



COUNTY ADMINISTRATOR'S OFFICE

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C.H. HUCKELBERRY
County Administrator

July 15, 2011

Joseph Snell, President and CEO
Tucson Regional Economic Opportunities, Inc.
120 N. Stone Avenue, Suite 200
Tucson, Arizona 85701

Re: TREO's June 2011 Economic and Fiscal Analysis of Rosemont Mine

Dear Mr. Snell:

I appreciate the information contained in TREO's June 2011 Economic and Fiscal Analysis of Rosemont Mine. I also appreciate Rosemont's corporate membership in TREO.

The economic information provided clearly indicates the venture will be extraordinarily profitable for Rosemont. What is lacking is the other side of the proposed action, which is traditionally called cost. Most large public works or industrial undertakings, such as opening a new mine, undergo a traditional cost/benefit analysis where the fundamental benefits are weighed against the cost. The cost side of the equation is completely omitted from TREO's analysis. The costs, or negative economic impacts, were similarly left out of the Rosemont-funded Arizona State University and Department of Mine's economic analysis.

TREO's analysis would appear not to provide any new information, with the exception of one number that I find shocking. On Page 6, in Figure 2, which lists Rosemont's capital costs, \$211,743 is the total cost listed as Rosemont's contribution to modifications to Highway 83. The heavy truck traffic on Highway 83 and on county and city roads to and from the Port of Tucson, located at Kolb and Valencia Roads north of Interstate 10, would certainly result in the need for a significantly higher level of road improvements and maintenance than if the mine was not permitted. A standard HAWK light and related improvements for pedestrian crossings can cost more than \$211,000.

Mr. Joseph Snell

Re: **TREO's June 2011 Economic and Fiscal Analysis of Rosemont Mine**

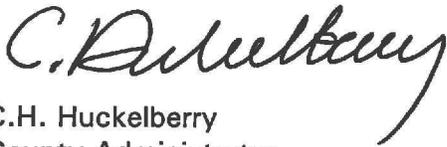
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Some of the economic impacts provided in TREO's report also deserve to be put into context. In an October 2010 memorandum to the Board of Supervisors (attached) I compared Rosemont's estimated property tax contribution of \$3.5 million annually to that of Freeport McMoRan and ASARCO. I reported that Rosemont's annual property tax contribution to Pima County would be 0.29 percent, or less than one third of one percent of Fiscal Year 2009/10 combined primary and secondary property tax collections.

Again, I appreciate this information, but I had hoped for a more balanced and analytical cost/benefit analysis. Perhaps TREO would be willing to fund an appropriate study quantifying the cost side of this proposal.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/mjk

Attachment

c: The Honorable Chairman and Members, Pima County Board of Supervisors
Nicole Fyffe, Executive Assistant to the County Administrator



MEMORANDUM

Date: October 19, 2010

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: Proposed Rosemont Mine – Update on Permitting and Economics

Background

The proposed Rosemont Mine continues to be an active item of discussion. Rosemont's recent public relations efforts regarding their application for an air quality permit from Pima County resulted in hundreds of calls to the County. Many of these calls were orchestrated by a public relations firm employed by Rosemont: Zimmerman and Associates. Clearly, Rosemont is relying on public pressure contrived by a public relations firm rather than on the technical strength of their proposal. In addition, the *Northwest Explorer* published an article recently reporting that Marana's Mayor and Council approved a resolution rescinding their previous opposition to the proposed mine due to alleged economic benefits to businesses and contractors in the Town.

The purpose of this memorandum is to inform the Board of the status of the many state, federal and local permits Rosemont still needs before it can move forward. In addition, it is also important to provide a context for evaluating some of Rosemont's economic claims given their public relations campaign on the importance of jobs.

Permits Status

New mines require many permits, and some are more difficult to secure than others. Rosemont has acquired some permits, mainly permits that state or local entities lack discretion to deny. An example of this type of "must issue" permit is the permit Rosemont received from the state to withdraw groundwater from production wells near Sahuarita, Arizona.

