

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RESOURCES STANDING COMMITTEE
SENATE RESOURCES STANDING COMMITTEE**

February 13, 2018

12:01 p.m.

MEMBERS PRESENT

HOUSE RESOURCES STANDING COMMITTEE

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative John Lincoln
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 Bert Stedman
Senator Kevin Meyer
Senator Bill Wielechowski
Senator Click Bishop

MEMBERS ABSENT

HOUSE RESOURCES STANDING COMMITTEE

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

SENATE RESOURCES STANDING COMMITTEE

All members present

OTHER LEGISLATORS PRESENT

Senator Peter Micciche

COMMITTEE CALENDAR

OVERVIEW(S): UPDATE ON ALASKA'S MINING INDUSTRY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DEANTHA CROCKETT, Executive Director
Alaska Miners Association
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation entitled, "Mining Industry Update," dated 2/13/18.

KAREN MATTHIAS, Executive Director
Council of Alaska Producers
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation entitled, "Mining Industry Update," dated 2/13/18.

ELIZABETH CRAVALHO, Vice President
External and Government Affairs
NANA Regional Corporation, Inc.
Kotzebue, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation entitled, "Mining Industry Update," dated 2/13/18.

MICHAEL SATRE, Manager
Government and Community Relations
Hecla Greens Creek Mine
Juneau, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation entitled, "Mining Industry Update," dated 2/13/18.

ACTION NARRATIVE

12:01:00 PM

CHAIR CATHY GIESSEL called the joint meeting of the House and Senate Resources Standing Committees to order at 12:01 p.m. Present at the call to order from the House Resources Standing Committee were Representatives Tarr, Johnson, Parish, Talerico, and Lincoln. Representatives Birch, Rauscher, and Josephson arrived as the meeting was in progress. Present at the call to

order from the Senate Resources Standing Committee were Senators Giessel, Bishop, Coghill, von Imhof, Stedman, Meyer, and Wielechowski. Also present was Senator Micciche.

OVERVIEW(S): UPDATE ON ALASKA'S MINING INDUSTRY

[12:03:00 PM](#)

CHAIR GIESSEL announced that the only order of business would be the annual update on the state of mining in Alaska.

[12:03:22 PM](#)

DEANTHA CROCKETT, Executive Director, Alaska Miners Association, introduced a PowerPoint presentation entitled, "Mining Industry Update," dated 2/13/18. She said Karen Matthias would begin the portion of the presentation on the benefits of mining.

[12:05:19 PM](#)

KAREN MATTHIAS, Executive Director, Council of Alaska Producers (CAP), informed the committee CAP is a statewide trade association of large producing metal mines and advanced mining projects. She reported in 2016 metal prices began to improve, which led to improved economics for the mining industry in 2017. In 2017, mining companies directly employed 4,400 people and supported thousands of indirect jobs through companies that provide services to mines, including transportation, engineering, and environmental management. Ms. Matthias said most of the mining jobs are year-around and pay an average salary of \$108,000 per year. She pointed out mining has a positive regional impact to residents of over 55 communities and over 600 businesses, many of which are in rural areas (slide 2). Slide 3 listed the benefits of mining to Alaska Native corporations; for example, the Donlin Gold project employed over 90 percent local hire during its exploration phase, and the Upper Kobuk Minerals Project employs 59 percent local hire. Further, Donlin Gold anticipates building a natural gas pipeline to Western Alaska that would provide access to a clean and affordable energy source to village residents. Ms. Matthias advised mining also provided \$34 million in revenue to local governments in 2017, including the City and Borough of Juneau, the Fairbanks North Star Borough, and the Northwest Arctic Borough, \$61 million to state government, and \$49 million in other state government-related revenue (slide 4). Turning to the Alaska Permanent Fund, she advised a percentage of mining royalties for mines operating on state land is deposited into

the fund, and the fund invests in mining companies (slide 5). Slide 6 illustrated an average of state revenue from mining - over a five-year period - versus the average costs to the state of managing and overseeing the mining industry through regulation and permitting. Slide 7 illustrated how mining pays its way through spending to develop the infrastructure needed for exploration, development, and construction, which often includes access to remote areas. To reach production, a modern mine may cost over hundreds of millions to build; in fact, Red Dog and Kensington Mines built facilities to supply their own power, and Greens Creek and Kensington mines built marine facilities. She pointed out mines in the Lower 48 have better access to roads, railroads, and existing electrical grids; however, in Alaska, mines must build infrastructure and comply with regulatory timelines. One of the reasons the state's costs to manage and permit the mining industry are low is the state's management costs are billed to the companies through reimbursable service agreements. The state also requires financial assurance for reclamation and closure costs.

