

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3097 SCOMM 142: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

Coal Royalty – HB 418

- Adopts Regulatory Rate as minimum royalty
- 5% - 12% of Adjusted Gross Income
 - Allows for deduction of transportation costs from from the point where it is weighed and loaded to the point of sale

Claim Rentals – Current Coal and Minerals

Coal

Statute – \$0.25/ acre

- Has not been changed since statehood

Regulation: *Applies to current mines*

- \$3/ acre per year

Minerals

Statute – varies by number of years since lease was first located

Regulation: *Applies to current mines*

- \$3.30/ acre per year

Claim Rentals – HB 418

Coal and Minerals

Coal

- Adopts rate currently in regulation as minimum rent: \$3/ acre per year
- Ties rate to Anchorage Consumer Index
- Shortens adjustment period from 20 years to 10

Minerals

- Adopts rate currently in regulation as minimum rent: \$3.30/ acre per year
- Ties rate to Anchorage Consumer Index
- Shortens adjustment period from 20 years to 10

MEMORANDUM

STATE OF ALASKA

Department of Revenue

Tax Division

333 W. Willoughby Avenue, 11th Floor

Juneau, AK 99811

Date: March 3, 2006

TO: The Honorable Bruce Weyrauch
Chair, House Ways and Means Committee

THRU: Jerry Burnett

FROM: Dan Stickel, Economist
Johanna Bales, Revenue Audit Supervisor

SUBJECT: Questions regarding House Bill 418

The purpose of this draft memorandum is to respond to four questions posed by the House Ways and Means Committee during the March 1, 2006 hearing for House Bill 418: "Mining Production and License Taxes / Royalties". Our understanding of the four questions and our responses follow. We would be happy to be available if your committee would like clarification on any of these points.

1. What would the impact of HB 418 be on tax revenue if we excluded the Pogo and Kensington mines from our analysis?

Our fiscal note assumes that both the Pogo and Kensington mines will be in production in the near future. Specifically, the Pogo mine is projected to begin substantial production in mid-2006 and the Kensington mine is projected to begin substantial production in mid-2007. We have recreated our analysis based on the same production and price scenarios used for the fiscal note, excluding these two mining projects. The results of our analysis are summarized in the tables below; note that this still does not include deductions for certain costs allowed in HB 418.

Table 1: Revenue Impact of HB 418 Under High Price Scenario					
Excluding Pogo and Kensington Mines					
(amounts in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Mining License Tax Revenues	\$ 20.15	\$ 18.45	\$ 18.78	\$ 19.11	\$ 19.07
Mining Production Tax Revenues (no adjustment for deductible costs)	\$ 13.13	\$ 25.25	\$ 38.13	\$ 51.22	\$ 64.19
Revenue Increase from Tax Change	\$ (7.03)	\$ 6.79	\$ 19.35	\$ 32.11	\$ 45.12

Table 2: Revenue Impact of HB 418 Under Low Price Scenario					
Excluding Pogo and Kensington Mines					
(amounts in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Mining License Tax Revenues	\$ 5.10	\$ 5.10	\$ 5.10	\$ 5.12	\$ 5.09
Mining Production Tax Revenues (no adjustment for deductible costs)	\$ 8.15	\$ 16.30	\$ 24.45	\$ 32.62	\$ 40.72
Revenue Increase from Tax Change	\$ 3.05	\$ 11.19	\$ 19.34	\$ 27.50	\$ 35.63

2. Can the Department of Revenue provide an estimate of the deductions taken from gross revenue to arrive at taxable income?

In 2004, the depletion allowance (Schedule A, line 2) amounted to approximately 18% of the gross income (Schedule A, line 1). The direct mining expenses (Schedule A, line 3), amounted to 52% of the gross income, and indirect mining expenses (Schedule A line 4) amounted to 6% of the gross income.

3. Has any economic analysis been performed that might indicate at what point the tax burden on the mining industry becomes onerous?

It is difficult to assess the point at which a particular tax policy would discourage investment due to the fact that many different variables enter into the investment decision. A higher tax burden would raise the threshold for profitability for a project, but at what point a specific tax policy would cause a change in investment in Alaska is difficult to say, since each mining project has a different threshold at which the project is no longer profitable. This threshold depends on the expectations of the mine operator regarding various factors including future mineral prices and costs such as exploration, extraction, and transportation as well as taxes and royalties.

According to a white paper produced by the Department of Minerals and Energy of South Africa, a nation heavily dependent upon mining, "Increasing the cost of mining from whatever sources has the effect of increasing the cut-off grade of ore, thus reducing the life of a mine and sterilizing mineral resources." In short, any increase of costs will discourage marginal investment.

In the past in Alaska, there have been examples of changes in behavior of mining companies due to changes in market conditions. In 1993, the Greens Creek mine was temporarily closed due to low metals prices. Low metals prices have also reportedly been an impetus for changes in plans for the Kensington mine.

A further consideration regarding the proposed change in mining taxes is that the new tax would be more regressive than the existing mining license tax. Under the existing tax, an unprofitable mine pays no tax while a profitable mine pays up to 7% of mining net income. The new tax would be 3% of the gross value at point of production, regardless of the profitability of the mine. What impact the shift from a more progressive income-based tax to a more regressive value-based tax would have on investment in Alaska is difficult to say and would likely be impacted by mine operator's expectations of future market conditions and profitability.

4. What does the mining industry pay to the state in Corporate Income Taxes?

For purposes of analyzing the tax liability of a specific industry, it is most useful to look at actual liabilities reported on tax returns in a given year. Based on tax return data, the mining industry reported a total of \$33,719 in corporate income tax liability in FY 2003. In FY 2004, this figure was \$133,452 and in FY 2005 it was \$120,868.

Several caveats should be noted when interpreting the data. First, timing of tax returns may distort the data; we may receive zero or more than one tax return from a company in a given fiscal year. Second, the data has a time lag, as returns received in FY 2005 will apply mostly to tax years 2003 and 2004. Third, only Subchapter C corporations pay corporate income tax. Fourth, industry classification is based on Department of Revenue interpretation of each corporation's Alaska businesses. For this analysis we defined the mining industry as "Corporations primarily involved in the extraction of minerals other than oil, such as gold, silver, coal, or sand and gravel."

Finally, it should be noted that the tax liabilities listed above were generated during a period of mineral prices much lower than in 2005 and so far this year. Therefore it would be reasonable to expect that the corporate income tax liability from the mining industry will increase in future fiscal years.

LEGISLATIVE RESEARCH REPORT

JUNE 28, 2005



REPORT NUMBER 05.253

REVENUE AND EMPLOYMENT IMPACTS OF THE OIL AND GAS, MINING, AND FISHING INDUSTRIES IN ALASKA

PREPARED FOR REPRESENTATIVE PAUL SEATON

BY CHERIE NIENHUIS, LEGISLATIVE ANALYST

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In addition to the corporate income tax, three tax and royalty structures govern the three different resource industries covered in this report. We discuss these in some detail under separate headings below; additional information about these taxes is included in Table 1 on page 6.

OIL AND GAS

In addition to the corporate income tax, the oil and gas industry currently pays three primary taxes (one is actually called a "surcharge") to the state. For production occurring on state land, the industry also pays a production royalty. These are described below.

- ♦ **Oil and Gas Production Tax** – also known as a "severance" tax, levied on all oil and gas produced in the state.³ Tax rates for oil vary depending on when fields came into production: for fields coming into production after June 1981, the tax rate is 12.25 percent of production value at the point of production for the first five years and 15 percent thereafter; the rate is 15 percent for fields in production before June 1981. Tax rates could alternatively be calculated using a cents per unit volume rate, which is \$0.60 per barrel of taxable old crude oil, and \$0.80 per barrel for all other taxable oil produced.⁴ The applicable tax rate is the greater of these two methods of calculation.

As with the severance tax on oil, the appropriate tax rate for gas is whichever is greater—the percentage of value amount or the cents per unit volume amount. For calculating the gas severance tax, the percentage of value amount equals 10 percent of the gross value of taxable gas at the point of production; the cents per unit volume amount equals 6.4 cents per 1,000 cubic feet of taxable gas produced.

The amount of production tax owed is adjusted by the Economic Limit Factor (ELF), a complex formula that considers various measures of field productivity to calculate a value less than or equal to one. This value is then applied to the production tax owed. The ELF generally provides tax relief to fields that are declining in productivity.

- ♦ **Property Tax** – levied on all taxable oil and gas exploration, production, and pipeline transportation property. The tax rate is 20 mills (2 percent of assessed value) and property taxes paid at the local level may be applied against the state property tax liability.
- ♦ **Conservation Surcharge** – assessed on all taxable barrels of oil produced. The tax rate is \$0.03 per barrel, and is to be deposited in the oil and gas hazardous substance release and prevention fund. If the balance of the fund falls lower than \$50 million, an additional surcharge of \$0.02 per barrel is assessed.

³ A severance tax is a tax on natural resources that are produced or "severed" from the earth.

⁴ "Old crude oil" means crude oil production classified as such in 10 CFR Chapter II Part 212.72 on May 1, 1977. The cents-per-barrel tax rate set out in AS 43.55.011(c) is subject to adjustment under AS 43.55.012(b) for oil of varying degrees of specific gravity.

CORRECTION

THE FOLLOWING DOCUMENT(S)
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State of Alaska

LEGISLATIVE RESEARCH REPORT

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You asked about the tax and royalty structure of the resource industries of oil and gas, mining, and fishing in Alaska. You inquired about payments to the state and to municipalities through the taxation of these industries over the past ten years. You also asked about other economic impacts generated by the industries, such as the number of jobs created, and other contributions to local economies.

TAX AND ROYALTY STRUCTURE

Taxes on resource extraction industries—particularly the petroleum industry—have been the mainstay of the state government budget for years.¹ Although each resource industry has its own set of taxes, royalties, and fees, some fiscal concepts are common to the industries. For example, when a resource is located on or within state land, the developer must obtain a lease to gain rights to produce the resource. The extraction of state-owned resources also generally triggers a production royalty—a share of the resource, or payment in lieu of the resource. In addition, incorporated companies participating in the resource industries presented in this report are subject to a tax on their net income from operations within the state.

CORPORATE NET INCOME TAX

The Alaska corporate income tax rate schedule is a graduated scale, with a minimum tax rate of one percent, and a maximum rate of 9.4 percent. The corporate income tax was enacted when Alaska was a territory, and although the application of the tax has changed over the years, the current rates have been in effect since 1981. Incorporated businesses pay income taxes when they report positive taxable incomes for the year; those that report negative taxable incomes do not pay this tax for the applicable year(s). This is an important factor, especially for capital-intensive resource industries such as mining. In FY 03 and 04, for example, Department of Revenue officials estimate that negative incomes totaling \$186 million were reported in the two years combined; positive net incomes for the same period totaled \$28.7 million. Therefore, of the 140 or more mining corporations filing returns during the two years, the state was able to collect income tax on only \$28.7 million of the industry's estimated \$2 billion value over the two-year period.²

¹ In the context of this report, we include the fishing industry as a "resource extraction industry." Like oil, gas, and minerals, fish resources are "extracted" from state and federal lands (or in this case, waterways) in order to be sold at market.

² The \$2 billion figure is based on estimated production values provided in the Department of Natural Resource's Mineral Industry reports.

In addition to the corporate income tax, three tax and royalty structures govern the three different resource industries covered in this report. We discuss these in some detail under separate headings below; additional information about these taxes is included in Table 1 on page 6.

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- ♦ **Production Royalty** – consists of a "share" of all oil and gas produced from state lands, which can be paid in-value (dollars) or in-kind (oil or gas). The rate of the royalty is written into the lease and is generally 12.5 percent (1/8 share). In addition to royalties, state leases for oil and gas generate bonus bids and lease payments.

Oil and gas producers, along with utility companies operating in the state, also pay a regulatory cost charge. This charge is intended to offset the cost of regulating the industries, and as such, is not considered a revenue raising measure like the other taxes described in this report. The regulatory cost charge was enacted in 1999, the same year that the legislature repealed the conservation tax. Prior to its repeal, the conservation tax was levied at a rate of four mills per barrel of oil or 50,000 cubic feet of gas removed or sold on each lease or property in the state.

MINING

The current tax structure on the mining industry, aside from corporate income taxes, consists of a mining license tax and a net income royalty assessed at the state level, and property and severance taxes assessed at the local level.⁵ Mining companies pay several other annual fees if their claims are located on state land. The tax, royalty, and other fees are summarized below.

- ♦ **Mining License Tax** – levied on mining net income and royalties received in connection with mining properties and activities. Tax rates are based on a graduated scale that increases with net income, topping out at 7 percent. Mining operations (excluding sand and gravel operations) are exempt from paying the mining license tax for a period of three and one-half years following the start of production.
- ♦ **Net Income Royalty** – levied on mining net income of companies that produce minerals from claims located on state land. The royalty rate is 3 percent of net income.
- ♦ **Local Property Tax** – levied on the buildings, equipment, and other infrastructure of mining operations located in municipal taxing jurisdictions. Tax rates are set by the jurisdiction in which the mine operates.
- ♦ **Local Severance Tax** – currently assessed only in the Denali Borough (\$0.05 per yard on gravel and \$0.05 per ton on coal) and in the Kodiak Island Borough (10.25 mills on gravel and rock).
- ♦ **State Claim Rentals** – required of mining operations whose claims are located on state land. The rental rates are contingent on the number of years since the claim was located.
- ♦ **Annual Labor Requirements** – required of mining operations whose claims are located on state land. The requirement can be satisfied by performing actual labor on the claim or by paying the wage equivalent to the state. The dollar value of the labor hours is either \$100 or \$400 per claim, depending on the claim's acreage.

⁵ We exclude from our summary special tax and royalty provisions relating specifically to coal mining.

FISHING

In addition to the corporate income tax (where applicable), the current tax structure on the fishing industry consists of three basic industry assessments, and two assessments specific to a type of fishery.⁶ Some local jurisdictions also levy a tax on the sale of raw fish. The six taxes are outlined below.

- ♦ **Fisheries Business Tax** – levied on fisheries businesses and persons who process fish or export fish resources from Alaska. Tax rates are based on the value of the fisheries and are contingent on the type of processing activity and on whether a fishery is classified as established or developing. These taxes are generally shared with municipalities where the fish is processed, and taxes paid directly to other jurisdictions may be claimed as a credit against this tax.
- ♦ **Fishery Resource Landing Tax** – levied on processors of fish resources that are first landed in Alaska but processed outside of the state limit. Tax rates are based on the unprocessed value of the resource and are contingent on whether a fishery is classified as established or developing. Like the Fisheries Business Tax, these taxes are generally shared with municipalities where the fish are landed, and taxes paid directly to other jurisdictions may be claimed as a credit against this tax.
- ♦ **Seafood Marketing Tax** – assessment on seafood products made in Alaska and unprocessed fisheries products exported from Alaska. Tax rates are based on the value of fish resources and are determined by the vote of large processors in the state.
- ♦ **Salmon Enhancement Tax** – assessment on the value of salmon resources sold in or exported from established regions in Alaska at rates as determined by a vote of fishers within those regions.
- ♦ **Dive Fishery Management Assessment** – assessment on value of fish resources taken using dive gear at rates as determined by a vote of fishers within established regions.
- ♦ **Local Raw Fish Tax** – levied by various boroughs and municipalities choosing to impose such taxation, the tax works like a sales tax on the sale of raw fish. Tax rates are set by local jurisdictions.

From 1993 until recently, salmon fishers paid a salmon marketing tax of 1 percent of the value of the salmon resources captured. The tax was repealed in 2004.

Table 1 on the next page shows the primary taxes and fees levied on each of the three industries. Also provided is the statutory reference and origin and current rate information for each.

⁶ The Salmon Enhancement Tax is specific to the salmon fishery; the Dive Fishery Management Assessment is specific to the dive fishery.

