

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB418-DNR-CP&L-02-21-06
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title MINING PROD. & LICENSE TAXES/ROYALTIES RDU Resource Development
 Component Claims, Permits and Leases
 Sponsor Rep. Seaton
 Requester (H) Special Committee W&M Component No. 2460

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						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation eliminates several existing tax credits available to the mining and oil and gas industries, changes the mining production royalty (for mining on state lands) from a net income basis to a "gross value at the point of production" basis, and establishes a new Mining Production Tax. The legislation would simplify auditing of mineral taxes and royalties filings under AS 43.65 and 38.05.212.

Operating Expenses: As proposed the legislation would modify the determination of royalties and auditing of mining operations on state land. This change in methodology would not require an alteration of existing Division of Mining, Land & Water (MLW) staff requirements. Existing mining staff responsible for administering state royalties will be required to change their method of calculating the royalty.

Prepared by: Dick Mylius, Acting Director Phone 269-8625
 Division Mining, Land & Water Date/Time 2/21/2006
 Approved by: Michael Menge, Commissioner Date 2/21/2006
 Agency Natural Resources

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ANALYSIS CONTINUATION

*****Revenues.** This legislation will impact revenues received through royalties and taxes received by the state. DNR's fiscal note will only address the royalties issue, as taxes are administered by the Department of Revenue. The repeal of the various credits (through section 2, 3, and 4 of the bill) will have both negative and positive impacts on revenue to the state. The repeal of the credits may be revenue neutral to the state overall. For example, the bill repeals the Mining Business Education Credit (AS 43.65.018), which has been used by industries to get credit when they donate to the University of Alaska. Industries may reduce donations to the University (a loss of revenue to the state), but would pay more in taxes or royalties (an increase). In 2004, mining companies claimed credit for over \$450,000 that they donated to the University of Alaska under this program. However, it is not possible to determine the impact to state revenues from this change.

Changing the calculations of the mining production royalty (for mining on state lands) from a net income basis to a "gross value at the point of production" basis will also likely have an impact on state revenues. However, the DNR-MLW does not currently have qualified staff who are familiar with the concept of determining "gross value at the point of production" to determine a possible effect on future royalty revenues resulting from these changes. In addition, with several new mine projects being developed on state land (such as Pogo) and fluctuating mineral prices, it would be difficult to accurately predict the change in revenue even if DNR had this expertise.

For background, the following is a breakdown of mining royalties collected (coal and production) from calendar years 1999-2005 (in thousands). DNR expects these figures will increase in the next few years with the development of new, large mines such as Pogo on state land.

1998- \$1,947.
1999- \$2,630.
2000- \$1,489.
2001- \$1,190.
2002- \$ 893.
2003- \$1,216.
2004- \$1,336.
2005- \$1,523. (estimated)

MLW does not have qualified staff (tax or royalty) with the expertise to determine a possible effect on future royalty revenues resulting from the changes to the royalty accounting method proposed in this bill. If this bill passes, DNR assumes that existing staff will be trained in the new methodology of calculating royalty revenue.