[12:13:29 PM](#)

MS. MATTHIAS continued to slide 8 and acknowledged the state encourages infrastructure and investment through the Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), which was formed to stimulate economic growth and invest in projects that pay an acceptable rate of return. [AIDEA's] investment in the Delong Mountain Transportation System in support of the Red Dog Mine was an original investment of \$265 million and the return to date is \$465 million, at 6.5 percent annual interest (slide 8). Ms. Matthias advised mining is needed for every aspect of daily living; although recycling is important, it does not meet the demand for minerals in the modern world, thus mining is necessary and must be done safely. She said mines in Alaska are world-class in terms of safety and environmental responsibility (slide 9). Silver and gold are found in electronics and in automobile airbags (slide 10). Furthermore, minerals and metals are essential for renewable technologies such as batteries, solar panels, wind turbines, and hybrid vehicles (slide 11).

[12:16:45 PM](#)

ELIZABETH CRAVALHO, Vice President, External and Government Affairs, NANA Regional Corporation, Inc. (NANA), began the portion of the presentation on the Red Dog Mine. Ms. Cravalho informed the committee she is a NANA shareholder and resides in

Kotzebue. NANA is the Alaska Native regional corporation located in Northwest Alaska and its region includes 11 villages. NANA has over 14,000 shareholders, the majority of whom live in Alaska, and employs approximately 15,000 people globally with 10 percent shareholder employment. Red Dog Mine is the largest lead and zinc mine in the world and NANA owns the orebody which is located on Alaska Native Claims Settlement Act (ANCSA) land (slide 13). The mine was created by NANA and [Teck Resources mining company] in 1982 and is the largest taxpayer in the Northwest Arctic Borough. The mine is connected to a port on the coast by the Delong Mountain Transportation System road owned by AIDEA. She described the agreements prior to the development of the mine and characterized the mine as an opportunity to responsibly develop resources in the region and provide economic development. Further, the mine has a significant economic impact on the region: 610 annual average jobs; average annual wage of \$112,000; cumulated wages paid to NANA shareholders were \$303 million between 1999 and 2013; \$100 million paid to state and federal taxes; cumulative wages paid to Northwest Arctic Borough residents were \$132 million; shareholder hire of 55 percent (slide 14).

[12:19:55 PM](#)

MS. CRAVALHO turned to benefits provided by the Red Dog Mine to the entire state and the nation. Red Dog Mine accounts for over 70 percent of the zinc produced in the U.S., which is necessary for automobiles and construction. The mine has provided \$155.6 million to the Northwest Arctic Borough in payment in lieu of taxes (PILT), and two recent agreements between the Northwest Arctic Borough and Red Dog Mine will continue PILT payments; in addition, Teck will contribute \$4-\$8 million annually to the village improvement fund for community projects. She explained [ANCSA Section 7(i)] requires NANA to share a portion of its profits earned from the mine and since mining began, NANA has shared over \$820 million with all other Alaska Native corporations around the state (slide 15).

[12:21:46 PM](#)

MICHAEL SATRE, Manager, Government and Community Relations, Hecla Greens Creek Mine, began the portion of the presentation on the Hecla Greens Creek Mine, located 18 miles south of Juneau. Mr. Satre informed the committees the governor wishes to double the number of mines in Alaska, and to understand how to do so, he described the measures necessary to advance the Greens Creek Mine to production. Exploration for the mine began

in 1973 and the discovery of the deposit occurred in 1975. The mine is located within the Admiralty Island National Monument, established in 1978, and provisions of the Alaska National Interest Lands Conservation Act (ANILCA) allow Hecla to lease monument lands to support mining activities. Permitting and construction continued from 1980-1989 and operation began in 1989, with continuous operation since 1996. He explained value creation is the point in a mine's production cycle at which there is a net positive cash flow; from 1987 to 2006, the mine had a net negative cash flow after accounting for all the operating, capital, and lease expenses (slide 17). Mr. Satre stressed the need for time, dedication, persistence, and patience to find, permit, and open a mine, and to realize profits (slide 18). After 2006, metal prices rose, the mine found efficiencies, and production was increased. The mine is 100 percent owned by Hecla, a 126-year-old mining company based in Idaho (slide 19). Mr. Satre cautioned four of the five major metal mines in Alaska are approaching the end of mine life, but mining companies invest millions of dollars in further exploration and infrastructure to convert resources to reserves or a mine plan. For example, Fort Knox Gold Mine has acquired additional adjacent land, Pogo Mine is exploring underground, and Kensington Gold Mine seeks to expand mine life. However, lower metal prices or changes in permitting may affect new operations.

