

**TESTIMONY OF ALAN THOMETZ
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**HOUSE ENVIRONMENTAL, NATURAL RESOURCES, AND AGRICULTURE
FINANCE COMMITTEE**

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Thank you, Madam Chair, members of the committee, for the opportunity to testify. My name is Alan Thometz and I am the Vice Chair of the Minnesota Center for Environmental Advocacy. I have 35 years of banking and corporate finance experience. I have an MBA from the University of Minnesota, a Chartered Financial Analyst designation, and am an adjunct instructor at the University of St. Thomas, Augsburg College, and St. Catherine University.

There are a few points on the topic of financial assurance that I would like to briefly discuss:

1. What does financial assurance mean?
2. An estimate of amount needed for financial assurance.
3. Proposed instruments for meeting the financial assurance requirements.

Financial Assurance

Quite simply, financial assurance is setting aside an amount of money at the beginning of mining operations which is sufficient to meet all projected reclamation costs at closure and ongoing water treatment costs.

PolyMet's own estimates anticipate hundreds of millions of dollars of environmental clean-up obligations - an unprecedented amount. The MNDNR rarely requires financial

assurance of taconite mines. PolyMet is the first and by far biggest financial assurance package in the state of Minnesota.

- a. There is an unfortunate pattern to the history of mining in the U.S. Ore is discovered, mined, and depleted over time, frequently leaving behind a bankrupt company and an environmental disaster. LTV is an example of this pattern at the very site PolyMet now controls. LTV declared bankruptcy and left behind environmental damage with an estimated clean-up cost of \$25.8 million.
- b. Pay-as-you-go plans do not work. Consider the Pension Benefit Guaranty Corporation, a U.S. Government agency that now supports the retirement incomes of more than 40 million American workers. These plans were sponsored by companies that failed, plans the government now has to support.

An estimate of amount needed for financial assurance

PolyMet did not, despite over 2,200 pages of documents, explicitly quantify the amount needed for financial assurance. They merely provided ranges for clean-up costs allowing us to estimate the amount needed.

Using their own numbers, which very well may be conservative, the cost of reclamation at mine closure may be \$200 million. Ongoing water treatment costs, lasting 200 years, could reach another \$6 million annually. These estimates are based on several assumptions about inflation and labor rates, equipment costs, and other factors. To calculate the amounts necessary to meet the financial assurance requirements further assumptions about rates of returns on investments and discount rates must be made. Generally these factors are very difficult to forecast for even three or five years.

This said, an amount of \$200 million would be necessary, if invested at 3.0%, to fund the \$6 million water treatment cost annually. PolyMet's total amount needed to meet its financial assurance obligation in 20 years would be \$400 million - \$200 million at closure and \$200 million for ongoing water treatment.

PolyMet has not provided for this amount in their capital plan. In thousands of pages of documents there is no discussion of the amount or how they intend to fund their financial assurance obligation.

Proposed instruments

MN statute provides five different financial instruments for meeting the financial assurance requirement. In our view, PolyMet has only one commercially viable option: a trust fund. The MNDNR would be the beneficiary of this bankruptcy-proof trust. Earnings on investments would be reinvested and increase over time to meet PolyMet's future environmental obligations.

This conclusion is based upon our market research: surety bonds and insurance policies are not available in the amount or for the term necessary. Bank letters of credit would need to be cash collateralized and bank fees would offset the beneficial compounding of earnings.

PolyMet's shareholders want a good deal, don't future generations of Minnesotans deserve the same?

Madam Chair, members of the committee, I thank you for your attention.