

True North Mine Project Decision on Remand

June 12, 2002

Department of Natural Resources
Division of Mining, Land and Water
550 West 7th Avenue, Suite 1070
Anchorage, AK 99501

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Prepared by Northern Economics in Association with Kelley Hegarty & Associates, LLC,
May 2002.

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I. INTRODUCTION AND BACKGROUND

In 2000, Fort Knox Gold Mine, Inc. (FGMI) applied to develop the True North Gold Mine, 25 miles northeast of Fairbanks and approximately 11 miles from the existing, much larger, Fort Knox Gold Mine. Rather than develop a mill and tailings facility at the True North location, FGMI proposed to haul the ore to the existing mill at Fort Knox. The initial plan of operation projected a mine life of 2.5 to 3 years. In December 2001, FGMI applied to expand the True North Mine. With the original application and the expansion, FGMI would be hauling ore from True North to Fort Knox for approximately 4 years.

The Department of Natural Resources (DNR) issued its decision to grant approvals for the original True North Mine, including a right-of way for the ore haul road from the True North pit to the Fort Knox mill, on December 20, 2000. FGMI began construction of the haul road shortly thereafter and began mining and hauling ore that spring.

Neighborhood Mine Watch appealed this decision to the superior court in 4FA-01-0438. On March 24, 2002, the Superior Court remanded the matter back to DNR to consider the economic impact of light, sound levels, and traffic on nearby businesses.

There are two decisions before the Department. First, DNR must respond to the court's remand; it must reconsider the analysis that led to its original decision in light of the economic impact of the proposal on nearby businesses. Second, DNR must decide whether to approve FGMI's request to expand the True North Gold Mine.

DNR reviewed the information it used to make the original decision, and collected additional information on the economic impacts of the True North haul road. This document presents the additional information, the analysis of that information, and DNR's findings and decision. This document is the Department's decision that responds to the Court's remand.

DNR's decision on FGMI's request to expand the mine is a separate decision. It is a separate document available from DNR.

A. How DNR Determines Whether A Project Provides The Greatest Economic Benefit

Under AS 38.05.850, the director of the Division of Mining, Land & Water may issue rights-of-way for roads. In granting a right-of-way under AS 38.05.850, DNR is required to give a "preference to that use of the land that will be of greatest economic benefit to the State and the development of its resources." Before making a decision, DNR requests comments from the public. DNR uses the comments received, the facts and issues raised, and its own analysis as the basis for its determining whether the right-of-way provides the greatest economic benefit. The process is as follows.

First, DNR examines whether the proposed use of the State land (here for a road between the True North mine pit and the processing mill at Fort Knox) is a good use of State land. Second, DNR examines the proposed project and all of the potential impacts from that project, including potential impacts to neighboring land uses. To the extent DNR considers them reasonable and necessary, DNR imposes mitigation measures and works with the permittee to modify the project in order to minimize these potential negative impacts, including negative economic impacts to neighboring land uses. Third, DNR examines whether the proposed right-of-way, as modified, provides the greatest economic benefit to the State and the development of its resources.

In making this greatest economic benefit determination, DNR reviews its land use planning documents for initial direction, and considers the direct economic benefits to the State, the indirect economic benefits and whether the project encourages the development of State resources (such as gold mining). DNR also examines the negative (such as economic impacts to neighboring aurora viewing businesses) and positive (such as to the value of neighboring Mental Health Trust and School Trust lands) economic impacts to neighboring uses and compares them with the economic benefit of the proposed use. Taking all of this information into consideration (economic benefit of the right-of-way, any economic benefit from a directly competing project and any economic benefit or detriment to neighboring uses), DNR then determines whether the proposed right-of-way provides the greatest economic benefit to the State and the development of its resources (as opposed to leaving the land undeveloped or allowing another use of that land). DNR may also look at how the economic benefits change if the project is configured differently.

B. Public Notice Of The Right-Of-Way

Before making its original decision on the True North haul road under AS 38.05.850, DNR performed multiple public outreaches and requested comments from the public on July 17, 2000 (30-day comment period), September 22, 2000 (15-day public comment period), and October 24 (granting 15 day extension to the September 22 comment period). In addition, there was a 30-day reconsideration period ending January 19th in which some members of the public sent in additional comments and information.

A public comment period for an expansion of the mine occurred January 18 through February 19, 2002. In addition to typical notice such as newspaper advertisements and the State's web site, two hundred and forty notices were mailed to interested parties and organizations. A public meeting was held in Fairbanks on January 31, 2002. 132 people signed in (an estimated 200 attended). Most of the comments and concerns expressed at all of the comment periods concerned the impact of the haul road on the neighborhood and businesses.

As part of this remand, on April 11, 2002, DNR sent out 555 notices to all individuals and organizations on its mailing list providing an additional opportunity for the public to send economic information for DNR to consider as part of its remand decision. DNR received 19 responses to this request.

C. Is The Right-Of-Way A Good Use Of State Land?

DNR's original decision that chose a particular right-of-way route and approved that route was based on numerous factors. These are discussed in DNR's original decision to issue the right-of-way to FGMI, which is incorporated into this decision on remand by reference.

DNR considered generally whether the grant of the right-of-way would be in the public's interest and consistent with DNR's land management objectives. DNR found that the right-of-way was consistent for the following reasons:

1. traditional public access was not excluded;
2. the anticipated negative impacts were minimized (through the location of the road, construction of an underpass, development of a transportation plan, and the imposition of stipulations);
3. future authorizations were not precluded by issuance of the right-of-way;
4. FGMI would maintain the right-of-way so that no maintenance burden was placed upon State;
5. development of the right-of-way will encourage settlement of State lands (including Mental Health Trust Lands) in that area;
6. use of the right-of-way to haul ore is consistent with surrounding land uses, the Tanana Basin Area Plan, and the Fairbanks North Star Borough (FNSB) Comprehensive Land Use Plan; and
7. use of this land for a right-of-way for mineral development is consistent with the reason that the Mental Health Trust selected significant amounts of land in this area.¹

In determining which route was the preferred alternative, DNR examined the relevant factors and issues.² And in setting the conditions of use of State land for the right-of-way, DNR conditioned the right-of-way to minimize the potential impacts to neighboring uses.

¹ In a letter to DNR supporting the project, the Trust Land Office stated that the right-of-way and the development of True North, and Fort Knox processing of True North Ore is "the best opportunity to realize the value for which these lands [Mental Health Trust Lands] were conveyed."

² DNR's examination of the road alternatives is found on pages 7 to 9 of the right-of-way decision. See also DNR's Decision overview at pages 36-50 (which discussed issues relevant to the access road) and pages 65-68 (review of road alternatives); and Decision on Reconsideration, January 19, 2001.