[12:27:28 PM](#)

SENATOR MICCICHE asked whether the amounts shown on [slides 18 and 19] are nominal or real dollars.

MR. SATRE said nominal. Using Greens Creek as an example, slide 21 illustrated the estimated exploration, permitting, and construction time needed to bring a mine into production, as opposed to the mine life of five existing mines. He pointed out the possibility of a production gap in Alaska, although two very large projects are in the permitting stage, and other projects are in advanced exploration stage. He acknowledged the governor's challenge of doubling the number of mines in Alaska is difficult to meet. He agreed with earlier testimony that advanced exploration projects in Alaska, if on a road system in the Lower 48, would already be developed. In Alaska, a mining prospect must be world class in grade or size - or have access and electrical power to advance to production - otherwise the cost of development and operation are too high. Slide 22 indicated what is needed to advance a mine to production: grade, size, access, and power. For example, Red Dog and Pogo

have large deposits, Greens Creek has marine access and power, Fort Knox has power, and Kensington has access. In addition, community support is needed, which often comes after the mine is constructed. Also needed are partners, such as landowners and mineral rights owners, a stable fiscal climate, and a stable regulatory regime. He stressed the importance of a stable fiscal climate to ensure investment, noting the mining industry should not be taxed to relieve the state's fiscal crisis. Furthermore, the permitting system in Alaska is rigorous and science-based and should remain so (slide 23). Slide 24 illustrated Mr. Satre's personal view on the status of mines in operation today: existing mines are doing well and continue to invest and extend their mine life; investment is difficult to obtain for exploration but is increasing; Alaska remains an infrastructure-poor state; there is good community support for mining - although some projects are controversial - due to mining's great record; Alaska Native land attracts investment; state land does not attract investment; federal land uncertain for investment; ANCSA land offers the best opportunities; state permitting regime is uncertain; fiscal climate affects staffing of resource agencies.

[12:36:13 PM](#)

MS. CROCKETT began the portion of the presentation on the environmental regulatory regime under which mines operate. She advised the legislature, and the public, address topics related to the impacts from mining that are suggested by proposed policy and advocacy that questions whether mines are adequately regulated, and the environment protected. She said the mining industry believes Alaska has a world class regulatory system as follows: rigorous permitting for the protection of air, land, water, fish, and wildlife; strict operational oversight during the life of the mine; continued oversight after mine closure and reclamation work to restore the site; financial assurance to cover state cost if necessary (slide 26). Slide 27 was a list of some of the permits required to mine in Alaska. She advised the planning and environmental study, review, testing, and approval process to permit a large mine takes many years and is reviewed by dozens of state and federal agencies. Permits listed on slide 27 are required to permit a large mine on state or privately-held land, and a mine on federal land requires additional permitting. In addition, agencies can add provisions to a permit that are outside the governing laws. Ms. Crockett reminded the committees the permitting process does not guarantee approval, because every mine is different, and there are multiple opportunities for public participation. Alaska's

water monitoring system has three parts: standard water quality monitoring; biomonitoring of algae and sediment and the metals uptake, habitat, and population of fish; third-party compliance audits of company methodology and results, and of the regulatory agency oversight (slide 28). Further, Alaska law requires an approved mine plan for reclamation and closure, and an approved plan of financial assurance, before mine operations begin. Financial assurance is required of all mines and the guaranties are reviewed every five years, or less, by third-party reviewers looking at the company, the mine plan, and the agencies providing oversight. Ms. Crockett restated agencies can prescribe additional stipulations related to a permit; in some cases, mines exceed permit requirements, and she provided an example of a restoration project completed by Fort Knox Mine and the Alaska Department of Fish & Game (slide 30). She reviewed the presentation and questioned whether the right policies are in place to encourage expansion of the mining industry (slide 31). She expressed hope the committees and the industry share the following goals: attract mining investment to Alaska; bring more mines into production, particularly those on state land to grow mining revenue; keep the state competitive with other mining jurisdictions; keep the permitting process rigorous and find efficiencies; preserve stable and predictable tax policies at state and local levels; ensure responsible financial management of the state (slide 32).

[12:43:35 PM](#)

REPRESENTATIVE PARISH asked for the percentage of mine employees who are residents.

