for the site on which the  
26 exploration activities occur.

27 (b) Except as its application or use is limited by AS 27.30.020 and 27.30.050,  
28 a portion of a credit that is not applied or used under (a) of this section may be carried  
29 forward to and applied during a subsequent tax year or royalty or rental payment period.

30 Sec. 27.30.050. USE OF CREDIT. An exploration incentive credit

31 (1) must be used within 15 tax years or royalty or rental payment periods  
32 after it is approved under AS 27.30.030(a)(2), but the tax years or royalty or rental

1 payment periods in which the credit is used need not be

2 (A) the tax year or royalty or rental payment period in which the  
3 qualified applicant first incurs liability for payment of tax, royalty, or rent based  
4 on the applicant's activity that is the basis of the claim of the exploration  
5 incentive credit; or

6 (B) consecutive periods; and

7 (2) may, for the purposes described in AS 27.30.020, be assigned by the  
8 qualified applicant to the applicant's successor in interest for the site at which the  
9 exploration activities occur if the successor in interest is a qualified applicant; once the  
10 applicant has assigned the credit to a successor in interest, the applicant may not use the  
11 assigned credit.

12 Sec. 27.30.060. RELATIONSHIP TO OTHER FUNDS. Amounts due the  
13 permanent fund under AS 37.13.010 shall be calculated before the application of a credit  
14 extended under this chapter.

15 Sec. 27.30.070. CONFIDENTIALITY OF DATA. (a) The commissioner shall  
16 keep the exploration activity data provided under AS 27.30.030 confidential for 36  
17 months after receipt by the department.

18 (b) The department is liable in damages to a person who provided the  
19 exploration activity data under AS 27.30.030 if the data is disclosed in violation of (a)  
20 of this section.

21 Sec. 27.30.090. DEFINITIONS. In this chapter,

22 (1) "eligible costs" mean the costs incurred for activities in direct support  
23 of exploration activity conducted at the site of the exploration activity for the purpose  
24 of determining the existence, location, extent, or quality of a mineral or coal deposit; the  
25 term

26 (A) includes

27 (i) the costs of obtaining the approvals, permits, licenses,  
28 and certificates for an exploration activity set out in AS 27.30.010(a)(1) -  
29 (5);

30 (ii) direct labor costs and the cost of benefits for  
31 employees directly associated with work described in AS 27.30.010(a)(1)  
32 - (5);

- 1 (iii) the cost of renting or leasing equipment from parties  
2 not affiliated with the applicant;
- 3 (iv) the reasonable costs of maintaining and operating  
4 equipment;
- 5 (v) insurance and bond premiums associated with the  
6 activities set out in (i) - (iv) of this subparagraph;
- 7 (vi) payments to consultants and independent contractors;  
8 and
- 9 (vii) the general expense of operating the taxpayer's  
10 business, including the costs of materials and supplies, if those expenses  
11 and costs are directly attributable to the work described in  
12 AS 27.30.010(a)(1) - (5);
- 13 (B) does not include noncash expenses such as depreciation and  
14 reserves, interest or other costs of borrowed funds, return on investment,  
15 insurance or bond premiums not covered under (A)(v) of this paragraph, or any  
16 other expense that is unreasonable or that the applicant has not incurred to  
17 complete work described in AS 27.30.010(a)(1) - (5);
- 18 (2) "exploration activity data" includes, as applicable,  
19 (A) a representative skeleton core for each hole cored or a  
20 representative set of cuttings for each hole rotary drilled;  
21 (B) chemical analytical data and noninterpretive geophysical data;  
22 (C) aerial photographs or a topographic or geologic map showing  
23 the location of the drill holes, sample locations, or the other exploration activities  
24 undertaken;
- 25 (3) "geochemical methods" means soil, rock, water, air, vegetation, and  
26 similar samples collected and their chemical analysis;
- 27 (4) "geophysical methods" means all geophysical data gathering methods  
28 used in mineral or coal exploration, including seismic, gravity, magnetic, radiometric,  
29 radar, and electromagnetic and other remote sensing measurements;
- 30 (5) "qualified applicant" means  
31 (A) a natural person who is at least 18 years of age;  
32 (B) a partnership qualified to do business in the state;

- 1 (C) a corporation qualified to do business in the state;  
2 (D) a limited liability company qualified to do business in the  
3 state;  
4 (E) a legal guardian or trustee of a qualified natural person  
5 described in (A) of this paragraph; or  
6 (F) any association of persons listed in (A) - (E) of this  
7 paragraph.

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

9 (a) Except as otherwise provided, valuable mineral deposits in land belonging  
10 to the state shall be open to exploration, development, and the extraction of minerals.  
11 All land, together with tide, submerged, or shoreland, to which the state holds title to or  
12 to which the state may become entitled, may be obtained by permit or lease for the  
13 purpose of exploration, development, and the extraction of minerals. Except as  
14 specifically limited by AS 38.05.135 - 38.05.181, land may be withheld from lease  
15 application on a first-come, first-served basis, and offered only on a competitive bid basis  
16 when determined by the commissioner to be in the best interests of the state. When  
17 authorized by AS 27.30.030, the commissioner shall allow an exploration incentive  
18 credit for activities undertaken to determine the existence, location, extent, or  
19 quality of a locatable or leasable mineral or coal deposit and in [IN] unproven areas  
20 the commissioner may offer additional incentives, including a reduction of royalty to a  
21 minimum of five percent in the case of oil and gas, and other terms in and granting  
22 permit or lease for exploration and development whenever it appears to be in the best  
23 interests of the state to do so.

24 \* Sec. 3. AS 38.05.211(c) is amended to read:

25 (c) The rental for each year  
26 (1) is subject to the claim of the exploration incentive credit  
27 authorized by AS 27.30; and  
28 (2) after allowance of the credit claimed under (1) of this subsection,  
29 shall be credited against the production royalty under AS 38.05.212 as it accrues for that  
30 year.

31 \* Sec. 4. AS 38.05.212(b) is amended to read:

32 (b) The production royalty

1                           (1) is three percent of net income as determined under AS 43.65; and  
2                           (2) is subject to the exploration incentive credit authorized by  
3                           AS 27.30.

4   \* Sec. 5. AS 43.20 is amended by adding a new section to read:

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

8   \* Sec. 6. AS 43.65.020(a) is amended to read:

9                           (a) A person subject to tax under this chapter shall make a return stating  
10                          specifically the items of gross income from the property, including royalty received and  
11                          the deductions and credits allowed by this chapter and the exploration incentive credit  
12                          authorized by AS 27.30, and other information for carrying out this chapter that the  
13                          department prescribes. The return must show the mining license number and must be  
14                          signed by the taxpayer or an authorized agent of the taxpayer, under penalty of unsworn  
15                          falsification. If receivers, trustees, or assigns are operating the property or business, they  
16                          shall make returns for the person engaged in mining, or the recipient of royalty in  
17                          connection with mining property. The tax due on the basis of the returns shall be  
18                          collected in the same manner as if collected from the person of whose business they have  
19                          custody and control.

20   \* Sec. 7. This Act is retroactive to January 1, 1995, and applies to activities that qualify for  
21   the exploration incentive credit authorized by AS 27.30 that are undertaken after December 31,  
22   1994.

23   \* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).



ALASKA STATE LEGISLATURE  
REPRESENTATIVE RICHARD FOSTER

Session: STATE CAPITOL, ROOM 410, JUNEAU, ALASKA 99811 • 907-465-3789 • FAX 907-465-3242  
Interim: PO BOX 1630, NOME, ALASKA 99762 • 907-443-5036 • FAX 907-443-2162

CO-CHAIR, HOUSE FINANCE COMMITTEE

## Sponsor Statement - HB 197

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An Act Providing for Exploration Incentive Credits for Activities Involving Locatable and Leasable Minerals and Coal Deposits on Certain Land in the State.

---

Alaska's economic future is dependent upon resource development, always has been and always will be, that's a fact. Alaska is rich in mineral resources. Many of our communities, including our capital of Juneau, owe their very existence to the rich mineral deposits beneath or near municipal boundaries. Future deposits have yet to be discovered and will only be developed following extensive exploration efforts.

But Alaska alone does not have a lock on opportunities. Our world is now a globally competitive arena. Competition for available exploration capital is intense. International corporations comb the globe for prospects to locate and develop low cost mining operations. In order to attract exploration in Alaska, we as a state must remain competitive.

HB 197 offers such an incentive to industry. Under this legislation exploration dollars invested in development of a producing mine would be eligible for credit against taxes due as a result of production revenues. If the prospect never advances to the production phase, no credits are released.

Without tax incentives, current trends will most certainly continue. In the past decade, available exploration investments have poured

## Sponsor Statement - HB 197

Page 2 of 3.

out of the country and into lucrative third world countries where governments welcome investments with limited regulation, minimal taxes, if any at all, and very low cost production expenses, including labor and environmental. Chile, Columbia, Mexico, Indonesia and Canada have all benefited from this outflow of American capital. This is detrimental to our long range economic future and threatens to doom our future generations to continued government dependence for cost of living subsidies.

Often the perception of the taxing environment within a given locale is just as significant as the tax itself. HB 197 proposes a tax credit which sends a strong message to the industry that, indeed, "Alaska is open for business."

Exploration dollars stay in state. Partnerships with land rich native corporations are certain to require local hire. Logistical operations depend wholly upon local businesses for local knowledge and equipment.

Given the fact that Alaskan mining operations have to contend with high labor costs, logistical complexities and limited infrastructure in vast areas of the state, it is reasonable that we encourage interested parties through tax credits. Without extensive exploration, producing mines will unlikely occur.

HB 197 is priority one for the Alaska Minerals Commission. This astute body has reviewed all aspects of the mining industry in Alaska and concluded that this is essential legislation.

This legislation was considered during the Eighteenth Legislature and passed both bodies. Unfortunately, the changes made in the Senate failed to receive concurrence due to adjournment.

The administration is pursuing similar legislation for oil and gas exploration and development tax credits in an effort to stimulate

**Sponsor Statement - HB 197**

Page 3 of 3.

additional development of our petroleum resources. HB 197 parallels this outreach effort into the minerals industry.

I support the Alaska Minerals Commission and have introduced this legislation on their behalf. I encourage your consideration and endorsement on HB 197. **Thank you.**

**DIVISION OF LEGAL SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA**

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Juneau, Alaska 99801-2105

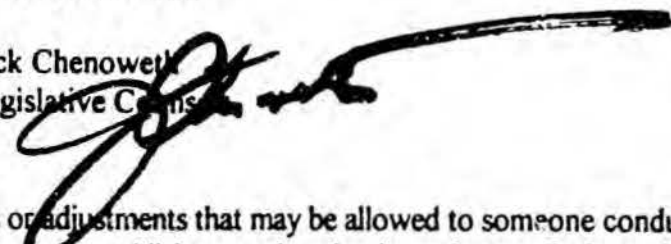
**MEMORANDUM**

March 1, 1995

**SUBJECT:** House Bill 197, establishing an exploration incentive credit for mining -- sectional analysis (Work Order No. 9-LS0642\G)

**TO:** Representative Richard Foster  
Attn: John Walsh

**FROM:** Jack Chenoweth  
Legislative Council



In addition to other credits or adjustments that may be allowed to someone conducting mining activity, the measure proposes to establish an exploration incentive credit for activities on land in the state that relate to locatable and leasable minerals and to coal.

**Bill section 1:** This provision, the heart of the measure, authorizes an exploration incentive credit for activities on or for the benefit of land in the state to determine "the existence, location, extent, or quality" of a locatable or leasable mineral or coal deposit. Specifically --

-- AS 27.30.010 authorizes the exploration incentive credit; describes the activities that qualify for the credit; determines how the credit, once granted, may be applied; prescribes the documentation of activity that must be submitted to qualify for the credit; and sets a time limit before which the commissioner may not release certain information or data obtained by the commissioner under the activity documentation provision;

-- AS 27.30.020 defines, as the limit of the credit, 50 percent of the exploration incentive credit applicant's mineral production royalty payment obligation under AS 38.05, or tax obligation under the state income tax or mining license tax, or annual rental payment, or the combination of them; portions of a credit that are not applied or used may be carried forward;

-- AS 27.30.030 sets a time limit on the use or application of the exploration incentive credit--15 years after approval--and permits use of the credit to be assigned by one qualified credit applicant to another;

-- AS 27.30.040 follows a provision of the oil and gas exploration incentive credit now under consideration and is intended to hold the Alaska Permanent Fund harmless against loss of any amounts due the fund under article IX, section 15 and by law;

-- AS 27.30.050 authorizes the commissioner of natural resources to adopt regulations relating to the claim and use of the exploration incentive credit; and

-- AS 27.30.090 supplies definitions to terms used in AS 27.30.

**Bill section 2** amends the production royalty provisions of the Alaska Land Act, AS 38.05, to permit a person obligated to pay a mineral production royalty payment to claim the exploration incentive credit against the royalty payment that is due under that chapter.

**Bill section 3** amends the mining rental provision to recognize the claim of the exploration incentive credit as a credit that may be claimed against that rent.

**Bill section 4** revises the manner of computing the mineral production royalty due under AS 38.05 to recognize the exploration incentive credit.

**Bill section 5** amends the Alaska Net Income Tax, the current state income tax, to permit a taxpayer to claim the exploration incentive credit against the tax due under that chapter.

**Bill section 6** amends the provision of the Mining License Tax, AS 43.65, to recognize, as an additional adjustment to computation of the tax due, the claim of the exploration incentive credit as a credit that may be claimed against that tax.

**Bill section 7** makes the proposed exploration incentive credit authorized by the measure retroactive to January 1, 1995, to cover activities qualifying for the credit that take place after December 31, 1994.