II. ECONOMIC DESCRIPTION: MINE & BUSINESSES

This section summarizes the economic impact of the True North Mine project and businesses that would be affected by development of the mine and haul road. Supporting information for the quantitative estimates is contained in Appendix A.³

The information in this section comes from a number of sources. These include independent investigation by DNR and information submitted by the applicant or the public during one of the many public comment periods. One of the more frequently quoted reports is the "Economic Assessment of True North Haul Road on Winter Tourism in Alaska." May 2002. Northern Economics, Inc. prepared this report in association with Kelley Hegarty & Associates.⁴

A. True North Mine

1. Direct Fiscal Impacts. Direct payments are those that occur directly from the mining company as a consequence of the True North Gold Mine. The table below shows that over \$4 million will be received directly by the State and local government as a result of the four-year operation of the mine. The payments show revenues expected to be received for the originally-proposed mine life plus the expansion.

| | |
|--|--------------------|
| Payments made to DNR | \$686,118 |
| Payments to Mental Health Trust | \$215,283 |
| Payments to Fairbanks Borough | \$3,520,000 |
| Total Direct Payments State & Borough | \$4,421,401 |

The payments in the table above include one-time payments to the Mental Health Trust and DNR for construction of the road; annual claim rental and millsite lease payments made to DNR for the True North Mine; Property Tax Payments to the Fairbanks North Star Borough for True North; royalty payments due the State for True North (the first of which has already been received); and additional payments to DNR, the Fairbanks North Star Borough, and the Mental Health Trust for Fort Knox Gold Mine due to the estimated one-year longer life for Fort Knox.

The payments do not include any amounts for the Alaska's Mining License Tax and Corporate Income Tax. Both of these returns are confidential. DNR confirmed with the Alaska Department of Revenue that FGMI did not pay Mining License Tax for the True North Mine for 2001, and DNR confirmed with FGMI that they did not pay Corporate Income Tax for True North in 2001. DNR has been told that considering all costs including capital, purchase and exploration costs, True North Gold Mine did not earn a profit in 2001, and does not expect to

³ Throughout this analysis quantitative financial impacts are displayed in their actual values rather than in net present value amounts. Because of the short, four-year mine life, of which three years remain, the distortion does not significantly affect the results of the analysis, and it is easier for the most people to understand.

⁴ This report was prepared on contract to the project applicant, FGMI. FGMI requested Kelley Hegarty & Associates perform as a 3rd-party consultant to analyze the impacts. Ms. Hegarty subcontracted preparation of the report to Northern Economics, a firm that had not previously been associated with the project.

earn a profit in 2002. It is as yet unclear whether there will be income or mining license tax payments by FGMI for True North Gold Mine. Whether tax payments are made depends on the amount of the presumed resource that eventually proves up, and the price of gold. The company reports that it hopes, of course, to earn a profit on the mine.

2. Direct Job, Income, and Purchase Impacts. The True North Mine and the proposed expansion have the following direct job and income impacts.

- 120 new direct jobs over the project's life. These have an average wage of \$48,270 per year.
- \$6.5 million in direct annual payroll including \$5.4 million for the original proposal, and an additional \$965,400 for the proposed expansion.
- \$9.5 million in other direct annual purchase impacts, most of these occur within Alaska and the large part within the Fairbanks economy. This total includes both the original proposal and the expansion.

3. Indirect Impacts. FGMI contracted with The McDowell Group for an economic impact study for the original True North Mine Project proposal. It concluded that the original proposal would "ultimately produce total direct and indirect impacts that could include 200 jobs and \$7.1 million in annual payroll." The original proposal plus expansion would continue the direct and indirect benefits of the Fort Knox Gold Mine for an additional year. These are listed in the study as 260 jobs and \$15 million in annual payroll; 310 indirect jobs and \$7 million in indirect payroll; \$35 million in direct local purchases of goods and services and millions more in indirect and induced purchases; and reduced electrical rates for GVEA customers.

A recent study by a Montana author contracted by the Southeast Alaska Conservation Council and the Northern Alaska Environmental Center disputes the methodology used for indirect estimates made by the McDowell Group.⁵ The Montana study argues that the McDowell study double counted the indirect jobs by applying a multiplier to the direct jobs and then adding in the effect of local spending. It argues that the effect of the multiplier takes into account local spending. If this criticism is true, the estimate of indirect impacts outlined in this subsection is too high. Whatever the actual number, it is clear that the indirect impacts of the True North Gold Mine are significant.⁶ The level of indirect impacts does not change the conclusions of this analysis.

4. Other Impacts. Representatives from FGMI indicate True North is very important in terms of funding exploration necessary to extend the life of the Fort Knox mine. They indicate that the original True North proposal was expected to improve the cash flow at Fort Knox by \$13 million, and that these funds were important for continued exploration in the area. Continued exploration is necessary if FGMI is to replace the reserves currently being consumed at Fort

⁵ Specifically, the study disputed the indirect estimates made in "Economic Impact of the Fort Knox Mine on the Fairbanks North Star Borough." February 1, 1999. This study was performed by the McDowell Group and Information Insights under contract to the Fairbanks North Star Borough. However, the McDowell Group study prepared for FGMI for the True North application builds on the methodology for the earlier study. Thus, the same critique applies.

⁶ The Montana critique does not affect the estimate of direct fiscal impacts, nor direct job, income and purchase impacts described previously.

Knox. If so, True North may have an important impact on extending the life of Fort Knox Gold Mine — one of Fairbanks’s most important employers and its largest taxpayer.

The “True North Mining Project Economic Impact Study,” January 2001 prepared for FGMI indicates that Fort Knox’s mining operation is moving into an area of lower grade ore (page 1):

“This results in higher operating costs per ounce (meaning that it will cost more to recover each ounce of gold). Within two to three years, the mine will be back at somewhat higher-grade ore, but in the meantime, the average cost per-ounce will increase. In 2001, without True North ore, Fort Knox operating costs will increase to \$227 an ounce. In 2002, costs will rise to above \$280 an ounce...”

“True North can dramatically improve the future prospects of the Fort Knox Mine. Blending True North ore with Fort Knox ore will result in an average cash cost of \$196 per ounce of gold in 2001. Over the next three years of Fort Knox operations, this will improve annual cash flow by approximately \$13 million thus moving Fort Knox from a slightly cash negative to moderately cash positive position. This is revenue that will be used to conduct additional exploration, to upgrade or replace aging equipment, and on other measures to ensure the continued viability of the Fort Knox Mine.”

The recent upturn in gold prices⁷, if continued, may provide additional revenue to Fort Knox, but the information shows the strategic importance of True North in extending the life of the larger and more important Fort Knox Gold Mine.

B. Cleary Summit Area Businesses

There are four businesses in the Cleary Summit area that are potentially affected by the development of the True North Gold Mine and haul road. Each of these businesses markets their view of the northern lights, primarily to Japanese tourists. One is also a ski area, but because the ski area is relatively unaffected by the mine, the ski area is not considered further in this analysis.

“Economic Assessment of True North Haul Road on Winter Tourism in Alaska” reports the following:

According to telephone interviews with three tour operators, most Japanese visitors spend three or four nights in Fairbanks and a night in Anchorage on either their arrival or departure. Other groups will spend three or four nights at a location outside of Fairbanks, for example at Mount Aurora Fairbanks Creek Lodge, Cleary Summit Bed & Breakfast [*Note: both on Cleary Summit*], Chatanika Lodge, Chatanika Gold Camp, Chena Hot Springs Resort, Arctic Circle Hot Springs Resort, or Bettles Lodge [*Note: these are not on Cleary Summit*]. All

⁷ The “True North Mining Project Economic Impact Study,” January 2001 prepared for FGMI, provides the following information. During exploration and development of Fort Knox, gold prices averaged \$387 per ounce. In 1997, gold prices decreased, and in 1999 and 2000, they averaged \$279 per ounce.

three Japanese tour operators explained that visitors staying in Fairbanks travel to an aurora viewing location almost every night of their stay. The primary aurora viewing location used by these tour groups is Mt. Aurora Skiland at Cleary Summit approximately 21 miles from Fairbanks. Visitors leave their Fairbanks hotel around 10:00 PM traveling to Cleary Summit by bus and arriving around 10:30 PM. They leave to return to their Fairbanks hotels around 2:30 a.m.