Table 3: State Revenue Collected through Major Taxes and Fees on the Oil and Gas, Mining, and Fishing Industries, FY 95 - FY 04

Tax or Fee	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas^(a)										
Production Tax	769,800,000	771,700,000	907,000,000	564,400,000	382,697,831	710,678,804	729,183,083	510,983,671	593,413,904	647,055,965
Royalties and Other ^(b)	1,141,193,180	917,336,739	1,087,114,230	783,110,193	516,659,949	1,046,167,643	1,146,104,177	858,759,029	1,240,702,600	1,417,908,700
Corporate Income Tax	433,350,198	276,971,625	325,553,129	222,225,644	164,811,251	586,046,589	342,423,852	244,035,893	168,309,807	302,867,974
Property Tax	57,300,000	56,200,000	53,400,000	51,400,000	48,840,434	45,037,881	45,116,135	49,641,091	48,745,345	47,499,647
Conservation Tax	2,000,000	1,800,000	1,700,000	1,600,000	1,444,868	N/A	N/A	N/A	N/A	N/A
Hazardous Release	22,100,000	13,700,000	12,900,000	11,800,000	11,075,318	9,557,925	9,432,048	9,597,043	9,232,859	9,052,517
TOTALS	2,425,743,378	2,037,708,364	2,387,667,359	1,634,535,837	1,125,529,651	2,397,488,842	2,272,259,295	1,673,016,727	2,060,404,515	2,424,384,803
Mining^(c)										
License Tax	481,907	513,214	407,841	2,037,226	633,143	3,449,882	1,729,156	466,430	396,254	3,224,684
Mineral Production Royalties	6,762	6,208	8,358	9,489	14,214	6,175	1,933	23,447	270,734	162,637
Corporate Income Tax ^(d)	unknown	unknown	195,043	246,792	398,435	75,900	285,815	18,665	32,704	323,706
Mineral Claim Rentals	712,559	929,744	1,115,591	1,170,812	1,982,453	1,975,376	1,736,522	1,908,228	2,129,440	2,657,939
Coal Royalties	1,866,952	1,348,841	1,250,000	1,937,995	2,615,858	1,854,803	1,168,043	860,633	1,064,208	1,239,257
Coal Rentals	172,024	206,515	205,500	331,716	205,983	233,249	198,545	256,927	237,912	236,532
Annual Labor	36,200	62,900	89,500	118,020	90,720	79,907	103,274	124,741	224,519	226,191
State Material Sales	582,155	602,218	732,279	1,112,362	647,898	524,666	1,647,208	1,772,425	885,132	655,674
Miscellaneous Fees	not reported	not reported	not reported	110,304	107,768	75,880	73,741	63,163	65,696	93,103
TOTALS	3,858,559	3,669,640	4,004,112	7,074,716	6,696,472	8,275,838	6,944,237	5,494,659	5,306,599	8,819,723
Fishing										
Fisheries Business	19,584,027	18,357,788	16,044,135	14,736,797	13,181,622	18,620,033	15,864,959	13,137,866	14,258,131	15,248,463
Fishery Resource Landing	3,787,753	3,817,204	5,227,708	656,650	3,470,340	2,174,240	4,106,686	2,653,148	6,927,001	2,502,537
Corporate Income Tax ^(d)	unknown	unknown	2,107,843	1,483,496	1,359,905	1,966,142	3,039,414	2,077,476	1,798,904	3,166,355
Salmon Marketing	4,710,610	4,804,416	3,522,739	2,811,707	2,620,154	3,687,313	2,554,607	1,986,718	1,412,041	1,963,779
Salmon Enhancement	5,689,520	5,235,938	4,189,791	4,185,701	3,903,103	5,142,886	3,643,990	3,701,801	2,422,051	3,033,565
Seafood Marketing	3,859,880	3,777,707	3,099,230	2,878,785	2,656,959	3,514,614	3,156,843	2,698,456	2,989,931	3,294,577
Dive Fishery Management	N/A	N/A	N/A	N/A	N/A	229,078	222,794	192,110	204,738	253,503
TOTALS	37,631,790	35,993,053	34,191,446	26,754,136	27,192,083	35,334,306	32,589,293	26,447,575	30,012,797	29,462,779

Notes: Revenue totals are net of tax credits. (a) FY95-98 Oil and Gas Production, Property, Conservation, and Hazardous Release tax amounts include unrestricted general fund amounts only and are rounded to the nearest \$100,000. (b) "Other" includes rents, bonus bids, federal payments, and oil and gas settlements, as collected by the Department of Natural Resources. (c) Mining license tax and corporate income tax information reported on fiscal year basis; all other mining tax information reported on a calendar year basis. (d) Corporate income tax information for mining and fishing is based on liabilities, not actual payments made in a given year.

Sources: Department of Revenue, Tax Division: Revenue Sources Books and Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Surveys: Mineral Industry Reports; Brett Fried, Economist, Department of Revenue, Tax Division; and Denise Hawes, Economist, Department of Revenue.

TAX CREDIT PROGRAMS

Alaska law has, over the years, allowed various tax credits to be applied against corporate and other state tax liabilities for each of the three industries. Tax credit programs often have a sunset date, and there have been several programs that have expired or been repealed. The following state tax credit programs are currently available to the oil and gas, mining, and fishing industries.

- ♦ **Education Tax Credit (Oil and Gas, Mining, Fishing)** – credit can be taken for cash contributions to qualified educational institutions. Contributions of up to \$100,000 are credited at 50 percent, and over \$100,000 at 100 percent. Total credits cannot exceed \$150,000 for any taxpayer in one year.⁸
- ♦ **Oil and Gas Exploration Incentive Credit (Oil and Gas)** – credit of up to 50 percent on state land or 25 percent on non-state land of eligible oil and gas exploration costs. Credits may not exceed \$5 million per project; total credits authorized may not exceed \$30 million per tax year.⁹
- ♦ **Gas Exploration and Development Tax Credit (Gas)** – credit for 10 percent of qualifying expenditures incurred in the exploration and development of natural gas reserves anywhere in the state except for the North Slope.¹⁰
- ♦ **Oil and Gas Exploration or Gas Only Exploration Credit (Oil and Gas)** – credit against oil and gas production taxes for 20 to 40 percent of certain exploration expenditures incurred before July 1, 2010.¹¹
- ♦ **Mineral Exploration Incentive (Mining)** – credit for up to the lesser of 50 percent of mining license tax liability or 50 percent of total corporation net income tax liability for qualifying exploration costs. Credit for any one taxpayer may not exceed \$20 million and must be applied within 15 tax years after the credit is approved.¹²
- ♦ **A.W. "Winn" Brindle Scholarship Program (Fishing)** – credit for up to 5 percent of Fishery Business or Resource Landing Tax liability for

⁷ We exclude credit programs that have expired or been repealed as of 2005, even though they may have been in place during the 10-year tax history presented in various tables in this report. We have also excluded royalty reduction programs; such programs pertain primarily to the oil and gas industry, are fairly recently enacted, and have thus far attracted little industry participation.

⁸ AS 43.20.014, AS 43.55.019, and AS 43.56.018.

⁹ AS 38.05.180, and AS 41.09.010.

¹⁰ AS 43.20.043.

¹¹ AS 43.55.025.

¹² AS 27.30.010.

contributions to the memorial education scholarship account.¹³

- ♦ **Community Development Quota Credit (Fishing)** – credit for up to 45 percent of the Fishery Resource Landing Tax liability for contributions to qualified organizations by taxpayers harvesting a fish resource under a community development quota. Qualified organizations include nonprofit corporations with expenditures that are primarily fisheries-related.¹⁴
- ♦ **Salmon Product Development/Utilization Credit (Fishing, Salmon)** – credit for up to 50 percent of the Fishery Business Tax liability for expenditures promoting the development of salmon products and utilization of salmon waste.¹⁵

REVENUE GENERATED, FY 95 THROUGH FY 04

Revenue accrues to the state and local governments through the payment of taxes and fees described in the previous section. We have compiled information on the amount of revenue each of the industries has contributed to state and local governments from FY 95 through FY 04 in Tables 3 through 5 beginning on the page 10. Table 2 below summarizes this information.

Table 2: State and Local Revenues from Major Taxes and Fees on the Oil and Gas, Mining, and Fishing Industries, FY95 through FY04 (in Millions)

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas										
Payments to State ^(a)	\$ 2,426	\$ 2,038	\$ 2,388	\$ 1,634	\$ 1,125	\$ 2,397	\$ 2,272	\$ 1,673	\$ 2,060	\$ 2,424
Payments to Local Gov'ts	\$ 253	\$ 246	\$ 239	\$ 233	\$ 222	\$ 249	\$ 220	\$ 220	\$ 222	\$ 246
Mining^(b)										
Payments to State	\$ 4	\$ 4	\$ 4	\$ 7	\$ 7	\$ 8	\$ 7	\$ 5	\$ 5	\$ 9
Payments to Local Gov'ts	unknown	unknown	\$ 8	\$ 8	\$ 9	\$ 9	\$ 10	\$ 10	\$ 11	unknown
Fishing										
Payments to State	\$ 38	\$ 36	\$ 34	\$ 27	\$ 27	\$ 35	\$ 33	\$ 26	\$ 30	\$ 29
Payments to Local Gov'ts	\$ 34	\$ 33	\$ 30	\$ 27	\$ 26	\$ 37	\$ 27	\$ 25	\$ 24	\$ 29

Notes: Revenues reflect payments to state and local governments after tax credits have been applied. (a) Oil and gas payments include corporate income tax actually paid; mining and fishing payments include corporate income tax liabilities, not actual payments, for FY97 through 99 only (FY95 and 96 amounts unknown). (b) Some mining tax revenues reflect payments on a calendar year basis, others on a fiscal year basis.

Sources: Alaska Department of Revenue, Tax Division: Annual Reports, Revenue Sources Books, and Draft Non-Petroleum Corporation Income Tax Liabilities by Sector; Alaska Department of Natural Resources: Mineral Industry Special Reports; and Alaska Department of Community and Economic Development: Alaska Taxable Reports and NPR-A Impact Mitigation Reports.

¹³ AS 43.75.040.

¹⁴ AS 43.75.032.

¹⁵ AS 43.75.036.

As you can see from the table, oil and gas tax payments, both to the state and to local governments, dwarf revenues from either of the other industries presented, providing an average of over \$2 billion to the state, and about \$235 million to local governments annually.¹⁶ The fishing industry provides about 2.6 percent of the revenue provided by oil and gas, but pays the state over five times the amount paid by the mining industry. As for payments to local governments, the mining industry provides about 30 percent of what the fishing industry pays, but the payments for the fishing industry are spread among more communities. For example, in FY04, fourteen local governments reported income from the raw fish tax, whereas the majority of the mining revenues accrue to only three local governments—the Northwest Arctic Borough (Red Dog mine), the Fairbanks North Star Borough (the Fort Knox/True North mines), and the City and Borough of Juneau (Greens Creek mine). See Tables 3 through 5, beginning on the next page, for more detail on these revenues.

¹⁶ About 90 percent of the payments made by the oil and gas industry to local governments each year goes to the North Slope Borough, where most of the oil and gas property is located.

Table 3: State Revenue Collected through Major Taxes and Fees on the Oil and Gas, Mining, and Fishing Industries, FY 95 - FY 04

Tax or Fee	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas^(a)										
Production Tax	769,800,000	771,700,000	907,000,000	564,400,000	382,697,831	710,678,804	729,183,083	510,983,671	593,413,904	647,055,965
Royalties and Other ^(b)	1,141,193,180	917,336,739	1,087,114,230	783,110,193	516,659,949	1,046,167,643	1,146,104,177	858,759,029	1,240,702,600	1,417,908,700
Corporate Income Tax	433,350,198	276,971,625	325,553,129	222,225,644	164,811,251	586,046,589	342,423,852	244,035,893	168,309,807	302,867,974
Property Tax	57,300,000	56,200,000	53,400,000	51,400,000	48,840,434	45,037,881	45,116,135	49,641,091	48,745,345	47,499,647
Conservation Tax	2,000,000	1,800,000	1,700,000	1,600,000	1,444,868	N/A	N/A	N/A	N/A	N/A
Hazardous Release	22,100,000	13,700,000	12,900,000	11,800,000	11,075,318	9,557,925	9,432,048	9,597,043	9,232,859	9,052,517
TOTALS	2,425,743,378	2,037,708,364	2,387,667,359	1,634,535,837	1,125,529,651	2,397,488,842	2,272,259,295	1,673,016,727	2,060,404,515	2,424,384,803
Mining^(c)										
License Tax	481,907	513,214	407,841	2,037,226	633,143	3,449,882	1,729,156	466,430	396,254	3,224,684
Mineral Production Royalties	6,762	6,208	8,358	9,489	14,214	6,175	1,933	23,447	270,734	162,637
Corporate Income Tax ^(d)	unknown	unknown	195,043	246,792	398,435	75,900	285,815	18,665	32,704	323,706
Mineral Claim Rentals	712,559	929,744	1,115,591	1,170,812	1,982,453	1,975,376	1,736,522	1,908,228	2,129,440	2,657,939
Coal Royalties	1,866,952	1,348,841	1,250,000	1,937,995	2,615,858	1,854,803	1,168,043	860,633	1,064,208	1,239,257
Coal Rentals	172,024	206,515	205,500	331,716	205,983	233,249	198,545	256,927	237,912	236,532
Annual Labor	36,200	62,900	89,500	118,020	90,720	79,907	103,274	124,741	224,519	226,191
State Material Sales	582,155	602,218	732,279	1,112,362	647,898	524,666	1,647,208	1,772,425	885,132	655,674
Miscellaneous Fees	not reported	not reported	not reported	110,304	107,768	75,880	73,741	63,163	65,696	93,103
TOTALS	3,858,559	3,669,640	4,004,112	7,074,716	6,696,472	8,275,838	6,944,237	5,494,659	5,306,599	8,819,723
Fishing										
Fisheries Business	19,584,027	18,357,788	16,044,135	14,736,797	13,181,622	18,620,033	15,864,959	13,137,866	14,258,131	15,248,463
Fishery Resource Landing	3,787,753	3,817,204	5,227,708	656,650	3,470,340	2,174,240	4,106,686	2,653,148	6,927,001	2,502,537
Corporate Income Tax ^(d)	unknown	unknown	2,107,843	1,483,496	1,359,905	1,966,142	3,039,414	2,077,476	1,798,904	3,166,355
Salmon Marketing	4,710,610	4,804,416	3,522,739	2,811,707	2,620,154	3,687,313	2,554,607	1,986,718	1,412,041	1,963,779
Salmon Enhancement	5,689,520	5,235,938	4,189,791	4,186,701	3,903,103	5,142,886	3,643,990	3,701,801	2,422,051	3,033,565
Seafood Marketing	3,859,880	3,777,707	3,099,230	2,878,785	2,656,959	3,514,614	3,156,843	2,698,456	2,989,931	3,294,577
Dive Fishery Management	N/A	N/A	N/A	N/A	N/A	229,078	222,794	192,110	204,738	253,503
TOTALS	37,631,790	35,993,053	34,191,446	26,754,136	27,192,083	35,334,306	32,589,293	26,447,575	30,012,797	29,462,779

Notes: Revenue totals are net of tax credits. (a) FY95-98 Oil and Gas Production, Property, Conservation, and Hazardous Release tax amounts include unrestricted general fund amounts only and are rounded to the nearest \$100,000. (b) "Other" includes rents, bonus bids, federal payments, and oil and gas settlements, as collected by the Department of Natural Resources. (c) Mining license tax information reported on fiscal year basis; all other mining tax information reported on a calendar year basis. (d) Corporate income tax information for mining and fishing is based on liabilities, not actual payments made in a given year.

Sources: Department of Revenue, Tax Division: Revenue Sources Books and Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Surveys: Mineral Industry Reports; Brett Fried, Economist, Department of Revenue, Tax Division; and Denise Hawes, Economist, Department of Revenue.