If the mine is to be built, permits would be needed to use federal land controlled by the US Forest Service and Bureau of Land Management (BLM). Although the Coronado National Forest says it cannot deny the mine, the BLM has previously denied permits to the mining industry, and the Forest Service arguably also possesses this right; however, the Forest Service has not clearly stated such a position in the past. Before the Forest Service and

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BLM can issue permission to use federal land, the federal agencies need to comply with the Endangered Species Act, the National Historic Preservation Act, and many other laws such as the National Environmental Policy Act. The federal land-managing agencies need to conduct investigations and discuss the project with other federal agencies and tribal entities. Permission to use federal lands cannot be granted until discussions and investigations are completed and a draft and final Environmental Impact Statement (EIS) have been completed, which includes a public review and comment period. This process could conclude in 2011 or 2012, but the actual timeframe for completion is not known. The official timeline for publication of the draft EIS is still the end of 2010, but it appears this is an unrealistic timeline based on a number of still unresolved issues.

The mine also needs permits under the Clean Air Act and Clean Water Act to pollute water and air. Permits under the Clean Water Act would be issued by the Arizona Department of Environmental Quality (ADEQ): the timeline for at least one of the ADEQ permits is reportedly the subject of ongoing negotiations.

A separate Clean Water Act permit is needed from the United States Army Corps of Engineers (Corps); Rosemont has only recently submitted required information to the Corps. The Forest Service's deliberations over the alternatives seem to have delayed preparation of the administrative draft EIS. The Corps will use the information submitted by Rosemont to examine alternatives to minimize impacts to waters of the United States, which are located along stream channels in the area. These areas would be filled with hundreds of feet of crushed rock and overburden; others would be diverted and channelized. At this time, it is unclear to what extent the Corps' examination of practicable alternatives to filling and diverting streams under the Clean Water Act will affect the Forest Service's range of project alternatives in the EIS.

The responsibility for the Clean Air Act is delegated to Pima County via air quality permitting. At this point, no public hearing can be set for the air quality permit because Rosemont's application was deemed incomplete. Information about this permit is posted at <http://www.deq.pima.gov/permits/RosemontCopper.htm>. Other County permits will be required, depending on how the project is modified during the federal process and how it is laid out over the various state, federal and private lands in the area. County permits may include zoning and building permits, floodplain use permits, right of way permits and others.

There are a number of state permit procedures that require public hearings. One is the Certificate of Environmental Compatibility (CEC) for transmitting power to the mine. This permit process will be initiated in earnest once a draft EIS is published. The CEC is issued by the Arizona Corporation Commission. The state Aquifer Protection Permit (APP), issued by ADEQ, will also require a public hearing. Rosemont has applied for an APP, but no date has been set for the APP hearing or the permit issuance. Another state permit would be

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needed to connect mine haul roads to Highway 83, which should require a public hearing by the Governor-appointed State Transportation Board given the significant impacts of the mine on state highways. We understand this permit will not be granted until the EIS is completed.

Economics

For some time, Rosemont has been touting data from a 2009 economic impacts study conducted by Arizona State University and the Arizona Department of Mines and Mineral Resources, which we understand was funded by Rosemont. This has largely been a one-sided conversation. Recently, I heard a Rosemont official speak at a breakfast forum in Vail in which he cited results of this study. There has been considerable criticism of the study, including the fact that it provides only one side of the story – economic benefits-without attempting to assess the adverse economic impacts. The intent of the study was confirmed by one of its apparent authors at a Forest Service Cooperative Agency meeting. Department of Mines staff stated the purpose of the study was to look at, the benefits, not the adverse impacts of the mine – clearly not a cost/benefit economic study of a significant action.

In reaction to the Rosemont-funded study, the Mountain Empire Action Alliance and economist Thomas Michael Power, PhD conducted a study dated August 16, 2010, which critiqued the Rosemont-funded study and summarized likely adverse impacts. Power's study was submitted to the Forest Service as a scoping comment and was recently provided to the Board.

