THE STATE of ALASKA
GOVERNOR BILL WALKER

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February 17, 2016

The Honorable Dave Talerico and the Honorable Benjamin Nageak
Alaska State Representatives
Co-Chairs, House Resources Committee
State Capitol Rooms 104 and 126
Juneau, AK 99801

Dear Co-Chairs Talerico and Nageak:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue and the Department of Commerce, Community, and Economic Development during our presentation to the House Resources Committee on February 15, 2016. Please see questions in italics and our responses immediately below the questions.

1. *How long does it take mines to reach profitability so that they have taxable net income?*

The profitability of a mine depends not only on its production, but also on external factors such as commodity prices. Since those prices are volatile, periods of positive or negative "net income" under the Mining License Tax can occur at any point in the mine's life. Positive net income is relatively uncorrelated with the age of the mine.

However, if the question is about how long it takes for an Alaska mine to ramp up production to full capacity, the answer is not very long. Pogo Mine, for instance, produced about 260,000 ounces of gold in 2007 (its second year of life) and 350,000 ounces in 2008. These numbers are similar to its 2014 production of 342,000 ounces. Similarly, Kensington mine produced about 88,000 ounces in 2011 (its second year of life), comparable to its 2014 production of 118,000 ounces. The Department of Revenue cannot disclose confidential information about the net income of specific mines; however, in terms of **production**, these two mines were both fully operational well before they reached 3 ½-year threshold for applicability of the Mining License Tax.

2. *Why are there 468 Mining License Tax payers if there are only 6 major mines and 200 small placer mines?*

Some payers of the Mining License Tax may not be mining operations *per se*, but rather individuals or companies who own land on which mining occurs. These owners earn royalties, which are then subject to the Mining License Tax. Some mining operations also may have multiple owners.

3. *Can expenses used to take the Minerals Exploration Incentive Credit also be rolled forward and deducted from the Mining License Tax?*

No. Exploration costs are not deductible from the Mining License Tax according to 15 AAC 65.125(g). The Department of Revenue depends on our mining tax audit staff to enforce this provision.

4. *What was the name and date of the lawsuit that was settled by adopting the current mining royalty structure?*

Answer is forthcoming.

5. *Can DOR provide a multi-state comparison of the total government take from the mining industry?*

Answer is forthcoming.

6. *Would deferring the Mining License Tax for the first 3 years of production, instead of a tax exemption, alleviate concerns about incentives at the beginning of a mine's life but still capture the extra revenue?*

Answer is forthcoming.

7. *What are the implications of having a business license, other than the fee? Are these different from the implications of a mining license?*

Answer is forthcoming.

8. *Please estimate Mining License Tax revenue in different commodity price scenarios.*

Here are projections of Mining License Tax revenue for the fiscal years between FY 2017 and FY 2020, based on different gold and zinc prices. The current Department of Revenue projection is highlighted at the top, while projections under other high-, medium-, and low-price scenarios are below.

Zinc prices per ton	**Gold prices per ounce**	**Projected MLT revenue (current 7% top rate)**	**Projected MLT revenue (9% top rate)**
$1850 to $1950	**$1150 to $1250**	**$22 to $24 million**	**$29 to $31 million**
$2200	$1500	$37 to $42 million	$48 to $55 million
$2200	$1200	$26 to $30 million	$34 to $38 million
$1900	$1500	$33 to $37 million	$43 to $48 million
$1900	$800	$13 to $14 million	$17 to $18 million
$1500	$1200	$14 to $17 million	$19 to $23 million
$1500	$800	$6.5 to $7.5 million	$8 to $10 million

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Jerry Burnett
Deputy Commissioner