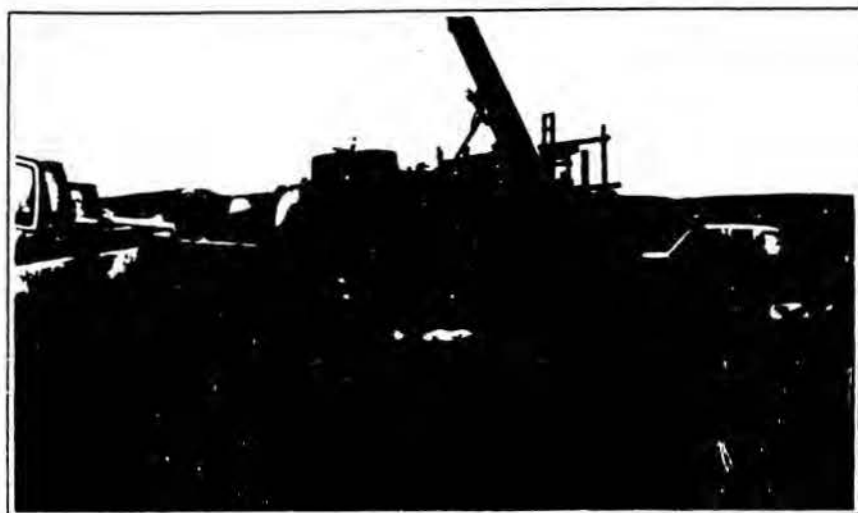
**Bill section 8** gives the measure an immediate effective date.

JBC:klb

95-112.klb

*Report of the*

# ALASKA MINERALS COMMISSION



**JANUARY 1995**



## FINDINGS AND RECOMMENDATIONS

### PART A: ISSUES REQUIRING STATE ACTION

#### INCENTIVES

**FINDING:** The Alaskan minerals industry competes in a global market for mineral exploration and development dollars. Although Alaska is blessed with an abundance of geologically favorable terrane, it has suffered because of its remoteness, the lack of transportation, infrastructure, and seasonal constraints. Equally important is the industry's perception that State and Federal agencies are not supportive of mineral development in Alaska.

Throughout the world there are countries actively seeking exploration and development investment by providing economic incentives for resource industries. Incentive programs have been successful in Chile and Mexico where privatization and tax incentives have revitalized their mining industries. Appropriate incentives could be especially effective in drawing industry attention to Alaska. This is because many companies currently view the lower 48 to be unattractive from the regulatory perspective and are looking elsewhere for new exploration opportunities.

#### THE COMMISSION RECOMMENDS THAT:

1. *The Governor and Legislature should create economic incentives that will provide financial encouragement and help offset some of the real and perceived problems facing exploration and development in Alaska. Incentives that should be considered include credits for expenditures on exploration drilling and geophysics that can be deducted from claim rents, the mining license tax, production royalties, and income taxes. An increased budget for educational and promotional efforts is also recommended.*

#### GEOPHYSICAL AND GEOLOGICAL MAPPING

**FINDING:** Many other countries provide airborne geophysical surveys to guide and complement traditional geologic mapping and geochemical surveys. Commonly several millions of dollars per year are invested in order to survey several thousands of square miles. This has been found to be a cost effective marketing tool to attract mineral exploration investment.

In 1993 Alaska contracted for airborne surveys of 1,100 square miles and in 1994 for an additional 750 square miles. At least half of Alaska's 160,000 square miles of State land (104 million acres) has high mineral value. However, at the present level of funding it will take well over 80 years to survey these mineral lands.

Although the maps of the 1993 airborne geophysical survey were not available until April of 1994, already increased claim staking and exploration activity can be documented in the Nome and Circle areas. The maps from the 1994 surveys of the Fairbanks and Richardson districts should be available in early 1995, but already (October, 1994) there is significantly more exploration interest in both areas.

These mapping programs should be viewed as an investment similar to the marketing efforts in other basic sector industries in Alaska and accelerated to cover the known mineral belts in a reasonable time frame.

#### THE COMMISSION RECOMMENDS THAT:

2. *The Governor and Legislature should invest \$5 million per year for the next decade, preferably through foundation funding, in airborne geophysical surveys and complementary geological and geochemical surveys.*

## ACCESS

**FINDING:** The State has identified hundreds of potential Revised Statute 2477 Rights-of-Way (RS 2477) and is in the process of asserting title on a selected few. However only the Bureau of Land Management (BLM) currently has a policy for accepting State nominations and assertions.

RS 2477 access corridors may provide the only assured access across and within the vast interlocked system of Conservation Systems Units in Alaska other than the untested Title XI access provided for in the 1980 Alaska National Interest Lands Conservation Act (ANILCA).

### THE COMMISSION RECOMMENDS THAT:

3. *The State should aggressively assert all identified RS 2477 Rights-of-Way and provide funding until completion of the project. Further, the State should assert an access route pursuant to Title XI of ANILCA to test the process and develop precedent-setting guidelines.*

## STATE REGULATORY REFORM

**FINDING:** Alaska mineral producers often face higher costs of doing business due to harsher climate, to higher labor costs, and to higher capital costs. Additional indirect costs due to regulations can have the effect of making Alaska mines uncompetitive with those in other states and countries. The Administrative Procedures Act (AS 44.62.195) requires State agencies to prepare fiscal notes which estimate the costs to State government of a proposed regulation. State agencies should also be required to estimate the compliance costs of proposed regulations to individuals and businesses as a formal part of the process of adopting regulations.

### THE COMMISSION RECOMMENDS THAT:

4. *The Legislature should amend the Administrative Procedures Act (AS 44.62.195) by adding a section as follows: "If the adoption, amendment, or repeal of a regulation would require increased costs for compliance by individuals and businesses, the department or agency proposing the regulation shall prepare an estimate of those costs for the year following adoption, amendment, or repeal of the regulation and for any additional period of time required for implementation and compliance with the regulation."*

**FINDING:** Presently several State agencies claim management authority over State lands. The administration has become a complex bureaucracy with multiple agencies vying for regulatory management of mineral development. The number of permits, the time required to secure those permits, the number of agencies, and the costs related to obtaining the permits has become excessive.

The recent experience with permitting a major mining operation on State lands near Fairbanks has demonstrated the benefit of having a coordinated State approach through the Department of Natural Resources (DNR) for the mine permitting process.

### THE COMMISSION RECOMMENDS THAT:

5. *The Governor should designate and fund the Department of Natural Resources (DNR) as the lead agency in all regulatory matters concerning mining, and should direct other agencies with regulatory authority over mining, such as the Departments of Fish and Game and Environmental Conservation, to coordinate their regulatory programs through DNR.*

**FINDING:** Authority for the issuance of Alaska Placer Mining Permits comes through the Miscellaneous Land Use Permit process. As the regulations are currently written, a permit under this section can be issued for only one year. Allowing longer permit periods would create a more stable environment for planning and financing mining projects while significantly reducing the work load of the Division of Mining.

**THE COMMISSION RECOMMENDS THAT:**

- 6. The Governor should direct the Commissioner of the Department of Natural Resources to take the necessary steps to allow Miscellaneous Land Use Permits to be issued for periods of up to 5 years.*

### **CITIZEN'S ADVISORY COMMISSION ON FEDERAL AREAS**

**FINDING:** The Citizens Advisory Commission of Federal Areas was established by the Alaska Legislature in 1981 shortly after the enactment of the Alaska National Interest Lands Conservation Act. The Commission is composed of 16 members, half of whom are appointed by the Governor and half by the Legislature, including four sitting legislators. The Commission analyzes federal legislation, regulations, and land management plans, determines the impact of these actions on Alaska's citizens, and makes recommendations to both State and Federal agencies for corrective actions to problems discovered. As federal regulations are finally developed, the case load is expanding.

Development of Federal lands and regulations for access across them is important to the State's economy. The Commission provides a valuable and cost-effective mechanism through which State concerns regarding management of all federal lands can be expressed.

**THE COMMISSION RECOMMENDS THAT:**

- 7. The Governor and Legislature should provide expanded budgetary and programmatic support to the Citizens Advisory Commission on Federal Areas.*

### **COASTAL ZONE MANAGEMENT**

**FINDING:** AS 46.40.040 and AS 46.40.060 refer to the Coastal Policy Council (CPC) duties as developed through public hearings of the 1970s and 80s. The CPC was to review coastal zone plans to ensure that they did not arbitrarily or unreasonably restrict or exclude uses of State concern. However, the State has not defined those State Uses in Statute (currently such uses are only referenced by CPC resolution). The Statutes do not clearly identify uses such as mining, fish and seafood processing, timber harvesting and processing, subsistence, habitat, grazing, historic and archeological resources, oil and gas development, commercial fishing or new settlements as Uses of State Concern.

**THE COMMISSION RECOMMENDS THAT:**

- 8. The Legislature should amend AS 46.40.040 and AS 46.40.060 to define "uses of state concern" to ensure that all uses or potential opportunities for future uses or rights are treated equally.*

## COAL ISSUES

**FINDING:** In 1990 the Alaska State Legislature passed into law a new statute to ensure reclamation occurred during and after mining on state, federal, municipal, and private land and water. In 1982 the Legislature passed a similar law regarding surface coal mining operations in Alaska. These two programs offer various reclamation bonding mechanisms to companies and individuals engaged in mining activities. A primary difference exists, however, in that coal mining operations are currently not able to participate in the State's bonding pool. A change in statute is advocated to allow for participation, if desired, of all mining companies and individuals in the State's bonding pool.

### THE COMMISSION RECOMMENDS THAT:

- 9. The Governor should direct the Commissioner of Natural Resources to prepare necessary changes to AS 27.19.010(c) and AS 27.19.040(b) to allow for the inclusion of all mining companies and individuals in the State of Alaska's reclamation bonding pool.*

## EDUCATION AND RESEARCH

**FINDING:** The "Alaska Resource Kit: Minerals" which is being used in the statewide public school system, is an excellent program for educating Alaska's students in the issues and fundamentals of resource development. The program is a cooperative effort between the Department of Education, which developed the curriculum and is responsible for its implementation, and the Alaska Mineral and Energy Resource Education Fund (AMEREF). AMEREF is an industry-supported organization which annually funds the production and replacement of the teaching materials and which partially funds the salary of a Mineral Specialist in the Department of Education who is responsible for providing teacher training and for implementing the program into the school systems. This program has proven to be a success and reflects the cooperation that has existed during the 10 years of the program's existence.

### THE COMMISSION RECOMMENDS THAT:

- 10. The Governor and the Legislature should continue to support the Department of Education for its partial funding of a Minerals Specialist at the present or an increased level. Such support should be commensurate with the increased contributions from the industry-supported Alaska Mineral and Energy Resource Education Fund.*

**FINDING:** The University of Alaska offers programs for educating mining engineers, geological engineers and geologists; for providing mining public extension, and mining vocational training services; and for conducting applied research in direct support of the mineral industry. These professional, public service, and research programs are vital to the continued development and utilization of the State's mineral resources, to the jobs and incomes of its residents, and to the public revenues used to support education and other public services.

The ongoing assessment of University of Alaska programs will identify areas for reducing the University budget. Maintaining the identity of degree programs and administrative leadership of academic units which provide support for resource development and of vocational programs which provide unique direct job training should remain a priority for the University.

### THE COMMISSION RECOMMENDS THAT:

- 11. The Governor and Legislature should provide budgetary support to the mining, geological, and mine training programs throughout the University of Alaska system.*

## USER FEES

**FINDING:** Increased user fees have been suggested as a means of offsetting the cost of providing government service as the State faces declining revenues. However, allowing State agencies to unilaterally implement user fees could result in uncontrolled increases in the cost of basic services required by citizens and businesses, as well as allowing State agencies to operate outside the Legislature's budgetary process. Additionally, the implementation of user fees should carefully balance the need to generate revenues against the increased cost to citizens and business for necessary services and required permits.

In addition to these general concerns, the mineral industry is concerned about fee schedules and access restrictions for technical resource and land information from State databases. Onerous fees and restrictive use agreements for this information will discourage investment in mineral exploration and development.

### THE COMMISSION RECOMMENDS THAT:

12. *The Governor and Legislature should establish policy guidelines for the implementation of user fees and should establish a procedure requiring legislative and public review of all proposed user fees.*

## STATE LABOR ISSUES

**FINDING:** Legislation allowing a flexible work week and extending underground working hours is important for the viability of mines in remote locations. Properly drafted legislation would provide employers and employees with the flexibility to jointly determine work schedules that would enhance efficiency and provide for more desirable time off patterns for employees. A recent joint program in British Columbia between private industry, the B.C. Ministry of Mines, and the U.S. Bureau of Mines has demonstrated the utility, safety, and desirability of extended underground work shifts.

### THE COMMISSION RECOMMENDS THAT:

- 13a. *Legislation should be enacted to allow work schedules to be set on the basis of project-specific considerations which will permit more efficient use of labor and provide more desirable time-off patterns for employees. AS 23.10.060 currently provides opportunities for flexible work plans at small seasonal mining operations and for surface mines. These same opportunities should be extended to all mining operations without regard to size, type, and/or seasonal nature of the work.*
- b. *Legislation should be enacted to amend current statutes limiting underground shifts from the current maximum of eight hours to a maximum of twelve hours, similar to SB 295 in the 17th Legislature.*

## DIMINUTIVE DISCHARGES

**FINDING:** The Alaska Department of Environmental Conservation (ADEC) has recently begun selective enforcement on the mining industry of a regulation relating to disposal of nondomestic wastewater. This regulation applies to a broad spectrum of routine activities in Alaska which result in small discharges of solid or liquid waste, such as drilling, blasting, construction and earth excavations, and marine bilge-pumping. ADEC regulatory action is being conducted under, 18 AAC 72.500, which states (in part) "a person who disposes of nondomestic wastewater into or onto land, surfacewater, or groundwater in Alaska must have a permit issued by the Department (ADEC) for that disposal." Regulations detailed through 72.500 are promulgated under AS 46.03.100, which specifies that both liquid and solid waste are to be regulated.