According to Dr. Power's study:

Economic impact studies such as Rosemont's are largely public relations exercises designed to demonstrate the positive impacts that proposed projects will have on the local economy. This allows private projects to demonstrate the public economic benefits that can help justify requests to make use of public resources. By design, the 'economic impacts' are always positive because external economic impacts are ignored....However, rational decision making usually involves carefully weighing the benefits of an action and comparing those benefits to the costs and deciding whether or not the benefits, on net, justify the costs. (Pages 52 and 53.)

Any study that considers benefits without considering adverse impacts is fatally flawed.

The Power's study calls for analysis of several potential adverse impacts from the proposed mine and summarizes the significance of these adverse impacts. These include many of the concerns Pima County and others have raised to the Forest Service and other permitting agencies:

- Transformation of Sonoita Highway 83, a scenic byway, into nothing more than a mine haul road;
- Pollution of air and water quality and water supply resources;
- Visual and recreational impacts from permanent scarring of national forest land in the Santa Rita Mountains;
- Impacts to wildlife habitat and corridors; and
- Irreversible destruction of cultural resources.

Essentially, these impacts must be mitigated and are, more importantly, irreversible. The Forest Service analysis must take into account not just the economic benefits raised by Rosemont, but also how specific and measured adverse impacts will affect other non-mining economic sectors that dwarf mining in their economic importance to the region, such as tourism and the attraction of high paying, non-extraction, nondestructive industries.

Impact to Local Government Revenues

According to Rosemont's website, the proposed mine and its economic impacts will generate more than \$19 million annually in local tax revenue. The Rosemont-funded study lists \$18.8 million as the average annual impact to local government revenues within the tri-county study area (Cochise, Pima and Santa Cruz counties). This study cites as the source of its direct impact data, the Rosemont Copper Project Update Feasibility Study, March 2009 and the Mine Plan of Operations and Mined Land Reclamation Study. However, attempting to determine how the \$18.8 million estimate was developed is quite difficult since additional reports cited are not available and due to the use of a regional economic forecasting model the Power's study calls a "black box." Staff has requested additional data from Rosemont but has not yet received a response.

We assume, but cannot verify, the \$18.8 million includes revenues to all local taxing districts, including schools, fire districts, incorporated cities and towns, and the three counties. The 2009 study does state this figure includes property taxes and state-shared revenue such as sales tax, income tax and severance taxes on minerals. However, because the \$18.8 million figure is a result of a regional economic forecasting model, it is difficult to determine precisely what those estimates were before multipliers were applied.

There is an estimate of property taxes included in the Feasibility Study of \$3.5 million annually. This appears to be a direct estimate of property taxes to be paid in Pima County for all property taxing entities in Pima County before multipliers or other indirect effects are estimated. For purposes of comparison, this \$3.5 million could be compared to the property taxes paid by two existing copper mining companies in Pima County: Freeport McMoRan Copper & Gold, Inc. and ASARCO, LLC.