While other locations around Fairbanks provide aurora-viewing opportunities, Skiland currently is by far the primary destination within a half hour drive of Fairbanks that has good highway access, parking, and a heated aurora viewing concession.⁸

The four aurora-viewing businesses on Cleary Summit are those below⁹:

| Name | Description | View of Haul Road | Other Information |
|----------------------------------|------------------------------------|---|--|
| Cleary Summit Bed and Breakfast | 3-bedroom bed and breakfast | Direct view of Haul Road | Began operation 1997 |
| Skiland Bed and Breakfast | 1-room apartment below house | Haul road not visible from the apartment, but can be seen from the owners' quarters. | Takes overflow guests from Cleary Summit B&B |
| Mt. Aurora Fairbanks Creek Lodge | 18-room bunkhouse | Direct view of Haul Road | Same owner as Mt. Aurora Skiland |
| Mt. Aurora Skiland | Ski area & northern lights viewing | Facility shielded from the road. Truck lights are visible only from one spot at far SE corner of parking lot. | Receives the vast majority of aurora viewing visits. |

1. Direct Fiscal Impacts. Direct fiscal impacts are those that are received directly by State or local governments as a consequence of running the Cleary Summit businesses. The State receives no money from the Cleary Summit operations. However, the four Cleary Summit businesses pay the Fairbanks North Star Borough two payments: property tax and bed tax. The total revenues expected to be paid by these businesses to the Borough during the four-year life of the True North Gold Mine are:

| | |
|---|------------------|
| Property Tax to the Fairbanks Borough: | \$51,487 |
| <u>Bed Tax to the Fairbanks Borough:</u> | <u>\$80,000</u> |
| Total Direct Payments to the Borough | \$131,487 |

In 2001, the four businesses paid property tax totaling \$12,871.88 to the Fairbanks North Star Borough. For 2002, total assessed valuation of the four properties has increased slightly, but the mill rate has not yet been set. Assuming similar tax rates, the total property taxes paid during the four years of True North operations will be \$51,487.

⁸ Page 5.

⁹ Table constructed by the Department from various information sources.

The Fairbanks North Star Borough has an 8% bed tax on the value of lodging provided. The two bed and breakfasts and the Mount Aurora Fairbanks Creek Lodge provide lodging and would pay the bed tax. Mt. Aurora Skiland does not provide lodging and would not. Bed tax payments are confidential. However, for purposes of this analysis, the Department estimated bed tax payments based on gross revenues and visitor information provided directly to the Department or to Northern Economics.

The Department estimated bed tax payments made by the two bed-and-breakfasts, and Mount Aurora Fairbanks Creek Lodge. 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 between the 1998 and 2002 aurora-viewing season, bed tax payments 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.

2. Direct Job, Income, and Purchase Impacts. The Department estimated employment by the Cleary Summit businesses. The Department estimates that the four businesses provide:

- three full-time year-round jobs; three full-time seasonal jobs; and two part-time jobs
- less than \$400,000 in annual income and purchase impacts including payroll for the jobs listed above. All of these funds are spent locally.

The employment estimates are based on 1 full-time and one part-time job for Cleary Summit B&B; one part-time job for Skiland B&B; and two full-time and three full-time seasonal for the Skiland and Mt. Aurora Creek Fairbanks Lodge combined.

The Department also estimated income and purchase impacts based on gross revenues supplied to Northern Economics or directly to the Department for three of the businesses. Revenues for the smallest business, Skiland B&B, were not supplied but were assumed to be a small percentage of the Cleary Summit B&B. Gross revenues reflect the combination of money spent by the business and its profit, and therefore reflect the combined impact of direct purchases, employment, income, and profit. They include the payroll expenses of employees/owners described above. The Department estimates that over the last four years, the total gross revenues range from less than \$200,000 to just less than \$400,000. For purposes of this analysis, total direct employment, income, and purchase impacts from the Cleary Summit Businesses are estimated at approximately \$400,000 per year. Because these are small businesses, the Department assumes that almost all of these expenses are spent locally.

3. Indirect Impacts. For the 1999 calendar year, the aurora-viewing-night customers at Cleary Summit totaled 5,448 visitors, of which 86% were bussed to Mt. Aurora Skiland from Fairbanks. The Department does not have complete visitor information for the subsequent years, but for the major viewing site, Mt. Aurora Skiland, visitation increased in the 2000/2001 viewing season to 7,954.

The amount of visitation is not the same as the number of visitors. The aurora-viewing visitor to Fairbanks typically takes several nighttime trips to Mt Aurora Skiland over the course of their

multi-day visit. This means that the 7,954 visits to Mt Aurora Skiland last year translate to approximately 2,600 actual visitors to Fairbanks (assuming an average of 3 trips per visitor). The same year, the Fairbanks Creek Lodge and the two B&Bs brought approximately another 500 visitors to Cleary Summit in 2000/2001.

“The Majority of Japanese tourists to Fairbanks purchase package trips before they leave Japan for their airfare to, from, and within Alaska, for their accommodations, and for most sightseeing excursions. Survey research estimates that they spend approximately \$523 in out-of-pocket expenses during their visit.”¹⁰

Including out-of-pocket expenses, tour, lodging, and transportation expenses, the Cleary Summit businesses are associated with a significant indirect impact on the local economy. The \$532 in out-of-pocket expenses for 3,000 to 3,500 visitors represents approximately \$1.5 to \$1.8 million in spending. There would be additional spending for lodging and transportation as well. However, the extent to which the businesses are responsible for the indirect impacts is discussed in the subsection on Indirect Impacts (Regional Effects) in the following section.

¹⁰ Economic Assessment of True North Haul Road on Winter Tourism in Alaska, May 2002, Page 5. That publication indicates the \$523 figure is taken from “Japanese Travel Motivations: The Case of Alaska and the Northern Lights,” by Laura M. Milner, UAF, School of Management.

III. IMPACT ON CLEARY SUMMIT BUSINESSES

This section describes the impact of the True North Gold Mine haul road on the Cleary Summit businesses. Subsection A describes the physical effects of the haul road: the effect of location, and the impacts related to noise, light, and dust. Subsection B describes the direct consequences of those impacts on the businesses. Subsection C describes the effect of those consequences with respect to the Fairbanks region. Subsection D summarizes this section.

FGMI originally applied for the “South Pedro alternative,” which generally follows existing roads from the True North Project boundary around the south side of Pedro Dome to the Fort Knox Millsite Permit boundary.

During the permitting process, DNR reviewed many different road alignment alternatives. The North Pedro Road alternative, which the applicant applied for after some analysis and discussion with DNR, was the selected alternative. It included an overpass at the Steese Highway. This alternative was approximately \$4.2 million more expensive than the applicant’s original route. DNR imposed numerous requirements to minimize safety problems, and to minimize noise, light, and dust impacts on local residents and businesses, including economic impacts on Cleary Summit businesses.

Other alternatives were analyzed but not chosen by DNR. Alternatives further downhill from the preferred route (advocated by some Cleary Summit residents) and alternatives recommending the use of the Elliott Highway were eliminated based on economics, highway/road grades, length, and topographic conditions and because, for the most part, these routes simply shifted effects to a new group of receptors resulting in few, if any, overall benefits.

This discussion focuses on the effect of the chosen alternative on Cleary Summit area businesses. For more detail on the route selection, please see the original project decision.