Clearly, this regulatory language is so broad as to include most outdoor activities in the State. The Department of Law has maintained that no exemptions are allowed and that ADEC must require a permit for all discharges, regardless of the source, type, or insignificance of the discharge. To date, ADEC has chosen only to require a permit for selected mineral drilling activities. This selective enforcement of a bad regulation is an example of government at its worst.

**THE COMMISSION RECOMMENDS THAT:**

- 14. The Alaska Legislature should amend AS 46.03.100 to exempt diminutive activities, including mineral drilling, certain construction activities, and marine bilge-pumping from requiring a Waste Disposal Permit. Specifically, mineral drilling in which the only discharges are ground-up rock, water, and biodegradable additives, (which are EPA approved for water-well drilling), should be exempted.*



# Alaska's Place in the International Minerals Industry

By STEVE BORELL

At a time when investments in mineral exploration are leaving most areas of the western United States, Alaska mineral opportunities are again catching the attention of major mining companies.

The debate over changes to the federal mining law has resulted in extreme uncertainty for the U.S. mining industry. Finding and developing minerals projects requires many years of secure tenure (clearly established rights if an economic deposit is found). Without secure tenure, years of work and many thousands — if not millions — of dollars are at risk.

Because of the uncertain future of the federal mining law during the past four years, minerals companies have greatly decreased their exploration in the United States and have moved their exploration dollars to countries having a friendlier attitude toward mining and a more stable climate. While uncertainty has increased for mining on U.S. federal lands, other countries, including Mexico, Chile, Argentina and Papua New Guinea, have changed their mining laws to encourage mining investments and to provide secure land tenure while eliminating or reducing royalties.

These countries have determined that their citizens, economies and government revenues receive the greatest benefits when mines are built, jobs are created and companies make profits. Once mines and jobs are in place, these governments obtain revenues by taxing those facilities and the personal income of miners and suppliers, as well as corporate income.

## Exploration Holds On

While a mass exodus of investment from the Lower 48 has occurred, Alaska has held fairly even, and exploration investments in 1994 may actually show an

increase. There are two primary reasons for this situation.

First, the state of Alaska now holds title to about 85 million acres of land, and once all land transfers are complete, it will have 104 million acres, an area nearly the size of California, will be open to mineral exploration.

Second, Alaska Native corporations own about 44 million acres of land, and they are actively promoting their lands for mineral exploration and development. Most of these lands, both state and Native, were selected because they had high mineral potential.

The bad news is that Alaska continues to be dogged by its reputation of being a difficult, if not bad, place to do business. High costs and lack of infrastructure have been major deterrents, but past uncertain land tenure has been the greatest concern. In the past, issues like

(2) lands debate, which led up to ANILCA (Alaska National Interest Lands Conservation Act), the Antiquities Act, inholdings, valid existing rights, etc., forced many companies to leave Alaska. These issues are generally behind us now, but as with all resource industries, mineral development is being smothered by constantly expanding, overbearing state and federal regulations.

## Major Mining Projects

However, even with the negative legacy of the past and the current regulatory climate, the potential for future mineral development is excellent. In fact, there are now seven major mining projects that could be in construction in the next two years.

*However, even with the negative legacy of the past and the current regulatory climate, the potential for future mineral development is excellent.*

These projects would create more than 3,000 jobs during construction and over 1,600 permanent, year-round, skilled, challenging, good-paying jobs once mining begins. Each of the seven projects still has significant design, permitting, marketing and/or financing challenges to overcome. Thus, there are no guarantees, but the future is certainly bright.

As for exploration, the lifeblood of future mines, the level of exploration in Alaska thus far in 1994 appears to be ahead of 1993. This year's exploration seems to be characterized by many small to medium-size projects rather than a few large-scale ones.

### **Mapping Gains Ground**

One reason for excitement: the results from the state's 1993 airborne geophysical mapping program. The project mapped four areas of Alaska where private companies now are focusing detailed exploration. This program, which included private funding, developed geophysical data that can now be purchased from the state's Division of Geological and Geophysical Surveys. (The agency is located in Fairbanks at 794 University Avenue, Suite 200, 99709-3645, and can be reached by phone at (907) 474-7147 or fax at (907) 479-4779.

By conducting such a program, the state of Alaska has made an investment that will be available to all users for many decades. Many nations already have geophysically mapped their entire land areas. As Alaska

continues this mapping, it will develop a competitive base of data and will begin to even out the advantage often held by other countries.

### **War On The West**

Because of laws that now protect private property rights and secure land tenure, the immediate future for mining should be positive. However, the biggest unknown facing all resource development in the western United States is what is known as "The War on the West." The attack on the federal mining law is one aspect of this war, but there are many more. Laws are being changed to make it easier for "no-use" groups to block projects; the federal government is settling environmental suits out of court in ways beneficial to those opposing development; and contracts and leases with the federal government are being canceled.

These are ominous signs, and we can only hope they will be reversed. If not, the current positive outlook for mining in Alaska and the jobs mining can generate will be snuffed out before mining can provide the diversification Alaska's economy needs.

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*Steve Borell is a registered professional engineer in Alaska, Colorado and North Dakota with more than 20 years experience in coal and metals mining throughout the United States and in Canada and South America. He is executive director of the Alaska Miners Association.*

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ALASKA MINERS ASSOCIATION, INC.

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# ALASKA

## America's Sleeping Giant for Minerals

Alaska now provides the greatest opportunity for minerals exploration and development in all of North America.

There is more land in Alaska open to mineral entry than in any other western state. As compared to other parts of North America, Alaska has had very little mineral exploration and very little mining. Major world class deposits are known to exist, some of which are being developed at this time. And just as important, as oil production from Prudhoe Bay decreases, Alaskans are encouraging mineral development and see it as having the greatest hope for significant future economic development.

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### Alaska Has a History of Being Elephant Country

Alaska is known for its mineral elephants. The copper deposit at Kennecott provided the base for the modern mining giant of the same name and contained ore grading as high as 70% copper with the average mill grade for the mine life at 12%. The Alaska-Juneau underground mine milled 12,500 tons per day in the early part of this century and will likely re-open at 22,500 tons per day. The Greens Creek Mine has produced 7.6 million oz. silver, 37,000 oz. gold, and 58,700 tons of lead-zinc concentrates per year. The Red Dog mine has produced more than 550,000 tons of zinc, lead, and combined concentrates per year and at that rate has a mine life of more than 50 years. The recently discovered (1989) Pebble Copper deposit is known to contain at least 500 million tons grading 0.35% copper and 0.012 oz per ton gold.

It is estimated that there is as much coal in Alaska as in the remainder of the U.S. combined. All of this coal is very low sulfur and it is well positioned to compete in the Pacific Rim with coals from Australia and Indonesia. In addition to federal and state owned coal, there is also privately owned coal in some areas and these private owners are actively working to develop these coal fields.

Many other elephants are known to exist. Some are being reevaluated for application of modern mining and extractive technologies. Others are being evaluated for infrastructure development.

### Alaska Has Land Available

It is well known that the U.S. Congress has established many parks, preserves, refuges, etc. in Alaska but there is still a tremendous amount of federal, state, and private Native Corporation lands that are available for minerals development. The amount of federal land open to mineral entry (49.6 million acres) is larger than the entire area of the states of Washington, South Dakota or Nebraska.

The amount of state land open to mineral entry (95.9 million acres) is nearly the size of the entire state of California. Much of these state lands were specifically selected because of their high coal and hard-rock mineral potential. State law encourages and even mandates development of resources.

### Native Corporations

Alaska is unique in that twelve Native Corporations own more than 44 million acres of private land. Much of these lands were selected specifically for their mineral potential before most State selections or the establishment of the parks and refuges.

These Native Corporations have been in existence for more than twenty years and have tried many avenues to develop jobs for their regions. Because of Red Dog and other smaller projects they have seen what mining can do for the economy, especially in remote areas, and they want economic development for their regions and jobs for their people. These Native Corporations are not "reservations", they are modern businesses and they are actively marketing their lands for mineral development.

## Alaska is Essentially Un-Explored

Because of past federal and state policies, the climate, remoteness, and a short summer exploration season, Alaska has had relatively little exploration - far less than any other part of the United States and less than most other parts of the world. The surface is typically covered by forest, tundra, or snow and ice and is not readily visible. The new exploration techniques developed over the past 20 years have been applied to only a few small areas of the state, much less than 5%.

## Alaska Has Stable and Progressive Tax and Regulatory Policies

Alaska has a 7% net profits mining license tax on all mineral production, a 3% net profits royalty on minerals from state lands, and a graduated claim rental beginning at \$0.50/acre. Alaska state corporate income tax is 9.4% if net profit is more than a set threshold amount. Alaska does not now have a statewide sales tax nor a personal income tax. In 1992 the Alaska Legislature passed a bill specifically exempting insitu mineral reserves from taxation until they are mined.

Alaska's mining reclamation statute is logical and reasonable while still ensuring that the area mined is left in a stable condition that will provide for public safety and not pollute the environment. The statute requires bonding in the fairest possible way. The miner is held responsible for the reclamation but a bonding pool is available that provides access to bonding and limits the miner's cost to payment into a refundable escrow account and a small annual service fee.

## Alaska Wants Mining

Alaskans are beginning to recognize that mining has the greatest potential for economic development and new jobs for all areas of the state. Oil production is declining at a rate of 7% per year. Harvesting timber is coming under increased pressure and will not provide new jobs and economic development. Tourism is important and may expand but primarily with short term, seasonal, entry-level jobs. Commercial fishing is already over-allocated and the future of that industry will be with the courts deciding who will get the fish. That leaves mining. And mining can provide challenging, skilled, good-paying, year-around jobs for all areas of the state.

## Alaska Now Has a Growing Mining Industry

During the next 18 months, six mining projects in Alaska will be at a stage where they could make decisions to begin construction of major mines. Now is the first time that such a statement could have been made since 1902! There are no guarantees. Each has significant design, permitting, market and/or financing challenges that must be overcome and the owners are working on these remaining challenges.

## Shouldn't You Be Part of This Exciting Time in Alaska?

There are various ways to approach mineral exploration in Alaska.

- Contact the state Division of Mining, Bureau of Land Management or the U.S. Forest Service to learn about their respective lands.
- Contact the 12 Native Corporations for information on leasing their privately owned lands.
- Use the Alaska Miners Association annual Service Directory to contact mining companies now operating in the state or to contact independent prospectors, geologists, engineers and others that have properties or know of properties that have already been discovered.
- Attend the Alaska Miners Association annual convention and trade show that is held in Anchorage each year during the first week of November.
- Attend the spring Bi-annual Placer Conference held in Fairbanks (even years) or the spring Bi-annual Conference Juneau held in Juneau (odd years), both organized by the Alaska Miners Association. **A**

No matter what your level of interest at this time, you will want to join the Alaska Miners Association to stay abreast of events in the 49th state. Membership includes the annual Service Directory and the monthly journal **The Alaska Miner**. Call or write today to:

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ALASKA MINERS ASSOCIATION, INC.

## Why Locate In Alaska for Projects In RUSSIA

*By Steve Borell*

Alaska and Russia share a very special relationship and companies wishing to do business in the eastern half of Russia should strongly consider locating their Russia contact office in Alaska. This applies not just to mining companies and mining industry suppliers but anyone wishing to do business in Russia.

In July, 1993 the Alaska Miners Association sponsored a tour of mines in the Magadan Region of the Russian Far East. I had had the sense that there was an Alaska advantage for several years and our tour confirmed this in many ways. I now estimate that this is worth at least five and possibly a ten percent advantage over having a contact office in another location.

### PROXIMITY

The obvious first reason is the close proximity of Alaska to Russia. This is important for travel and for communications. For instance, Magadan is four time zones west of Alaska. This is the same time difference between Alaska and the east coast of the U.S. We in Alaska have a four hour business day overlap with the east coast and the same with the Russian Far East. The further east one moves from Alaska, the more difficult it will be to keep good contact with a project, partner or customer in Russia.

Air travel for personnel is another area where Alaska has a distinct advantage. Magadan is about four flying hours from Anchorage and there are now regularly scheduled flights between Anchorage and Magadan, Khabarovsk and Vladivostok on both Alaska Airlines (currently during summer only) and on Aeroflot. The time lost traveling back and forth is significantly increased when one adds the various connections required when coming from Canada or the lower 48. And although a four hour jet lag is still a bother, it is far better than a six or eight hour jet lag. Additionally, there are direct flights on Aeroflot between Anchorage and Moscow.

There are also significant arguments that favor Alaska when shipping parts, supplies and products to or from the Russian Far East or Siberia. Which would you prefer: 1) shipping your parts or products through New York, where there are 10,000 customs employees in a no-man's zone covering an area of several square miles, into Moscow where there are 15,000 customs employees and a similar area, or, 2) shipping directly from Anchorage where there are 6 customs agents, whom you get to know by name after a few shipments, and into Magadan, Khabarovsk or Vladivostok where your partner similarly knows the 8 local agents by name?

Keeping tabs on the whereabouts of your shipment will be much easier from Alaska. The problems are just an extension of the problems involved in shipping to the bush and Alaskans understand that process. Also, wouldn't you prefer to track your shipment through the U.S. or Canada for most of its journey and then in Russia for the least possible time? At the very worst you could visit the airport every day until you see that your pallet of parts is gone and call or telex your Russian partner to tell him it is on the way. Try that in New York, Seattle, Vancouver or Moscow.

It should also be noted that Alaska-based Northern Air Cargo has established cargo shipment routes between Anchorage and several Russian Cities.

### SIMILAR CONDITIONS

On a purely technical level there are many reasons Alaska's Arctic-experienced miners, geologists, civil engineers, architects, etc., have an advantage over their counterparts from other areas of the country. When you mention discontinuous permafrost to an engineer in the lower-48 you may get a blank stare. For Alaskans such a phrase raises a series of red flags and brings to mind many additional considerations. The same can be said for design and operation in an area where the average temperature in January may be minus 32 degrees F. People who have not experienced this do not understand the implications!

