ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RESOURCES STANDING COMMITTEE
SENATE RESOURCES STANDING COMMITTEE
February 15, 2017
12:00 p.m.

MEMBERS PRESENT

HOUSE RESOURCES STANDING COMMITTEE

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Dean Westlake, Vice Chair
Representative Harriet Drummond
Representative Justin Parish
Representative Chris Birch
Representative DeLena Johnson
Representative George Rauscher
Representative David Talerico

SENATE RESOURCES STANDING COMMITTEE

Senator Cathy Giessel, Chair
Senator John Coghill, Vice Chair
Senator Natasha von Imhof
Senator Shelley Hughes
Senator Kevin Meyer

MEMBERS ABSENT

HOUSE RESOURCES STANDING COMMITTEE

Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

SENATE RESOURCES STANDING COMMITTEE

Senator Bert Stedman
Senator Bill Wielechowski

OTHER LEGISLATORS PRESENT

Senator Click Bishop

COMMITTEE CALENDAR

PRESENTATION(S): MINING INDUSTRY UPDATE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KAREN MATTHIAS, Executive Director
Council of Alaska Producers
Anchorage, Alaska
POSITION STATEMENT: Participated in a PowerPoint presentation entitled, "Mining Industry Update," and dated 2/15/17.

DEANTHA CROCKETT, Executive Director
Alaska Miners Association
Anchorage, Alaska
POSITION STATEMENT: Participated in a PowerPoint presentation entitled, "Mining Industry Update," and dated 2/15/17.

ACTION NARRATIVE

12:00:33 PM

CHAIR CATHY GIESSEL called the joint meeting of the House and Senate Resources Standing Committees to order at 12:00 p.m. Present at the call to order from the House Resources Standing Committee were Representatives Josephson, Johnson, Talerico, Rauscher, Birch, Drummond, Tarr, Parish. Representative Westlake arrived as the meeting was in progress. Present at the call to order from the Senate Resources Standing Committee were Senators Giessel, Coghill, Meyer, and Hughes. Senator von Imhof arrived as the meeting was in progress. Also present was Senator Bishop.

PRESENTATION(S): MINING INDUSTRY UPDATE

12:01:10 PM

CHAIR GIESSEL announced that the only order of business would be a presentation on the status of mining in Alaska by the Alaska Miners Association and the Council of Alaska Producers.

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KAREN MATTHIAS, Executive Director, Council of Alaska Producers (CAP), informed the committees CAP is a statewide trade association for the large producing metal mines and also for some of the advanced development projects in Alaska.

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DEANTHA CROCKETT, Executive Director, Alaska Miners Association, Inc. (AMA), informed the committee AMA members include members of CAP and members of the coal mining industry, the sand and gravel industry, mom-and-pop placer operations, and the contracting sector that does business with the mining industry. She began a PowerPoint presentation entitled, "Mining Industry Update" and dated 2/15/17. Ms. Crockett said the top priority for all of Alaska's industries is fiscal policy and she read AMA's 2017 fiscal plan (document not provided). She said mining occurs because everyone is dependent upon the extraction of minerals for use in energy, modern conveniences, and life-saving devices, now more than ever (slides 1 and 2). An example of evolving technology is the pursuit of renewable energy sources, such as wind farm turbines that require copper, aluminum, and rare earth elements. Other renewable energy items that require minerals and metals include batteries, solar panels, and hybrid cars (slide 3). Alaska's mines contribute to the world's demand for metals and minerals; for example, the Red Dog mine is the world's largest zinc concentrate producer and also produces lead and silver. Red Dog mine is owned by NANA Regional Corporation, has been in production since 1989, and employs 600 people, many of whom are NANA shareholders (slides 4 and 5). Fort Knox mine is Alaska's largest producing gold mine, beginning operations in 1996 and employing 660 employees, all of whom live in the Fairbanks North Star Borough (slides 6 and 7). Pogo mine is located entirely on state land, has been mining gold since 1996, and employs 317 workers (slides 8 and 9). The Usibelli Coal Mine, operating since in 1941 in Healy, now employs 110 people and provides 29 percent of Interior Alaska's electricity. She said it is the policy of Usibelli Coal Mine to continually restore the land (slides 10 and 11).

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MS. CROCKETT continued to the Kensington Gold Mine in Juneau, which has been producing gold since 2010. Kensington employs 325 people and is the second-largest private employer in Southeast Alaska (slides 12 and 13). Greens Creek mine located in Admiralty Island National Monument, is one of the top ten silver producing mines, and also produces zinc, lead, and gold.

