

APPENDIX A

Supporting Economic Information

Appendix A

Supporting Economic Information

This appendix provides some of the information and calculations made to support the numbers in the main body of the decision.

True North Direct Fiscal Impacts

True North Direct Fiscal Impacts Summary			
Whom Affected	Description of Item	Total Project Revenue Dollars	Frequency
Road Construction			
TLO	1-time Fee based on appraised value for the 51.58 acres within the TLO of haul road	\$ 11,600	one-time
TLO	Material Sale for constructing road	\$ 53,683	one-time
DNR	1-time Fee based on appraised value for the 95.07 acres within the TLO of haul road	\$ 21,391	one-time
Claim Rental and Millsite			
DNR	Millsite Lease Annual Payment (8% of est. \$225/ac appraised value)	\$ 263,900	4 yrs operation + 3 reclamation
DNR	Claim rental for 255 state claims	\$ 97,380	\$24,345; 3 yrs
Longer Life @ Fort Knox			
TLO	Millsite Appraisal for Fort Knox -- assuming 1 yr longer life for Fort Knox	\$ 150,000	one-time, a decade hence
DNR	Millsite Appraisal for Fort Knox -- assuming 1 yr longer life for Fort Knox	\$ 81,120	one-time, a decade hence
Property Tax to Fairbanks Borough			
Boro	4 years property tax at True North	\$ 520,000	over 4 yrs
Boro	1 yr tax a for Fort Knox	\$ 3,000,000	1 yr a decade hence
Fort Knox Use Charge			
DNR	Use charge for using Fort Knox 2001 = 2,615,303 tons @ \$.005/t = \$13,077 02-04 = 3.7 million t @ \$0075/t (2002 gold price)	\$ 96,327	over 4 yrs
Royalty			
DNR	3rd Party Royalty	\$ 126,000	over 4 yrs
Summary			
TLO	Sum to TLO	\$ 215,283	
DNR	Sum to DNR	\$ 686,118	
Boro	Sum to Boro	\$3,520,000	
Total to State, TLO, & Boro		\$4,421,401	

Road Construction

DNR Right-of-Way Fee. The fee for a private exclusive right-of-way is set by 11 AAC 050.010(e)(11)(B) as "an annual fee equal to the director's estimate of the yearly fair market rental value." By 11 AAC 050.010(f), "the director will, in the exercise of the director's discretion, require a higher fee than that set out in (e) of this section if the director determines that the location or nature of the use makes a higher fee appropriate to ensure a reasonable return to the state. In that case the fee will be based on the director's estimate of the fair market value of the use or, at the applicant's option and expense, based on an appraisal of the fair market value of the use." Pursuant to subsection .010(f), DNR is requiring a fee greater than the yearly fair market rental value, since this road will be used for the life of True North, the location and nature of the use makes a higher fee appropriate. FGMI will be required to obtain an appraisal to determine the full, fair market value at the highest and best use of state land. Instead of charging a yearly fee, DNR is imposing a one-time fee for the use of state land for the access road during the initial ten-year term of the right-of-way.

As of this decision, the appraisal for the right-of-way has not been completed. For the purposes of this decision, an estimate of \$225.00 per acre has been used. This estimate was based on the last appraised value of the TLO portion of the Fort Knox Millsite Permit. This estimate was verified after consulting with Judy Robinson, DNR's chief appraiser, on April 19, 2002. At \$225/acre, the one-time use fee for the 95.07 acres of state right-of-way is \$21,391.00.

TLO Right-of-Way Fee. The same methodology was used to determine the one-time use fee for those portions of the right-of-way owned by the TLO. At \$225/acre, the use fee for the 51.58 acres of TLO right-of-way is \$11,600.00.

Material Sale for Road Construction. FGMI has entered into an agreement with the TLO for the use of materials from the Fort Knox Mine which are used off the Millsite Permit. As the haul road is off the Millsite Permit, FGMI has paid a total of \$53,682.61 to the TLO for the use of road construction materials. This amount was verified in a conversation with TLO Land Officer Mike Franger of May 8, 2002.

Claim Rental and Millsite Lease

Millsite Lease Annual Payment. DNR will annually be receiving 8% of the estimated \$225/acre appraised value which would be \$37,700.00 per year. The Millsite Lease area is in fact 2,096 acres, and the estimated \$225/acre value was confirmed by a consultation (on April 19, 2002) with Judy Robinson, DNR's chief appraiser.

Assuming an annual payment to \$37,700.00 for the four year mine life plus a minimum of three years of reclamation, the total revenue to the state would be \$263,900.00.

Claim Rental. FGMI's figures show that their annual claim rental for 2001 was \$24,345.00 for 225 state claims in the True North block. Kerwin Krause checked the billing records (on May 7, 2002) and determined that FGMI made a total payment to DNR in the amount of \$44,317.00 for all their claims. Without actually splitting out the True North claims, Kerwin made the

determination that FGMI's \$24,345.00 figure is very likely accurate. The four-year total would be 97,380.

Longer Fort Knox Mine Life

DNR Millsite Permit Use Charge. True North will increase the mine life of Fort Knox by approximately one year. The increased revenue to the state resulting from the one-year longer mine life would equal to that year's unrealized use charge, as defined in Section 5 of the Millsite Permit. Section 5 states that the use charge for each year starting at year six is the rental value of the land based on the current appraised value. The last appraisal set the rental value of the land at \$81,120.000 (as confirmed with the DNR Appraisal Unit on May 7, 2002). For the purposes of this decision, the use charge for the lost year of Fort Knox production is estimated at \$81,120.00.

TLO Use Charge. Mike Franger with the TLO confirmed that the use charge lost by the shortened mine life would be \$150,000 (phone conversation on May 7, 2002).