A. Description of Physical Impacts

1. Impact is Different North or South of the Ridge. The most important impacts that affect the ability of Cleary Summit business to market for aurora viewing is the impact of the lights and noise from the haul road. The physical impact of lights and noise is significantly different on the three overnight businesses on the south side of the ridge — the two B&Bs and the lodge — than on Mt. Aurora Skiland on the north side.

Overnight Businesses South of the Ridge. The three overnight businesses — the two B&Bs and the lodge — are on the south side of the ridge. The Twin Creeks haul road runs downhill from them at varying distances and they can also view a portion of Fish Creek road used for hauling which at its closest point is .6 mile to the southeast. The Cleary Summit Bed and Breakfast is 1,315 feet from the haul road at the closest point. It is located near the ridge top with almost 360° of unobstructed views. It has the best view of the haul road and the least shielding from

light and noise, although it cannot see the road at the closest point. The other two overnight businesses are slightly closer, though more of their view of the road is blocked by topography.

Mount Aurora Skiland, North of the Ridge. Mount Aurora Skiland, the site of the majority of the aurora-night viewing, is located on the north side of the ridge and is in most respects sheltered from the lights and noise of the True North haul road. It is 2,200 feet from the closest point of the haul road, but the road cannot be seen at the closest point. For the most part, topography shields Mt. Aurora Skiland from the view of the haul road.

According to the Economic assessment of True North Haul Road on Winter Tourism, "Lights from the vehicles on the haul road are not visible from the parking lot, except through the trees at one specific spot at the far southeast corner of the lot. Faint noise from the trucks can sometimes be heard from the parking lot, but not from the day lodge (page 12)." DNR inspectors confirmed this assessment in their numerous visits to the site.

2. Noise. The issue of noise impacts is a relatively technical issue and some background information is required. The unit used to measure the loudness of sound is the A-weighted decibel scale of "dBA." Most people judge a 10-dBA change in noise levels as a doubling of sound level. The smallest change in noise level that a human ear can perceive is about 3 dBA, and an increase of 5 dBA is usually noticeable. Normal conversation ranges between 44 and 65 dBA when the speakers are 3 to 6 feet apart.

A discussion of the standards and the method by which DNR arrived at the standards is given in the original decision and the response to reconsideration. The standards DNR imposed required that the ore hauling not cause ambient statistical noise levels for any hour within the subdivision to be greater than the levels specified below.

Noise Standards Applied to Ore Hauling

| <u>Day (5 AM to 9 PM)</u> | | <u>Night (9 PM to 5 AM)</u> | |
|---------------------------|--------|-----------------------------|--------|
| L ₅₀ | 55 dBA | L ₅₀ | 45 dBA |
| L ₁₀ | 60 dBA | L ₁₀ | 50 dBA |
| L ₁ | 75 dBA | L ₁ | 55 dBA |

Put into common terms, the nighttime L₅₀ standard means that for any one hour at night, 50% of the time the noise may not be above 45 dBA. The nighttime L₁₀ standard means that for only 10% of the time (or 6 minutes per hour) may the noise be above 50 dBA. The nighttime L₁ standard means that for only 1% of the time (36 seconds) may the noise be above 55 dBA. An explanation of the daytime limits is similar.

DNR established two noise-monitoring stations, one of which is the balcony of the Cleary Summit B&B. Twice during the year on representative days, a consultant monitored the sound levels at the monitoring stations. The first monitoring occurred on August 10, 2001 and the

second on January 23, 2002.¹¹ The consultant determined that FGMI was operating within the standards.

The nighttime winter sound levels are the most important for purposes of the night-aurora-viewing businesses. The winter monitoring results from January 23, 2002 are below, along with a common sense explanation of decibel levels.

| Cleary Summit B&B | | | |
|---|-----------------------------------|---|--------|
| Night-time Winter Monitoring Results | | Sound Levels and Relative Loudness | |
| <u>Permit Standard</u> | <u>Actual Level</u> ¹² | | |
| L ₅₀ 45 dBA | 33.0 dBA | Vacuum Cleaner at 10 Ft | 70 dBA |
| L ₁₀ 50 dBA | 38.5 dBA | Large Store air-conditioning unit, 20 ft | 60 dBA |
| L ₁ 55 dBA | 44.6 dBA | Light Auto Traffic, 100 ft | 50 dBA |
| | | Bedroom or quiet living room, bird calls | 40 dBA |
| | | Quiet Library, soft whisper at 15 ft | 30 dBA |
| | | High Quality Recording Studio | 20 dBA |

The monitoring showed that at Cleary Summit B&B, half the time the sound levels were less than 33 dBA, just louder than a quiet library or soft whisper at 15 feet. For six minutes an hour the sound levels were greater than 38.5 dBA or just softer than a bedroom, quiet living room or bird calls, and for 36 seconds, sound levels were greater than 44.6 dBA — or between the bedroom level and light auto-traffic at 100 feet.¹³ These sound levels are audible but not loud. In addition, these sound levels were measured outside the residences. The inside levels are predicted to be reduced an additional 10 dBA with windows open and 20 dBA with windows closed.

While no specific monitoring was done at the Mt. Aurora Fairbanks Creek Lodge, the consultant’s model predicts the sound levels at the lodge to be barely louder: 0.8 dBA. The model also predicts 6 dBA lower nighttime winter sound levels at Mt. Aurora Skiland because that facility is further from the road and screened by topography. Six dBA quieter would mean that median haul-related noise levels for any nighttime winter hour would be *softer* than a quiet library or whisper at 15 feet. Six dBA quieter would mean that except for the loudest 36 seconds per hour, the sound levels would be quieter than a bedroom or quiet living room or bird calls.

Northern Economics, Inc. reports the noise levels at Mt. Aurora Skiland as follows, “Faint noise from the trucks can sometimes be heard from the parking lot, but not from the day lodge (page 8).” DNR inspectors report the same finding. This layman’s description is confirmation of the quantitative monitoring results.

There are other noise sources in the area. The Steese Highway, though typically quiet in the middle of the night, is nearby. There is a dog lot just below the Cleary Summit B&B. DNR

¹¹ The right-of-way authorization directly requires other monitoring, such as monitoring the trucks. However, the quantified sound level at the residences is the most relevant for purposes of this analysis.

¹² The “actual level” numbers are the average of three, one-hour monitoring periods on that date.

¹³ Because of the shape of the sound energy curve from the multiple trucks, the maximum sound level from the trucks should not be significantly greater than the L₁ level.

inspectors report that during the coldest part of the winter the busses that take the tourists nightly to Skiland are often kept running while parked. These other noise sources were confirmed by monitoring results. The monitoring consultant did not record any sound levels by the trucks that exceeded the permit standards, but they did identify three instances where other sources, such as nearby barking dogs, exceeded the noise standards applied to FGMI. While people who live in the area may be more willing to tolerate these noise sources because they are used to them, they do exist, and the monitoring shows that other non-haul-road related noise sources can exceed the sound levels from the haul trucks.

3. Lights. Description of the light impacts requires a more qualitative assessment. DNR required that the road be aligned such that no direct lights shine on the residences of Cleary Summit. The road just below the business is such that the trucks are going downhill in the vicinity of the business and the lights are shining downhill. These lights are for the most part, a few hundred feet below the level of the businesses and to the south. The lights do not compete with the aurora directly but may in some instances affect time-lapse photography. To the southeast of the businesses on Fish Creek road, the lights are shining just below the Cleary Summit B&B, and in its general direction. At the point where the lights are most visible to the Cleary Summit B&B, Fish Creek road is over a mile away. The lights are less visible on the remainder of Barnes Creek road which at its closest point is 3,200 feet to the southwest of the Cleary Summit B&B.