Table 4: Revenue to Municipalities from the Oil and Gas, Mining, and Fishing Industries, FY 95 - FY 04

Industry	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Oil and Gas										
Property Tax ^(a)	253,442,593	245,600,000	239,100,000	233,000,000	222,351,529	220,926,762	220,196,879	218,798,614	220,096,442	220,713,351
NPR-A Impact Mitigation Grants	25,538	0	0	0	0	28,000,000	0	1,683,850	1,686,105	25,011,457
TOTALS	253,468,131	245,600,000	239,100,000	233,000,000	222,351,529	248,926,762	220,196,879	220,482,464	221,782,547	245,724,808
Mining										
Property and Severance Tax	unknown	unknown	8,386,000	7,934,000	8,818,819	9,196,500	9,763,220	9,703,208	10,510,048	unknown
Fishing										
Fisheries Business	19,450,019	19,703,440	15,383,362	14,174,301	13,154,456	18,500,923	15,053,391	12,554,821	12,169,077	14,398,192
Fishery Resource Landing	2,896,405	3,320,672	3,051,286	3,111,055	2,426,007	3,104,164	3,242,053	4,570,627	2,949,464	4,358,236
Raw Fish Taxes	11,456,091	10,391,219	11,284,045	9,460,014	10,057,185	15,198,370	9,192,282	7,698,030	9,189,259	10,271,028
TOTALS	33,802,515	33,415,331	29,718,693	26,745,370	25,637,648	36,803,457	27,487,726	24,823,478	24,307,800	29,027,456

Notes: Some information is reported on a fiscal year basis, other information is presented on a calendar year basis. (a) Approximately 90% of the oil and gas property tax is paid to the North Slope Borough.

Sources: Department of Revenue, Tax Division: Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Survey: Mineral Industry Reports; and Department of Commerce, Community and Economic Development: Alaska Taxable Reports, and NPR-A Impact Mitigation Program Report to the Legislature, FY05.

Table 5: Raw Fish Revenues, FY 95 - FY 04, by Municipality

Municipality	Tax Rate	Revenues									
		FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Akutan	1%	not reported	not reported	501,686	501,686	463,000	729,000	576,565	596,183	734,653	not reported
Aleutians East Borough	2%	2,340,656	2,428,195	2,183,802	2,236,242	2,543,559	3,255,513	2,348,939	2,013,524	2,493,342	2,807,902
Alka	1%	22,463	7,968	7,968	7,968	5,054	5,776	20,441	not reported	25,989	32,795
Bethel	unknown	N/A	N/A	N/A	not reported	39,337	90,492	80,450	15,895	N/A	N/A
Bristol Bay Borough	3%	2,053,767	2,234,936	1,115,030	98,971	540,954	1,376,536	529,759	304,839	131,111	312,605
Chefornak	2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	343	149
Chignik	1-2%	N/A	N/A	N/A	57,476	126,362	268,153	148,003	93,894	86,460	80,223
Craig	unknown	N/A	32,000	N/A	N/A	24,000	25,000	9,620	N/A	N/A	N/A
Dillingham	unknown	N/A	N/A	N/A	N/A	N/A	N/A	202,898	N/A	N/A	N/A
Egegik	1%	N/A	597,106	520,037	522,144	310,012	330,810	381,616	55,120	313,063	202,571
False Pass	2%	N/A	N/A	N/A	N/A	62,050	225,354	208,419	N/A	N/A	N/A
Kake	1%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	106,354	N/A	N/A
King Cove	unknown	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	45,000	895,862
Lake and Peninsula Borough	2%	2,267,552	1,801,601	1,794,076	1,131,000	1,095,963	1,373,143	772,827	336,632	484,545	574,192
Pilot Point	3%	690,721	481,737	631,656	666,955	170,502	170,552	38,000	not reported	112,500	3,000
St. George	3%	365,254	484,750	191,129	268,221	268,221	536,131	428,081	not reported	not reported	not reported
St. Paul	3%	N/A	N/A	1,665,229	944,189	1,467,788	2,845,231	not reported	442,392	621,291	601,253
Sand Point	2-3%	298,408	not reported	not reported	295,893	393,708	501,097	310,741	295,659	419,971	526,295
Togiak	2%	74,952	73,028	not reported	45,417	11,430	481	40,952	N/A	45,000	32,680
Toksook Bay	2%	N/A	N/A	N/A	1,237	278	5,124	N/A	N/A	N/A	N/A
Unalaska	2%	3,342,318	2,216,766	2,641,645	2,644,100	2,513,529	3,431,229	3,077,083	3,339,469	3,662,645	4,190,139
Whittier	unknown	N/A	N/A	N/A	N/A	N/A	N/A	N/A	87,608	N/A	N/A
Yakutat, City and Borough	1%	N/A	33,132	31,787	38,515	21,438	28,748	17,888	10,461	13,346	11,362
TOTALS		11,456,091	10,391,219	11,284,045	9,460,014	10,057,185	15,198,370	9,192,282	7,698,030	9,189,259	10,271,028

Source: Department of Commerce, Community and Economic Development, *Alaska Taxable* for years 1995 through 2004.

EMPLOYMENT AND WAGES

The Department of Labor and Workforce Development (DOLWD) gathers information about industry employment primarily through quarterly reports of wages and employment as required by Alaska's unemployment insurance laws. Some industries, like fishing, and to some extent, mining, have a large contingent of self-employed individuals, who are not captured by the DOLWD and its federal labor counterpart. Further, employment information about the fish harvesting industry is scarce because fishing jobs are defined by occupation codes to be "agricultural" activities, which are generally excluded from such industry employment analyses.

To bridge this gap, the DOLWD periodically surveys the fishing industry in order to approximate the number of jobs provided in the fish harvesting portion of the industry. The most recent survey gathered employment estimates for 2000 through 2002; although the survey provided useful information about the number of fishing jobs, the survey did not attempt to quantify wages for the occupation.

The DOLWD also estimates mining employment, but because smaller placer mining operations often consist of self-employed individuals or operations that do not generate a traditional payroll, they are excluded from employment analyses. The Department of Natural Resources (DNR) attempts to quantify all jobs in the mining industry by using a full-time equivalent conversion factor.¹⁷ The DNR's estimates, which include placer and other non-traditional operations, are considerably higher than those of the DOLWD, but are presumably more complete.

We include, in Table 6, the employment figures for the three industries as estimated and reported by the two departments. Although the methodologies for gathering the data differ among industries, we note that over the past ten years, oil and gas employment has averaged close to 8,600 jobs, mining has averaged just over 3,000 jobs, and for the years 2000-2002, fishing averaged about 15,700 jobs per year. Over the ten-year period, employment has remained fairly steady in the oil and gas industry, but has declined in the mining industry, due in large part to the decrease of jobs in the placer mining sector. The number of jobs in the seafood processing industry has also declined, slipping from over 10,400 in FY 95 to 7,400 in FY 02, but then rebounding slightly to 8,500 in FY 04.

As for earnings, DOLWD records show that in 2002, the average monthly wage for the oil and gas industry was \$8,013; for the mining industry, \$5,313 (excluding most placer operations); and for the seafood processing and fish hatcheries sectors of the fishing industry, about \$2,300 to \$2,700. The DOLWD does not have data on the earnings of persons employed in the fish harvesting sector.

Nonresidents play a significant role in Alaska's resource extraction industries. Of all the industry classifications studied by the DOLWD, the seafood processing sector of the fishing industry easily topped the list for nonresident hire in 2002, with 70 percent of its workforce consisting of nonresidents. The percentage of nonresidents in the oil and gas industry has declined over the years, and in 2002, just over 25 percent of workers in the industry were nonresidents. The DOLWD reports that 21 percent of metal mining industry jobs went to nonresidents in 2002. By

¹⁷ The DNR uses a conversion factor of 260 days worked per year equals one job.

comparison, other industries, such as health services and retail trade, had nonresident hire rates of 10.6 and 17.9 percent, respectively.¹⁸

The Commercial Fisheries Entry Commission (CFEC) tracks the numbers of permit holders who fish, as well as the number of crew members, by residency. In 2002, the CFEC reported that about 27 percent of the permits fished were held by nonresidents; also in 2002, close to 43 percent of the licensed crew members were nonresidents. According to the DOLWD, resident earnings in the 2002 fishing year amounted to less than 39 percent of the harvest value.

Table 6 on the next page provides employment figures for the three industries from 1995 through 2004. Please note that information about fish harvesting employment is only available for the years 2000-2002.

¹⁸ Jeff Hadland, "Nonresidents Working in Alaska—2002," *Alaska Economic Trends*, Department of Labor and Workforce Development, February 2004.

Table 6: Oil and Gas, Mining, and Fishing Industry Employment, 1995 - 2004										
Industry	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Oil and Gas	8,900	8,500	8,300	9,300	7,900	8,400	9,500	8,800	8,100	8,200
Mining (full-time equivalents)	3,406	3,737	3,862	3,477	3,166	3,183	2,835	2,824	1,906	2,081
Fisheries (monthly averages)										
Seafood Processing	10,479	10,140	9,888	8,982	8,967	8,476	8,802	7,406	7,873	8,533
Fish Hatcheries and Preserves	304	303	263	262	248	259	256	256	267	268
Fish Harvesting ^(a)	N/A	N/A	N/A	N/A	N/A	7,980	7,230	6,510	N/A	N/A
Total, Fisheries						16,715	16,288	14,172		
Notes: (a) Fish harvesting employment and earnings data are only available through industry surveys, which are usually conducted by the Department of Labor and Workforce Development. The last such survey, completed in 2004, generated employment data for 2000 through 2002, but no earnings information was collected. Average monthly wages for each of the industries in 2002 were as follows: Oil and Gas - \$8,013; Mining - \$5,313; Seafood Processing - \$2,376; and Fish Hatcheries and Preserves - \$2,656. Sources: Department of Labor and Workforce Development: Employment and Earnings Summary Reports and Trends publications; and Department of Natural Resources: Mineral Industry Reports.										

PAST, PRESENT, AND FUTURE OF THE INDUSTRIES

Much has changed for each of the three industries over the past ten years. During these years, the oil industry has seen oil prices plummet to dramatic lows of \$10 per barrel (1999) and rise to equally stunning highs of over \$40 per barrel (2004). Also during this time period, oil production tapered off from its 1995 levels of 1.5 million barrels to less than 1 million barrels per day. The drop in the production rate has had a less profound effect on state revenues (\$2.4 billion) than had the drop in the price (\$1.1 billion), but this is almost solely due to the extraordinarily high price of oil in today's market. An unfortunate combination of low price with declining production could be disastrous for the state.

Likewise, mining has experienced its ups and downs over the course of the past ten years. The revenue accrued to the state from mining more than doubled between FY 96 (\$3.7 million) and FY 04 (\$8.8 million), but not without fluctuation (up to \$8.2 million in FY 00 and down to \$5.3 million in FY 03). According to the DOLWD, exploration expenditures in the mineral industry ballooned in 1997/98, from \$30 million to almost \$60 million.¹⁹ Lead and zinc, produced primarily at the Red Dog Mine, the largest zinc mine in the world, was a major contributor to the success of the mineral industry throughout much of the ten-year period.

The fishing industry, particularly the wild salmon fishery, has suffered the most persistent economic downturn of the three industries presented in this report. Although catch rates have remained relatively steady or even increased, ex-vessel values for fish resources, notably salmon, have dropped significantly.²⁰ For example, the statewide average ex-vessel price for pink salmon dropped from a 1995 price of \$0.19 to a 2004 price of \$0.10 per pound, or just under half its previous value; prices for sockeye and chum salmon in 2004, likewise, dropped by almost a third of their 1995 value.²¹ For more than a decade, Alaska's wild fisheries have had to compete with a rapidly growing fish farming industry, a widely available year-round source for fish products, that has consequently driven down prices for wild fish products. Despite recent efforts by Alaska legislators and fishers to distinguish and promote wild product over farmed, a significant portion of Alaska's share of the market has been and continues to be displaced by cheaper, more consistent and available, farmed fish.

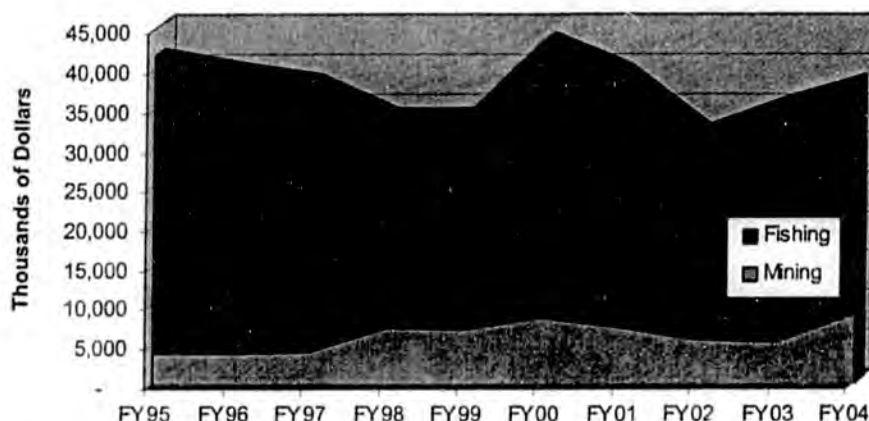
Figure 1 on the next page shows the levels of revenue provided to the state (exclusive of local revenue) by the mining and fishing industries. Note that mining revenues have maintained a fairly even trend, while collections from the fishing industry have been less stable.

¹⁹ Neal Gilbertson and Dan Robinson, "Natural Resources: Mining and Timber," *Alaska Economic Trends*, Alaska Department of Labor and Workforce Development, December 2003.

²⁰ Ex-vessel values are the prices paid to fishers for their fish.

²¹ Statewide prices for chinook and coho salmon fluctuated over the years, but were higher in 2004 than they were in 1995. Alaska Department of Fish and Game, "Salmon Exvessel Price per Pound, Time Series by Species," available on the ADF&G website at <http://www.cf.adfg.state.ak.us/geninfo/finfish/salmon/catchval/blusheet/84-04exvl.pdf>

Figure 1: State Revenue Collected through Taxes and Fees on the Fishing and Mining Industries, FY 95 - FY 04



Sources: Department of Revenue, Tax Division: Revenue Sources Books and Annual Reports; Department of Natural Resources, Division of Geological and Geophysical Surveys: Mineral Industry Reports; Brett Fried, Economist, Department of Revenue, Tax Division; and Denise Hawes, Economist, Department of Revenue.

The future of the three resource industries and their contributions to the Alaska economy depends, as you would expect, to a large extent on prices. As with any resource extraction industry, higher product value brings increased interest and investment in exploring for and developing the product. Finite supply of the resource, as well as political and fiscal uncertainty, however, can dampen the enthusiasm spurred by high prices. One example of this is the oil industry in Alaska. Even though crude oil prices are at record highs, production on the North Slope is expected to decline because most of the readily available oil has already been developed. While off-shore drilling holds promise, as do recently opened areas in the National Petroleum Reserve, oil companies have shifted investment dollars to other parts of the world where the oil supply is greater. Company spokespersons also blame fiscal uncertainty in Alaska for the low levels of investment capital spent to further oil production in the state.

Mining activities are on the rise in the state. Alaska's abundance of mineral resources and the high prices of gold and other metals in recent years have attracted interest from large multinational mining companies. Kinross Gold Corporation, for example, owner of Fairbanks Gold Mining Incorporated (the company that runs Fort Knox and True North gold mines), which also has operations in Africa, Canada, South America, and Russia, is the world's seventh largest gold producer. Large corporations such as this are generally better equipped to absorb short-term price fluctuations, even after investing substantial sums of money in start-up costs. According to Kinross' *2003 Annual Report*, the corporation had 2003 revenues of close to \$600 million; 2003 was also the first time in three years that the company posted a net profit, which totaled \$9.7 million, with the Fort Knox mine contributing earnings of \$7.5 million for the year.²² Department of Natural Resources revenue figures indicate that 2004 was an even better year for

²² Kinross Corporation, *2003 Annual Report*, p. 66; available online at <http://www.kinross.com/ir/pdf/03ar.pdf>.

mining in Alaska than was 2003, and the Department of Revenue projects that mining license taxes revenue in fiscal years 05 and 06 will almost double from their FY 04 level of \$3.2 million.