For the miner, geologist and prospector, the mineral terranes of the Russian Far East in particular are similar to and an extension of those found in Alaska, the Yukon and British Columbia. The same kinds of rocks appear and one would expect to search for the same ore deposit models. Geologists acquainted with the rocks and associations in Alaska will be the obvious choice for work

in Russia and conversely. Here again Alaska bush logistics, challenges and local hazards (grizzly bear) experience will be invaluable.

## **BENEFITS FOR ALASKA MINERALS INDUSTRY**

The benefits for the Alaska minerals industry are many. The transfer of experience and expertise will assist both Russian and Alaskan projects. Minerals companies with a Russia contact office in Alaska will likely take interest in Alaska prospects that may come along. The knowledge they gain working on Russian ore deposits and geologic models will be readily transferable to Alaska and will increase their effectiveness in exploring for deposits in Alaska.

The mining industry in Alaska will also benefit if equipment suppliers locate their Russia contact offices in Alaska. If the suppliers are strong and have larger volumes of sales they will be able to buy in larger volumes and maintain larger stocks of spare parts. The increased stock levels will mean improved parts availability for miners in Alaska.

Companies interested in placer mining or in selling supplies to this part of the industry will find Alaska and eastern Russia to be two pages of the same book. Experience gained in either area will be of major value when doing business in the other.

## **FAMILY CONSIDERATIONS**

Do not forget spouses and families. Living in Russia will be a strain on even the strongest expatriate family. It may however be feasible for some families to live in Alaska rather than move to a remote site in Russia. Or how nice for expatriates living in Russia to be able to grab a flight to Alaska and enjoy some "America" while the manager, engineer, geologist, etc., visits the home office on business. I lived in South America for two years and my wife and I understand this aspect of foreign assignments - and culture shock - very clearly.

Just living in the north is another aspect of culture shock that should be recognized. Alaska experience for employees and families should reduce this hazard. There is often severe culture shock when lower 48 residents move to Alaska. It will be much easier and less traumatic if employees and their families are already accustomed to the high latitude and temperatures of Alaska. Moving a family to Russia, just as to any new culture, will become a major challenge for families and marriages. Alaska experience would help ease that transition.

## **CULTURAL TIES**

An additional reason for locating the U.S. contact office for Russia in Alaska is that the Russians prefer to do business with Alaskans. They dislike the influence of Moscow just as much as we Alaskans dislike many of the influences of Washington. This helps explain why the Russians have a special kinship with Alaskans.


Another less positive but none-the-less important consideration is that the Russians seem to prefer to not do business with companies from the orient, ie, Japan, Korea, China and Taiwan. Russia has had a long history of armed conflict with Oriental countries and the issues are still not totally resolved. They may like the products but it appears they prefer to deal with Alaskans, even when buying products manufactured in the Orient.

One must also recall that Alaska was once part of Russia and the first gold mining in the state was by the Russians in 1848 at the now famous Russian River salmon fishing stream on the Kenai Peninsula. The Alaska Commercial Company operating in Alaska today is a descendent of a Russian company and advertises as operating "Since 1867," the year Secretary Seward bought Alaska from Russia.

It is also of note that during the 70 year communist period few books written in English were allowed to be translated and widely distributed in Russia. One exception was the writing of Jack London. As a result there are all manner of lakes, roads, mountains, etc., in Russia named after London. One Alaskan mining executive working in Russia commented that so many people talked to him about the Jack London stories he had to buy a copy of London's complete works and re-read the stories so he could better relate to the Russians.

## **BUSINESS SUPPORT STRUCTURE**

There is already a significant amount of activity between Alaskan and Russian companies. As of the end of 1993 there were possibly 200 Alaskan companies of all types doing business with Russian companies. A few of these are mining ventures but most involve some form of import-export sales. Also, various agencies have protocols with their Russian counterparts to encourage cooperation between Alaskan and Russian entities.

The University of Alaska through its Office of Russian Affairs (907) 786-7718 is very active in facilitating contacts for business, research, education and cultural exchanges. Also, the American Russian Center (907) 786-4300 of the University has branches in Russia and Alaska to provide training, short-term technical assistance and act as a small business information system. Each major campus of the University (Fairbanks, Anchorage & Juneau) offers courses in Russian language, culture, history, etc. The State of Alaska's Office of International Trade (OIT) (907) 561-5585 provides support for Alaskan businesses wanting to export to Russia. OIT arranges trade missions-both to and from Russia-gathers market intelligence and contacts with the assistance of honorary representatives located in Sakhalin and Primorskii Krai. And the U.S. Department of Commerce has offices in Anchorage and several cities in eastern Russia. 

*(Steve Borell is the Executive Director of the Alaska Miners Association. A registered professional engineer in Alaska, Colorado and North Dakota, he has worked in coal and metals mining for more than 19 years throughout the United States and in Canada and South America).*



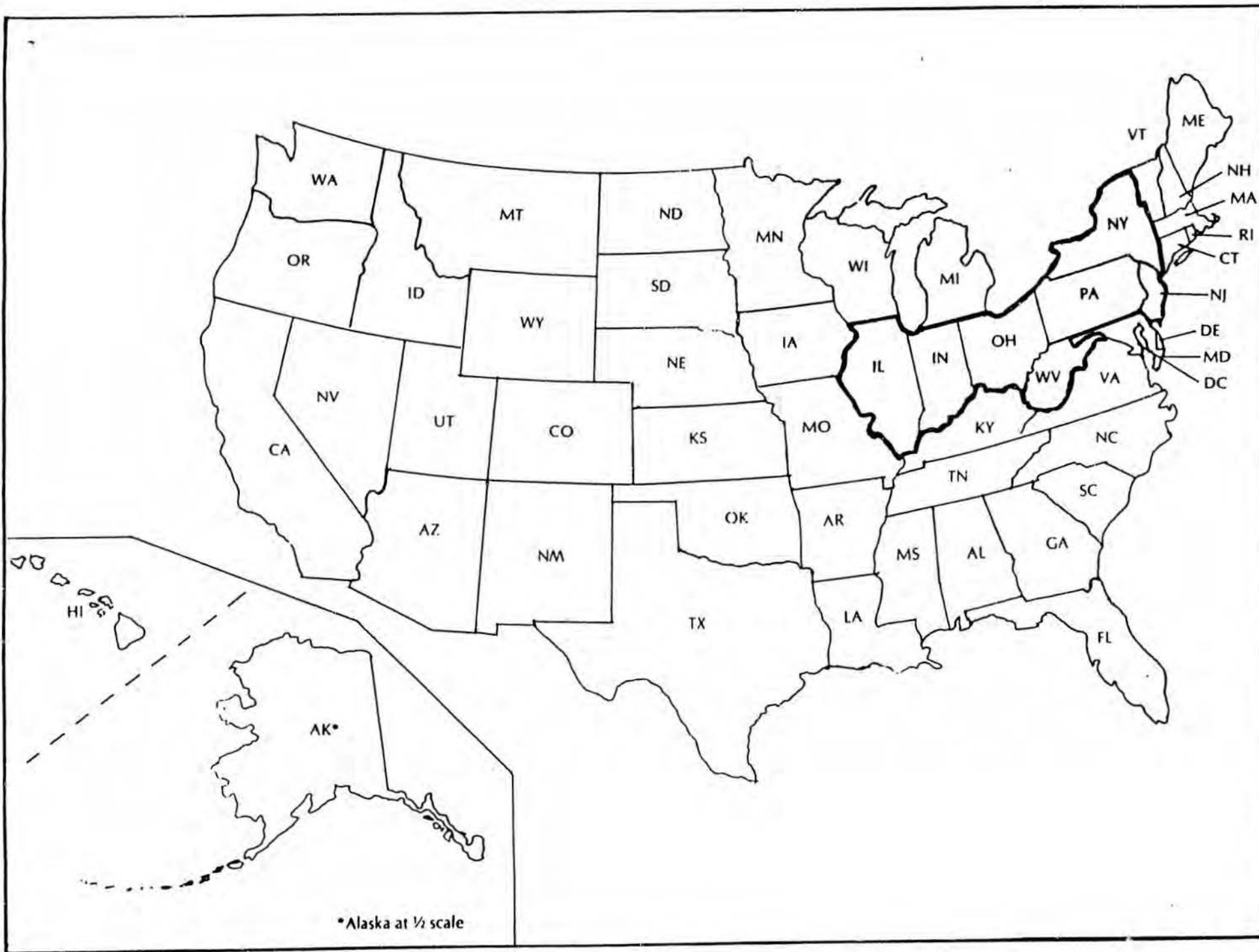
## ALASKA MINERS ASSOCIATION, INC.

3/20/91

	<u>LAND STATUS IN ALASKA</u> (Millions of Acres)			
	<u>Total</u>	<u>Total "Wilderness"</u>	<u>Total Closed to Mining</u>	<u>Total Open to Mining</u>
<u>Federal Lands</u>				
National Park Service	54.7	32.8	54.7	0
U.S. Fish & Wildlife	77.1	18.5	77.1	0
U.S. Forest Service	22.8	5.7	5.7	17.1
Bureau of Land Mgmt.	57.9	2.4(2) 23.0(3)	2.4 23.0	32.5 0
Department of Defense	2.5		2.5	0
Subtotal	<u>215.0(1)</u>	<u>82.4</u>	<u>165.4(5)</u>	<u>49.6</u>
<u>State Lands</u>				
State Parks	3.2		3.2	0
Administrative Mineral Closures	5.3		5.3	0
Other State Lands	77.9		0	77.9
Not Selected/TA'd	18.0		0	18.0
Subtotal	<u>104.4(1)</u>		<u>8.5</u>	<u>95.9</u>
<u>Private Lands</u>				
Native Corporations	45.6		0	45.6(4)
Other Private	0.5		0.5	0
Subtotal	<u>46.1</u>		<u>0.5</u>	<u>45.6</u>
Total	<u>365.5</u>	<u>82.4</u>	<u>174.4</u>	<u>191.1</u>

- (1) Final acres that will result after all State and Native Land Transfers.
- (2) Wild and Scenic River Corridors total approximately 2.4 million acres and these are managed the same as Wilderness designated lands.
- (3) National Petroleum Reserve Alaska is effectively managed as Wilderness.
- (4) Open to mining if leased from Native Corporations.
- (5) AS A COMPARISON: Texas has 168 million acres. OR This 165.4 million acres, is equal to the TOTAL combined acreage of New York, New Jersey, Pennsylvania, West Virginia, Ohio, Indiana, and Illinois!!!

\* See Map on back for actual comparison of area by States!!!





# Issues of Concern to the Alaska Mining Industry

Fall 1994

## It is the position of the Alaska Miners Association that:

1. The State continue to pursue the \$29 billion lawsuit against the federal government for actions that have limited the economic viability of federal lands in Alaska.
2. The Governor establish a maximum spending limit on the state operating and capital budgets (including all supplementals) and use his line item veto to ensure that this limit is not exceeded.
3. The Governor oppose all new federal withdrawals and fight vigorously against addition of buffers or further restrictions to multiple use of federal lands in Alaska. ANILCA (Alaska National Interest Lands Conservation Act of 1980) provides that "no more" federal land will be withdrawn for parks, preserves, monuments, wilderness designations, wild & scenic river designations, etc.
4. The Governor oppose establishment of international heritage parks, marine biosphere reserves, and/or world heritage sites covering any part of the Seward Peninsula, Eastern Russia, and the Bering Sea, or ANWR, or any other area of Alaska. International designations would - 1) surrender sovereignty to the United Nations, 2) forever eliminate access across the existing federal conservation system units, and 3) preclude the possibility of pipelines through those lands or waters.
5. The Governor and the Legislature follow a policy whereby no additions would be made to state parks, refuges, critical habitat areas, or other special restricted use areas unless an equal acreage is released from such designations.
6. The Governor begin to develop new roads in the state, even without federal assistance.
7. The Copper River Highway to Cordova be completed.
8. The Governor continue to aggressively pursue the rights of the State of Alaska regarding RS-2477 rights-of-way, both administratively and in the courts and that the Legislature provide funding to ensure this is done.
9. The State establish incentives so Alaska projects can effectively compete for investment dollars in the international minerals industry. A significant amount of exploration investment has now left the U.S. due to the fact that many nations have established incentives to encourage new exploration and investment.
10. Maintain support for an ongoing program of State investment in airborne geophysical mapping. Indications are that the State's 1993 investment of \$500,000 for airborne geophysical mapping has already resulted in increased exploration activity that would not have otherwise occurred.
11. The Governor, in conjunction with the Congressional Delegation and the Western Governors Association, continue opposition to changes in the Federal Mining Law that would adversely affect mineral development in Alaska.
12. The State incorporate cost-benefit analysis whenever new regulations are developed and when existing regulations are modified.
13. The State incorporate risk-level assessments when establishing and modifying state water quality standards in place of rigid numeric standards.
14. The State adopt legislation that will provide comprehensive liability (tort) reform.
15. The State adopt legislation to allow for minor discharges of solid or liquid waste. As now written, state statute is so broad that a permit is required for any discharge of solid or liquid waste "into the waters or onto the land," irrespective of the amount. If applied literally this would include - bilge water, water from home crawl spaces, washing down of a sidewalk or home driveway, water well drilling, exploration drilling, gardening, excavation associated with construction projects, etc.

For further information on the above issues or for information regarding exploration and mining in Alaska please contact:

Steven C. Borell, P.E.  
Executive Director  
Alaska Miners Association, Inc.  
501 W. Northern Lights Blvd., #203  
Anchorage, Alaska 99503  
(907) 276-0347 Fax: (907) 278-7997

# ALASKA NATIVE CORPORATIONS - A SUMMARY DESCRIPTION

## Over 44 Million Acres of Private Fee Simple Land

In 1971 the U.S. Congress passed an act known as the Alaska Native Claims Settlement Act (ANCSA). This act established 12 Regional Native Corporations in Alaska and authorized them to select lands that would become their fee simple property. ANCSA also established about 200 Village Corporations and authorized them to select the surface of lands around their villages that had been obtained by the Regional Corporations.

