Alaska's bad bet:

why the proposed Ambler Road won't pan out for Alaskans

NATIONAL PARKS CONSERVATION ASSOCIATION

Topline

According to a new independent economic study, the State of Alaska has systematically failed to address the real costs and economic risks of the proposed Ambler Road. The study found that moving forward with the road is unlikely to bring in any revenue for the state. Additionally, the road may put AIDEA's credit rating in danger, limiting its ability to provide low-cost loans for Alaska businesses. Even under the best-case scenario, the state would see returns of 5 to 10 times less than it could make from simply investing the money in low-risk bonds. Despite all this, the state continues to spend significant money on the road, even though the economic conditions AIDEA has laid out for construction of the road may never, in fact, be met.

What is the proposed Ambler Industrial Mining Road?

The Alaska Industrial Development and Export Authority (AIDEA) has proposed to construct, operate, maintain, and, ultimately, remove and remediate a 211-mile, all-season, industrial access industrial corridor from the Dalton Highway to the currently undeveloped Ambler Mining District in the Brooks Range of Northwest Alaska. As proposed, the road would be closed to public traffic. It is intended to provide access to four potential mines in the Ambler Mining District.

How will the road be paid for?

Accepting the state's cost estimates, the total expenditures that will be required to build, maintain, and then decommission the proposed industrial corridor total about $1.4 billion. AIDEA has stated that it will not move forward with the road until it has signed lease agreements with the mining companies that will commit the mining companies to pay tolls that, collectively, will more than cover the full costs of building and operating the project.

> *AIDEA has not made a serious effort*
>
> to analyze the economics of this road or determine if it will actually make the state a profit

AIDEA's projected economic benefits from the road are unlikely to come true and are justified by a set of extremely optimistic assumptions:

1. Assumes there will be at least 4 mines: The AIDEA-sponsored economic analysis and the BLM FEIS accepted AIDEA's assumptions that rely on the premise there will be at least four mines in the Ambler region who will together pay for the road. Indeed, AIDEA says it will not proceed with construction until all four mines have signed leases committing themselves to paying the full costs of the road. However, at this point, only one of those mines has undergone a feasibility analysis. None have permits.

> *The state is moving forward with major spending*
>
> even though they say they will not build the road without signed contracts covering the costs from four mines, only one of which has done a feasability study, which had significant inaccuracies

2. Assumes an additional 20 years of road life without any basis: The 2020 Ambler Access Road FEIS analyzed a road that had a fifty-year life. In most previous analyses, the road's life was assumed to be 30 years because that was the longest term that financial markets allowed for municipal revenue bonds of the sort that AIDEA would sell to finance the construction of the Road. In the FEIS, BLM accepted AIDEA's optimistic assumptions that it would pay off the bonds in 30 years and make another 20 years of profit although the mining companies, ore deposits, mining technology, and markets cannot not be identified at this point in time. Report, p. 5.
3. Assumes mines will be able to pay for road despite evidence to the contrary. According to the FEIS, the road will cost $1.4 billion to finance, build, maintain and ultimately deconstruct. Arctic, the only mine that has done a final feasibility study attempting to lay out costs, underestimates its likely toll and maintenance costs by nearly half.

> *The numbers in the FEIS cannot be trusted*
>
> since it is difficult to do a serious economic analysis of the Ambler Road with so many unknowns

According to the report: "What becomes clear when we use the payments presented by the only mine that has been developed far enough to have a final Feasibility Study, is that the Ambler Access Road, as presented in the FEIS, cannot pay for itself. There is a critical disconnect between the mining companies and what they are presenting to their investors, and AIDEA and the bonds that they are going to sell to their investors." Report, p. 17.

4. Although AIDEA represents the road investment as riskless, AIDEA is unlikely to secure the $1.4 billion in bonds needed to build the road unless it puts state money, its credit rating, or both on the line: Mineral investments are generally perceived to be high risk by investors. While AIDEA can generally secure lower-interest financing than mining companies, that is unlikely to be the case when they are attempting to finance a road dependent on the return from speculative mining unless AIDEA backs the loans with state money and/or loan insurance. When AIDEA financed Red Dog Mine through the sale of bonds, "AIDEA had to ensure the bond payments by purchasing bond insurance and providing an irrevocable letter of credit. The state of Alaska also provided collateral in the form of state assets that AIDEA could use to assure that it would be able to pay off the bonds." Report, p. 8.

Project costs are almost always underestimated.

The third-party report uses the figures provided by the FEIS. However, a pattern of "underestimating costs of public works projects" is so prevalent that it has been the subject of considerable research interest. An article published in the Journal of the American Planning Association sought to determine whether this divergence between project cost at the time of approval and ultimate actual cost was the result of error in the cost estimation or was the result of purposeful misrepresentation. It concluded that:

> "...the cost estimates used to decide whether such [infrastructure] projects should be built are highly and systematically misleading. Underestimation cannot be explained by error and is best explained by strategic misrepresentation, that is, lying. The policy implications are clear: legislators, administrators, investors, media representatives, and members of the public who value honest numbers should not trust cost estimates and cost-benefit analyses produced by project promoters and their analysts."

The state has the right and duty

to justify the road economically before spending more money that could be invested in other state projects

Ignoring the flaws in AIDEA's studies and projections, under a best-case revenue scenario, AIDEA projects a return to the state of 5 to 10 times less than the state would make from simply investing the money in bonds.

The Cardno Report, which underestimates the cost of the road by over $500 million, projects a rate of return on AIDEA's investment of 0.6%. "Expressed as a percent of the capital investment in the Ambler Access Road (assumed to be $875 million including the cost of money), the annual net revenue would be about 0.6 percent of the capital investment. Both represent relatively low returns on the investment despite the billion dollars of gross revenues collected in tolls. Over the last decade, the actual yield on relatively safe 30-year high quality market corporate bonds has been between 6 percent (January 2010) and 3 percent (April 2021)." Report, p. 20.

$30 million and counting

Amount the State of Alaska has spent to secure permits for a road without doing a real cost estimate

The road will provide little to no economic benefit to local communities.

"While the multi-national mining companies may see substantial positive economic impacts from the proposed Ambler Access Road mines, the local people and local economies will see little of those projected economic benefits for the simple reason that the small, isolated villages cannot supply either the inputs the projected mines will need to operate or the goods and services on which employees at the mines are likely to want to spend their mining paychecks." Report, p. 31.

No real plan or expectation for profit

Additionally, there is significant risk to the state's credit rating if the mines can't repay the bonds

Self-interested, wishful thinking, rather than analysis

appears to be driving AIDEA's pursuit of the Ambler Industrial Road Corridor

AIDEA's economic assessment of this road and pursuit of permits is, at best, premature.

"The Ambler Mining District is in the exploratory phase of mineral development. Three of the four projected mines have not yet finished feasibility studies. None have mining permits. For the last 20 years of the "extended" 50-year life of the Ambler Access Road proposed by the FEIS, there are no identified mines or mining companies that have been projected as using the Ambler Access Road." Report p. 2–24.

..."If we assume that all of the projected Ambler District mines that are presented in the FEIS actually come into existence, and that they produce the metal ore concentrates specified in the FEIS, and they pay usage tolls similar to the average across all four mines, then the total payment to AIDEA will be about $691 million, or about 49 percent of the $1.4 billion cost of the road." (page 17).

NATIONAL PARKS CONSERVATION ASSOCIATION

750 West 2nd Ave, #205 • Anchorage, AK 99501
alaska@npca.org | www.npca.org/Ambler

Alex Johnson
Alaska Senior Program Manager
ajohnson@npca.org | (907) 891-2272