The future of fishing and its economic impacts are less certain. As long as there is a steady, reliable, and relatively cheap supply of farmed fish available to markets, it is unlikely that fish prices will rebound to the high levels of the 1980s. On the other hand, if Alaska is able to successfully distinguish its wild fish from farmed fish, there may be segments of markets that place a very high value on Alaska seafood. We are already seeing some evidence that Alaska's marketing strategy, along with several studies that tout the benefits of wild salmon over farmed, are benefiting the industry. Copper River sockeye and king salmon, for example, have commanded extraordinarily high prices in recent years, with Cordova fishermen receiving over \$5 and \$3 per pound for king and sockeye salmon, respectively.

New developments in preserving fish quality may also prove beneficial for the fishing industry. Recent innovations in Paralytic Shellfish Poison monitoring have enabled geoduck clam harvesters to market more live product, which brings a much higher price than processed clams. Similar advancements may be available to other types of fisheries, which could make the product more appealing than the competition. Fishing industry interest groups are also focusing on increased marketing efforts and finding alternative uses for fish products; tax credits introduced in 2003 may provide the necessary incentives for developing other fish product industries. These combined efforts appear to be providing some relief to Alaska's fishing industry, but with increased fuel and labor costs, they will probably stop short of bringing back the highly lucrative days of the industry's past.

OTHER REPORTS AND ANALYSES ON THE MINING AND FISHING INDUSTRIES

Few question the importance of the oil and gas industry to the state of Alaska. The petroleum industry's economic impact on the state is immense: taxes and royalties from the industry each year supply at least 80 percent of the state's unrestricted general purpose revenue. This fact alone leaves little need to quantify other economic impacts of the industry and we do not include any such analyses with this report.

Due to the relative importance of the mining and fishing at both the state and the local levels, state agencies and outside consultants have attempted to analyze trends and quantify economic impacts of the industries. For example, the DOLWD compiles the monthly *Alaska Economic Trends* publication, and has reported recently on the mining and fishing industries. The DOLWD articles focus on production and employment trends; we include the relevant issues of the DOLWD's publications as Attachments A (mining) and B (fishing) of this report.

In addition to state agency publications, consulting firms are frequently called upon to analyze economic impacts of an industry or a segment of an industry. Because a complete, accurate, and impartial statewide economic analysis is a considerable undertaking, such analyses are frequently prepared for a municipality or for a region of the state. We found few current reports, outside of those compiled by state agencies, that address either the mining or the fishing industry's impact on the entire state.

We did find, however, one fairly recent economic impact assessment of the seafood industry on the state, prepared in February 2003, by Northern Economics, Inc., for the Pacific Seafood Processors Association and various other industry interests. The report's Executive Summary indicates that the seafood industry generated close to 37,000 jobs and \$932 million in direct

payroll in 2001. Other measures are cited in the report; we include a copy of the assessment as Attachment C.

We also found one report on metal mining and the Alaska economy, prepared in February 2002, by a Montana economics consultant for the Southeast Alaska Conservation Council and the Northern Alaska Environmental Center. The report analyzes the impacts of metal mining statewide and particularly in Fairbanks and Juneau, where some of the state's largest mines are located. After reviewing various aspects of the industry, such as employment, payroll, taxes, and long-term effects on local economies, the author concludes that the metal mining industry may not play as significant a role in the state's economy as is commonly believed. We include a copy of this report as Attachment D.

I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

Division of Mining, Land and Water

Frank H. Murkowski, Governor

550 W 7th Avenue, SUITE 900B
ANCHORAGE, ALASKA 99501-3577
PHONE: (907) 269-8652
Fax: (907) 269-8949
E-Mail: kerwink@dnr.state.ak.us

January 6, 2006

Dear Miner in the State of Alaska:

This packet is being sent to you because you received a mining license in the year 2005. Enclosed are the forms necessary for the filing of your **2005 Mining License Tax and Production Royalty**. If you produced minerals in Alaska last year, you need to file a Mining License Tax (MLT) return, and if those minerals were produced from State-owned land, you also need to file a Production Royalty (PR) return.

Alaska Statute 38.05.212 requires that ... "In exchange for and to preserve the right to extract and possess minerals produced, the holder of a mining claim, leasehold location or mining lease shall pay a royalty on all minerals produced from land subject to claim, leasehold location, or mining lease during each calendar year." As defined in the Production Royalty Regulations 15 AAC 86.760 - 15 ACC 65.990, the production royalty is three percent (3%) of net income as determined under the mining license tax AS 43.65 and implementing regulations 15 AAC 65.010 - 15 AAC 65.990. If you have access to the internet, you may refer to the division's Mining Laws and Regulation Booklet (pages 53-64) that will contain these regulations at:

www.dnr.state.ak.us/mlw/mining/index.htm

The holder of a mining claim, leasehold location or mining lease is defined in regulation 11 AAC 86.763. Examples of holders include, but are not limited to someone owning, operating or leasing a mining property, someone receiving a lease or royalty payment from a producing property, or someone possessing a mineral economic or production interest in a producing property.

All holders who file an Annual Placer Mining Application (APMA) to mine on State Land shall file a Production Royalty Return. The Division of Mining does a cross check of Production Royalty Filings with information submitted on the Mining License Tax returns, APMAs, and other information available to division staff. Failure to file can result in the abandonment of your mining claims.

Both the Mining License Tax and Production Royalty Returns must be filed and royalty paid before May 1, 2006. Please read the enclosed information and file if you are a holder of a mining property from which production occurred. All of the Production Royalty and Mining License Tax forms necessary for the filing of a Production Royalty and Mining License Tax return are included. A fact sheet briefly outlining the production royalty is also enclosed. Please note that the Mining License Tax Return is sent to the Department of Revenue in Juneau and the Production Royalty Return is sent to the Department of Natural Resources in Anchorage. Contact the Division of Mining at 907-269-8652 or 269-8633 (Ken Mitchell) if you have any questions regarding the filing of these forms. If you do not have access to the internet where you can review the above regulations, contact the division and we will either fax or mail them to you.

Sincerely,

Kerwin Krause

Mineral Property Mgr.

Enclosures

FACT SHEET:

PRODUCTION ROYALTY



Alaska Department of
**NATURAL
RESOURCES**

Division of Mining, Land and Water
January 2003

Background

In 1989, the Alaska State Legislature enacted a new PRODUCTION ROYALTY law, Alaska Statute 38.05.212, which requires holders of state mining locations to pay a production royalty on all revenues received from minerals produced on state land. The production royalty requirement applies to all revenues received from minerals produced from a state mining claim or mining lease during each calendar year. Payment of royalty is in exchange for and to preserve the right to extract and possess the minerals produced. Department regulations 11 AAC 86.760-796 spells out the production royalty requirements. Please consult these regulations for specific requirements. If you have access to the world wide web, you may refer to the division's Mining Laws and Regulation Booklet (pages 53-68) that will contain these regulations as well as the Mining License Tax regulations, 15 AAC 65, mentioned below at:
www.dnr.state.ak.us/mlw/mining/index.htm

If you like, the above regulations may be mailed to you by calling 269-8652.

What is the production royalty requirement?

The production royalty is three percent (3%) of net income as determined under the Mining License Tax Law AS 43.65, and regulations 15 AAC 65.

When is a production royalty payment required, and how is it paid?

The regulations state that the filing of a production royalty return and payment of any royalty due is required for each calendar year in which minerals on state land are produced, or minerals produced from state land are sold, exchanged, or otherwise disposed of. Minerals produced means any mineral extracted or leached in-situ from the surface or subsurface and removed from the mining claim or lease from which it was extracted or leached in-situ.

In order to calculate the production royalty, a production royalty return must be prepared and submitted on forms available from the division. Completed returns and payments must be submitted to:

Division of Mining, Land and Water
550 W 7th Ave, Suite 900B
Anchorage, AK 99501-3577

or to

Division of Mining, Land and Water
3700 Airport Way
Fairbanks, AK 99709

Attn: Mineral Property Mgt.

New mining operations are NOT exempt from production royalty requirements. Production royalty returns and payments are due every year on or before May 1 for the preceding calendar year. Upon written request, the division may grant an extension of time to file a production royalty return and to pay the royalty payment. The written request must be received by the division no later than 10 days before the due date, May 1. An extension of time may not exceed 120 days, during which interest will accrue on the unpaid balance during the term of the extension.

Who must file a production royalty return and pay any required royalty?

A production royalty return must be filed and all required royalty payment must be made by anyone:

1. owning, leasing, and operating a mining property;
2. owning a mining property and receiving lease fees, royalty payments based on production, or a combination of lease fees and royalty payments from the property;
3. leasing a mining property from another person and operating the property;
4. possessing a mineral interest, whether an economic or production interest, in a producing property, including royalty, receiving lease fees, working or operating interests, net profits, overriding royalties, carried interests and production payments.

If there has been production on state land for any given calendar year, what happens if a production royalty is not filed and any required royalty payment is not made?

If a production royalty return is not filed or any required royalty payment is not made when due, then all mineral rights acquired under the mining claim, or mining lease are deemed abandoned to the state. A locator or a successor-in-interest of an abandoned claim or lease may not relocate until one year after abandonment.

Where can I get answers to questions not covered in this fact sheet, or assistance with filing the production royalty return?

Additional information may be obtained from the Division of Mining and Water Management offices or from the regulations cited above. Specific assistance with filing the return may be obtained by visiting or calling the division's Anchorage office at (907) 269-8652, attention Kerwin Krause.

Mailing Address

STATE OF ALASKA
Dept. of Natural Resources
Division of Mining, Land & Water
550 W. 7th Ave., Suite 900
Anchorage, AK 99501-3577

ATT.: Mineral Property Mgt
907-269-8652

Due Date: May 1, 2006

Delivery Address

Dept. of Natural Resources
Division of Mining Land & Water
550 W. 7th Ave., Suite 900
Anchorage, Alaska

or
3700 Airport Way
Fairbanks, Alaska

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINING, LAND AND WATER

Notice: If you filed an APMA and received a Mining Permit and Mining License in 2005, but decided not to mine after all, you may complete the "Miner and Owner" blocks below, and check here _____. If other mining records indicate that you did mine on state land in 2005, you must fill out this entire form, otherwise your claims are at risk of being abandoned under law AS 38.05.265.

Section I**PRODUCTION ROYALTY ON LOCATABLE MINERALS**

Authority AS 38.05.212

"MINER, FILER or HOLDER" INFORMATION

Calendar Year: 2005	Name (Individual or Firm):	Type of Business or Company (e.g. sole proprietorship, partnership, corporation, joint)				
Mailing Address:	City	State	Zip Code	Telephone Number:	Mining License #:	APMA Number:
Name & Address of Person Completing Return, if Different:						

LEGAL OWNER OF RECORD, IF DIFFERENT

Claim Owner's Name (Legal "owner of record"):	Telephone Number:
Mailing Address:	

LAND INFORMATION (Attach additional sheets if necessary)

ADL Number(s), Claim Name(s) and Legal Description from which mining took place.		
ADL No.	Claim Name	Legal Description (include meridian, township, range, section and quarter section for each claim)

NOTICE:

Was a mining license tax return filed with the Department of Revenue for 2005? ☐ YES ☐ NO
If you answered NO above, were minerals mined and produced for this calendar year? ☐ YES ☐ NO

Calculation of Production Royalty

INSTRUCTIONS: If you filed an Annual Placer Mining Application to mine in the year 2005 you must file a Mining License Tax return with the Department of Revenue by May 1, 2006. If you mined on state-owned land, you must also file a Production Royalty Statement with the Division of Mining, Land and Water by May 1, 2006. (An extension for up to 120 days may be granted if the written request is received by May 1, 2006) Failure to file timely will result in a Decision to close the claims listed on the APMA.

Notice – If you filed an APMA and had a mining permit for mining claims on state land, plus other mining records indicate that you mined in 2005, you must fill out the information below, otherwise your claims are at risk of being abandoned under law AS 38.05.265.

SECTION I Continued

1. If you file your Mining License Tax return on a **calendar** year basis, and: a. your income from mining operations is attributable only to minerals that you produced from state land or Mental Health Trust Land; **or** b. you have segregated income, expenses, and deductions in accordance with 11 AAC 86.766 then check here. -----
2. If your mining income is attributable to minerals that you produced only on state land, and if you **do not** file your Mining License Tax return on a calendar year basis, check here then complete the Mining License Tax Form 04-662 for the preceding **calendar** year. -----
3. If your mining income is attributable to minerals produced on both state land and non-state land, and you have segregated income, expenses, and deductions in accordance with 11 AAC 86.766, check here then complete the Mining License Tax Form 04-662 for the preceding **calendar** year, reporting only income, expenses, and deductions attributable to state land. -----

If your mining income is from royalties go to Section II.

***NOTE:** If you mined on both state land and non-state land during the calendar year, but did not segregate income, deductions and expenses in accordance with 11 AAC 86.766 you must file a single return for operations on state land.

If you checked the box in paragraphs 2 or 3 a copy of Mining License Tax Form 04-662 must be submitted with this production royalty return. This submission does **not** relieve you of your obligation to file a completed Mining License Tax return with the Department of Revenue when due.

If you checked the box in paragraph 3, indicate which method you used to segregate income, expenses, and deductions and check the appropriate box to the right:

- a. separate or traced accounting of minerals, income, deductions, and expenses (11 AAC 86.766(b)) -----
 - b. actual income with proportionate deductions and expenses (11 AAC 86.766(c)) -----
 - c. apportionment of gross income, deductions, and expenses based on volume or tonnage (11 AAC 86.766(d)) -----
 - d. other method approved by Division of Mining, Land and Water -----
4. If you checked a box on 1, 2, or 3 enter the Taxable Income (line 1.) from Mining License Tax Form. Do not include royalties received. ----- \$ -----
 5. Multiply line 7 by 3% (.03) ----- \$ -----
 6. Enter rental credit for only those mining claims listed in section 1(11 AAC 86.760(3)) ----- \$ -----
 7. Subtract line 6 from line 5. If less than \$0, enter \$0 and enter on line 1 Section III.

Section II

PRODUCTION ROYALTY ON ROYALTIES RECEIVED FROM MINES AND MINING

Authority AS 38.05.212

NOTE: Use this section to report gross income from royalties received from mining on state land.

INCOME FROM ROYALTIES. Enter the name and address of each individual or firm from whom royalties were received. List all those royalties shown on Line 16 of Schedule E of the Mining License Tax form on royalties that were received for mining on state land.

Name	Address	Royalties
1.		
2.		
3.		
4.		
5.	If more space is needed for additional names and addresses, attach a separate schedule and enter the total from that schedule here.	
6.	Total income from royalties (add lines 1 through 5).	
7.	Depletion allowance 15% (.15 x total royalty received)	
8.	Net Royalty (line 6 - line 7)	
9.	Production royalty due (multiply line 8 by .03) and enter on line 2 section III (below)	

Section III

1. Enter the total royalty due from Section I line 7. \$ _____
2. Enter the royalty due from Section II line 9.
\$ _____
3. Total of royalties due (add lines 1 and 2 above). \$ _____

The amount on line 3 is the total production royalty due. Attach or enclose a check for this amount payable to the Alaska Department of Revenue. Mail or hand deliver completed forms to one of the addresses on the front. **A Production Royalty Return is required even if no royalty is owed.**

I declare under penalty of perjury that this return has been completed or examined by me, and to the best of my knowledge and belief, it is a true, correct, and a complete return.

Signature of Royalty Payer or Agent	Title	Date
-------------------------------------	-------	------

MINING LICENSE TAX

STATE OF ALASKA
DEPARTMENT OF REVENUE

RETURN TO:
DEPARTMENT OF REVENUE
TAX DIVISION
PO BOX 110420
JUNEAU AK 99811-0420

Mining License Tax Return - Instructions

WHO MUST FILE: A person engaged in one or more of the following activities in the state is in the business of mining and shall obtain a mining license and file a mining license tax return: (1) a person owning and operating a mining property; (2) a person owning a mining property and receiving lease or royalty payments based on production from the property; (3) a person leasing a mining property from another person and operating the property; and (4) a person possessing a mineral interest, whether an economic or a production interest, in a producing property, including royalty, working or operating interests, net profits, overriding royalties, carried interests, and production payments.