The truck lights are not visible from Mt. Aurora Skiland except through the trees at one spot at the far southeast corner of the parking lot.

There are other light sources in the area. Point source lights are visible from Pedro Dome and other nearby sources. There is a high-intensity vapor light just downhill from the Cleary Summit B&B over the dog lot that is pointed down and away from the B&B.

4. Dust. The Department receives numerous complaints about dust caused by the haul trucks on the True North haul road. The vast majority of the complaints are from the owner of the Cleary Summit B&B. Dust from the haul road is not visible at night, and the question of whether dust is adequately controlled has little effect on the ability to view the aurora. A description of the impact is included here only because it is the subject of frequent complaints, not because it has much effect on marketing nighttime aurora viewing.

The Twin Creeks haul road is constructed with non-toxic granite from Fort Knox. To minimize fugitive dust, FGMI put a high-float surface on the sections of the road nearest to the residences. The company applies calcium chloride and waters the road with a water truck. DNR receives complaints, particularly from the owner of Cleary Summit B&B about the dust in the air. The complaints have not been about the effect on aurora viewing; rather, the issue is more related to general quality of life for the residents.

DNR has required FGMI to take steps to control dust. At this point, DNR believes that FGMI has taken feasible and practical steps. Discussions are continuing, however, to determine if other measures are practical.

Inspections. First, State agencies have not observed significant dust at the residences. State personnel from DNR and DEC have together made over 40 inspections of the haul road. While dust has been observed in the vicinity of the haul road, none of the inspections have reported dust problems at the residences. While most of the inspections were not made specifically to review dust levels, the inspectors were aware of the complaints and would have noted dust problems.

Snow Survey. Second, snow shows dust accumulated from traffic throughout the winter. If there were significant dust deposited at great distance from the road, it would show in the snow. At one inspection done in February 2002, test pits were dug at intervals from the road to look for signs of dust accumulations. Dust was clearly observed at a distance of about 50 feet from the road, but the evidence of dust diminished as the distance from the road increased. At 200 feet, no dust was observed in the pits. The nearest residence is over 1,000 feet from the road.

Review of Pictures. Third, one individual sends DNR frequent pictures of the haul trucks along with a complaint of the dust they generate. DNR reviews these pictures but comes to a different conclusion than the individual. In large part, but not completely, the agency believes these pictures show that dust hangs over the road but does not generally extend to the area of the residences.

While the Department believes that steps taken thus far are reasonable and appropriate, it expects to continue to work with FGMI to minimize fugitive dust. The Department may require other steps to be taken (for example, DEC has asked FGMI to develop a dust control plan) should the dust problem worsen, or alternative solutions be discovered.

The problem of fugitive dust has potential to affect residential quality of life. It has little effect on the aurora-viewing businesses because it cannot be seen at night. It may contribute to the general impression that the overnight businesses on the south side of the ridge can no longer market a “wilderness” experience because the dust can be seen on the haul road in the daytime.

B. Direct Impacts

As described in A.1. of this section, the haul trucks cause somewhat different impacts to the overnight businesses on the south side of the ridge than they do to Mt. Aurora Skiland on the north side. The overnight businesses on the south side have a direct view of the haul road. Mt. Aurora Skiland is shielded by topography from most of the impacts.

To the Cleary Summit B&B, Skiland B&B, and the Mt. Aurora Fairbanks Creek Lodge, the lights are visible, mostly at a distance, but do not shine directly on the businesses. The lights are visible from the businesses and the owners report that the visible lights detract from the experience. The sound level from the haul trucks is audible but relatively low.

To Mt. Aurora Skiland, which attracts the majority of the nighttime aurora-viewing tourists, there is almost no physical impact. The lights are barely visible through the trees from the parking lot and faint noise of trucks can sometimes be heard from the parking lot.

Most of the aurora-viewing tourists who visit Cleary Summit purchase their tours in Japan. Northern Economics interviewed three of the Japanese Tour brokers who sell the tours. According to their report, "When queried by researchers as to whether or not their customers had experienced any negative impacts from the haul road truck traffic, all three of the primary Japanese tour operators that transport customers to Cleary Summit said that they had not received one complaint (page 2)." In fact, several Japanese visitors in the most recent season made return visits. However, the business owners, especially Cleary Summit B&B on the south side of the ridge have reported that they received some complaints by visitors. Cleary Summit B&B has shared those with DNR.

All of the Cleary Summit businesses have had a significant decrease in aurora visitors this season. The business owners attribute this in large part to the effect of the haul road. Mt. Aurora Skiland had visitation increases most years from the early 1990s. By 1995/96 the visitation was approximately 2,700; almost 2,800 in 1996/97; an increase to approximately 5,200 in 1997/98; an increase to 5,900 in 1998/99; a slight drop to approximately 5,000 people the next year and then in 2000/01 it increased to almost 8,000 visits. This year it dropped to approximately 3,000 visitors, about as many as visited the site in 1996/97.

Mt. Aurora Fairbanks Creek Lodge had a similar but less dramatic drop in visitation. Visitation dropped from a high of 1,051 people in 2000/01 to 657 people this year, which is approximately the same as the year before. Annual visitation numbers are not available for the Cleary Summit B&B, but gross revenue dropped from \$31,900 in 2000/01 to \$18,400 this winter season.

Put another way, Mt. Aurora Skiland, where most of the viewing occurs lost 62% of its business. The Mt. Aurora Fairbanks Creek Lodge lost 37% of the previous year's high level of visitation, and Cleary Summit B&B lost 42% of its revenue from the previous year's high.

The events of September 11th make these numbers very hard to interpret. The US Department of Commerce indicates that travel from Japan to the US dropped off more than 50% after September 11th and that it currently remains at approximately 60% over pre-9/11 levels (Northern Economics, page 7). The dramatic decrease in Japanese tourism all over the US makes it impossible to determine the effect, if any, of the haul road on the tourism traffic at Cleary Summit. Other aurora-viewing facilities that cater to the same market also report a steep decline in visitors.

The same pattern showing the events of September 11th is visible from the Cleary Summit data. Visitation at Mt. Aurora Skiland for August, 2001 was up over the year before. The total for September is also higher in 2001 than in 2000. But beginning in October, after the September 11th events are fully reflected in the numbers, a sharp decline in visitation occurs. Specifically, August 2001 shows 42 people; 8 the year before. September 2001 is 301 visits; 167 the year before. But in October the pattern is reversed: 12 in 2001; 27 the year before. In November: 51 in 2001; 116 the year before. The visitation at Skiland shows that the sharp decline reflected in this year's visitation started after September.

After reviewing the physical impacts, reviewing the drop in visitation at the Cleary Summit businesses, and after interviewing tour operators, Northern Economics, Inc. came to the following conclusion:

Northern Economics was unable to identify any quantifiable evidence of negative effects on tourism from operations of the True North haul road. Qualitative information from the Japanese tour brokers interviewed stated that, to date, there have been no negative impacts on the number of visitors at Cleary Summit from the operation of the True North haul road. However, since the road has only been in operation for one year, it is possible that there are negative effects from operation of the haul road but they are very small when compared with other economic factors (page 2).

