

HB

486

SENATE COMMITTEE REPORT

DATE: 3/26/04

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4-5-04

Resources Committee considered CS FOR HOUSE BILL NO. 486(FIN)

HB 486 MINING RECLAMATION ASSURANCES/FUND

"An Act relating to reclamation bonding and financial assurance for certain mines; relating to financial assurance limits for lode mines; establishing the mine reclamation trust fund; and providing for an effective date."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS HB 486 (FIN)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	1/20/04	✓			2
DWR	1/21/04			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
CHAIR: <i>[Signature]</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bili Version: HB 486
(H) Publish Date: 2/16/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Mining Reclamation Bonding RDU: Resource Development
Component: Claims, Permits and Leases
Sponsor: Rules
Requester: Governor Component No.: 2460

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()						
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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 (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	0	0	0	0	0	0
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill makes various changes to AS 27.19, and establishes a Mining Reclamation Trust Fund under AS 37.14.

The bill would require no additional staff at the Department of Natural Resources. The Mining Reclamation Trust Fund would allow the state to take in funds from a particular mine for use for reclamation at that mine. There would be no net change to funds available to the state for general government purposes.

The last financial change established by the bill is that income and other earnings on the reclamation bond pool, used for placer mines, would be returned to the pool (AS 27.19.040(b)). This amount is expected to be approximately \$50,000 in FY 04. The new language changes the location for holding for the funds but does not change the amount available to the state.

Prepared by: Bob Loeffler, Director Phone 269-8600
Division: Mining, Land & Water Date/Time 1/21/04
Approved by: Thomas Irwin, Commissioner Date 1/21/04
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HB 486
(H) Publish Date: 2/16/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Reclamation bonding for certain mines RDU Revenue Programs & Services
Component Treasury Division

Sponsor Rules Committee
Requester Request of the Governor Component No. 121

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	6.0	12.0	18.0	24.0	30.0	36.0
Travel						
Contractual	15.0					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	21.0	12.0	18.0	24.0	30.0	36.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	21.0	12.0	18.0	24.0	30.0	36.0
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	21.0	12.0	18.0	24.0	30.0	36.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This fiscal note is predicated upon a trust fund build-up of \$10 million per year plus fund earnings. The cost of managing a fixed income trust fund internally is about 6 basis points. Additionally, this fund would require individual project fund tracking, something that is slightly different from anything now done at Treasury. A contractual cost of \$15.0 is included to originate that tracking with GeFONSI.

Prepared by: Tomas Boutin, Deputy Commissioner Phone 465-3669
Division Treasury Date/Time 1/20/04 1:41 PM
Approved by: Bill Corbus, Commissioner Date 1/20/2004
Agency Revenue



Briefing Paper

HB 486

Thank you for the opportunity to speak to this bill.

My name is Rich Heig. I am president of the Council of Alaska Producers, and also General Manager of Greens Creek Mining Company.

The Council of Alaska Producers is an organization that educates and promotes responsible development of natural resources in the State of Alaska. We are made up of the larger mining operations and potential operations of Alaska, all of which are also members of the Alaska Mining Association.

The Producers Council supports HB 486.

This bill will make several important changes to the requirements for bonding and financial assurance for mining operations.

This bill allows the state to recognize the higher reclamation requirements associated with hard rock mining operations as compared to placer operations. These mines recognize their responsibility for reclamation and closure. This bill supports what DNR and DEC have also been requiring for several years.

This bill also recognizes the need for companies to have several methods available to them for providing financial assurances for reclamation and closure requirements. The cost and availability of bonds or letters of credit are becoming more difficult. This bill allows for other means of financial assurance, including CD's, treasury accounts, corporate guarantees, or other methods.

The third part of the bill establishes a trust fund held by the state that can assist in long term closure and monitoring. This account, funded by mining companies, is another alternative to ensure long term closure and reclamation are accounted for.

The Producers Council supports passage of HB 486 and ask that it be passed out of Committee.

Rich Heig

HB486



FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US

P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 13, 2004

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill relating to mine reclamation bonding and financial assurance.

This bill would make three changes to existing law. First, it would remove "lode mines," sometimes referred to as "hard-rock mines," from the current bonding "cap" of \$750 per acre for mine reclamation responsibilities; the cap would remain in effect for placer mines. Second, it would replace the term "performance bond" with the term "financial assurance," and would list various ways to provide that assurance, in order to give mining companies and the state the flexibility to employ a variety of financial assurance vehicles. Third, it would create a mine reclamation trust fund, which would allow the build-up of an adequate reclamation fund through payments made over time and through the earnings on that fund.

These three changes all reflect the fact that satisfactory reclamation of a hard-rock mine is a site-specific issue. A generic dollar-per-acre bond "cap" simply does not work for reclamation responsibilities for hard-rock mines. Each mine is unique, and the optimal vehicle to use to ensure final reclamation depends on many factors including, by way of example: the projected mine life; the need for long-term site management measures (such as to address potential acid mine drainage); and the availability and cost of different bonding tools in the current financial market. Given these and other factors, the state and the mining industry need flexibility in selecting and constructing financial assurances for mine reclamation.

The third element of the bill, the mine reclamation trust fund, is an attempt to accommodate some fiscal realities faced by the industry. It provides the opportunity for the state to set up site-specific funding agreements to accommodate long-term or in-perpetuity reclamation tasks. Examples include the possible need for in-perpetuity water treatment at the Red Dog

The Honorable Pete Kott
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Mine, long-term monitoring at the Illinois Creek Mine, and in-perpetuity maintenance of the dam for the freshwater recreation lake that Fort Knox Mine is leaving to Alaskans at the request of the Department of Natural Resources. The trust fund concept provides for a method of accommodating long-term or in-perpetuity reclamation needs of this type.

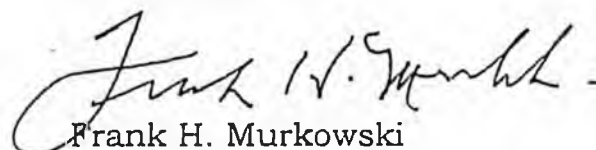
Making deposits into a state-controlled trust fund will have significant benefits for industry and the state. In addition to providing potential benefits under the federal tax code for companies, the state would have access to a fund for mine reclamation work that will retain earnings and increase over time.

The bill would provide that the Department of Revenue would manage investment of the fund, as it does already for a number of other similar state funds. But the Department of Natural Resources would be the agency authorized to make expenditures from the fund for mine reclamation and post-closure site management.

The state's resource agencies, under the leadership of the Department of Natural Resources, have crafted this bill with an understanding of the needs of the industry and the needs of Alaskans who rely on reclamation of the land. This bill is broadly supported by the mining industry.

I urge your prompt and favorable action on this measure

Sincerely yours,



Frank H. Murkowski
Governor

Enclosure