RETURN PERIOD: A taxpayer shall make the return either on a calendar year or fiscal year basis, in conformance with the basis used in making the return for federal income tax purposes. An entity with a calendar year end shall file a return on or before April 30 of the following calendar year. An entity with a fiscal year end shall file a return on or before the last day of the fourth month following the end of the fiscal year.

FORM 04-662: Use this form to calculate the Alaska mining license tax on all mining operations conducted during the tax year in Alaska, including operating and royalty interests. A mining operation is an operation by which valuable metals, ores, minerals, asbestos, gypsum, coal, marketable earth, or stone, or any of them are extracted, mined, or taken from the earth. A mining operation consists of a single mining property or several mining properties that are connected geographically.

Line 1. Enter the aggregate amount of taxable income from all mining operations as reported on line 7 of each Schedule A.

Line 3. Exploration Incentive Credit. Enter the amount from line 5 of Form 04-665. Form may be obtained from the Department.

Line 4. Special Industrial Incentive Investment Tax Credit (SIITC). Attach a schedule showing the computation of any unused SIITC, which is being carried forward to this tax year.

Line 5. Enter the amount, if any, from line 4 of form 04-706, Education Credit. Contributions used to calculate a credit against any other state taxes, e.g. Alaska corporation net income tax, cannot be used as a credit against the Mining License Tax.

Line 7. Enter any payments of tax previously paid with form 04-668, Application for Extension of Time To File. **IMPORTANT:** You must attach a copy of form 04-668 to your return.

Line 12. Add lines 8 through 11 and enter on line 12 if there is tax due. The balance due must be paid with this return.

SCHEDULE A - TAXABLE INCOME FROM MINING OPERATION: A separate Schedule A must be completed for each mining operation from which income or royalties are received. Taxable income must be calculated for each mining operation separately. Examples of mining operations are as follows:

Example 1: Mining company A is a gold dredging operator that owns or leases three properties. The properties are joined contiguously and lie within a single river valley. Company A acquires an additional lease that shares a common boundary with the other properties. Company A is engaged in a single mining operation that includes the four properties. Company A is required to file a single Schedule A to report the taxable income from its operation.

Example 2: Company B owns and operates property P1, a producing placer mine in southeast Alaska, receives a royalty from property P2 located in Fairbanks, and is developing property P3, a potential placer mine near Anchorage. Company B is engaged in three separate mining operations and must file a separate Schedule A to calculate the taxable income from each operation.

Line 1. Enter the gross income or royalties received from the mining operation identified at the top of the schedule. Gross income is the sale price, or the actual cash, credits, in-kind exchange and other valuable consideration received for mined materials. If royalties were received on the property, Schedule E, must be completed and the amount on Schedule E, line 16 must be included on Schedule A, line 1.

Line 6. An exemption from the mining license tax is allowed for three and one-half years after the operation begins commercial production. Production means the date on which the initial shipment of products from mining operations is made. A separate three and one-half year exemption is allowed for each mining operation. The exemption does not apply to the mining of sand or gravel.

SCHEDULE B - DEPLETION: A separate Schedule B must be completed to calculate the allowable depletion deduction for each mining operation. Enter only amounts attributable to the mining operation identified at the top of this page.

SCHEDULE C - MINING EXPENSES: Complete a separate schedule C for each mining operation. Additional instructions can be found on Schedule C.

SCHEDULE D - ROYALTIES PAID: Complete a Schedule D for each mining operation if royalties were paid. Show the name, address and identification number of each individual, partnership or corporation to whom royalties were paid. If the royalty payment was in-kind, report the fair market value of the mined material on the date that payment was made. Enter the amount from Schedule D, line 16 on line 1 of the appropriate Schedule C.

SCHEDULE E - ROYALTIES RECEIVED: Complete a Schedule E for each mining operation if royalties were received from the operation. Show the name, address and identification number of each individual, partnership or corporation from whom royalties were received. If the royalty payment was in-kind, report the fair market value of the mined material on the date that payment was received. Advance royalty payments received should be included in gross income for the tax year in which the mined material was actually extracted.

NEED HELP?

For further information, contact:

Department of Revenue
Tax Division
Fish and Excise Tax Unit
PO Box 110420
Juneau, AK 99811-0420

Telephone 907.465.4661
FAX 907.465.2375

E-mail fish_excise@revenue.state.ak.us

Department of Revenue
Tax Division
PO Box 110420
Juneau, AK 99811-0420
Telephone 907.465.4661
Facsimile 907.465.2375

State of Alaska Mining License Tax Return

Authority: AS 43.65

DEPARTMENT USE ONLY

FSN

Copies of this form are available online at www.tax.state.ak.us

Federal EIN or SSN		Mining License Number(s)		For Period Ending	
				YY	MM
Name of Individual, Partnership or Corporation		Telephone Number		Fax Number	
Business name		E-Mail Address			
Mailing Address		Check if: ☐ Amended (attach explanation)		Taxpayer type (check one) ☐ Owner/Operator ☐ Owner/Lessor ☐ Lesser/Operator ☐ Temporarily Exempt	
City					
		Zip Code + 4			
Contact Person		Title			

Due Date:

For calendar year taxpayers, the return is due before May 1 of the following year. For fiscal year taxpayers, the return is due before the first day of the fifth month following the year end.

DEPT USE ONLY

1. Taxable income from all mining operations (line 7 of all Schedule As) 1
2. Computation of tax. If line 1 is
- A. \$40,000 or less, the tax due is zero. Enter zero on line 2
 - B. over \$40,000 and less than or equal to \$50,000, \$1,200 plus 3% (0.03) of the excess over \$40,000
 - C. over \$50,000 and less than or equal to \$100,000, \$1,500 plus 5% (0.05) of excess over \$50,000
 - D. over \$100,000, \$4,000 plus 7% (.07) of excess over \$100,000

Tax

3. Less exploration incentive credit (attach form 04-665) 2
4. Less special industrial incentive investment tax credit (attach schedule) 3
5. Less Alaska education credit (attach form 04-706) 4
6. Tax liability. Subtract lines 3, 4 and 5 from line 2, but not less than zero 5
7. Amount paid with extension 6
8. Net tax due or (overpayment). Subtract line 7 from line 6 7
9. Penalty for late filing (5% per 30 day period or fraction of a period, not to exceed 25%) 8
10. Penalty for late payment (5% per 30 day period or fraction of a period, not to exceed 25%) 9
11. Interest (11% compounded quarterly) 10
12. Balance due. Add lines 8 through 11. If the total results in tax due, enter here and remit payment with the return 11

- ☐ I wish to renew my mining license(s) for Sand and gravel for next year.
- ☐ Check here if you are remitting by Wire Transfer or Electronic Funds Transfer.

I declare under penalty of unsworn falsification that this return, including all accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Signature	Title	Date
DEPARTMENT USE ONLY		
PMD:		
VALIDATION		

Name of Individual, Partnership or Corporation		Federal EIN or SSN
Description and Location of Mining Operation	Date of Initial Production	Mining License Number

SCHEDULE A - Taxable Income From Mining Operation

(Use a separate schedule A to calculate the income from *each* mining operation. See instructions.)

Complete the following for above identified mining operation

1. Gross income or royalties received from mining operation	1	
2. Depletion deduction (Schedule B, line 16)	2	
3. Direct mining expenses (Schedule C, line 10). If line 1 is income from royalties, enter zero	3	
4. Indirect mining expenses (Schedule C, line 35). If line 1 is income from royalties, enter zero	4	
5. Net income from mining operation (line 1 less lines 2 through 4)	5	
6. Less exemption for new mining operation (see instructions)	6	
7. Taxable income from mining operation (line 5 less line 6). Enter here and include on Line 1 of Form 04-662	7	

SCHEDULE B - DEPLETION

(Attributable to mining operation identified above.)

COST DEPLETION CALCULATION

Divide the cost or other basis of the mineral interest by the estimated recoverable units of the natural resource at the beginning of the tax year to arrive at a unit value. Multiply the unit value by the number of units extracted and sold during the year to arrive at cost depletion.

1. Cost or basis of mining property (less residual value)	1	
2. Estimated recoverable units at beginning of tax year	2	
3. Unit value (divide line 1 by line 2)	3	
4. Number of units sold this tax period	4	
5. Cost depletion (multiply line 3 by line 4)	5	

PERCENTAGE DEPLETION CALCULATION (Sand and gravel operations must use cost depletion, above.)

Depletion percentages to be used on line 9, below.

10% Coal mines

15% Metal mines, fluor spar, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumene, varile, ball and sagger clay, or rock asphalt mines and potash mines or deposits

23% Sulphur mines or deposits

6. Gross income or royalties received from mining operation (Schedule A, line 1)	6	
7. Royalties paid from Schedule D, line 16. If line 6 is income from royalties, enter zero	7	
8. Depletion base (line 6 minus line 7)	8	
9. Applicable depletion percentage from above (10%, 15%, or 23%)	9	
10. Percentage depletion (multiply line 8 by line 9) Enter results here	10	
11. Total gross income from mining operation (Schedule A, line 1)	11	
12. Allowable deductions (Schedule A, lines 3 and 4)	12	
13. Net income before depletion (line 11 minus line 12)	13	
14. Limitation (multiply line 13 by 50% (.5))	14	
15. Line 10 or line 14, whichever is less	15	
16. Depletion deduction (line 5 or 15, whichever is greater). Enter on Schedule A, line 2	16	

Name of Individual, Partnership or Corporation		Federal EIN or SSN
Description and Location of Mining Operation	Date of Initial Production	Mining License Number

SCHEDULE C. Mining Expenses
(Submit a separate Schedule C for each mining operation. See instructions.)

Direct mining expenses of identified mining operation:

1. Royalties paid (Schedule D, line 16)	1	
2. Fuel and oil	2	
3. Current development costs	3	
4. Extraction costs	4	
5. Maintenance and repairs	5	
6. Salaries and wages	6	
7. Transportation costs	7	
8. Depreciation	8	
9. Other expenses (specify)		
a.	9a	
b.	9b	
c.	9c	
10. Total direct mining expenses for this operation (add Lines 1 through 9)	10	
11. Direct mining expenses of all other mining operations (Line 10 of all other Schedule Cs)	11	
12. Total direct mining expenses of all mining operations (add Lines 10 and 11)	12	
13. Direct nonmining expenses	13	
14. Total direct mining and nonmining expenses (add Lines 12 and 13)	14	
15. Direct mining expenses as a percentage of total direct expenses (divide Line 12 by Line 14)	15	

Indirect expenses of all mining and nonmining activities:

16. Advertising	16	
17. Insurance	17	
18. Interest on business debt	18	
19. Legal and professional fees	19	
20. Casualty losses	20	
21. Office supplies and expenses	21	
22. Office repairs and maintenance	22	
23. Rent	23	
24. Taxes (Other than federal income and Alaska mining license tax)	24	
25. Travel and entertainment	25	
26. Utilities and telephone	26	
27. Depreciation	27	
28. Other expenses (specify)		
a.	28a	
b.	28b	
c.	28c	
29. Total indirect expenses (add Lines 16 through 28)	29	
30. Indirect expenses allocated to mining operations (multiply Line 29 by Line 15)	30	
31. Total current year production from this mining operation (Schedule B, Line 4)	31	
32. Total current year production from all other mining operations (Line 4 of all other Schedule Bs)	32	
33. Total current year production of all mining operations (add Lines 31 and 32)	33	
34. This operation's percentage of total current year production (divide Line 31 by Line 33)	34	
35. Total indirect expenses allocated to this property (multiply line 29 by line 34) Enter here and on Schedule A, Line 4	35	

SCHEDULE C. Mining Expenses

Instructions

Direct Mining Expenses

Direct mining expenses are fully deductible against mining gross income. Only those expenses related to the extraction of the mined material, transportation of the material to the point of ordinary treatment processes, and the ordinary treatment process itself are deductible. Included in this category of expenses are maintenance and repairs, and salaries and wages paid to those engaged in the extraction, transportation and ordinary treatment processes of the mined material.

Line 3. Current Development Costs. If a mining property is in the development stage, all development costs which are in excess of net income from the sale of mined materials must be included in the mine's basis and are recoverable through the depletion allowance. Development expenses incurred after the mine has reached the production stage are deductible as a current operating cost. A mine is considered to be in production stage when the principal activity becomes the production of ore from the property rather than the development of the ore body. (15 AAC 65.125)

Indirect Mining Expenses (Apportioned)

Indirect mining expenses are those expenses necessary to the mining operation but not directly connected to the extraction, transportation and ordinary treatment processes of the operation. These expenses are deductible from mining gross income in whole or in part.

Exploration costs, federal income taxes, the Alaska mining license tax, losses on the sale of mining equipment or properties, net operating losses and other capital losses are not deductible. (15 AAC 65.125)

Where two or more properties are involved, indirect expenses must be allocated between the properties based upon the ratio of each property's production to the taxpayer's total production from all properties during the tax year.

If the indirect expense is related to both mining and nonmining activities, the item of expense is allocated in proportion to the mining and nonmining activity's direct expenses. (15 AAC 65.125)

Name of Individual, Partnership or Corporation	Federal EIN or SSN
Description and Location of Mining Operation	Mining License Number

SCHEDULE D. Royalties Paid

(Submit a separate Schedule D for each mining operation. See instructions.)

	Name and Address of each Lessor	Federal EIN or SSN	Amount Paid
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
Total royalties paid. Add amounts paid and enter amount on Schedule C, line 1 of appropriate mining operation			16

Name of Individual, Partnership or Corporation	Federal EIN or SSN
Description and Location of Mining Operation	Mining License Number

SCHEDULE E. Royalties Received

(Submit a separate Schedule E for each mining operation. See instructions.)

	Name and Address of each Lessee	Federal EIN or SSN	Amount Received
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
Total royalties received. Add amounts received and enter amount on Schedule A, line 1 of appropriate mining operation			16

Education Credit

Name of Individual, Partnership or Corporation	Federal EIN or SSN
Description and Location of Mining Operation	Mining License Number

Explanation of Credit. A taxpayer is allowed a credit for cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions. Contributions accepted for endowment purposes are also eligible for the credit. The contribution must be given to an accredited, public or private nonprofit, two or four-year college or university foundation in Alaska.

Limitation. The credit is limited to 50 percent of contributions of not more than \$100,000; and 100 percent of the next \$100,000 of contributions. A contribution claimed as a credit under this section may not be claimed as a credit against other state taxes. See AS 43.75.018.

NOTE: A corresponding deduction for the gross qualified contribution (line 1, below) is not allowed in the computation of taxable income from mining operations.

Recipient	Date	Amount	DEPT USE ONLY

1. Amount of qualified cash contribution.....	1.	
2. Multiply the lesser of line 1 or \$100,000 by 50% (.50).....	2	
3. Enter 100% of the next \$100,000 of contribution.....	3.	
4. Total allowed Alaska Education Credit. Add lines 2 and 3; enter here and on Page 1, line 5, Form 04-662, but not more than the total tax reduced by total incentive credits. (Maximum amount is \$150,000).....	4	

DOM 20-83
(revised 10/04)
DNR 10-84

AFFIDAVIT OF ANNUAL LABOR FOR MINING



This affidavit of annual labor is for the assessment year, which ended at noon on September 1, 20_____.

