

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 418
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Mining Production & License Taxes/Royalties RDU Taxation and Treasury
 Component Tax
 Sponsor Representative Seaton
 Requester Representative Seaton Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	80.5	80.5	80.5	80.5	80.5	80.5
Travel	7.0	7.0	7.0	7.0	7.0	7.0
Contractual	5.0	5.0	5.0	5.0	5.0	5.0
Supplies						
Equipment	8.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	100.5	92.5	92.5	92.5	92.5	92.5
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	100.5	92.5	92.5	92.5	92.5	92.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	100.5	92.5	92.5	92.5	92.5	92.5

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Bill Language: HB 418 eliminates the existing Mining License Tax and replaces it with a new Mining Production Tax after December 31, 2006. The Mining License Tax is a tax on the net income of mining operations in the state. The Mining Production Tax is a tax on the gross value of mineral resources at the point of production. The tax rate is 0.6% in 2007, 1.2% in 2008, 1.8% in 2009, 2.4% in 2010, and 3.0% in 2011 and thereafter. The first \$50,000 of gross value produced by a person would be exempt from the mining production tax each calendar year. This bill also contains a provision that changes the production royalty. The analysis in this fiscal note addresses only the changes in the mining tax structure; we did not evaluate the effects of this bill on royalties received by the state as the royalties are collected by the Department of Natural Resources. (cont. on page 2)

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 Division Tax Division Date/Time _____
 Approved by: Jerry Burnett Date _____
 Agency Department of Revenue

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BILL NO. HB 418

ANALYSIS CONTINUATION

Expenses: (1) Personal Services - DOR expects that it will need 1 additional position, 1 Tax Auditor III, to perform audits associated with this new tax type. DOR expects the total cost of this additional position to be \$80,500 each year. (2) Travel - DOR expects it will incur additional travel expenses of \$7,000 each year to conduct mining production tax audits. (3) Contractual - Contractual costs include leasing office space and providing phone service for 1 additional employee each year. (4) Equipment - DOR expects equipment expense of \$8,000 per FTE in the first year for a computer, telephone, cubicle parts, software, and other one-time purchases of office equipment needed to perform the duties of the position.

Revenues: For purposes of our analysis, we assume that tax revenues for a given tax year are realized in the following fiscal year; for example, tax liabilities incurred during the 2007 calendar year would be received by the state in FY 2008 as the stipulates that "the mining production tax shall be paid to the department before April 1 of the year following the calendar year of production." Given that the change in tax system takes effect beginning with the 2007 tax year, the first fiscal year that there would be a revenue impact from this bill would be FY 2008.

To evaluate the net revenue impact of HB 418, we must estimate revenues from both the new mining production tax and the existing mining license tax. Revenues from both mining taxes are influenced by both price and production of minerals. Future minerals prices, and to a lesser extent production, are very difficult to predict, and for this reason the exact revenue impact of HB 418 is indeterminate.

However, to illustrate the potential impact of a change in the mining tax structure we have analyzed two possible price scenarios. Our high price scenario incorporates prices indicated by futures markets for metals, and assumes constant prices beyond the futures market time horizon. Our low price scenario assumes that metals prices will return from current elevated levels to the 10-year average by 2007. Both scenarios base coal prices on forecasts by the U.S. Department of Energy and hold other non-metallic mineral prices constant. We did not adjust for the first \$50,000 in gross value produced by a person in a calendar year that would be exempt from the tax. Also, we did not make any adjustments to account for possible changes in behavior of firms due to the change in tax structure.

Minerals production estimates are derived from a combination of public information available on mining company websites and a joint publication of the Department of Natural Resources and the Department of Commerce, Community and Economic Development titled, "Alaska's Mineral Industry 2004--Special Report 59." For purposes of this analysis, we assume that mineral production will remain constant at 2004 levels, with the Pogo mine starting production in mid-2006 and the Kensington mine starting production in mid-2007. The results of our analysis are summarized in the table below.

(amounts in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Mining License Tax Revenues	\$ 20.2	\$ 18.5	\$ 18.8	\$ 30.4	\$ 32.5
Mining Production Tax Revenues	\$ 13.1	\$ 25.2	\$ 41.1	\$ 60.5	\$ 77.3
Revenue Increase from Tax Change	\$ (7.0)	\$ 6.8	\$ 22.3	\$ 30.1	\$ 44.8

(amounts in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Mining License Tax Revenues	\$ 5.1	\$ 5.1	\$ 5.1	\$ 8.4	\$ 8.3
Mining Production Tax Revenues	\$ 8.1	\$ 16.3	\$ 26.1	\$ 37.6	\$ 47.7
Revenue Increase from Tax Change	\$ 3.0	\$ 11.2	\$ 21.0	\$ 29.2	\$ 39.4