Alaska Regional and Village Corporations are a unique form of private corporation. These are not tribes or reservations and the Bureau of Indian Affairs has no jurisdiction or authority over them. Their lands are owned fee simple and can be mined or developed under agreements just as any other private lands in this country.

Additionally, the Native Corporations want development on their lands and they encourage minerals exploration. These lands were often selected because of their high mineral potential and because there has been relatively little exploration or development in Alaska, the opportunities are tremendous.

The Native Corporations want to develop their lands and they want jobs for their shareholders. Life in Alaska villages has been characterized by seasonal jobs, high unemployment and welfare. The Native Corporations are working to change this and the very best chance for doing so is minerals development.

The following is a brief description of the 12 Alaska Regional Native Corporations:



**AHTNA INC.** Ahtna has 1.8 million acres in east central Alaska near the Canadian border. The land is in the Copper River Basin, home of the original Kennecott copper deposit. There has been little exploration in the area, but there are indications of gold, copper, platinum, tungsten, and coal.

For additional information, contact: Sue Sherman, Resource Development Officer, Ahtna Minerals, P.O. Box 649, Glennallen, AK 99588; Phone: (907) 822-3476, FAX: (907) 822-3495.



**ALEUT CORPORATION.** Aleut Corp. has 1.2 million acres on the Aleutian Island chain, from Pt. Moller on the peninsula to Umnak Island. The islands are of a volcanic nature, so there is considerable geothermal energy available in addition to indications of copper, gold, oil, and gas deposits. Battle Mountain Gold previously explored for gold in this area.

For more information, contact: Mr. Bob Stanton, Director of Lands and Real Estate, Aleut Corp., 4000 Old Seward Highway, Suite 300, Anchorage, AK 99503; Phone (907) 561-4300.



**ARCTIC SLOPE REGIONAL CORPORATION.** ASRC has 5.5 million acres in the Northern part of Alaska, some of which is near the Red Dog mine, a world class zinc deposit. In addition to oil and gas potential ASRC has a major coal deposit and is currently working to market it.

For more information, contact: Teresa Imm, Resource Development Manager, Arctic Slope Regional Corporation, 301 Arctic Slope Avenue, Anchorage, AK 99518; Phone (907) 267-6372, FAX: (907) 349-5476.



**BERING STRAITS NATIVE CORPORATION.** The Bering Straits Native Corp. has 2.2 million acres of land on the Seward Peninsula, one of the best known gold mining districts in the world. In addition to gold deposits, this area has been one of the best tin prospects in North America.

Exploration has identified several gold prospects that the corporation is working to market. A couple of prospects are Bluff and Mt. Distin. The formations have been compared to the Carlin District of Nevada.

For more information, contact: Jack Carpenter, President, Bering Straits Native Corp., P.O. Box 10008, Nome, AK 99762; Phone (907) 443-5252.

**BRISTOL BAY  
NATIVE CORP**

**BRISTOL BAY NATIVE CORPORATION.** BBNC has 3 million acres in Southwest Alaska around Bristol Bay. There are indications of gold and copper in the area.

For more information, contact: Jack Moore, Engineering Geologist/Land Planner, Bristol Bay Native Corporation, 800 Cordova, Anchorage, AK 99501; Phone: (907) 278-3602, FAX: (907) 276-3924.



**CALISTA CORPORATION.** Calista is entitled to 7 million acres in the southwest part of Alaska, including the Yukon Delta. This area contains many historical mining districts like Iditarod. There has been limited exploration since the turn of the century and modern exploration methods may reveal much. There are indications of gold, platinum, and mercury on Calista lands.

For more information, contact: Rob Retherford, Senior Exploration Geologist, Calista Corporation, 601 W. 5th Avenue, Suite 200, Anchorage, AK 99501-2225; Phone: (907) 279-5516, FAX: (907) 272-5060.



**CHUGACH ALASKA INC.** Chugach is the second smallest native corporation. Their land is located about Prince Williams Sound. The Chugach was a premier mining district in Alaska that produced copper, gold and silver. It's also the site of the first Alaskan oil well. There are indications of manganese and chromium in addition to anthracite, copper, gold and silver. All the land is close to water and accessible.

For more information, contact: Mark Stahl, Manager Lands & Resources, Chugach Alaska Corporation, 560 E. 34th Avenue, Suite 200, Anchorage, AK 99503-4196; Phone: (907) 563-8866, FAX: (907) 563-8402.



**COOK INLET REGIONAL CORPORATION.** CIRI's mining subsidiary, Northern Pacific Mining Corporation, is interested in joint ventures. CIRI has extensive holdings throughout Alaska including several projects once held by Anaconda. CIRI also owns Anaconda's Alaskan exploration files and will share this information with companies that make business arrangements with them.

For more information, contact: Mr. Tom Crafford, Manager of Exploration, CIRI, 121 W. Fireweed Land, Suite 102, Anchorage, AK 99503; Phone (907) 276-6762.



**DOYON LIMITED.** Doyon has 12.5 million acres in central Alaska between the Brooks Range and the Alaska Range. Many of these holdings are in historical mining districts. Doyon has exploration agreements with various mining companies.

For more information, contact: Mr Harold Noyes, Manager of Resource Development, Doyon Ltd., 201 1st Ave., Fairbanks, AK 99701; Phone (907) 452-4577.



**KONIAG INC.** Koniag has holdings on the Alaska Peninsula, Kodiak Island, and Afognak Island.

For more information, contact: Mr. John Merrick, Manager of Land and Resources, Koniag, Inc., 4300 B St., Suite 407, Anchorage, AK 99503; Phone (907) 561-2668.



**NANA REGIONAL CORPORATION.** NANA has 2.3 million acres in Northwest Alaska. NANA owns the Red Dog Mine which is operated by Cominco Alaska.

NANA lands contain gold, coal, base metals, and jade. NANA Regional Corp., has the majority of undeveloped Alaska jade resources.

For more information, contact: Mr. John Rense, VP of Resources, NANA Regional Corp., 1001 E. Benson Ave., Anchorage, AK 99508; Phone (907) 265-4145.



**SEALASKA CORP.** Sealaska has 600,000 acres in Southeast Alaska along the panhandle. This area is mineral rich and accessible. Sealaska lands contain precious metals, strategic minerals, and limestone.

For more information contact: Mr. Robert Loescher, Sealaska Corp., 1 Sealaska Plaza, Suite 400, Juneau, AK 99801; Phone (907) 586-1512.

ADN  
3/5/95



TIM BRADNER

## A little seed corn can go a long way

It's politically fashionable sometimes to snort at public investment in economic development, calling it subsidy. But if we're serious about diversifying our economy and creating jobs, every development idea should be taken seriously.

A little seed corn sprinkled around in strategic locations can sometimes yield a pretty good harvest.

Take, for example, a modest \$1.2 million state investment in a pilot program to do regional aerial magnetic and gravity surveys in selected parts of Alaska with mineral potential, approved by the state legislature in 1992 and 1993. Just a few weeks after its completion, this is a

## BRADNER: A little seed goes a long way

Continued from Page C-1

demonstrated, though admittedly modest, success.

Aerial magnetic and gravity surveys are to minerals geologists what those popular, large-scale topographic surface maps sold by the U.S. Geological Survey are to the rest of us. We see good places to hike, fish or boat. Geologists see good places to look for underground ore in the patterns of magnetic and gravity fields shown on those maps.

In the minerals business, this is pretty basic stuff. Regional gravity and magnetic mapping is done all over the world, just as surface maps are done, most often by governments that use the data to bring more minerals exploration into their countries.

It's ironic, but many Third World countries are far better mapped with these kind of surveys than Alaska. Even very poor African nations like Chad, Niger and Burkina Faso are well covered by magnetic and gravity surveys, thanks to U.N. aid. There's been very little work done in Alaska, where the state owns 103 million acres with much richer mineral potential than many countries.

The state Division of Geological and Geophysical Survey has just completed its survey of about 1,800 square miles in locations near Nome, Interior and southwest Alaska.

Maps for the Fairbanks area were released three weeks ago, sparking a surge of new exploration after several "targets" were identified that geologists thought could be ore deposits similar to the new Fort Knox gold mine being developed near Fairbanks.

In just a few weeks, the mapping program around Fairbanks has stimulated mining companies to spend as much, or more, than the surveys cost to do.

Why don't mining companies themselves do this? Sometimes they do, for their own proprietary use. Many Alaska Native corporations, which own large land areas and are working with mineral companies, have done these for their own lands. Bering Straits Native Corp. and Callista Corp., two Native corporations with substantial mineral lands, also contributed to the state's survey.

One reason why it's good policy for this

kind of "infrastructure" (in this case it's mapping, instead of road or bridges) to be done by the government is that the information then can be made available to the public.

The policy objective is to get as many people as possible looking at the data, because interpretations will vary. One company's geologists will see hints of a Fort Knox mine; others will see nothing. The more people look at it, the more interest, and competition, is stimulated, increasing the chances that a discovery will be made, and maybe, eventually, a mine.

Those Native corporations were similarly motivated: They contributed to the state survey knowing the information would become public. It was good business, they felt, to show off the potential of their own land as well as the state's.

The stakes are pretty big in all this. Large mines can be big employers, and big taxpayers for local communities.

All of Alaska's larger mines under development in recent years, the Red Dog near Kotzebue (one of the world's largest lead zinc mines), Fort Knox near Fairbanks and Greens Creek near Juneau, have ore bodies that are very near, or even at the surface. This made them easier to find.

Geologists now think there may be other Red Dog-type base metals deposits in the western Brooks Range, and other large, Fort Knox-type gold ore deposits near Fairbanks, but buried under enough soil so that they are hard to detect. Gravity and magnetic surveys help geologists find these hidden ores.

With 1,800 of Alaska's estimated 80,000 square miles of land with mineral potential surveyed, we've hardly scratched the surface.

The Alaska Minerals Commission, an advisory group to state government, has recommended that this mapping program be continued and even expanded.

This limited investment has already produced results. It's been shown to be pretty good seed corn.

Tim Bradner writes for an Alaska economic reporting service. His private clients include petroleum companies. His opinion column appears every fourth Sunday.



State-Industry partnership: Alaska governor Tony Knowles talked of a new era of cooperation in his State of the State address last month.

## Governor calls for a new 'partnership'

ANCHORAGE — Alaska's Gov. Tony Knowles called for a new era of "partnership" with the oil and gas industry in his first State of the State message, delivered last month to the newly-convened 19th Alaska legislature.

"Alaska still has plenty of oil and gas left to be developed, but the state must have a positive business environment," Knowles said. "We need laws and regulations that provide incentives and that are clear, predictable and consistent."

"In turn, the oil industry must commit to hire Alaskans, use Alaskan businesses, protect the environment and share the profits with Alaskans."

The governor called for a tax and regulatory conference on how Alaska can best position itself for future development. He urged the legislature to work with him in a new oil and gas policy council.

Noting Alaska's increased clout in a Republican-controlled Congress, the governor planned to meet with the state's entire delegation

By Tim Bradner

in late January to plot strategy on Alaskan issues.

"Like never before, we are positioned to exert influence with both the Democratic administration and Republican Congress, and we are determined to present a bipartisan, consensus voice for Alaska in the nation's capital," he said.

Knowles predicted progress on removing the oil export ban and other Alaskan issues in Congress, such as opening of the Arctic National Wildlife Refuge to exploration and reauthorization of the Magnuson Act, the federal law controlling fisheries off Alaska's coasts.

"The (Clinton) administration now agrees that lifting the ban is in the national interest," he noted. "For the first time since it was imposed on us more than 20 years ago, a national administration is actively supporting a change in the law."

In his Jan. 19 budget message to the legislature, the governor said he would devel-

op a long-range financial plan for the state that would address the growing fiscal "gap," the deficit between the state's annual spending and its recurring income.

"The state has been living off its cash reserves for several years now, but even with recent tax settlements with BP and other oil companies, those reserves are sufficient for about four years," he said.

"For better than a decade, Alaskans have enjoyed something shared by few others: a healthy mix of services and benefits provided largely by one source, our oil wealth. With that wealth, Alaskans have done something no other oil state has been able to do. We've created and protected a \$15 billion Permanent Fund."

But the fiscal gap now poses serious dangers. "As we enjoy our oil wealth, we must remember that our vision of a new partnership with industry, competitiveness in the global economy, safe streets and good schools, will remain only dreams unless we develop a sustainable, long-term budget plan," he said.

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# Alaska's delegation moves on issues

## Gold mining companies race to stake new prospects near Fairbanks

By Diana Campbell  
For the Journal of Commerce

**F**AIRBANKS — Three major mineral mining companies have staked claims to 60 acres of land that hold promise of gold just northeast of here.

Cyprus Amax Minerals Co. of Englewood, Colo., La Teko Resources of Salt Lake City, Newmont Gold of Denver and Placer Dome Inc. of San Francisco made the move in anticipation of a Feb. 7 release of new maps from the Alaska Division of Geological and Geophysical Surveys.

"They physically pounded posts into the ground," said Dick Swainbank, development specialist to mining and minerals in the state Department of Commerce and Economic Development's division of economic development.

The new maps have electromagnetic and aeromagnetic readings that indicate the locations of prospective mineral lodes, he said.

The companies have 90 days from the staking to file their claims with the state Recorder's Office, Swainbank said.

The companies will begin exploration as soon as the snow is off the ground, he said.

"This has been more activity in mining than I have ever seen in the 25 years I have been here," Swainbank said. "I'm overjoyed with the activity."

Cyprus Amax is the Colorado-based parent company of Fairbanks Gold Mining Inc., operator of Fort Knox gold mine, which is set to begin construction this spring on the 250-employee operation expected to produce 350,000 ounces of gold a year.