MS. MATTHIAS said the Department of Labor & Workforce Development (DLWD) reported for 2016, the nonresident workforce for mining was 36 percent, for the oil and gas industry it was 37 percent, and for seafood processing it was 75 percent. She pointed out DLWD statistics are based on permanent fund dividend applications to determine residency and thus "lag a year ... [and] fail to capture some of the self-employed and contractors" Also, at the Fort Knox Mine in Fairbanks, because the location of the mine is a 45-minute drive, 100 percent of employees live in the Fairbanks North Star Borough; in the case of isolated camps and remote locations, however, the resident percentage is lower. She observed mining companies encourage Alaskans to apply for jobs because it is an advantage to the company to employ Alaskans. In fact, companies invest in workforce development and educational programs to raise awareness of jobs in the mining industry

CHAIR GIESSEL asked Ms. Cravalho for NANA's perspective on Alaska resident hire and shareholder hire at Red Dog Mine.

MS. CRAVALHO said Red Dog Mine has 78 percent Alaska hire at the mine site, including contractors, and at NANA, shareholder hire is 55 percent. She related the NANA construction service facility at Big Lake currently has 100 employees working on an expansion at Red Dog Mine.

REPRESENTATIVE PARISH inquired as to the most effective means to encourage Alaskans to work in the mining industry.

[12:48:40 PM](#)

MS. MATTHIAS pointed out the resident hire percentages reflect the mining industry as a whole - not just the five large mines - and include exploration jobs, which may be seasonal. Furthermore, community infrastructure - such as affordable housing, which is a problem in Juneau - plays a role in resident hire. Also, certain jobs are highly specific; for example, teams of underground drillers may move around and work for limited periods of time at certain locations, in a manner similar to a seasonal career. A way to encourage resident workers is through the tax credit for education program, which is an incentive for companies to provide funding directly to the University of Alaska, school districts, and to vocational and technical schools, but the program is due to sunset and legislation is needed to extend the deadline. In fact, through the education tax credit program between 2011 and 2017, \$19 million has been contributed by the mining industry for geology and mine engineering courses, the Pathways to Mining Careers program, and the Alaska Vocational Technical Center (AVTEC).

CO-CHAIR JOSEPHSON asked for the definition of an advanced exploration project.

MR. SATRE explained in mining the first stage is grass roots exploration with geologists in the field; the next step may be geophysics or a few drill holes. Advanced exploration is the point at which a company has publicly declared a resource and may be ready to begin baseline environmental studies before applying for a permit.

REPRESENTATIVE PARISH questioned whether exit surveys are taken for employees that leave employment at Greens Creek Mine.

MR. SATRE said yes; however, the information is confidential. He related in Juneau departing employees commonly report: no road, it rains a lot, housing is too expensive.

[12:55:23 PM](#)

MS. CRAVALHO added the Northwest Arctic Borough is about 87 percent Alaska Native and American Indian residents; when a shareholder has a job at the mine and leaves the region, it may be due to the high cost of living in rural Alaska.

CHAIR GIESSEL noted Representatives Birch, Talerico, and Lincoln, and Senator Bishop are all active in some aspect of mining.

SENATOR MICCICHE, speaking as a commercial fisherman, observed fishing groups do not perceive the state's permitting process as a [negative] impact on salmon. He asked how to inform "the two sides together to realize we have a robust permitting system that has resulted in the most sustainable fisheries on the planet and ... [get] to some solutions without dramatically impacting the lives of every business and Alaskan adversely."

MS. CROCKETT opined the first step is to listen to the mining industry on topics related to regulating the industry, and the next step would be to talk to the permitting agencies that are the experts. She remarked:

I have yet to hear an agency representative or anybody that has a scientific background, that regulates our industry, say that fish are not adequately protected from industrial development in the State of Alaska
....

SENATOR BISHOP asked whether the benefits of industry, such as jobs and payroll, are directly tied to the big mines in the state.

MS. CROCKETT said no. The benefits presented represent the entire industry, including placer miners and contractors. The employment statistics include the five large metal mines, one operating coal mine, exploration projects, and the placer mining industry.

SENATOR BISHOP returned attention to slide 2 and pointed out the average annual salary of \$108,000 includes jobs on rotation, which is a fantastic salary. He then directed attention to

slide 24 and noted small miners help make discoveries for big mines.

1:02:20 PM

ADJOURNMENT

There being no further business before the committees, the joint meeting of the House and Senate Resource Standing Committees was adjourned at 1:02 p.m.