Correspondence should be sent to:

Owner's Name: _____

Mailing Address: _____

City, State Zip: _____

Recording District: _____

Meridian: _____

Twn: _____ Rng: _____ Sec(s) _____

Twn: _____ Rng: _____ Sec(s) _____

Twn: _____ Rng: _____ Sec(s) _____

Names of Mineral Locations:

ADL Numbers:

_____	_____
_____	_____
_____	_____
_____	_____

(Attach additional sheets if necessary)

Work was performed on the following dates: _____ Number of person days worked: _____

Description of work performed: _____

Declared value of work performed during this labor year, not including claim maintenance: \$ _____

Value of excess work (credit) to be applied from previous labor year(s) (if applicable): \$ _____

Amount of any cash payment made to the state instead of performing labor: (if applicable)
(NOTE: Cash payments made to the state in-lieu-of performing labor must be received prior to September 1. **This affidavit must still be timely recorded.**)

\$ _____

Name(s) and address(es) of person(s) who did the work:

Name: _____

Name: _____

Mailing Address: _____

Mailing Address: _____

City, State Zip: _____

City, State Zip: _____

I, _____, swear under penalty of perjury that the foregoing is true.

(Print Name)

Notary Block

Subscribed and sworn before me

x _____ this _____ day of _____, 20 _____

(Signature of Affiant)

Signature of notary: _____

My commission expires: _____

GENERAL INFORMATION

- A. This affidavit may be used to meet the State of Alaska's statutory and regulatory requirements for recording annual labor on state mining claims, leasehold locations, or mining leases. The minimum amount of labor required to be expended for each mining claim or leasehold location is \$100.00 per 40-acre claim or \$400 per 160-acre claim. The amount of labor required for a mining lease is \$100.00 for each partial or whole forty acres of the lease. If you have questions, contact the Department's Public Information Center at 269-8400 in Anchorage, 451-2788 in Fairbanks.
- B. Throughout the instructions we use "claim" to refer to mining claims, leasehold locations, and mining leases.
- C. This affidavit may be filled out by the owner of a claim or by some other person having knowledge of the facts.
- D. This affidavit must be recorded in the recording district where the claim is located within 90 days after the end of the assessment year. Usually the last day to record is November 30. **FAILURE TO TIMELY AND PROPERLY RECORD RESULTS IN THE ABANDONMENT OF THE CLAIM.**
- E. The first assessment year begins at noon on the September 1 after the date the notice of location was posted and ends at noon on the September 1 of the following year. For example, if you located your claim on August 30, 1990, your first assessment year began September 1, 1990 and ended September 1, 1991. If you located your claim on September 2, 1990, your first assessment year began September 1, 1991 and ended September 1, 1992.
- F. Alaska statutes allow miners on state claims to carry over the value of excess work for as many as four years. You must, however, file an affidavit of annual labor each year. You may combine excess work from previous years with work from this assessment year.
- G. Claim maintenance (brushing lines and reposting) is considered a duty that Alaska Statute 38.05.265 imposes on the claimant in addition to the annual labor requirement. Therefore, maintenance work is not acceptable as annual labor. If your affidavit lists work required to maintain the claim in good standing, be sure to indicate that it is not included in the declared value of your annual labor.
- H. You may use one affidavit of annual labor for a group of claims.

Instructions

1. Fill in the year for which you are claiming annual labor.
2. List the name and mailing address of the current owner where correspondence should be sent. Under Alaska regulations, it is your responsibility to be sure that the Division of Mining, Land & Water has your current address. You must notify the division of any address changes in writing. Addresses will not be updated based on a different address indicated on this affidavit.
3. List the recording district in which these claims are located.
4. List the meridian(s), township(s), range(s), and section(s) in which the claims are located.
5. List all claims by name and ADL number. You may group claims (for example, Gold Rush 1-10; ADL 390000-390009). If you group claims, and it is not clearly indicated, credit will not be given.
6. List each day that work was done. For example, only list August 6 through 28 if work was done each day during that time period.
7. List the total number of days worked by all persons. (Number of days X number of workers = total number of person-days worked).
8. Describe the work performed in as much detail as necessary to support the value you declare in the affidavit; for example, "sunk shaft 10 feet," "stripped 150 cubic yards of overburden with D-6 cat in preparation for mining," "core drilling 150 feet," "sluiced 5000 cubic yards of gravel". If you *produced*, **don't forget to file a Production Royalty Return for the year.**
9. Declare the full value of work you have done. Remember that excess work may be carried over to future assessment years (see F). Do not include brushing lines or reposting as part of the declared value of your annual labor.
10. Fill in the amount of excess work to be applied from previous years, if any.
11. Fill in the amount of any cash payment made to the state instead of performing annual labor. **Do not include payments for annual rental.** The state must have received this payment before September 1 of the labor year of this affidavit. The affidavit must be recorded in the appropriate district by November 30.
12. List the names and current addresses of persons who did the work.
13. The person signing the affidavit must print and sign his/her name before a notary or other authorized person. Generally, the following persons are authorized to take an oath, affirmation, or acknowledgement in this state: a justice, judge, magistrate, clerk, or duty clerk of the court of the State of Alaska or of the United States, notary public, and a U.S. postmaster. If an authorized person is not available, you may amend the signed statement to read as follows: "I, (print your name), swear under penalty of perjury at (location) on (date) that no official empowered to administer oaths is available and that the foregoing statement are true." You must sign this statement. It is advisable but not required that a witness sign also. The witness's address should also be included.

RECORD THIS AFFIDAVIT AT THE RECORDING DISTRICT WHERE THE CLAIM, LEASEHOLD LOCATION, OR MINING LEASE IS LOCATED WITHIN 90 DAYS AFTER THE END OF THE ASSESSMENT YEAR.

Table 2 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 05	FY 04	FY 03
OIL AND GAS TAXES			
General Fund revenue			
Severance Taxes			
Oil & Gas Production	\$ 859,334,819	\$ 642,819,003	\$ 589,731,934
Oil & Gas Hazardous Release	8,330,521	9,052,517	9,232,859
Credits	0	0	0
Severance tax total	867,665,340	651,871,520	598,964,793
Property Tax	260,828,754	260,210,393	268,844,716
Local credits	(218,294,036)	(218,798,614)	(220,096,442)
Property tax total	42,534,718	47,411,779	48,748,274
Oil & Gas Corporate Income Tax	524,427,805	299,137,852	151,395,925
Alaska Education Credit	(197,675)	(305,000)	(307,625)
Oil & Gas Corporate Income Tax total	524,230,130	298,832,852	151,088,300
Total Oil & Gas Tax Receipts - General Fund	1,434,430,188	998,116,151	798,801,367
Constitutional Budget Reserve Fund - CBRF			
Oil and Gas Severance Tax	21,310,000	4,236,962	3,681,970
Oil & Gas Corporate Income Tax	5,714,388	4,035,122	17,221,507
Oil and Gas Property	376,915	87,868	(2,929)
Total Receipts - CBRF	27,401,303	8,359,952	20,900,548
Total Oil & Gas Receipts - All Funds	\$ 1,461,831,491	\$ 1,006,476,103	\$ 819,701,915

CORPORATE NET INCOME TAX - Non Oil and Gas Corporations

Corporate Income Tax	62,164,517	40,244,959	48,405,650
Alaska Education Credit	(539,445)	(693,879)	(693,196)
Veteran's Memorial Fund Credit	0	(5,000)	0
Total Receipts	\$ 61,625,072	\$ 39,546,080	\$ 47,712,454

MOTOR FUEL

Highway	\$ 29,918,920	\$ 30,872,676	\$ 26,518,253
Marine	4,718,509	5,266,275	5,938,976
Jet Fuel	4,193,390	4,391,412	4,067,223
Aviation Gasoline	729,827	786,917	834,042
Total Tax	39,560,646	41,317,280	37,358,494
Penalties and Interest*	3,920	50,046	(5,522)
Total Receipts	39,564,566	41,367,326	37,352,972
Less Aviation Fuel Tax Shared	(150,708)	(164,978)	(169,600)
Amount Retained by State	\$ 39,413,858	\$ 41,202,348	\$ 37,183,372

Table 2 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 05	FY 04	FY 03
ALCOHOLIC BEVERAGES			
Liquor	\$ 16,034,366	\$ 14,138,141	\$ 11,246,889
Beer	14,115,672	13,654,111	10,695,105
Wine	4,594,941	4,257,955	3,010,269
Beer Qualifying for Reduced Rate of Tax	770,757	691,183	407,277
Penalties, Interest and Refunds	914	4,754	1,268
Total Receipts	\$ 35,516,650	\$ 32,746,144	25,360,808
Less Amount Transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund	(17,758,496)	(16,372,730)	(11,222,078)
Unrestricted Amount Retained in General Fund	\$ 17,758,154	\$ 16,373,414	\$ 14,138,730
FISHERIES BUSINESS			
Tax Before Credits	\$ 28,141,351	\$ 30,661,407	\$ 26,091,599
Penalties, Interest and Refunds	153,357	312,646	204,590
License Fees	14,724	15,473	16,922
Less Credits			
Winn Brindle	(135,700)	(168,894)	(176,114)
Alaska Education Credit	(300,000)	(302,500)	(153,589)
Salmon Product Development and Utilization Credit	(2,314,258)	(1,379,475)	0
Total Receipts	25,559,474	29,138,657	25,983,408
Less Fisheries Tax Shared with Municipalities			
Direct to Municipalities	(13,485,788)	(12,672,941)	(10,806,426)
Department of Community and Economic Development	(1,738,224)	(1,725,251)	(1,362,651)
Amount Retained by State	\$ 10,335,462	\$ 14,740,465	\$ 13,814,331
DEC Seafood Processor License Fees	\$ 400,670	\$ 402,050	\$ 424,495
TOBACCO			
Cigarette	\$ 48,755,317	\$ 42,573,286	\$ 40,239,153
Tobacco Products	7,774,876	6,561,826	6,657,704
Penalties and Interest	99,802	76,154	61,263
Deductions and Stamp Discount	(470,178)	(355,093)	(63,507)
Total Receipts	56,159,817	48,856,173	46,894,613
Less Amount Transferred to School Fund	(29,942,898)	(32,865,726)	(30,606,828)
Less Amount Transferred to Tobacco Cessation Fund	(1,111,100)	0	0
Amount Retained in General Fund	\$ 25,105,819	\$ 15,990,447	\$ 16,287,785
Cigarette License Fees (Transferred Directly to School Fund)			
Total Receipts	\$ 7,455	\$ 4,740	\$ 5,520

Table 2 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 05	FY 04	FY 03
MINING LICENSE			
General Fund			
Current Year Tax Before Credits	\$ 10,467,238	\$ 3,326,281	\$ 383,691
Less Alaska Special Industrial Incentive Credit			
Less Mineral Exploration Incentive Credit	0	0	(29,736)
Less Alaska Education Credit	(150,000)	(101,597)	(2,568)
Total Receipts - General Fund	10,317,238	3,224,684	351,387
Constitutional Budget Reserve Fund			
Current Year Tax	0	0	44,867
Total Receipts - CBRF	0	0	44,867
Total Mining License Receipts - All Funds	\$ 10,317,238	\$ 3,224,684	\$ 396,254
FISHERY RESOURCE LANDING			
Tax Before Credits	\$ 9,520,641	\$ 7,230,715	\$ 11,018,953
Penalties, Interest and Refunds	406,971	672,967	220,301
Less Credits			
CDQ Contributions	(232,386)	(370,141)	(396,650)
Winn Brindle	0	(5,000)	(5,000)
Alaska Education Credit	(1,050,000)	(900,000)	(1,200,000)
Total Receipts	8,645,226	6,628,541	9,637,604
Less Landing Tax Shared with Municipalities			
Direct to Municipalities	(3,624,314)	(3,781,803)	(2,628,024)
Department of Community and Economic Development	(604,767)	(576,433)	(321,440)
Amount to be Retained by State	\$ 4,416,145	\$ 2,270,305	\$ 6,688,140
VEHICLE RENTAL			
Passenger Vehicle	\$ 7,147,231	\$ 2,623,614	
Recreational Vehicle	327,811	87,557	
Penalties and Interest	23,949	401	
Total Receipts	\$ 7,498,991	\$ 2,711,572	N/A
REGULATORY COMMISSION of ALASKA			
Telephone Utilities	\$ 2,446,667	\$ 2,218,859	\$ 2,388,840
Electric Utilities	1,967,201	1,795,454	1,488,845
Other Utilities	1,411,969	1,036,199	1,155,708
Pipeline Carriers	655,590	605,083	805,986
Total Receipts	\$ 6,481,427	\$ 5,655,595	\$ 5,839,379

Table 2 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 05	FY 04	FY 03
SALMON ENHANCEMENT			
Tax by Aquacultural Region			
Southern Southeast	\$ 915,005	\$ 821,631	\$ 560,456
Northern Southeast	1,230,090	732,380	659,790
Prince William Sound	590,840	653,603	559,046
Kodiak	483,596	352,935	279,692
Cook Inlet	496,670	310,497	244,719
Chignik	70,860	129,765	109,035
Total Tax	3,787,061	3,000,811	2,412,738
Penalties and Interest	24,431	32,754	9,313
Total Receipts	\$ 3,811,492	\$ 3,033,565	\$ 2,422,051
SEAFOOD MARKETING ASSESSMENT			
Paid by Fisheries Business taxpayers	\$ 2,494,591	\$ 2,905,806	\$ 2,186,452
Paid by Fishery Resource Landing taxpayers	1,028,781	726,950	1,133,175
Total Receipts	\$ 3,523,372	\$ 3,632,756	\$ 3,319,627
CHARITABLE GAMING			
3% Pull Tab Tax	\$ 1,944,158	\$ 1,887,015	\$ 2,077,176
1% Net Proceeds Fee	357,176	386,220	370,524
Licensing Fees	156,478	150,043	137,807
Total Receipts	\$ 2,457,812	\$ 2,423,278	\$ 2,585,507
SALMON MARKETING			
Tax	\$ 2,442,826	\$ 1,907,811	\$ 1,406,087
Penalties and Interest	12,430	55,968	5,954
Total Receipts	\$ 2,455,256	\$ 1,963,779	\$ 1,412,041
TELEPHONE COOPERATIVE			
Total Receipts	\$ 2,029,808	\$ 2,101,198	\$ 1,836,740
Less Cooperative Taxes Shared	(1,926,187)	(1,981,543)	(1,709,074)
Amount Retained by State	\$ 103,621	\$ 119,655	\$ 127,666
ELECTRIC COOPERATIVE			
Total Receipts	\$ 1,939,598	\$ 1,861,290	\$ 1,817,958
Less Cooperative Taxes Shared	(1,868,400)	(1,794,011)	(1,752,988)
Amount Retained by State	\$ 71,198	\$ 67,279	\$ 64,970

ALASKA STATE LEGISLATURE

Chair
STATE AFFAIRS

Member
RESOURCES

Member
HEALTH, EDUCATION AND SOCIAL SERVICES

Member
WAYS AND MEANS

REPRESENTATIVE PAUL SEATON
House District 35

Session:
State Capitol Building
Juneau, Alaska 99801
Phone 907-465-2689
Fax 907-465-3472
1-800-665-2689
Rep.Paul.Seaton@legis.state.ak.us

Interim:
345 W. Sterling Highway
Suite 102B
Homer, Alaska 99603
Phone 907-235-2921
Fax 907-235-4008

MEMORANDUM

TO: Representative Bruce Weyhrauch, Chair
House Ways and Means Committee

FROM: Representative Paul Seaton

DATE: Monday, February 13, 2006

RE: Hearing Request for HB 418

I respectfully request a hearing before the House Ways and Means Committee on HB 418: An Act relating to a mining production tax; relating to the mining license tax; relating to production royalties on minerals; relating to exploration incentive credits; and providing for an effective date.

HB 418 does the following things:

- Repeals the current Mining License Tax, AS.09.65.010.
- Establishes a 3% gross production tax on all mined products.

Attached, please find a copy of the sponsor statement; HB 418; sectional analysis; revenue reports, comparison and projection.

Staff contact: Ian Laing, ext. 2689



MEMORANDUM

State of Alaska
Department of Revenue

TO: Brett Fried
DATE: February 7, 2005
THRU:
TELEPHONE NO: 465-3695
FROM: Tim Cottongim
SUBJECT: Mining Tax
Income Shifting

During the House Ways and Means Committee hearing on February 4, 2005 Representative Seaton asked **whether** it's possible that Alaska mining companies sell mined products to related companies at less than market value, thereby understating their gross revenue. The short answer is **yes**, it's possible. A definitive answer to Rep. Seaton's question would require an audit of the taxpayer's records to identify the buyer as well as the grade and mineral content of the resources sold. The mere sale to a related party is not in and of itself conclusive of undervaluation. We would also need to determine the quality of the resource being sold. Taxpayer's are not required to identify buyers or quality of mined products on the tax return.