La Teko Resources and Newmont are developing Ryan Lode together, which has 822,000 ounces of gold in contained mineable re-

serves, its officials say. The company is doing environmental baseline work at Ryan Lode.

La Teko also is the operator of True North, a mine near Pedro Dome north of Fairbanks where it concentrated most of its exploration efforts last year.

Rich Hughes, general manager of Ryan Lode Mines Inc., said that work led to definition of 446,000 ounces of gold reserves in two discreet ore bodies that will be connected. "We're projecting over a million ounces of mineable gold at True North," he said.

The new maps indicate a rock type that hasn't been considered for gold until recent years, Swainbank said.

He said the magnetic readings have signatures that can be compared with known gold fields. The maps can be viewed on paper with overlays or on a computer.

At a Greater Fairbanks Chamber of Commerce luncheon March 7, Karen Washburn, a

Fairbanks Realtor, said there may not be enough area housing available to accommodate the influx of people created by increased area mining activity. The Fairbanks housing market is expected to be tight this summer, she said, as the Fort Knox mine construction gets underway.

Morrison Knudson, general contractor for the Fort Knox mine project, has been looking for 50-60 rental units to use for 13-20 months, she said.

"Gold mining is here to stay," Washburn added.



# JUNEAU CHAMBER OF COMMERCE

ALASKA'S CAPITAL CITY

March 6, 1995

To: Representative Richard Foster

From: Chuck Achberger, Director  
Juneau Chamber of Commerce

Dear Rep. Foster:

The Juneau Chamber of Commerce would like to go on the record in favor of HB 197.

To much of the state government is directed at regulating, often with great zeal, our resource industries. It is a pleasure to see a measure before the House that would offer an incentive to those involved in the mineral exploration business.

While a lot of "speeches" have been made about partnering with our industries, this is a positive step in that direction. If the State of Alaska is to become financially stable, the state must work with all it's industries, as true partners.

HB 197 offers some of the incentives necessary to make Alaska competitive with mineral exploration in the international marketplace.

Sincerely,

Chuck Achberger  
Director



# ALASKA MINERS ASSOCIATION, INC.

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

March 6, 1995

Honorable Richard Foster  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, AK 99801-1182

RE: HB-197, Exploration Incentives

Dear Representative Foster,

The Alaska Miners Association wishes to go on record in support of House Bill 197 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.

The general view in the international mining industry has been that Alaska is a difficult and unfriendly place to do business. HB-197 will support the on-going effort to change this perception.

One important aspect of the bill is that a company can assign their exploration credit to another company that is a successor in interest for the site. This can become very important when developing financing. A company that may otherwise not invest can be encouraged if they know they can assign the expenditures. For example, if they are not able to continue in the project due to other unrelated financial reasons, and they can assign their credits to the next company to buy into the project, they can recover some of their expenditures.

In addition to being an encouragement to invest, HB-197 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 in the bill the data would remain proprietary and would not be available to the industry as a whole.

HB-197 comes at an important time for encouraging minerals investments in Alaska. The exodus of exploration funds away from federal lands throughout the western U.S. is continuing. This is due primarily to the increasingly oppressive regulatory climate in the U.S. and to the uncertainty over changes to the federal mining law. Alaska cannot correct all of these problems, but Alaska can add this incentive to encourage investment.

HB-197 will send the message that Alaska is seeking to improve its investment climate and that Alaska wants to encourage mineral development. The bottom line for the State is that more exploration will occur 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.

If we can be of any further help, please contact me.

Sincerely,

Steven C. Borell, P.E.  
Executive Director

cc: Representative Vezev

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COOK INLET REGION, INC.

March 7, 1995

Honorable Richard Foster  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

Dear Representative Foster:

I am writing on behalf of Cook Inlet Region Inc. (CIRI) to express support for House Bill 197 which would provide financial incentives for mineral and coal exploration activities. If passed, this bill would send a strong positive message to mineral companies contemplating work in Alaska.

Over the last 5 years or so we have seen a major exodus of mining companies from the lower 48. This has been a consequence of the regulatory burden assessed against the domestic mining industry as well as the "mature" nature of the industry in those areas (the easy discoveries have been made and developed). Most of these companies have headed overseas, primarily to Central and South America, only to find that the cultural, linguistic and political differences present an equally formidable set of challenges.

Some of those companies are now looking back at North America and this is a particularly opportune time to send out the message that Alaska is "open for business." HB-197 does a good job of this by providing reasonable economic incentives. Additionally, it provides a means for getting valuable exploration data into the hands of the public, while still protecting the confidential nature of the data for three years.

As you know, mining has the potential for providing good-paying, year-round, skilled jobs at a wide variety of localities throughout the state. I applaud your efforts in sponsoring HB-197 to better help Alaska realize that potential.

Please note that I have also included a letter of support for HB-197 from Dennis Lance, Exploration Vice President for USMX, Inc. of Denver, CO.

Sincerely,

COOK INLET REGION, INC.



Thomas C. Crafford  
Manager, Minerals and Coal

cc Representative Vezey  
C. Marrs  
G. Booth

March 7, 1995

Honorable Richard Foster  
Alaska State Legislature  
State Capitol (MS3100)  
Juneau, Ak 99801-1182

RE: HB-197 Exploration Incentives

Dear Representative Foster,

I would like to express my support for House Bill 197 which would provide financial incentives for companies and individuals to encourage mineral exploration and development in the state. Mining is one of the primary reasons Alaska was originally settled and it could once again become a primary economic base for Alaskans. HB-197 will support the ongoing effort to change the perception that Alaska is a difficult and unfriendly place to do business.

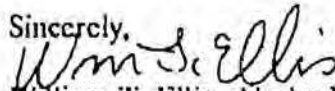
I have been an exploration geologist in Alaska for over 20 years with several medium to large US and international mining companies such as Sunshine Mining, Anaconda, Battle Mountain Gold and American Copper and Nickel Co. Corporate decisions on where they explore for minerals are made by careful consideration of a number of factors only one of which is the mineral potential. I know Alaska has tremendous mineral potential; however, for many reasons such as: restrictive land classifications, poor investment climate, unfriendly and over restrictive state and federal bureaucracies, lack of infrastructure, and more costly remote exploration, Alaska remains under-explored.

There is currently a mass exodus of North American mining companies to Latin America and other third world countries that are aggressively soliciting development of their minerals with through a number of incentives. Battle Mountain Gold closed their Alaska office in 1992 (Placer Dome in 1993) to emphasize Latin American exploration. The time is ripe for Alaska to attract some of that investment through bills such as HB-197 and other legislation to streamline the regulatory process.

This is a very important bill that will send a message to the international mining community that Alaska wants to encourage responsible mineral production as opposed to the prevalent anti-mining sentiment encountered in the "lower 48".

I am currently with American Copper and Nickel Co. which is the American subsidiary of INCO, one of the largest mining companies in the world. We currently have a large exploration program in Alaska but are facing increasing competition for budget dollars from our other international exploration divisions. Passage of legislation such as HB-197 would help ensure that we will maintain an aggressive exploration effort in Alaska.

Sincerely,



William T. Ellis Alaska Mineral Evaluation Service Eagle River, Alaska 99577

cc: Representative Al Vezey

# USMX

March 2, 1995

Via FAX: 907-279-8836

Mr. Tom Crafford  
Vice President  
North Pacific Mining Corp.  
2525 "C" Street, Suite 500  
P.O. Box 93330  
Anchorage, AK 99509-3330

RE: Proposed Exploration Incentive Bill

Dear Tom:

I read the proposed Alaska legislation that you sent to Paul Valenti with interest. I think this would set off a rush to Alaska and may keep at least some exploration dollars from going off shore. I know I would look more seriously at some opportunities up there especially on State and native lands. I hope it has a chance.

Sincerely,

USMX, INC.



Dennis L. Lance  
Vice President Exploration

DLL655/caw

USMX, INC.  
141 Union Boulevard, Suite 100 • Lakewood, CO 80228  
(303) 985-1665 • FAX (303) 980-1363  
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# NANA REGIONAL CORPORATION, INC.

1001 E. BENSON BOULEVARD, ANCHORAGE, ALASKA 99508  
TELEPHONE (907) 265-4100



March 7, 1995

Honorable Richard Foster  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Representative Foster:

This letter is to support your efforts for the successful passage of HB-197 providing financial incentives for companies and individuals to explore and develop mineral deposits within the state. This is a very welcome "change in attitude" which can reflect favorably on the business climate within the state.

Our state has acquired over the years the dubious distinction of being very difficult to deal with in developing resources or businesses. Certainly some of the problems have to do with projects such as the AJ which get hamstrung by the non-regulation agendas of Federal agencies, our own attitudes within the state have often been more adversarial than cooperative in development projects.

We again applaud your efforts to encourage companies to do business within the state. Incentives such as this can help encourage responsible growth in the industrial community.

Sincerely,

Anita Williams  
Senior Geologist

cc: Representative Al Vezey

Post-It™ brand fax transmittal memo 7571		# of pages > 1
To: Richard FOSTER	From: Anita Williams	
Co. House of Rep	Co. NANA	
Dept. State Capitol	Phone # 562-0709	
Fax # 907-465-3242	Fax # 563-7559	



Member Villages: Ambler, Buckland, Candle, Deering, Kiana, Kivalina, Kobuk, Kotzebue, Noatak, Noorvik, Selawik, Shungnak



PLACER DOME U.S. INC.

ONE CALIFORNIA STREET, SUITE 2500  
SAN FRANCISCO, CALIFORNIA 94111-5472  
(415) 985-0740  
TELECOPIER (415) 397-0747

March 14, 1995

The Honorable Richard Foster  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, AK 99801-1182

Dear Representative Foster:

I want to thank you for introducing and actively supporting legislation to provide for exploration incentive credits for mineral deposits in Alaska (HB 197). This legislation not only encourages mineral exploration in the State it also represents sound tax policy. Only a small percentage of exploration projects ever become mines. As you know, we are engaged in a high risk, high cost business. Therefore, most expenditures made for exploration will never be eligible for a credit. However, it is responsible policy to provide an incentive to those exploration efforts that do succeed and will be contributing to the economy and state coffers through mineral production.

There is worldwide competition for limited exploration dollars. With the passage of HB 197, Alaska improves its relative competitive position.

Sincerely,  
Placer Dome U.S. Inc.

Richard G. Duncan  
Vice President Exploration

jg

c: J. Danni - PDUS  
T. Jensen - PDUS  
S. Borell - Alaska Miners Assoc.

DAVID E. ROGERS, ESQUIRE

211 FOURTH STREET, SUITE 108

P.O. BOX 30032

JUNEAU, ALASKA 99803

TELEPHONE 907/586-1107

FAX 907/586-1007

March 8, 1995

House Resources Committee  
Capitol Building  
Juneau, Alaska 99811

Dear Committee Members:

This letter is submitted on behalf of the Council of Alaska Producers (Producers Council) in support of HB 197. The Producers Council is a non-profit Alaska corporation whose members include: Alaska Gold Company; Cominco Alaska Incorporated; Cominco Alaska Exploration; Echo Bay Alaska, Inc.; Fairbanks Gold Mining, Inc.; CIRI Energy and Minerals; Greens Creek Mining Company; American Copper and Nickel Company, Inc.; Cambior Alaska; and the Alaska Miners Association, an ex-officio non-voting member.

HB 197 follows the lead already taken by the Knowles Administration and last year's legislature in other arenas to encourage the development of our natural resources and stimulate responsible economic growth in the Great Land. Tim Bradner in last Sunday's Daily News couldn't have said it better:

"It's politically fashionable sometimes to snort at public investment in economic development, calling it a subsidy. But if we're serious about diversifying our economy and creating jobs, every development idea should be taken seriously. A little seed corn sprinkled around in strategic locations can sometimes yield a pretty good harvest."

Mr. Chairman, think of HB 197 as seed corn. It is not intended as a reward or windfall for those currently doing business in Alaska. The primary purpose of this bill is to send a positive message to industry and encourage companies to do something they weren't going to do already by creating attractive economic incentives to explore for and develop coal and mineral deposits in Alaska.

This proposal, a version of which died in the House limbo file in the final minutes of last session, was

recommended in concept by the Alaska Minerals Commission in their January 1995 Report. According to the Commission:

"The Alaska minerals industry competes in a global market for mineral and exploration and development dollars. Although Alaska is blessed with an abundance of geologically favorable terrain, it has suffered because of its remoteness, the lack of transportation, infrastructure, and seasonal constraints. Equally important is the industry's perception that State and Federal agencies are not supportive of mineral development in Alaska.

Throughout the world there are countries actively seeking exploration and development investment by providing economic incentives for resource industries. Incentive programs have been successful in Chile and Mexico where privatization and tax incentives have revitalized their mining industries. Appropriate incentives could be especially effective in drawing industry attention to Alaska. This is because many companies currently view the lower 48 to be unattractive from the regulatory perspective and are looking elsewhere for new exploration opportunities.

The Governor and the Legislature should create economic incentives (including credits for exploration expenditures that can be deducted from claim rents, the mining license tax, production royalties and income taxes) that will provide financial encouragement and help offset some of the real and perceived problems facing exploration and development in Alaska."

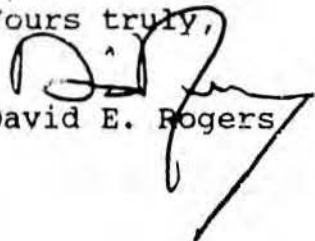
Passage of this bill should yield two very significant net benefits to Alaska. First, if this strategy is successful there will be a near term infusion into local economies. Second, new exploration activities that may be stimulated by this incentive may ultimately lead to new producing mines. This means new good jobs for Alaskans and new taxes and royalties the state would not otherwise receive. It is important to keep these benefits firmly in mind when you evaluate this legislation and similar economic diversification efforts.

HB 197 is our highest priority this session. It will not solve all the world's problems but it is one of several things the state can and should be doing to encourage responsible mineral development. Will it work? We think so. According to one of our members, who just returned from a meeting in Denver, things like incentives and mapping programs in conjunction with the geology get the attention

of upper level management when they plan their worldwide exploration strategies.