After reviewing visitor information, assessment of interviews with Japanese Tour operators, the physical impacts such as light and noise, visiting the sites, and reviewing complaints forwarded by the business owners, the Department comes to a similar conclusion. It is very possible that there is some impact on the overnight businesses on the south side of the ridge: the two B&Bs and the lodge. The majority of the loss is almost certainly due to September 11th. The average visitation declined in an amount similar to their loss. Other aurora-viewing locations report a similarly steep loss. Some of the loss in overnight business may be due to the haul road, but it is difficult to determine how much exactly.

The owners of Cleary Summit B&B have forwarded complaints to DNR that the noise of the trucks wakes up their clients. To the extent this is occurring, it is occurring at very low sound levels. The lack of complaints to the main booking source, the Japanese tour brokers, and by other Cleary Summit residents indicate this is an uncommon occurrence. It is likely that some clients resent the intrusion into the experience being marketed by Cleary Summit B&B, but neither the assessment of physical impacts, the interviews with the Japanese tour brokers, nor the decline in revenues in light of similar declines elsewhere support a conclusion that the effects have been devastating or very large.

There is not likely to be any significant impact to the Mt. Aurora Skiland where the majority of the viewing occurs. The physical impacts of light and noise are not significant enough to cause a significant degradation of the experience. This conclusion is confirmed by interviews with Japanese tour brokers.

The Department recognizes that the business owners dislike the haul road, and especially the businesses on the south side of the ridge believe the haul road disadvantages them relative to the situation before the haul road was constructed. However, the Department concludes that the haul road has not had a large effect on the number of tourists coming to those locations. It will have an effect on some clients. The business owners believe that it decreases the value of the experience they can offer, and to some extent it does.

C. Indirect Impacts (Regional Effects)

The indirect impact of any decline in tourists at the Cleary Summit businesses is dependent on the existence of a regional effect. If tourists choose not to go to Cleary Summit because of the mining activity, will they choose to go elsewhere in the Fairbanks Region? If a tourist who avoids Cleary Summit is lost to the Fairbanks area, then there may be important indirect impacts related to the impacts to the Cleary Summit businesses. If they are *not* lost to the region or to Alaska, then the impacts are a transfer between businesses — some lose business, and some gain — but there is no net loss to the region or State.

To demonstrate a regional impact from the True North haul road, the following must be true: 1) there must actually be an impact to Cleary Summit businesses; and, 2) there must not be displacement (that is, other locations must not be gaining what is lost at Cleary Summit).

The Actual Impact at Cleary Summit. As noted previously, while there may be some impacts to the businesses on the south side of the ridge, there is unlikely to be a significant effect on Mount Aurora Skiland where most of the aurora-viewing occurs.

Displacement. Cleary Summit businesses cater to two categories of tourists: nightly visitors and overnight visitors. Mt. Aurora Skiland busses tourists nightly from those based in Fairbanks. The three overnight businesses south of the ridge market to those who spend the night.

There is currently no perfect alternative to Cleary Summit for those aurora-viewers who prefer to remain based out of Fairbanks. There are numerous locations from where to view the aurora within a short drive of Fairbanks, such as the Moose Mountain Ski Area. However, none offer the same combination of view plus facilities (restrooms, warming areas, food) as does Mt. Aurora Skiland. However, as noted above, the impact to this tourism group is negligible.

However, there are alternatives for those who wish to spend the night. There are a number of businesses that may be too far a drive for nightly visitation, but provide aurora-viewing opportunities combined with overnight lodging. These include:

- Chatanika Lodge
- Chatanika Gold Camp
- Chena Hot Springs Resort
- Arctic Circle Hot Springs Resort
- Bettles Lodge

If some aurora-viewing tourist traffic is lost to Cleary Summit, some is likely to be picked up by these businesses.

Displacement from Mt. Aurora Skiland. Viewing the Northern Lights is a portable activity. The lights shine everywhere in interior Alaska — not just at Cleary Summit. The advantage of Cleary Summit is the view and its proximity to Fairbanks. There are many other locations with a suitable surrounding and facilities. The advantage of Mt. Aurora Skiland is that it is able to handle the volume of tourists in close proximity to Fairbanks in a heated facility. There are

other locations around Fairbanks where one can see the northern lights, but Mt. Aurora Skiland is “by far the primary destination within a half hour drive of Fairbanks that has good highway access, parking, and heated aurora viewing concession.” According to the Northern Economics report (pages 5 and 18):

Currently Cleary Summit [*Note: Mt. Aurora Skiland*] is the primary site close to Fairbanks with a capacity for more than 200 people to wait in warmth for aurora viewing opportunities; the only alternative currently operational is the aurora viewing/ice fishing tours that use heated running busses that they charter to the Chena Lakes Recreation area. Tour operators have looked for alternate sites in the past. Moose Mountain remains a potential alternative, but it is presently undeveloped in terms of a heated facility at the summit for aurora viewing. Also on the horizon is a new aurora-viewing facility to be installed by the owner of Chatanika Gold Camp at the top of the ridge behind his hotel/restaurant/bar facility, 10 minutes north of Skiland on the Steese Highway.

The lack of any currently equivalent alternative for the tourists based out of Fairbanks means that if tourists are lost to Mt. Aurora Skiland, the loss will have some element of a regional effect. Some who lose this opportunity will choose an imperfect replacement — either an overnight stay outside of Fairbanks or another alternative such as Chena Lakes Recreation area. Some might choose not to come. Those tourists in this last situation would be an indirect impact of any degradation of the experience and consequent loss in aurora visitors to Mt. Aurora Skiland. However, the previous analysis shows that Mt. Aurora Skiland has experienced minimal change, and thus no significant regional loss is likely.

Displacement from Cleary Summit B&B, Skiland B&B, and Mt. Aurora Fairbanks Creek Lodge. The distance from Fairbanks is less important for those who plan to spend the night. There are many more alternatives for this segment of the aurora-viewing tourism market. According to the Economic assessment of True North Haul Road on Winter Tourism in Alaska,

“The profile of visitors who now go to Cleary Summit Bed and Breakfast, Skiland Bed and Breakfast, or Mount Aurora Fairbanks Creek Lodge, matches that of those who can afford to go to the alternative, Chena Hot Springs (page 18).”

Degradation of the experience and loss of tourism traffic at these overnight businesses are much less likely to be associated with a significant regional decline in tourism. It is more likely to be a transfer to other aurora viewing locations. These other locations — Chena Hot Springs, Chatanika Gold Camp, etc — have room to absorb visitation transferred from Cleary Summit.

Some portion of the tourist traffic lost to the overnight accommodations on the south side of Cleary Summit may be due to the haul road. Most is most likely due to September 11th. However, a significant portion of the business “lost” that could be attributable to the haul road is actually likely to be a transfer — that is, “gained” by an alternative viewing location. The Department reaches this conclusion after reviewing the work of Northern Economics; reviewing price and location for other information within Northern Economics report, and based on the interviews with tour operators that do not show evidence of lacking aurora-viewing opportunities.

D. Summary

There is little impact of the haul road to Mount Aurora Skiland where most of the aurora-viewing occurs. That site is shielded from most of the light, noise, and other effects of the road. There is likely some level of impacts to the overnight businesses on the south side of the ridge: Mt. Aurora Fairbanks Creek Lodge, Cleary Summit B&B, and Skiland B&B. The Department recognizes that business owners dislike the haul road and believe it affects their businesses. However, based on a review of the physical impacts, the conclusions of Northern Economics, and the record of interviews with Japanese tour brokers, the Department concludes that the haul road has not had a large effect on the number of tourists coming to these locations. The majority of the decrease in visitation this year is likely due to the events of September 11th. In addition, much of the decrease that occurs to the overnight businesses south of the ridge can be accommodated elsewhere in the region and is not a loss to the State.