Greens Creek mine began operations in 1989 and is Southeast Alaska's largest private employee with 420 employees (slides 14 and 15). In Juneau, mining is the largest private employer and the City and Borough of Juneau's largest taxpayer base. She provided a map that illustrated sites of mining activity throughout Alaska, and described advanced and other exploration projects as follows: Upper Kobuk Mineral Projects, Livengood, Donlin Gold, Wishbone Hill, Chuitna, Pebble, Palmer Project, Niblack, and Bokan-Dotson Ridge (slide 16). Ms. Crockett turned to environmental issues and emphasized that Alaskans should know that mining operations follow environmental safeguards throughout the state. She noted the mining industry complies with permitting regulations, operational oversight, closure/reclamation, and financial assurance requirements (slide 17). In Alaska, the metal mining industry is young and all mines comply with federal laws such as the National Environmental Policy Act and the Clean Water Act; in addition, federal and state agencies expect safe and environmentally secure operations. She provided a listing of some of the permits and authorizations required to mine in Alaska; in fact, the planning, environmental review, testing and approval process to permit a large mine requires many years.

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MS. CROCKETT explained a mine on federal land requires additional permits. Permits contain stipulations and the mining permitting process does not guarantee approval, as every mine is different and requires a specific plan for environmental mitigation; in addition, there are opportunities for public participation (slide 18). These regulatory processes over mining in Alaska lead to success as evidenced by improved riparian vegetation bordering Red Dog Creek due to cleaner water after mining operations commenced (slide 19). From a regulatory perspective, water quality results reported to the Environmental Protection Agency (EPA) indicated zinc levels are lower than before mining activity, and also indicated the presence of fish and aquatic insects (slides 20 and 21). The Fort Knox Mine rehabilitated areas of placer mining in collaboration with the Alaska Department of Fish & Game (ADF&G) by constructing stream channels to connect the ponds - providing for fish passage between the ponds - and diversified the surrounding vegetation, eventually creating a fish and wildlife sanctuary. Jointly, the mine and ADF&G received environmental awards for their work. Recently, Greens Creek mine completed reconstruction of a fish pass on Greens Creek to remove a barrier to fish migration. The fish pass was proposed in the environmental impact statement

(EIS) related to the mine's original design. The fish pass was destroyed in a 2005 storm, and building a permanent replacement was a big undertaking in a remote location, but had a beautiful result (slides 23 and 24).

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MS. CROCKETT said mines are under strict regulatory oversight throughout permitting, operation, reclamation, and closure; in fact, a mine's plan for reclamation and closure must be approved by the commissioner of the Department of Natural Resources before the mine begins operations. In addition to the reclamation plan, the mine must provide financial assurance in the event reclamation obligations are not met. Financial assurance applies to all companies and mines, as required by unprecedented Alaska law (slide 25).

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MS. MATTHIAS turned attention from the importance of mining and its environmental safeguards to the mining industry's contributions to Alaska. Mines in Alaska employ over four thousand people directly, and thousands more indirectly through support services such as environmental, management, engineering, legal, and transportation services. She said mining jobs are year-around jobs with an average salary of $108,000, which is almost twice the state average, and mining employees live in over 50 communities throughout the state (slide 26). Ms. Matthias stressed the importance of the mining industry's partnership with Native corporations, beginning with NANA Regional Corporation and the Red Dog mine. At the time the mine was developed, NANA negotiated an agreement that ensured shareholders would benefit from royalties, jobs, and contracting opportunities for NANA businesses. Since then, through the policies of the Alaska Native Claims Settlement Act, hundreds of millions of dollars have been shared with all of the Alaska Native corporations, and 58 percent of the employees at Red Dog mine are shareholders. Another successful partnership is the Donlin Gold project and Calista Corporation; the project includes a natural gas pipeline that would bring affordable energy to local villages as well as the mine (slide 27). Turning to benefits from mining for local and state governments, she noted in 2016, $23 million was paid to local governments, $37 million to state government, and $44 million in taxes, fees, rents, and royalties (slide 28). In addition, a portion of state royalties for mining support the corpus of the Alaska Permanent Fund; furthermore, the fund has made 479 investments in global metals mining and fabricating, and in stock of companies operating mines (slide 29). She directed attention to a graph published by the Institute of Social and Economic Research (ISER), University of Alaska Anchorage, which illustrated over a five-year average, mining revenue is significantly higher than the cost to the state to manage the industry; even though mining is highly regulated, the state bills the industry for its costs through reimbursable service agreements (slide 30). The sources of state revenue from mining are as follows: Alaska Mining License Tax (AMLT), state corporate income tax, state fuel taxes, Alaska Industrial Development and Export Authority (AIDEA) facilities user fees, state mineral rents and royalties, state coal rents and royalties, state material sales, and state mining miscellaneous fees (slide 31). From 2011 to 2016, AMLT revenue declined due to the decline in commodity prices; however, the Department of Revenue forecasts increases in AMLT for fiscal year 2017 (FY 17) and FY 18 (slide 32).