Representative Wilson asked if a net income tax on mining was the norm. I'm attaching a chart of taxes imposed by the states as well as Canadian provinces, downloaded from the following website:

<http://www.westernmine.com/westernmine/taxcost.htm>

If more details are needed DNR can fax us the relevant pages from their subscription (about 30 pages).

Ian Laing

From: Rick Fredericksen [Rick_Fredericksen@dnr.state.ak.us]
Sent: Friday, February 17, 2006 2:27 PM
To: Ian Laing
Cc: James M Franger; Dick Mylius; Tom Crafford
Subject: MHT Univ. Mining Royalty Deals

Ian,

I spoke with Mike Franger at the MHT and he informed me that they had sent you a copy of their lease and royalty agreement. You may find some of the definitions to be of value. Their royalties are NSR royalties that are "sliding" royalties that apparently slide from 2% to 5% depending on gold price (say <\$300 to >\$600 per ounce). They have no deals on base metals only gold. The royalties can vary from property to property as each one is separately negotiated. Apparently they have a completely different royalty scheme for placer mining (small scale). Mari Montgomery (Director of the University's Office of Land Management) stated that they also only have in place a royalty deal on gold (no base metals) that is a base 1.5% NSR royalty that also slides upwards with the gold price. ^{2.5%}

Kindest regards,

--
Rick Fredericksen
Acting Mining Section Chief
Alaska Department of Natural Resources
Division of Mining, Land and Water
550 West 7th Ave., Suite 920
Anchorage, Alaska 99501-3577
Tel. (907) 269-8621
Fax (907) 269-8630

2/21/2006



ALASKA MINERS ASSOCIATION, INC.

3305 Arctic Blvd., #105, Anchorage, Alaska 99503 • (907) 563-9229 • FAX: (907) 563-9225 • www.alaskaminers.org

February 22, 2006

Honorable Bruce Weyhrauch
Chairman
House Ways & Means Committee
Capitol Building
Juneau, AK 99508

RE: House Bill 418, Taxation and Royalties on Mining

Dear Representative Weyhrauch,

Thank you for the opportunity to comment on House Bill 418 which would make major adverse changes to the taxes and royalties paid to the State on mineral development. This topic is of great concern to the Alaska Miners Association and its members.

The timing of these proposed changes to State tax and royalty is especially disconcerting. As a result of the d(2) lands debate of the 1970s and the subsequent passage of ANILCA, many companies closed their mineral exploration offices in Alaska and had totally written-off Alaska as a place to explore. Changing that attitude has been a constant effort for more than 20 years. The startup of the Greens Creek and Red Dog mines in 1989 was a major turning point which proved to the world that it was possible to permit a major mine in Alaska.

Since that time Alaska State Legislatures and State Administrations have broadly and repeatedly stated that Alaska is "open for business." Companies have heard this statement and they have responded. Mineral exploration investments have come to the state as funds could be raised. Even during periods of extremely low metal prices some companies heard that statement and began risking the few dollars they could raise. Some junior and senior companies continued to explore in Alaska when the market was very uninterested in investing in the metals sector. They believed in Alaska, even when it was nearly impossible to raise money. Through careful investments and grit, a few of those companies were able to raise exploration funds at a time when very little money was coming into mineral exploration, anywhere in the world.

For the past many years Legislatures have worked to streamline permitting, remove uncertainty and generally improve the business climate for operating in Alaska. We are very appreciative of those changes. However, HB-418 would move in the opposite direction. It would show that Alaska cannot be trusted to carry through with its stated intent. **HB-418 would be seen as the ultimate example of the "bait and switch" trick.**

For most of the past 20 years the mining industry has been suffering under low prices for precious metals, base metals and for coal. Many companies have been barely scratching by with these low

prices. Today those prices are all high. This is the first time ever known when prices for all three of these were high at the same time. To now change the rules just as exploration is increasing would be extremely poor policy. Such a change would show Alaska to be an unstable place to invest and would result in tremendous negative fallout for future investments. Furthermore, if this proposed legislation was to pass, it would be a slap in the face for every company that has invested in Alaska minerals.

The importance of mineral development for Alaska was recognized in the Statehood Act and in the State Legislature from the beginning of this state. Shortly after Statehood the Legislature passed a statute specifying that the mining industry pay a special targeted tax called a Mining License Tax on all minerals produced in the State. This MLT is still in effect and applies to mineral production of all types. Furthermore, it applies to all types of land ownership - State, Federal and private lands, including Native-owned lands.

The MLT is a progressive form of taxation, as contrasted with a "regressive" form of taxation. The MLT is progressive in that it is based on the net proceeds from mineral production. This is important for several reasons. First, when the company can pay its costs of operating and costs of capital and has a net return, it makes money and State government shares in that success. Secondly, with this progressive MLT, State government should have some motivation to institute regulations, process permits efficiently, etc. so the miner has a better chance to make a profit. Generally speaking, the miner and the State have a common goal under the current MLT law.

The issue of royalty payments to the State also has a long history. This history includes a period of extreme uncertainty and litigation between 1981 and 1989. The litigation ended with a decision by the Alaska State Supreme Court in 1987 finding that, based on Section 6(i) of the Statehood Act, the State must charge either a "rent" OR a "royalty" on minerals produced on land owned by the State. The Legislature followed in 1989 and passed a bill requiring that a "rent" be charged for the land covered by state mining claims. Then in the next session the Legislature also passed a bill requiring that a "production royalty" be charged on all minerals produced on land owned by the State. **This rent AND royalty were required in addition to the Mining License Tax which was already in place.**

The 2005 data has not yet been released by the Department of Revenue but we can be sure that the payments to the State General Fund will very likely be the highest ever. That is because we have more large mines operating than ever before (four and with Pogo it will be five large mines) and mineral prices are improved. **These four mines have been operating for many years at a loss or on the margin. They have however been providing some of the best jobs in the state, providing some of the only private sector jobs in parts of rural Alaska and paying local property taxes that have been essential for the local communities.** And in Fairbanks, the power usage by Fort Knox has and continues to result in a 7% lowering of power cost for every local resident. Because of the local taxes paid by these mines, the adjacent communities did not have to depend on handouts from the Legislature. **But if the tax changes of HB-418 had been in place, the changes could have jeopardized all those benefits.** The best way to get more mining revenue is to get more mines. HB-418 runs counter that.

There are many other places in the world with great ore deposits, favorable regulations and taxes, and an workforce that wants to be trained. Throughout the world mineral investment dollars come from Canadian companies and Canadian stock exchanges. However, Alaska is at a severe disadvantage and it is often difficult to convince Canadian investors to invest in Alaska. If a Canadian investor invests in projects located in Canada, that investor can benefit from the "pass-through" tax provisions and on their personal income tax that investment is treated as an expense that will decrease their tax liability. We are therefore at a distinct disadvantage when compared with exploration projects in Canada. Alaska projects do not enjoy this benefit. That is a huge hurdle to cross when trying to raise funds for exploration in the capital markets. If Alaska changes the rent and royalties structure it would be an even greater disadvantage for companies to justify exploration programs in Alaska versus Canada.

HB-418 would have chilling effect on mineral exploration in Alaska and would damage Alaska's hard-fought reputation as a place that is open for business to the mining world.

The issue of appropriate levels of taxation on the mining industry was debated for almost a decade in the 1980's during a time in which Alaska had no hardrock mines. This was before Red Dog, Greens Creek, Fort Knox, and Pogo. **Establishing a stable and appropriately progressive tax policy in advance of investment was good policy and sets and high standard for good governance.** Along with other legislative efforts such as the exploration incentives credit, this helped set the stage to attract significant risk capital to Alaska that has now matured into one of Alaska's core industries. **Changing the rules now is bad policy and we urge that HB-418 not be passed.**

Sincerely,

A handwritten signature in black ink, appearing to read "S. C. Borell", written in a cursive style.

Steven C. Borell, P.E.
Executive Director

FEB 21 2006



February 22, 2006

Honorable Bruce Weyhrauch
Chairman
House Ways & Means Committee
Capitol Building
Juneau, AK 99508

RE: House Bill 418, Taxation and Royalties on Mining

Dear Representative Weyhrauch,

Thank you for the opportunity to comment on House Bill 418 which would have a major adverse effect on our exploration plans and commitment to Alaska. This topic is of great concern to us, since we are a Canadian company with a very large exploration commitment in Alaska.

The Alaska State Legislatures and State Administrations have broadly and repeatedly stated that Alaska is "open for business." We heard this message and invested more than \$14 million dollars in exploration on our MAN Alaska project in southcentral Alaska. You can learn more about this project by going to <http://www.nevadastar.com/s/MANProject.asp?Reportid=60154>

As a Canadian company we are at an extreme disadvantage by investing in exploration in Alaska versus Canada. If we invest in Canadian exploration projects, we can pass through our exploration expenses to investors as personal tax credits. Alaska provides no such pass-through credit. This makes it very difficult to raise exploration funds in the capital markets. Passage of House Bill 418 could present an obstacle that we would not be able to overcome, when trying to raise funds for further exploration in Alaska.

For many years the Legislatures has worked to streamline permitting, remove uncertainty and generally improve the business climate for operating in Alaska. We are very appreciative of those changes. However, HB-418 would move in the opposite direction. It would show that Alaska cannot be trusted to carry through with its stated intent. HB-418 would be seen as the ultimate example of the "bait and switch" trick.

The importance of mineral development for Alaska was recognized in the Statehood Act and in the State Legislature from the beginning of this state. Shortly after Statehood the Legislature passed a statute specifying that the mining industry pay a special targeted tax called a Mining License Tax on all minerals produced in the State. This MLT is still in effect and applies to mineral production of all types. Furthermore, it applies to all types of land ownership - State, Federal and private lands, including Native-owned lands.

The MLT is a progressive form of taxation, as contrasted with a regressive form of taxation. The MLT is progressive in that it is based on the net proceeds from mineral production. This is important for several reasons. First, when the company can pay its costs of operating and costs of capital and has a net return, it makes money and State government shares in that success. Secondly, with this progressive MLT, State government should have some motivation to institute regulations, process permits efficiently, etc. so the miner has a better chance to make a profit.

If HB-418 is passed, we will have to seriously reconsider any further investment in exploration projects in Alaska.

We urge this committee to reject HB-418.

Sincerely,



Robert Angrisano
President



February 22, 2006

Honorable Bruce Weyhrauch
Chairman
House Ways & Means Committee
Capitol Building
Juneau, AK 99508

RE: House Bill 418, Taxation and Royalties on Mining

Dear Representative Weyhrauch,

I am the President and CEO of NovaGold Resources Inc. and its wholly-owned subsidiary, the Alaska Gold Company. I would like to provide comment on the proposed House Bill 418 regarding taxation and royalties paid to the State on mineral development: this is very bad legislation and should be stopped in its tracks.

By way of background, my company has invested over \$25 Million dollars over the past seven years and is planning to spend an additional \$50 Million this year to bring our first mine in Nome into commercial production – the Rock Creek Mine. This project will bring 135 full-time, year-round jobs to Nome. In addition, NovaGold and our partner Placer Dome/Barrick have invested over \$60 Million dollars to explore and develop the Donlin Creek project located on Calista and Kuskokwim Native Corporation lands in southwest Alaska. Donlin is one of the largest undeveloped gold deposits in the world containing over 28 million ounces of gold. Donlin will require approximately \$1.5 Billion dollars and two years to construct once permits are issued.

When in operation, Donlin will produce over a million ounces of gold per year and with a current mine life of over 20 years would provide approximately 500 long-term, well paying jobs for Calista and Kuskokwim shareholders, as well as Alaskans statewide. NovaGold and its partner RTZ are also developing the Arctic project located in the Brooks Range of the Northwest Arctic Borough. To date we have invested over \$25 Million with RTZ and are working closely with Nana Regional Corporation and the potential synergies with their 100% owned Bornite project. It is early days yet at Arctic and Bornite with many challenges ahead, but we believe there is good potential to develop a world class copper-zinc-gold-silver mining district that would again provide jobs for the next generation of Alaskans – this will take many hundreds of millions of dollars to achieve. Collectively there has been over \$100 million invested to date on these three project with not one penny returned to our shareholders. This is new, outside investment into Alaska, providing Alaskans, particularly rural Native Alaskans

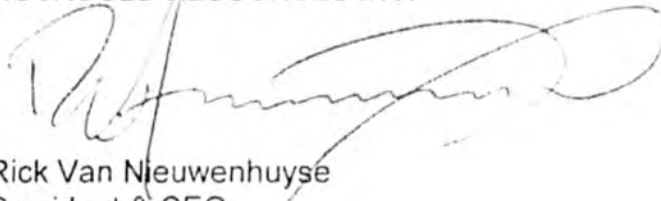
jobs. HB 418 would cause us alarm that the playing field was being changed midway through the game. HB 418 would be a very regressive tax; one that would send a very negative message to the mining industry.

I strongly urge this committee to reject HB 418.

Thank you for the opportunity to provide comment.

Sincerely,

NOVAGOLD RESOURCES INC.

A handwritten signature in black ink, appearing to read "Rick Van Nieuwenhuyse", written over a horizontal line.

Rick Van Nieuwenhuyse
President & CEO



Council of Alaska Producers

P.O. Box 22653 Juneau, Alaska 99802

February 24, 2006

Honorable Bruce Weyhrauch
Chairman
House Ways & Means Committee
Capitol Building
Juneau, AK 99508

RE: House Bill 418, Taxation and Royalties on Mining

Dear Chairman Weyhrauch:

The Council of Alaska Producers (CAP) is an association representing companies involved in exploration, development and active operation of hard rock mines in Alaska. Our industry is committed to sound operating practices, protection of the environment, and growth of an industry that has the potential to provide much needed private sector economic diversification throughout Alaska.

The mining industry has worked hard with the legislature over the last two decades to improve the investment and regulatory climate in Alaska. Significant fiscal policy improvements, such as the exemption of minerals from municipal in-situ taxation and the passage of the Exploration Incentives Act, both of which passed through your committee, have combined with other regulatory changes to greatly improve the perception of Alaska as a good place to do business. In fact, for several years after the passage of the Exploration Incentives Act, members of the Council and other mining company executives often cited the Incentives Act in speeches around North America as a reflection of the positive support from the Alaska government.

HB 418 would undermine these efforts by imposing a complicated and regressive tax on an industry that has yet to reach its potential. A stable and fair tax policy is necessary to continue to attract investment capital. The existing tax regime, which combines corporate income taxes, a 7% net profits mining license tax, rents, and a 3% net profits royalty, was established after years of litigation on the issue of what constituted an equitable return to the State. Poorly crafted and ill advised legislation is a poor substitute for the extensive legal and public process that established the current tax regime.

tax payments from the mining industry to the State are up significantly in recent years, even though Alaska still only has one hardrock mine on State land. The Legislature has worked hard to provide a stable climate for investment. The CAP asks that you *not* pass HB 418 and allow the industry to grow and reach its potential.

Yours truly,

A handwritten signature in black ink that reads "Karl Hanneman". The signature is written in a cursive style with a long, sweeping underline.

Karl Hanneman
President, Council of Alaska Producers

Howard J. Grey
1927 W. 13th Avenue
Anchorage, Alaska 99501
PH. 907-272-2617
Fax 907-522-8262

Honorable Bruce Weyhrauch
House Ways and Means Committee
Juneau, AK 99801

Dear Representative Weyhrauch,

I am writing to comment on House Bill 418 which would make massive changes to the State taxation of mining. This bill is extremely bad for many reasons, both technically and philosophically.

Mineral deposits by their nature are complex and more often than not vary considerably in mineral constituents, assemblages and grade or value. This is true of hard rock vein and disseminated deposits and whether the deposit is mined by either underground or surface methods. The same holds true if you are mining minerals using placer methods for the extraction of metallic minerals.