The Producers Council would like to thank bill sponsor Rep. Foster and co-sponsor Rep. Vezey for introducing HB 197 and the House Resources Committee for giving it an early hearing. We urge passage of this important "seed corn" legislation.

Yours truly,



David E. Rogers

**HB**

**197**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/26/95

FURTHER:

DATE TURNED INTO OFFICE: 5-2-95

The Finance Committee considered CS FOR HOUSE BILL NO. 197(RES)

Exploration incentive credits for activities involving locatable and leasable mineral and coal deposits on certain land in the state; efd.

and recommends:

be replaced with S CS CS HB 197 (FIN)

adopt previous CS

attached amendment(s)

adopt Letter of Intent by House Resources Committee

further referral to the \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title
- House Bill:**
- same title
- technical change
- new: SCR# \_\_\_\_\_

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Steve Klein</i>	✓		
		<i>Paul E. Pico</i>	✓		
		<i>Paul R. Zimoff</i>	✓		
Co-Chair: <i>[Signature]</i>	✓				
Co-Chair: <i>Rick Halford</i>	✓				

**NEW FISCAL NOTE(S):**

Department                      Date      Zero      Fiscal

DOR	4/28/95	0	
DWR	5/1/95		62.0

**PREVIOUS FISCAL NOTE(S):\***

Department                      Date      Zero      Fiscal


APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill




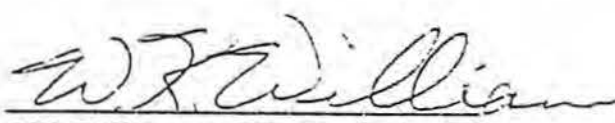
*Alaska State Legislature*  
**HOUSE OF REPRESENTATIVES**  
*Committee on Resources*

State Capitol  
Juneau, Alaska  
99801

Letter of Intent to accompany CSHB197(Res)

It is the intent of the House Resources Committee that in implementing HB197, the Division of Mining and Water make every effort to minimize and limit regulations. The committee views this legislation as a positive signal to investors who may be considering investment in Alaska. Promulgation of a complex set of regulations would send a negative message to investors who view complexity and uncertainty as undesirable.

  
Joe Green, Co-Chair  
House Resources Committee

  
Bill Williams, Co-Chair  
House Resources Committee

- Adopted by the House: 3/29/95

# FISCAL NOTE

STATE OF ALASKA

BILL NO. SCSCSHB197 (RES)

1995 LEGISLATIVE SESSION

Revision Date: 28-Apr-95

Dept Affected: Natural Resources

Title: An Act providing for exploration incentive credits

BRU: Resource Development

for activities involving locatable and leasable minerals and coal...

Component: Mining Development

Sponsor: Representative(s) Foster, Zezey

Requestor: \_\_\_\_\_

Component Serial No. \_\_\_\_\_

442

**Expenditures/Revenues**

(Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	54.0	54.0	54.0	54.0	54.0	54.0
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	2.0	2.0	2.0	2.0	2.0	2.0
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES (1004)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**FUND SOURCE**

(Thousands of Dollars)

FUND SOURCE	FY96	FY97	FY98	FY99	FY00	FY01
1002 Federal Receipts						
1003 GF Match						
1004 GF	62.0	62.0	62.0	62.0	62.0	62.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>	<b>62.0</b>

Estimate of any current year (FY95) cost: \$ \_\_\_\_\_

**POSITIONS**

POSITIONS	FY96	FY97	FY98	FY99	FY00	FY01
FULL-TIME	1	1	1	1	1	1
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: Jules Tileston, Director

Phone: 762-2165

Division: Mining and Water

Date: 28-Apr-95

Approved by Commissioner: *W. Foster*

Date: 5-1-95

Agency: Natural Resources

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FISCAL NOTE ATTACHMENT  
SCS CS HB197(RES)

*Analysis:*

The amended bill resolves the major concerns of the department as expressed in our 3/20/95 fiscal note. In particular, the issue associated with providing a deduction against rental income was solved by deleting rentals as an eligible expense for application of the exploration incentive credit program. Further, the clarification added to the amended bill that existing mining operations, especially coal mining, would not become eligible for any exploration incentive credits when the mining operation simply moved only a short distance while continuing to use most of the previously existing mine infrastructure. Other technical amendments incorporated in SCSCSHB197(RES) as amended resolved tracking and certification of credits in a manner that provides a high degree of certainty that the holder of those credits can be used when the designated exploration activities lead to the development of a new mine or the reopening of a mine. Another technical amendment made it clear that all the exploration credits could be summed and applied to a single revenue source to substantially remove that income to the State.

These amendments were developed in close coordination with the bill sponsors, industry and the departments of natural resources and revenue. Because of these clarifications, the impact to State revenue from sources administered by the department have been revised downward. Specifically, the adverse impact of an estimated loss of coal revenues totalling \$1.9 million from coal rents and royalty during FY01 have been eliminated by the clarifications noted above and the deletion of rental revenues being eligible for exploration incentive deductions. The estimated loss of \$367,400 in FY01 would be significantly reduced by eliminating rental revenues as an eligible source for deduction. The loss to the State as a result of deductions against royalty income from a new or reopened mine can not be reasonably quantified with available information. We believe, however, that it would be a very small amount since royalty deductions could only be made for a new or reopened mine that is almost completely through the final permitting and would meet the requirements for defined exploration costs after May 15, 1995. Accordingly, we are now estimating that there would be no significant loss of royalty income until sometime after FY01.

The department feels strongly that coal should not be included in the exploration incentives program because royalty for the coal industry are not now great and there are provisions for further royalty reduction when a coal mining operation is not profitable. However, our original objection to including coal in the program was the potential loss of a significant part of the coal royalties now coming to the State from the Usibelli Coal Mine. The amended bill resolved this issue.

In summary, the department supports the concept to encourage new mineral exploration that will lead to the opening of new mines or to the reopening of mines. The amendments incorporated in SCSCSHB197(RES) address and largely resolve the issues of concern to the department.

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Mineral Exploration Incentive Credits BRU: Audit Operations  
 Component: Income and Excise Audit  
 Sponsor: Rep. Foster, Vezey, et. al.  
 Requestor: (S) RES COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

REVENUE FUND SOURCE: GF	*****	*****	*****	*****	*****	*****
-------------------------	-------	-------	-------	-------	-------	-------

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) Impact \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

As explained in the attached analysis the Department is unable to determine a reasonable estimate for this bills impact on future State revenues.

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320  
 Division: Income and Excise Audit Date: 4/28/95  
 Approved by Commissioner: *[Signature]* Date: 4/28/95  
 Agency: Department of Revenue

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## ALASKA DEPARTMENT OF REVENUE

SCS CSHB 197 (RES)  
9-LS0642\D  
April 28, 1995  
Page 3 of 3

**Section 3.** This section would amend corporation income tax statutes (AS 43.20) to authorize taxpayers to apply the credit against taxes payable and require them to submit an accounting of mining operation activities with their return.

**Section 4.** This section would amend mining license tax statutes ( AS 43.65) to authorize taxpayers to apply the credit against taxes payable and require them to submit an accounting of mining operation activities with their return.

**Section 5.** This section provides for a retroactive date to January 1, 1995 and specifies that the bill would apply to activities that qualify for the credit undertaken after May 15, 1995.

**Section 6.** This section specifies that the bill take effect immediately under AS 01.10.070(c).

To prevent future controversy it may be necessary to provide definitions as to what constitutes a "mining operation".

### **Operating Costs**

DOR does not anticipate any additional operating costs to administer the exploration incentive credit program authorized under this bill. The Department would modify corporation and mining license tax return forms to provide for exploration incentive credits and develop a schedule for applicants to report mining license tax liabilities for each mining operation.

While the Department does not anticipate the need for additional audit staff, the scope of corporation income and mining license tax audits will likely have to be expanded to include review of exploration incentive credits which may result in a decrease in overall audit coverage to other tax types.

### **State Revenue Impacts**

Overview - It is difficult for Department of Revenue to determine the impacts of this bill on revenue since corporation income and mining license taxes are both based on net income from business or mining operations. It is difficult to predict whether individual mining sites will incur net income after production begins and since credits are limited to the level of future taxable income no reasonable estimate can be made.

For fiscal year 1994, the state collected \$162,000 in mining license taxes and no estimate can be made for the portion of corporation net income tax collected which would be impacted by the proposed tax credits.

Overall, exploration incentive credits would be limited to qualified exploration costs. According to DNR exploration expenditures during calendar year 1994 were approximately \$30 million. For 1994, credits would have been limited to \$30 million under this bill and unused portions would be available for a 15-year credit carryforward, assuming corporations had sufficient net income to qualify for the credit.

ALASKA DEPARTMENT OF REVENUE

SCS CSHB 197 (RES)  
9-LS0642\D  
April 28, 1995  
Page 2 of 3

**Bill Analysis**

**Section 1.** This section adds a new chapter (Chapter 30) to AS 27 relating to exploration incentive credits.

*AS 27.30.010.* This section authorizes the commissioner of Department of Natural Resources (DNR) to grant exploration incentive credits for eligible costs for mining exploration activities in the state. The credits would apply to activities associated with mineral and coal deposits. Eligible costs would include costs incurred before the mine construction commencement date for new mines and before the mine reopening date for mines that previously operated but ceased operations.

*AS 27.30.020.* To obtain the credit, the applicant must obtain approval of eligible expenditures from DNR on an annual basis. Applicants would submit to DNR a request to take credits and the commissioner of DNR would approve the taking of the credit within six months of the request's receipt date.

*AS 27.30.030.* The exploration incentive credit could be applied against corporation and mining license taxes and royalty payments. For taxes, the credit would be limited to 50% of the tax liability from the mining operation with further limitation of 50% of the tax liability reported on the respective return. Taxpayers would be required to submit an accounting for each mining operation in the state with their mining license tax form. For royalty payments, the credit would be limited to 50% of the royalty payable for production from the mining operation.

*AS 27.30.040.* This section would authorize credits to be carried forward to a subsequent tax year or royalty period.

*AS 27.30.050.* This section would require that credits be applied within 15 years after the taking of the credit is approved.

*AS 27.30.060.* This section would authorize credits to be assigned to the applicant's successor in interest for the mining operation if the successor is a qualified applicant.

*AS 27.30.070.* This section would authorize the commissioner of DNR to require persons taking the credit to provide an accounting of past use of credits and other information regarding the credit.

*AS 27.30.080.* This section would require that amounts due the permanent fund be calculated before application of a credit.

*AS 27.30.090.* This section would require that the commissioner of DNR keep exploration activity data confidential for 36 months after receipt by the department.

*AS 27.30.099.* This section defines terms used in this chapter.

**Section 2.** This section amends royalty statutes (AS 38.05.212) so that the credit applies to production royalty payments.

Phoned &  
Filed  
3:10 pm  
5/2/95

# A FAX

## Alaska State Legislature

Date: 5-2-95      *Attn: Karen*

To: Legal Services

Fax#: 2029      Phone#: 3867

From: Kathy - Senate Finance

Phone#: 2618

Re: 505 CSHB 197 (Fin) - Please incorporate  
the attached amendment into 505 CSHB 197 (RES)  
to produce a final Senate Finance Committee  
substitute and return to Kathy or  
Norma, Room 520, Capitol. The bill.

Following this page, please find 1 pages(s). If this does not reach you in full, please inform us ASAP.

*was just reported out of committee and will be sent to Rules at the 5:30 floor session.*



### THANK YOU.

Adopted  
5/2/95

SENATE FINANCE  
COMMITTEE

Amendment Number: 1

Bill Number: HB 197

Sponsor: H. H. Ford Date: 5/2/95

Logged In By: JMK

Incorporate  
within SC5 CSNB 197 (RES)  
to produce SC5CSHB197 (Fix)

AMENDMENT #1

Page 6, line 20: After "credit" add "for a mining operation  
may not exceed \$20,000,000 and"; continue with rest of  
sentence.

SENATE CS FOR CS FOR HOUSE BILL NO. 197(<sup>Fix</sup>~~RES~~)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 4/27/95  
Referred: Finance

Sponsor(s): REPRESENTATIVES FOSTER, Vezey, Kelly Mulder, Toohey, Brice, Phillips, Mackie,  
James, Williams

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for exploration incentive credits for activities involving locatable  
2 and leasable mineral 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) The commissioner shall grant to a person described in (d) of this section an  
9 exploration incentive credit for the eligible costs of each of the following exploration  
10 activities that are performed on or for the benefit of land in the state for the purpose of  
11 determining the existence, location, extent, or quality of a locatable or leasable mineral  
12 or coal deposit, regardless of whether the land is state-owned land:

- 13 (1) surveying by geophysical or geochemical methods;  
14 (2) drilling exploration holes;  
15 (3) conducting underground exploration;

1 (4) surface trenching and bulk sampling; or

2 (5) performing other exploratory work, including aerial photographs,  
3 geological and geophysical logging, sample analysis, and metallurgical testing.

4 (b) Except as provided in (c) of this section, an exploration incentive credit may  
5 not be granted under (a) of this section for exploration activity described in that  
6 subsection that occurs after the mine construction commencement date of a new mine.  
7 In this subsection, "mine construction commencement date of a new mine" means the  
8 date no later than which all of the following have occurred:

9 (1) there has been issued to the owner or an agent of the owner permits,  
10 leases, and title and other rights in land, and other approvals, permits, licenses, and  
11 certificates, by federal, state, and local agencies that a reasonable and prudent person  
12 would consider adequate to commence construction of a mine in the expectation that all  
13 other approvals, permits, licenses, and certificates necessary for the completion of the  
14 facilities will be obtained;

15 (2) all approvals, permits, licenses, and certificates are in full force and  
16 effect, unrevoked and without any modification that might jeopardize the completion or  
17 continued construction of the mine; and

18 (3) an order, judgment, decree, determination, or award of a court or  
19 administrative or regulatory agency enjoining, either temporarily or permanently, the  
20 construction or the continuation of construction of the mine is not in effect.