IV. ECONOMIC IMPACT ON THE STATE OF THE TRUE NORTH GOLD MINE, 24-HOUR HAULING

This section describes the economic impact of the True North Mine Project under the currently permitted transportation alternative. It assumes the expansion of the mine — thus, a four-year mine life — and 24-hour hauling as is currently permitted by DNR.

A. Benefits

The benefits to the State of the True North Gold Mine are those outlined under the Economic Description of the True North Mine. They are summarized below.

Direct Fiscal Impacts:

- \$4.4 million in payments to the State, Mental Health Trust or the Fairbanks North Star Borough.

Direct Job, Income, and Purchase Impacts:

- 120 new direct jobs over the project's life with an average wage of \$48,270 per year.
- \$6.5 million in direct annual payroll.
- \$9.5 million in other direct annual purchase impacts.

Indirect Impacts: Significant indirect benefits as discussed previously.

Other Impacts: As explained previously, the True North Gold Mine could be very important in protecting the viability and extending the life of the Fort Knox Gold Mine.

B. Costs

The cost to the State of the True North Gold Mine is any losses to the State due to a decline in the businesses of Cleary Summit.

Direct Fiscal Impacts. The payments to the State (State and local governments) by the Cleary Summit Business are property tax and bed tax. There will be no change in property tax as the tax is unrelated to the volume of tourism business. In fact, the tax rate for residential and business property is the same at Cleary Summit.

Mt. Aurora Skiland pays no bed tax. The three overnight businesses are expected to pay less than \$80,000 in bed tax over the four-year mine life. As previously explained, the Department does not conclude that there is a large decrease in volume coming to these businesses as a consequence of 24-hour use of the haul road. Much of any decrease in the volume of tourists accommodated by the overnight businesses on the south side of the ridge will likely be taken up by other aurora-viewing businesses in the region. Many of the prospective destinations such as Chatanika Lodge, Chatanika Gold Camp, and Chena Hot Springs Resort are within the Borough

and pay bed tax. It is only that portion of the decrease in volume that is not taken up elsewhere in the region that results in lost bed tax. In addition, if some volume decrease is taken up by businesses outside the borough, there will also be a loss of bed tax revenues. The actual amount of bed tax revenue lost cannot be determined, but it is likely to be a small portion of the 4-year \$80,000 total that would have been paid.

Direct Job, Income and Purchase Impacts: There would be no significant overall impact. Loss to the businesses is not large enough to have an appreciable, region-wide effect on jobs. It may impact the owners of the three businesses. At a regional level, the loss in income to the owners of the overnight Cleary Summit businesses is offset to some extent by an increase in income to other businesses that gain the “lost” tourists.

Indirect Impacts. There would be no significant impact. As explained previously, the Department does not believe that there is a significant effect on the Mt. Aurora Skiland, where most of the aurora viewing occurs. Most of the loss to the overnight businesses on the south side of the ridge is likely to be mostly accommodated elsewhere in the region.

V. ECONOMIC IMPACT ON THE STATE OF THE TRUE NORTH GOLD MINE, 12-HOUR HAULING

The Department has repeatedly been asked by the Cleary Summit businesses to restrict ore hauling to 12 hours. In fact, comments to DNR from the business owners have remained consistent: they desire that hauling be restricted to only the daytime 12 hours.

A. Effect Of 12-Hour Hauling On The Mine

FGMI could respond to a requirement for 12-hour hauling by

- Restricting mine operation to 12 hours — mining and hauling for 12 hours.
- Mining 24 hours and stockpiling ore during the night and hauling during the daytime 12 hours.

DNR knows of no large mine that restricts mining to 12 hours only. The Greens Creek, Red Dog, Fort Knox, and Illinois Creek Mines all operate 24-hours per day. The proposed Pogo Gold Mine would be a 24-hour per day operation. Mining is very capital intensive. Restricting operations to 12 hours each day doubles the length of the payback period. An over \$70-million investment with a four-year payback is very different than the same investment with an eight-year payback.

In addition, the Fort Knox mill is optimized for a mix of True North and Fort Knox ore. Once the mill is optimized, it is difficult or impossible to re-optimize the process for different mix of ore every 12 hours. For that reason, it is much more efficient for Fort Knox to process a steady-stream mix of True North and Fort Knox ore 24 hours a day.

FGMI informed DNR that if they were made to haul for 12 hours, they would continue to mine 24-hours per day and stockpile the ore and haul the entire day's worth of ore during the 12-hours in which hauling was permitted. DNR's experience with the mining industry confirms this as the most likely option. It is the option analyzed below.

Twenty-four hour mining and 12-hour hauling requires FGMI to shoulder the following additional costs.

- Purchasing 9 new trucks so that the nighttime hauling could be done during the day. Trucks now run 24 hours per day. Nine trucks run through the night. If nighttime hauling were eliminated, it would require nine more trucks during the day to move the same amount of ore. FGMI would purchase tractor-trailers, similar to the 60-ton capacity units they currently own. This would simplify operating, maintenance, and warehouse inventories. The cost of these trucks is \$202,400 per truck. The cost of nine trucks is \$1.82 million.
- FGMI would have to enlarge the stockpile at the True North end of the haul road and create a stockpile at the Fort Knox end near the crusher. Currently, the trucks discharge directly into

the Fort Knox crusher. A significant cost is re-handling the material from the stockpile during the night and dumping it into the crusher. The cost is estimated at \$0.35/ton. This cost would apply only to the half of the ore moved during the day and stockpiled for night. FGMI estimates to haul 3.7 million tons of ore each year. The total cost of re-handling is \$0.35/ton times half of 3.7 million tons or approximately \$650,000.

The cost of the 12-hour hauling to FGMI is therefore \$0.65 million each year for rehandling the ore plus an initial cost of \$1.82 million to purchase the 9 new trucks. This equates to a total cost of \$3.76 million for the remaining three years and \$4.4 million if the 12-hour hauling had been applied the first year.

B. Economic Impact of 12-Hour Hauling to the State

Exploration Impacts. An important long-term economic impact is the loss of revenues for exploration of the mining district. Some portion of the revenues from True North has been and may continue to be used for exploration of the district to replace reserves being consumed at Fort Knox and True North. If larger costs at True North decrease the exploration effort in the district, it may result in a shorter life of the Fort Knox Gold Mine. Any shorter life for Fort Knox, one of the Borough's largest employers and its largest taxpayer, would overwhelm any other impact from the decision.

Other Non-Economic Impacts. At present, the main complaint that DNR receives from Cleary Summit residents is dust during the daytime. DNR has addressed that concern by requiring FGMI to surface the section of the road closest to the residences, use calcium chloride, and water the road. DNR still receives complaints about dust. The amount of dust is proportional, in part, to the use of the road. An additional nine trucks hauling ore during the day will probably result in a noticeable increase in daytime dust and an increase in complaints and impacts to the surrounding Cleary Summit neighbors (not just the businesses).