HB 418 would be impossible to administer. Values within each shovel full or scoop load can and will vary greatly in value. When the individual scoops are placed in a truck for hauling to a processing plant, the mix of values can become even more complicated. Determining a percentage or quantity of the various mineral constituents, let alone a definitive and defensible value at the point of production becomes an impossible exercise.

Even if you could establish some quantity and grade estimates of the ore, how do you establish a value on a continuing stream basis? The values of mineral commodities change constantly each market day so that not only are we dealing with a lack of precise data on mineral quantities we are also faced with a fluctuating market price. Trying to sort out a tax burden based on these conditions would be impossible.

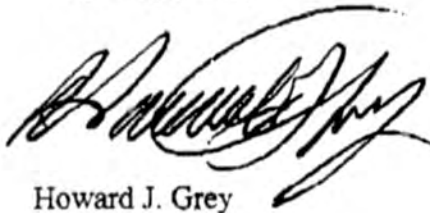
In discussing this bill, one of operators of Alaska's medium-sized Alaska miners made the statement "If you institute such a tax you won't have to worry about increasing the State's tax collection staff for us, because we won't be in business."

A similar tax to that proposed in HB 418 was proposed for the coal industry many years ago, in the early 1980s as I recall. It was dropped due in large part to the complexity of defining values. During the interim however between when it was proposed and when

the proposal died, it had an extremely negative impact on the financial viability of starting a new major venture in Alaska.

I urge the Committee to discontinue any further consideration of this bill.

Very truly yours,

A handwritten signature in black ink, appearing to read "Howard J. Grey", with a large, stylized flourish at the end.

Howard J. Grey

HB418: Public Testimony of Mike Koy

Good Morning,

My name is Mike Koy.

I am representing myself today. I have no ties whatsoever to the mining industry or any industry which relies on mining. However, I do have a masters degree in natural resource economics from the Colorado School of Mines where I did most of my graduate work on advanced mineral investment analysis and while there helped teach courses on investment decision making methods to over 200 professionals in the mining industry and 400 students at the university. I also have eleven years experience in the oil & gas industry in the areas of business development, project valuations and investment decision making. It's within this area that I would like to make my comments today.

The mining and oil industries have a lot in common. They both require significant upfront capital investment, they operate under tightening environmental guidelines and they are exposed to significant swings in the price of their product. The biggest difference in Alaska between the two is oil in Alaska consists of world class sized reservoirs, which allow for better economies of scale, at least for initial investment, while mining in general in Alaska does not though there are exceptions.

The other major difference is that oil companies pay approximately 20-30% of their revenues in state taxes while the mining industry pays somewhere less than 5% and likely under 2%. This difference cannot be justified due to scale alone. It is clear that mining taxes are low relative to comparable industries in Alaska and should and need to be raised whether the argument is equitability, fair share for the State, sustainability, viability or distribution of wealth. Increases to the base tax rate are justified.

Will increasing taxes hurt investment? The answer, based on my experience, is an emphatic no – if it is done correctly. As mentioned, I believe the industry can sustain a moderate increase in base taxation. However, the best way I have seen to increase taxes without impacting investment is to implement a windfall profits tax. The basic concept would be to have a tax that kicks in only once commodity prices reach a certain threshold. In this way the State is able to share in price upside when prices are above the price needed to provide a reasonable return to the industry. In addition, because mineral companies use a fixed price, usually a relatively low price, when making investment decisions a windfall tax will not impact investment by the industry. I have done this sort of analysis for eleven years and can say with some certainty there will be no impact.

In summary, there is room and justification to increase the base tax rate on the mining industry in Alaska. In addition, the State should consider implementing a windfall profits tax, in addition to the graduated income tax within the bill that allows the State to share in profits when prices are high. Neither tax will have an impact on investment.

Thank you.

Ian Laing

From: Marjorie & Dan Dunaway [mwdnt@nushtel.com]
Sent: Saturday, March 18, 2006 2:04 AM
To: Ginny Austerman; Ian Laing
Cc: Rep. Carl Moses; Sen. Lyman Hoffman
Subject: testimony for HB 418 hearing 3/22/06

Dear Representative Seaton and Ways and Means Committee,

I cannot attend the HB 418 hearing or visit my LIO as I will be traveling so I offer this email.

I am:
Dan Dunaway
PO Box 1490
Dillingham, Alaska 99576

907-842-2636

Life long Alaskan, UAF educated fisheries biologist, retired from ADFG after about 24 years. I'm a sport angler and hunter, dabble in trapping, and participate in subsistence fishing, hunting etc. I am speaking strictly for myself though I am a life member of NRA, have membership in the Bristol Bay Alliance, serve as an alternate on the Nushagak ADFG Advisory Committee, and serve on the Bristol Bay Regional Advisory Counsel.

I support HB 418 and the efforts to assure the mineral extraction industry pays fully for the opportunity to profit from the resources belonging to all Alaskans. I have felt this way for a long time and it especially crystallized after hearing Governor Hammond speak last spring in Newhalen. While attending UAF in the 1970's I came to believe that mine law needed extensive reformation and I believe HB 418 is an important step in the right direction.

My comments are particularly directed to larger mines - there should be some consideration for scale here.

Recently as mining has become a big issue in Alaska, I have attempted to educate myself. I have learned that in many states mine companies come in, high-grade and disappear. Others ebb and flow with the markets and then conveniently go broke through various corporate shell games as the deposit plays out or markets falter - I have been startled at the mobility of such a capital intensive industry. FAR too often the jobs don't last as promised, or the states are left with economic, social, and environmental messes that tax payers are forced to deal with. Illinois Creek in Alaska is a recent example. But the owners or operators slip off with big profits. I have also read where some large mines manage to pay very little taxes through a wide variety of special considerations, deferments, exemptions etc. This must not happen in Alaska.

Mines must pay their way much more in proportion to the petroleum industry. If mines can't make it in that atmosphere let them come back when they learn how. Some in the mining press have called Alaska the undiscovered third world, I am not concerned about taxes deterring investments or other threats. I believe we still have many advantages to attract mining investment to this state even with a more demanding tax structure. We should not allow our minerals to be sold away for a few short term jobs. As much as possible, the profits should stay in Alaska and I believe HB 418 will help.

For existing mine operations, I believe some method to ease a transition to the new system could be allowed over 2 years at most

I support making the mine a taxable entity instead of the individual.
I oppose ANY exemptions but think a 3 year deferral and payment schedule not longer than 10 years might be acceptable. For highly volatile minerals a 5 year plan may be wiser.

Regarding other aspects of the bill, I am not sophisticated enough to understand depletions or royalties.

3/19/2006

However, if the terms are acceptable to Representative Seaton, I trust his judgement and support his position. Do not be over generous with depletion allowances.

I believe some consideration for the scale of a mine should be included. Alaskan based small scale mines probably contribute proportionally more to the state in many ways and are less able to make the corporate maneuvers of the majors - but all mines should pay for the use of our resources.

Given the huge interest in Alaskan minerals these days and before more major mines are in place, this is the ideal time to get Alaska on a better taxation system.

Please pass HB 418 in a form that does not depart from the original intent and that addresses Governor Hammond's concerns that too many mines don't pay their way under current law.

It would be my hope that the bill would direct a portion of the royalties be contributed to the Permanent Fund.

Thank you for your time.

Dan Dunaway

Ginny Austerman

From: Scott Brennan [scott@reformakmines.org]
Sent: Tuesday, March 21, 2006 2:10 PM
To: Ian Laing; Ginny Austerman
Subject: CSHB 418 Testimony



ARM_Testimony_CS
HB418.pdf (698...

--Please Confirm Receipt--

Dear Representative Weyrauch-

Please accept the attached testimony in support of CSHB 418 in advance of tomorrow's hearing. I submit this testimony on behalf of ARM's 19 participating organizations and note that the Cook Inlet Alliance, Southeast Alaska Conservation Council and Alaska Center for the Environment have asked that they be specifically added to the list of organizations supporting this legislation and the attached testimony. I will be testifying by phone tomorrow morning.

Best regards,
Scott Brennan, Campaign Director
Alaskans for Responsible Mining
P.O. Box 100286
Anchorage, AK 99510
(P) 907-277-0005
(F) 907-929-1562
scott@reformakmines.org
<http://www.reformakmines.org>

Alaskans for Responsible Mining (ARM) is a voluntary association of non-governmental organizations working together to raise public awareness of the impacts of the mining industry to Alaska's watersheds, wildlife, fisheries, communities and public health and to reform Alaska's inadequate mining laws.



March 21, 2006

House Special Committee on Ways and Means
Alaska State Capitol
Juneau, AK 99801

RE: HB 418

Dear Chair Weyhrauch and Representative Members:

This letter is submitted to strongly support HB 418. First I/we wish to commend Representative Seaton for sponsoring this bill and taking on this important issue. For too long the mining industry has taken Alaska's precious mineral resources without paying a fair price for those resources, especially while reaping huge profits with minerals and metals prices at all-time highs. This is grossly unfair to Alaska and the citizens of Alaska who should be receiving the "maximum benefit" for the development and production of those resources under Article VIII of the Alaska Constitution. As Governor Wally Hickel and the Late Governor Jay Hammond long argued, it is time for the mining industry to start paying its fair share.

Under Alaska's mining laws, mining claimants or lessees are required to pay rents and royalties. The royalty rate is 3% of net income as determined under AS 43.65, which is essentially a royalty on profits. Fifty percent of mineral royalties in Alaska are required to be paid into the Alaska Permanent Fund, which is a financial benefit to all Alaskans. The reality, however, is that the net income royalty structure allows mining companies to claim significant deductions from their income such that there is rarely a "profit" against which to levy the royalty.

Because the State of Alaska is realizing very little royalty return on mining allowed in the state, its royalty system must be revised. Article VIII of the Alaska Constitution requires that "[t]he legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." Alaska Const. art. VIII, § 2. The current Alaska mining royalty structure, however, does not obtain adequate returns to the State for allowing the mining of its valuable resources, and therefore does not achieve the maximum benefit for Alaskans and may well be unconstitutional.

Most states and private owners of the mineral estate realize a fair return from mining by requiring a net smelter royalty, which is a royalty on the value of the mineral after it has been

refined or smelted, but without deducting the costs of development, production, and environmental liability. A net smelter royalty provides greater revenue predictability because it is primarily a function of physical sales volume and of price. These factors are much less variable than those used to determine net income.

Net income royalties, on the other hand, require the calculation of a "profit" on mining and processing activities, which allows for the deduction of costs associated with mining and processing to reduce or entirely eliminate the reported profit. The potential for disputes over the relevant deductions and the costs of administering and monitoring the royalty calculation are what have led other states and private owners of the mineral estate to reject that system in favor of net smelter royalties—the royalties are far less complicated to calculate, there is less room for mining companies to manipulate the cost data, and they provide more fair compensation.

In fact, Alaska and Nevada are the only states that have a net income royalty, as shown by the following table:

STATE	ROYALTY
Alaska	3% of net income as determined under section 43.65 (AS 38.05.212)
Arizona	2% of gross value of produced minerals paid monthly based on the previous month (Ariz. Rev. Stat. § 27-234(B), (I))
California	Not <10% gross value, less approved charges; 20%, if no lease (Cal. Pub. Res. Code § 6895)
Colorado	Royalty assessed case by case – usually 4-7% gross*
Idaho	2 ½-10% (rent deducted) (Idaho Code § 47-704); During location activities 5% of gross value (IDAPA 20.03.05.016)
Kansas	Not <12.5% of produced minerals (Kans. Stat. Ann. §§ 19-110, 32-850, 75-52, 136)
Louisiana	12.5% of all minerals produced or saved; if on behalf of the school board = 16 2/3% (La. Rev. Stat. 30:127)
Minnesota	\$0.11 - \$0.18 per ton (Minn. Stat. § 93.20)
Mississippi	18.75% of minerals (Miss. Code Ann. § 29-7-3)
Montana	Not <5% of returns or full market value of the recovered metalliferous minerals or gems (Mont. Code Ann. § 77-3-106)
Nebraska	Not <5% of production (Neb. Rev. Stat. 72-308)
Nevada	Up to 5% net proceeds (Nev. Rev. Stat. § 321.300)

New Mexico	Not <2% gross returns from all ores or materials mined and extracted from the land; 5% if Atomic Energy Comm'n determines that the mineral is particularly essential to production of fissionable materials (N.M. Stat. Ann. § 19-8-22)
New York	Not <2% of market value of all minerals (N.Y. Pub. Lands Law 82)
Oklahoma	Not <5% of gross receipts from sale of minerals produced; if not sold, 5% of market value (Okla. Stat. tit. 64, § 455)
Oregon	5% gross value for metallic minerals and uranium (rent deducted) (OAR 141-071-0600, -0610)
South Dakota	Not <2% of gross returns from sale of ores and mineral products, less reasonable transportation, smelting, reduction, or other customary charges, as allowed (S.D. Codified Laws § 5-7-55)
Texas	Not <6.25% of value of minerals produced under lease (Tex. Nat. Res. Code Ann. §53.018)
Utah	Fissionable metals 8% gross; non-fissionable metals 4% gross; gemstones/fossils 10% gross (rent deducted) (UAC R652-20-1000(2)(b))
Vermont	2% of market value of all mineral products (determination made when products are first in marketable form) (Vt. Stat. Ann. Tit. 29, § 302)
Washington	5% of gross receipts (WAC 332-16-035)
Wyoming	5-10% depending on sales value per ton: To \$50 = 5% \$50-\$100 = 7% \$100-\$150 = 9% > \$150 = 10%

* Source: GAO Report: Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries (March 1993).

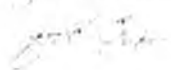
The Committee Substitute for House Bill 418 is a real proposal toward achieving fair compensation to Alaska and Alaskans for the privilege to mine their mineral-rich lands, and to reduce manipulation of cost data and disputes over "profits." The Committee Substitute would change the current mining license tax in several ways: (1) make the mine the taxable entity instead of the individual; (2) allow a 3-year deferral of the tax with a 10-year payback schedule; (3) allow a cost depletion for a percent of development expenses equal to the percent of the ore

body mined during the tax year; (4) provide an increased graduated income scale with corresponding income payments of 5%, 7%, and 9%, with an additional bracket added for income over \$500K to pay 11% of net income. Under the Committee Substitute, the mining royalty would also be revised to be a 3% net smelter royalty, or 3% of the gross value at the point of production, if smelting is not required. Coal production would be charged a royalty of 5% adjusted gross, which is what is currently required in regulation. Finally, the Committee Substitute would increase rents to conform with what is currently charged by regulation, and the rental rate would be linked to the Consumer Index and required to be adjusted at least every 10 years.

While I/we feel that Alaska's mining royalty regime should be revised to require mining companies to pay fair market value for the minerals they extract, i.e. a net smelter royalty of at least 5%, the Committee Substitute establishes a payment regime that is a good first step and a marked improvement over the current program.

Thank you for your consideration of this important bill. I/we support enacting the Committee Substitute for HB 418, and I/we strongly urge the Committee to move the bill forward with unanimous support.

Very truly yours,



Scott R. Brennan
Campaign Director

Ginny Austerman

From: Scott Brennan [scott@reformakmines.org]
Sent: Tuesday, March 21, 2006 3:07 PM
To: Ian Laing; Ginny Austerman
Subject: Addition...

Please add Cook Inlet Keeper and the Northern Alaska Environmental Center to the CSJB 418 testimony I submitted earlier today. Thanks very much.

Scott Brennan, Campaign Director
Alaskans for Responsible Mining
P.O. Box 100286
Anchorage, AK 99510
(P) 907-277-0005
(F) 907-929-1562
scott@reformakmines.org
<http://www.reformakmines.org>

Alaskans for Responsible Mining (ARM) is a voluntary association of non-governmental organizations working together to raise public awareness of the impacts of the mining industry to Alaska's watersheds, wildlife, fisheries, communities and public health and to reform Alaska's inadequate mining laws.