21 (c) In addition to the grant of an exploration incentive credit for a new mine  
22 under (b) of this section, an exploration incentive credit may be granted under (a) of this  
23 section for exploration activity described in that subsection for a mine that had  
24 previously operated, has ceased to operate, and for which all previous mining approvals,  
25 permits, licenses, and certificates that allowed the previous operation are no longer in  
26 effect. However, under this subsection, an exploration incentive credit may not be  
27 granted under (a) of this section for exploration activity that occurs after the mine  
28 reopening date. In this subsection, "mine reopening date" means the date not later than  
29 which all of the following have occurred:

30 (1) there has been issued to the owner or an agent of the owner permits,  
31 leases, and title and other rights in land, and other approvals, permits, licenses, and  
32 certificates, by federal, state, and local agencies that a reasonable and prudent person

1 would consider adequate to commence operation of the former mine in the expectation  
2 that all other approvals, permits, licenses, and certificates necessary for the completion  
3 of the facilities will be obtained;

4 (2) all approvals, permits, licenses, and certificates for the reopened mine  
5 are in full force and effect, unrevoked, and without any modification that might  
6 jeopardize the reopening of the former mine; and

7 (3) an order, judgment, decree, determination, or award of a court or  
8 administrative or regulatory agency enjoining, either temporarily or permanently, the  
9 reopening of the former mine is not in effect.

10 (d) An exploration incentive credit may be granted under this chapter only to

11 (1) a natural person who is at least 18 years of age;

12 (2) a partnership qualified to do business in the state;

13 (3) a corporation qualified to do business in the state;

14 (4) a limited liability company qualified to do business in the state;

15 (5) a legal guardian or trustee of a qualified natural person described in

16 (1) of this subsection; or

17 (6) any association of persons listed in (1) - (5) of this subsection.

18 Sec. 27.30.020. PROCEDURE FOR REQUESTING AND TAKING THE  
19 CREDIT. To obtain the credit authorized by this chapter,

20 (1) a person shall submit a request for the credit as follows:

21 (A) the person shall submit a request and a statement of  
22 expenditures for the previous calendar year not later than 60 days after the close  
23 of that calendar year;

24 (B) the request must

25 (i) describe the work accomplished during the previous  
26 year, the number of employees, and the names and number of  
27 consultants; and

28 (ii) provide a detailed list or ledger of expenditures of the  
29 accomplishments described in (i) of this subparagraph and a list of  
30 exploration activity data that in the future will be made available to the  
31 commissioner under (2)(A) of this section;

32 (C) the person submitting the request is not required to transmit

1 copies of receipts with the request, but the statement of expenditures is subject  
2 to audit in the discretion of the commissioner;

3 (D) if the commissioner determines to audit the statement of  
4 expenditures, the commissioner may require the person submitting the request to  
5 justify claims of expenditures with receipts and other reliable information;

6 (E) the commissioner shall respond to the request by  
7 September 30 by certifying or not certifying the person's expenditures; if the  
8 commissioner

9 (i) does not certify expenditures, the commissioner shall  
10 state the reasons for denial of certification and give the person making the  
11 request an opportunity to correct any problems or to provide additional  
12 information;

13 (ii) certifies expenditures, the commissioner shall specify  
14 the exploration activity data requirements for that year that must be  
15 presented to the department at the time of the taking of the credit;

16 (F) if the commissioner neither certifies nor denies certification  
17 of expenditures by September 30, the expenditures are certified as submitted;

18 (2) the person whose expenditures have been certified under (1) of this  
19 subsection may thereafter request the taking of the credit for the certified expenditures  
20 as follows:

21 (A) the person shall deliver to the commissioner the exploration  
22 activity data identified by the commissioner under (1)(E)(ii) of this section, and  
23 shall request the commissioner's approval of the taking of the credit;

24 (B) the commissioner shall approve or disapprove the taking of  
25 the credit within six months after receipt of the request for taking of the credit;  
26 if the

27 (i) exploration activity data complies with the  
28 requirements identified by the commissioner under (1)(E)(ii) of this  
29 section, the commissioner shall approve the taking of the credit;

30 (ii) request is disapproved, the commissioner shall state  
31 the reasons for disapproval and offer the person seeking to take the credit  
32 an opportunity to correct any problems or to provide additional

1 exploration activity data or other information;

2 (C) if the commissioner neither approves nor disapproves the  
3 request to take the credit within six months after submission of the request, the  
4 taking of the credit is approved.

5 Sec. 27.30.030. APPLICATION OF THE CREDIT. (a) In a tax year or royalty  
6 payment period, subject to (c) of this section and the respective limitations of this  
7 subsection, the person may apply the credit, the taking of which was approved under  
8 AS 27.30.020(2), against

9 (1) taxes payable by the person

10 (A) under AS 43.65; application of the credit under this  
11 subparagraph may not exceed the lesser of

12 (i) 50 percent of the person's tax liability under AS 43.65  
13 for the tax year that is related to production from the mining operation at  
14 which the exploration activities occurred, as shown under (b) of this  
15 section; or

16 (ii) 50 percent of the person's total tax liability under  
17 AS 43.65 for the tax year;

18 (B) under AS 43.20; application of the credit under this  
19 subparagraph may not exceed the lesser of

20 (i) an amount equal to the amount determined under  
21 (A)(i) of this paragraph; or

22 (ii) 50 percent of the person's total tax liability under  
23 AS 43.20 for the tax year; and

24 (2) mineral production royalty payments payable by the person under  
25 AS 38.05.135 - 38.05.175 and 38.05.212 for production from the mining operation at  
26 which the exploration activities occurred; application of the credit under this paragraph  
27 may not exceed 50 percent of the person's mineral production royalty payment liability  
28 from the mining operation at which the exploration activities occurred.

29 (b) If the person applies the credit against the person's tax liability under  
30 (a)(1)(A)(i) or (a)(1)(B)(i) of this section, the commissioner of revenue shall disallow  
31 application of the credit under that provision unless the person files with the person's tax  
32 return an accounting of the person's mining operation activities for each mining operation

1 that is included in the tax return and as to which the credit is being applied. The  
2 accounting of mining operation activities required by this subsection shall be made

3 (1) on a form prescribed by the Department of Revenue; on the form, the  
4 person shall

5 (A) identify the mining operations for which the credit is claimed;

6 and

7 (B) set out the gross income attributable to the mining operations  
8 and other information about the mining operations that the Department of  
9 Revenue may require;

10 (2) without regard to an exemption to which the person may be entitled  
11 under AS 43.65.010(a).

12 (c) The person may not apply the credit under this section if the application,  
13 when added to credits previously applied under this section, would exceed the total  
14 amount of the credits approved under AS 27.30.020(2).

15 Sec. 27.30.040. CREDIT MAY BE CARRIED FORWARD. Except as its  
16 application is limited by AS 27.30.030 and 27.30.050, a portion of a credit that is not  
17 applied under AS 27.30.030 during a tax year or royalty payment period may be carried  
18 forward to and applied during a subsequent tax year or royalty payment period.

19 Sec. 27.30.050. LIMIT ON APPLICATION OF CREDIT. An exploration  
20 incentive credit *for a mining operation may not exceed \$20,000,000 and;*  
21 ~~must~~ be applied within 15 tax years or royalty payment periods after the  
22 taking of the credit is approved under AS 27.30.020(2), but the tax years or royalty  
23 payment periods in which the credit is applied need not be

24 (1) the tax year or royalty payment period in which the person first incurs  
25 liability for payment of tax or royalty based on the person's activity that is the basis of  
26 the claim of the exploration incentive credit; or

27 (2) consecutive periods.

28 Sec. 27.30.060. ASSIGNMENT OF CREDIT. A person may assign an  
29 exploration incentive credit to the person's successor in interest for the mining operation  
30 at which the exploration activities occur, but only if the successor in interest is a person  
31 qualified to obtain the credit under AS 27.30.010(d). An exploration incentive credit  
32 may not be assigned except as permitted in this section.

Sec. 27.30.070. RESPONSIBILITY FOR RECORD OF USE OF CREDIT. For

1 each mining operation, the commissioner may require each person who proposes to take  
2 the credit under AS 27.30.020(2) to provide with the request to take the credit a record  
3 of

4 (1) the person's past use of credits taken under AS 27.30.020(2) and  
5 27.30.030; and

6 (2) other information that the commissioner requires to determine if  
7 approval of the taking of the credit by the person would exceed the limits on use of the  
8 credit under this chapter.

9 Sec. 27.30.080. RELATIONSHIP TO OTHER FUNDS. Amounts due the  
10 permanent fund under AS 37.13.010 shall be calculated before the application of a credit  
11 extended under this chapter.

12 Sec. 27.30.090. CONFIDENTIALITY OF DATA. (a) The commissioner shall  
13 keep the exploration activity data provided under AS 27.30.020 confidential for 36  
14 months after receipt by the department.

15 (b) The department is liable in damages to a person who provided the  
16 exploration activity data under AS 27.30.020 if the data is disclosed in violation of (a)  
17 of this section.

18 Sec. 27.30.099. DEFINITIONS. In this chapter,

19 (1) "credit" means the exploration incentive credit for activities involving  
20 locatable and leasable mineral and coal deposits authorized by this chapter;

21 (2) "eligible costs" mean the costs incurred for activities in direct support  
22 of exploration activity conducted at the mining operation of the exploration activity for  
23 the purpose of determining the existence, location, extent, or quality of a mineral or coal  
24 deposit; the term

25 (A) includes

26 (i) the costs of obtaining the approvals, permits, licenses,  
27 and certificates for an exploration activity set out in AS 27.30.010(a)(1) -  
28 (5);

29 (ii) direct labor costs and the cost of benefits for  
30 employees directly associated with work described in AS 27.30.010(a)(1)  
31 - (5);

32 (iii) the cost of renting or leasing equipment from parties

1 not affiliated with the person requesting and taking the credit;

2 (iv) the reasonable costs of owning, maintaining, and  
3 operating equipment;

4 (v) insurance and bond premiums associated with the  
5 activities set out in (i) - (iv) of this subparagraph;

6 (vi) payments to consultants and independent contractors;  
7 and

8 (vii) the general expense of operating the person's  
9 business, including the costs of materials and supplies, if those expenses  
10 and costs are directly attributable to the work described in  
11 AS 27.30.010(a)(1) - (5);

12 (B) does not include return on investment, insurance or bond  
13 premiums not covered under (A)(v) of this paragraph, or any other expense that  
14 the person has not incurred to complete work described in AS 27.30.010(a)(1) -  
15 (5);

16 (3) "exploration activity data" includes, as applicable,

17 (A) a representative skeleton core for each hole cored or a  
18 representative set of cuttings for each hole rotary drilled;

19 (B) chemical analytical data and noninterpretive geophysical data;

20 (C) aerial photographs or a topographic or geologic map showing  
21 the location of the drill holes, sample locations, or the other exploration activities  
22 undertaken;

23 (4) "geochemical methods" means soil, rock, water, air, vegetation, and  
24 similar samples collected and their chemical analyses;

25 (5) "geophysical methods" means all geophysical data gathering methods  
26 used in mineral or coal exploration, including seismic, gravity, magnetic, radiometric,  
27 radar, and electromagnetic and other remote sensing measurements;

28 (6) "mining operation" includes all operating and nonoperating activities  
29 related to a mineral deposit interest, and may be comprised of one or more mining  
30 properties; in determining whether mining properties are part of the same mining  
31 operation, the commissioner may consider whether the operation, in conducting mining  
32 activities on several mining properties, uses common personnel, supply, and maintenance

1 facilities, mining-related treatment processes, storage facilities, roads, pipelines and  
2 transportation equipment, and mining techniques and technology, and may also consider  
3 the extent to which the mineral deposit interest comprises a common mining property;

4 (7) "person" means only those persons listed in AS 27.30.010(d).

5 \* Sec. 2. AS 38.05.212(b) is amended to read:

6 (b) The production royalty

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

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

9 AS 27.30.

10 \* Sec. 3. AS 43.20 is amended by adding a new section to read:

11 Sec. 43.20.044. EXPLORATION INCENTIVE CREDIT. (a) A taxpayer may  
12 apply as a credit against the tax levied under this chapter the exploration incentive credit  
13 authorized by AS 27.30.

14 (b) In a tax year in which a taxpayer applies against the tax levied under this  
15 chapter the exploration incentive credit authorized by AS 27.30, the commissioner shall  
16 require the taxpayer to submit the accounting of mining operation activities form required  
17 by AS 27.30.030(b).

18 \* Sec. 4. AS 43.65.020(a) is amended to read:

19 (a) A person subject to tax under this chapter shall make a return stating  
20 specifically the items of gross income from the property, including royalty received and  
21 the deductions and credits allowed by this chapter and the exploration incentive credit  
22 authorized by AS 27.30, and other information for carrying out this chapter that the  
23 department prescribes. The return must show the mining license number and must be  
24 signed by the taxpayer or an authorized agent of the taxpayer, under penalty of unsworn  
25 falsification. If receivers, trustees, or assigns are operating the property or business, they  
26 shall make returns for the person engaged in mining, or the recipient of royalty in  
27 connection with mining property. The tax due on the basis of the returns shall be  
28 collected in the same manner as if collected from the person of whose business they have  
29 custody and control. In a tax year in which a taxpayer applies against the tax levied  
30 under this chapter the exploration incentive credit authorized by AS 27.30, the  
31 commissioner shall require the taxpayer to submit the accounting of mining  
32 operation activities form required by AS 27.30.030(b).

- 1     \* **Sec. 5.** This Act is retroactive to January 1, 1995, and applies to activities that qualify for
- 2 the exploration incentive credit authorized by AS 27.30 that are undertaken after May 15, 1995.
- 3     \* **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).