Taxes and Royalties. To the extent that FGMI pays royalty, mining license tax, or corporate income tax, any increase in cost to the company due to 12-hour trucking will result in lower payments to the State. To date, FGMI confirms that they have not paid royalty or taxes because True North has not yet made a profit, considering its development costs, purchase and exploration costs. It is possible that they may not pay royalty or taxes under the four-year life of the mine. Some level of royalty or corporate income tax is possible, depending on gold prices and the amount of estimated reserves that prove up.¹⁴

True North Gold Mine is an independent corporate unit for purposes of paying royalty and taxes. The addition of either \$3.76 or \$4.4 million in additional costs due to a 12-hour haul schedule will delay the time at which the Gold Mine earns a profit and pays royalty/taxes. A 12-hour haul

¹⁴ Claim owners who have leased their claims to FGMI are receiving a percentage of the gross receipts from FGMI. They owe 3% of that amount as royalty to the State. The State expects to receive \$265,000 in royalty payments from these claim owners. The first check of \$18,500 has already been received. However, this amount does not vary with mining cost.

schedule would result in some percentage of that amount that might otherwise be due the State not being paid.

Economic Gain. The economic gain from 12-hour hauling would be economic benefit from retaining whatever tourism business would otherwise be lost at Cleary Summit. As explained previously, the economic benefit of 12-hour hauling to the State from the businesses at Cleary Summit is that the Borough would retain the bed tax that would otherwise be lost. Bed tax losses would come from those overnight visitors lost at Cleary Summit and not gained by another aurora-viewing location, or lost at Cleary Summit and gained by a location outside of the borough (which does not pay bed tax). While it is not possible to quantify the exact amount, the total bed tax paid at Cleary Summit for four years is less than \$80,000. The total bed tax revenues lost would be a small portion of that amount.

Impacts from Reasonably Foreseeable Development. This economic analysis has focused on the decision remanded to DNR for further economic analysis. It focused on the impacts from the True North Mine as originally proposed, and the pit expansion decision that is now before DNR. No other mineral property or area within True North has advanced to the stage where its permitting can be anticipated. FGMI is, however, exploring the Fairbanks region and focusing on other targets within the True North claim block and within the millsite lease. At some time, it is possible that FGMI will ask for further enlargement of its mining area at True North. If this occurs, it will likely lengthen the time that the road right-of-way is in use for hauling ore.

This change would have no significant effect on the conclusions of this economic analysis. The economic benefits of the mine and its impact on Cleary Summit businesses are proportional to the length of time the haul road is in use. The mine's impacts, both positive and negative, generally grow in proportion to the amount of ore mined and the length of time the mine, and haul road, are in use. If more ore is found, the direct fiscal impacts; direct job, income and purchase impacts; indirect impacts; and other impacts grow. Similarly the negative impact on Cleary Summit businesses also grow in proportion to the length of time the haul road is used. Their position relative to each other does not change.

There are two exceptions to this analysis. First, there are two one-time direct fiscal payments that would not be repeated. Approximately \$83,000 of one-time payments to DNR and the Mental Health Trust for road construction would not be repeated. This is less than 2% of the direct fiscal payments made by the mine to the State (including Mental Health Trust).

Second, the longer the mine operates, the more likely it will be that FGMI will pay royalty, mining license tax, or corporate income tax to the State. If so, the 12-hour hauling alternative would cost the State significant direct fiscal payment. That is, the combined percentage of profits paid the State include: 3% of profits paid for royalty, up to 7% for mining license tax, and 9.4% for corporate income tax. In theory, approximately 19% of any additional cost, such as that required for 12-hour hauling would be born by State in the form of lower tax and royalty revenues. In practice because of deductions, the amount paid the State is usually far lower than 19% of profits. However, the longer the mine operates, the greater the likelihood that some portion of the cost of 12-hour hauling will be borne by the State in the form of lower royalty and tax payments.

C. Summary

With respect to the option of prohibiting nighttime hauling, this economic impact analysis focuses on the economic impact to the State and the businesses. The analysis shows that prohibiting nighttime hauling would have no large benefit to the State, and could possibly have a negative effect. The most significant cost would be a small transfer of business from overnight businesses back to Cleary Summit from other aurora-viewing businesses in the region. This is not an effect that merits the additional cost: \$3.76 million cost if the stipulation was applied today or \$4.4 million if it had been applied at the time of the original permitting decision. In addition, the possibility of a decrease in future royalties or tax revenues, or any effect on the long-term viability of Fort Knox is of much greater economic impact to Fairbanks and to Alaska than the bed tax revenues to the Fairbanks Northstar Borough that would be recovered because of a 12-hour hauling prohibition.

VI. DECISION

DNR is required under AS 38.05.850 to “give preference to that use of the land that will be *greatest economic benefit to the State and the development of its resources.*” In making that decision, DNR has evaluated the economic and non-economic impacts to the State including those to Cleary Summit residences and business. DNR takes its initial direction from applicable land use plans. DNR’s applicable land use plan for State lands, the Tanana Basin Area Plan, designates the primary use for State land in the Cleary Summit area to be mineral development. Recreation is a secondary use to the extent that it does not interfere with mineral development. The Tanana Basin Area Plan was adopted and revised after a long and extensive public process involving many rounds of meetings and comment.

When making a decision under AS 38.05.850, DNR looks at economic impacts, including fiscal and other impacts. However, DNR does not restrict its view to only those quantifiable economic impacts. If DNR viewed its responsibility under Section .850 as a fiduciary responsibility to maximize economic return, it would not have established as stringent noise and light stipulations as it did. The Department takes a larger view of its responsibilities, including its concern for neighbors and its concern for the overall health of businesses — mining or otherwise — that use State land. DNR attempts to maximize return to the State and minimize negative effects to the State or to other groups. Negative effects cannot always be avoided completely. For example, it would be unlikely that DNR would require millions of dollars in private mitigation to achieve a few thousand dollars of additional benefit to particular businesses. DNR is also aware of its fiduciary responsibility to maximize income on School Trust and Mental Health Trust lands. A portion of the right-of-way crosses School Trust and Mental Health Trust land.

In its previous decision, DNR evaluated all of the impacts to the Cleary Summit residents and businesses. DNR had previously come to the conclusion that it had appropriately balanced impacts to the mining company and impacts to the residents. DNR previously considered the fact that residents surrounded by State land do not have an absolute right to be “noise free” and “light free.” The public has a right to use the road. The State and others have a right to develop the land, even though it affects the “noise free” and “light free” environment, especially near a highway in an area zoned and planned for mining and general use. DNR previously concluded that the effort to condition the mining use allowed by DNR’s statutes and plans so that it does not harm other businesses is thus a question of reasonableness and balance. DNR previously imposed what it believed were reasonable standards that would decrease the potential impacts to residences and businesses, including the economic impacts.

In this decision, DNR further evaluated the economic impacts to the State and the Cleary Summit businesses. After that additional evaluation, the Department affirms its previous decision, that use of the North Pedro route for an access and haul road between the True North Mine and the Fort Knox Mill provide the greatest economic benefit to the State and the development of the State’s resources.

The Department comes to this conclusion for all of the reasons outlined in the original decision. This economic analysis provides additional quantitative evidence to support that original decision. This economic analysis has shown the large direct, indirect, and other benefits of the

True North Gold Mine to the State and FNSB. In comparison, after millions in mitigation and significant stipulations to reduce the effect of noise and light on the quality of life in the subdivision, nearby residences and businesses, the economic loss to the State from the effect on Cleary Summit businesses is quite small.

For these reasons, I hereby affirm the Department's original December 20, 2000 decision on the True North Project.

_____/s/_____
June 12, 2002
Robert Loeffler, Director
Division of Mining, Land & Water

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be by **July 2, 2002** and may be mailed or delivered to Pat Pourchot, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918, or sent by electronic mail to dnr_appeals@dnr.state.ak.us. This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the Department on the 31st day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.