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MS. MATTHIAS said other than state revenue, mining pays its way through the costs of exploration, development, and construction. In addition, the cost of developing a mine in Alaska often includes costs of infrastructure and access; for example, the Red Dog and Kensington mines must supply their power, and Pogo mine required a 50-mile road and transmission line. Additional costs in Alaska also include the reimbursable service agreements and financial assurance for reclamation and closure (slide 33).

MS. MATTHIAS advised AIDEA's investment in the mining industry has been successful through ports and roads; in addition to a certain return on investment, AIDEA's mission is also to stimulate Alaska's economic growth, as did the Red Dog port and road. From an investment of $265 million, AIDEA has received $439 million in payment as of 12/16, at an annual interest rate of 6.5 percent (slide 34). She turned to the mining potential of the state and noted the challenge to the development of mining in Alaska: since 1981, millions of dollars have been spent, but only five large metal mines are operating due to high costs and many years in development (slides 35 and 36). Current projects in development require access to capital, and to also convince investors that Alaska is a better place to invest than competing jurisdictions elsewhere in the U.S., Canada, Australia, and other parts of the world (slide 37). In the last five years, exploration has declined 60 percent globally and in Alaska 83 percent: from $395 million in 2011 to $50 million in

2015; however, a small increase was seen in 2016 (slide 38). Fewer investment dollars also means a decrease in the number of communities with mining industry employees (slide 39).

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MS. MATTHIAS presented a graph that illustrated the global market volatility of metals mining: from 2007 there was robust growth until the financial crisis in 2008, then recovery to 2011, further decline to 2016, and increasing interest in 2017 (slide 40). To ensure Alaska benefits from the increasing interest in mining, the state must maintain a positive investment climate. She advised that investment capital will go to jurisdictions that encourage mineral development, and expressed her hope that Alaska will have policies that attract investment and bring more mines into production (slide 41).

SENATOR BISHOP said he worked closely with the mining industry at the Department of Labor & Workforce Development and stated the legacy of mining is the permanent jobs that are created and the transferrable skill sets acquired by mine employees.

CHAIR GIESSEL asked for more information on Alaska Mental Health Trust Authority (Trust) lands that have mineral prospects.

MS. MATTHIAS responded Fort Knox operates on Trust land; in 2016, $2.6 million went to the Trust for mining claim lease rents and royalty payments, and construction material sales. In addition, the Trust has other land with potential mining activity.

REPRESENTATIVE WESTLAKE noted in addition to the revenue generated by mining, often overlooked are the skills gained that are valuable to those in rural areas. He related a personal story of village first responders who were certified at the Red Dog mine. These invaluable skills help keep rural Alaska vibrant and sustainable.

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SENATOR COGHILL said in Fairbanks and the Interior small placer miners benefit from the service industries that are supported by the large mines.

MS. CROCKETT acknowledged placer mining is an important part of AMA membership; in fact, the aggregate of small mines - related to the number of employees and their economic contribution -

equals the impact of a large mine. She observed the large and small mines have a great symbiotic relationship and both benefit.

SENATOR COGHILL advised in Anchorage and the Interior, the availability of the Alaska Railroad Corporation (ARRC) to move gravel and coal south supports the transportation system and is a huge benefit.

MS. CROCKETT added cargo shipped north on the railroad for the mines is an economic boon for both the railroad and the mines.

CO-CHAIR TARR questioned how to better utilize the AIDEA model to build the infrastructure needed to develop projects. She also inquired as to trade agreements and export opportunities awaiting the mining industry.

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MS. MATTHIAS said AIDEA makes its judgments based on the economic feasibility of projects. She referred to pending legislation that would allow AIDEA to invest in mining projects in Southeast Alaska, although the decision to invest is based on AIDEA's mandates of making good investments and spurring economic activity. She observed ore is Alaska's second largest export and companies seek to ensure Alaska's access to international markets.

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SENATOR HUGHES advised Alaska has 17 percent of the world's coal, but many deposits are in remote places. If Alaska had no barriers to development, she asked what the potential for mineral development would be. Also, she questioned how the new administration may affect the pace of development.

MS. CROCKETT will provide an estimate to Senator Hughes on the total percentage of Alaska's deposits mined, further deposits accessible, and what percentage is untapped. Regarding the change of the federal administration, she opined it is too early to tell how mining development will be affected, however, AMA is encouraged by the statements made by nominees at cabinet-level confirmation hearings, that America is overregulated.

SENATOR COGHILL referred to the mining industry's participation with the state on cross-boundary issues with British Columbia, and advised water quality inspections and mining engineering in Alaska are tools for agreements in this regard.

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ADJOURNMENT

There being no further business before the committees, the joint meeting of the House and Senate Resources Standing Committees was adjourned at 12:50 p.m.