Fairbanks North Star Borough Property Tax.

Property Tax at True North. According to FGMI, the property tax at True North has not been determined. They indicate that discussions are occurring now between the company and the Fairbanks North Star Borough. After discussions with FGMI, the department is estimating the likely tax at \$130,000 per year. This appears to be a conservative estimate of the FGMI's tax liability for True North. However, the actual tax may be more or less than this amount. At that amount, the four-year total tax would be \$520,000.

Property Tax at Fort Knox. The True North Mine will extend the life of the Fort Knox mine by approximately one year. This will result in another year of property tax to the borough at the end of the mine's life in approximately a decade. The 2001 property tax at Fort Knox was \$3,753,763.10. The payments will drop as the plant and equipment depreciates. FGMI uses a 20-year depreciation schedule. However, the 2001 property tax was not 5% lower than the previous year. Declining payments due to depreciation is offset by other increases such as the purchase of new plant and equipment. The department is using \$3 million as an estimate of likely property tax owed the borough in 10 years. This number reflects 10 years of depreciation offset by an extremely rough estimate of increases due to purchases or other factors.

Fort Knox Use Charge

The True North Project authorizations included an addendum to the Fort Knox Millsite Permit for reasonable annual rent to be paid to DNR for the placing of True North tailings in the Fort Knox Tailings Storage Facility. The annual rent was determined per ton of ore to be a sliding scale based on the average annual price of gold. For the year 2001, charge was \$.005 per ton, based on an average annual gold price of \$261 to \$280. As FGMI hauled 2,615,303 tons of ore, this resulted in a payment of \$13,077 to the state.

If one estimates the average annual price of gold to be within the range of \$281/oz to \$300/oz (the price of gold has been above \$300/oz for all/most of 2002 to date), and assuming the target

hauling of 3,700,000 tons of ore is reached each year, this would result in an annual payment of \$27,750 to the state for an additional four years. The total use charge payment for the 4-year mine would be \$96,327.

Royalty

Royalties Paid by Other than FGMI. FGMI has royalty agreements with the underlying claim owners. While DNR does not have access to the particulars of these private royalty agreements, DNR will be receiving 3% of the royalty paid by FGMI to these underlying claim holders.

Kerwin Krause reports that DNR has received approximately \$38,000 so far in royalty payments from the underlying claim holders. Because we don't know the details of the FGMI/private royalty agreements, we cannot predict the total payments to the state with total accuracy. However, Mr. Krause has determined that based on the royalties received to date, FGMI's estimate of \$126,000 in total payments to the state over the life of the mine is reasonably accurate.

Royalty Paid for FGMI. The state has what is effectively a net-profits royalty. FGMI has not paid royalty thus far for True North, as the mine has not earned a profit (which includes debt service and purchase price). The eventual extent of profit, and thus the eventual royalties are dependent on the amount of the resource estimate that proves up, and the actual price of gold. For this analysis, DNR assumes that no royalty will be paid.

Cleary Summit Business Direct Fiscal Impacts

Bed Tax

DNR made estimates of the bed tax paid by Cleary Summit Bed and Breakfast and by Mount Aurora Fairbanks Creek Lodge. The department did not have the information to estimate the bed tax for Skiland B&B, though it is expected to be a very small part of the total, because that B&B has many fewer visitors than the other two businesses. Mount Aurora Skiland does not provide lodging and does not pay bed tax. To preserve the confidentiality of tax payments by individual businesses, only the total estimated bed tax is provided in this appendix, and in the decision.

Cleary Summit Bed and Breakfast. DNR was provided the gross revenues for Cleary Summit B&B for the 1998/1999 season through the 2001/2002 season. The Department estimated bed tax payments by multiplying gross revenues by the Fairbanks North Star Borough's 8% bed tax. This assumes that the tax is based on the gross revenues, but it may be that some percentage of the gross revenues is not taxed because it may be attributable to the cost of meals.

Skiland Bed and Breakfast. Insufficient information was provided to DNR to determine an estimate of the bed tax paid by Skiland Bed and Breakfast.

Mount Aurora Fairbanks Creek Lodge. DNR estimated gross revenues for Mount Aurora Fairbanks Creek Lodge (December through April) from 1997 through 2002. The gross revenue figures were determined by multiplying the occupancy numbers provided to DNR by the winter room rate of \$204/night. It should be noted that these figures are likely high, as the \$204 price is for a double room (a single room rate is \$180). The higher number was used because no breakdown was given for how many rooms sold were singles or doubles. Also, it should be noted that the bed tax figures are likely high because the room rate includes meals, and the 8% only taxes the room portion.

Total. The table below provides the department's estimate of bed tax paid to the Fairbanks Northstar Borough by the Cleary Summit businesses. The estimate is based on an estimate of gross revenue and may overestimate payments because taxes are paid only on the room portion of the revenue, not including meals. The estimate shows that bed tax revenue varied between approximately \$12,000 and \$20,000 per year. The department used \$20,000 per year (\$80,000 for four years) as the figures for analysis in this decision.

Estimate of Cleary Summit Business Bed Tax

YEAR	8% BED TAX
1998/1999	\$13,600
1999/2000	\$12,900
2000/2001	\$19,700
2001/2002	\$12,200

Property Tax

Property tax payments to the Fairbanks Northstar Borough are public information and the Department went to the borough to find the property tax payments made by the four businesses. While the information is public, the Department does not see a need to publish the individual tax payments. The total payment for the four businesses for 2001 was \$12,871.88. For 2002, the assessed value increased slightly but the millrate has not been set. DNR used the 2001 figure as an estimate of annual property tax payments. The four-year total is \$51,487.52.