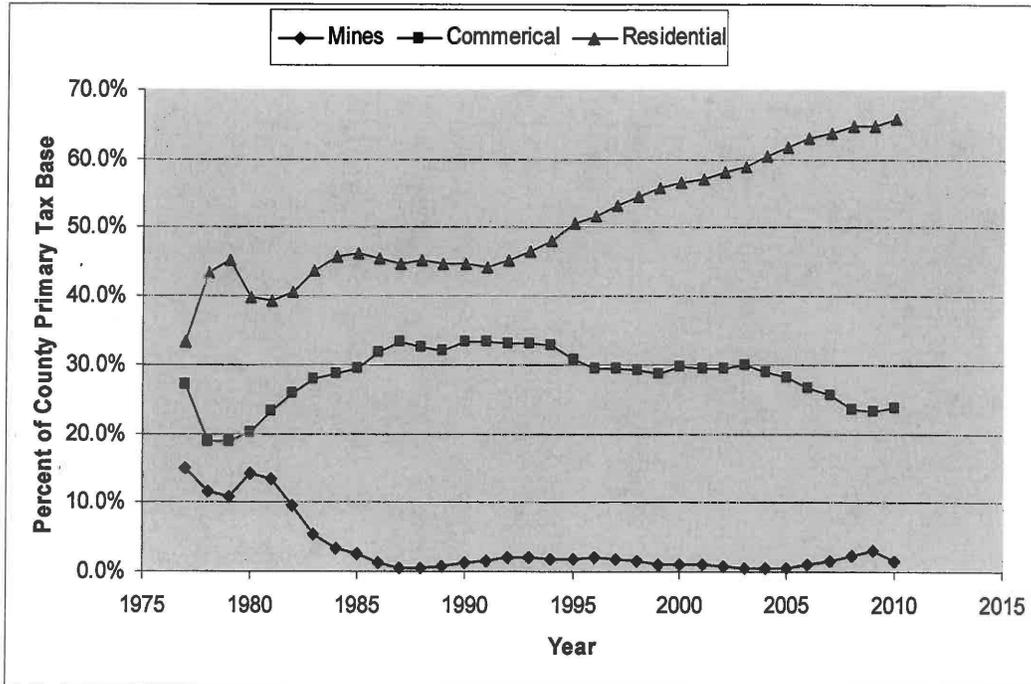
Mining Company	2008	2009	2010
Freeport McMoRan (formally Phelps Dodge)	\$18.3	\$22.7	\$11.3
ASARCO	4.6	9.0	4.7
Proposed Rosemont Mine Estimates: \$3.5 million			

Of interest to the Board may also be the estimated property taxes for Pima County, excluding other taxing entities. By examining tax rates for the proposed Rosemont Mine site, it is estimated that Pima County’s primary and secondary tax rates are approximately one third of the total of the tax rates of all taxing entities. One third of \$3.5 million equates to \$1.155 million in annual primary and secondary property taxes to Pima County. To put this into context, Pima County’s combined primary and secondary property tax collections for Fiscal Year 2009/10 were \$399,317,506. This means Rosemont’s annual property tax contribution to Pima County would be 0.29 percent: less than one third of one percent of total collections. Clearly, Rosemont is of small consequence in the overall property tax base of Pima County.

In the past, we have provided data on the mining industry’s long-term declining contribution to the tax base of Pima County. This data has been updated to 2010 and includes the contribution relative to commercial and residential sectors. As you can see from the table and the graph below, mining continues to be less and less important to the health of the County’s tax base, and residential uses have shouldered most of the burden left by the state-mandated reductions in mining taxation rates.

Sector	Primary	Secondary
Mining	1.44	1.38
Commercial	23.82	24.79
Residential	65.79	64.02
Other	8.95	9.81
Total	100.00	100.00

Our most important customers from a tax base perspective are residential property owners.



Mining has steadily declined as a percentage of our tax base from over 15 percent in 1977 to less than two percent today. Mining is not a significant or even measurable economic component of our tax base.

Jobs

The 2009 Rosemont-funded economic study reports the mine will employ an average of 406 workers, and it appears the study then uses various multipliers to estimate how many new jobs will be generated at the local, state and national levels as a result of these 406 jobs. The Power's study is critical of the multipliers used to estimate these indirect jobs. Looking at the 406 direct jobs, it is necessary to put this number into context. The *Arizona Daily Star* conducts annual surveys of employers in southern Arizona and publishes a list of the top 200 largest employers by number of employees. According to this year's list, at 406 employees, Rosemont would rank 110th, meaning 109 other employers employ more people than Rosemont. This is significant since the adverse environmental impacts of Rosemont are quite likely more than most of the other higher ranked employers combined.

Missing from the jobs analysis associated with the Rosemont-funded economic study is the perspective of other job opportunities and economic development activities occurring and the employment environment of Pima County. As you can see from the discussion above,

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the addition of 400 mining jobs is not particularly significant to the economy given the percentage of mining-related jobs in the overall regional job market and economy.

In addition, a recent announcement by Roche/Ventana Medical Systems – the addition of a minimum of 500 bioscience positions with an average salary of \$75,000 annually – with little or no environmental resource impact – puts in perspective the jobs potentially created by the Rosemont extractive mining operation. While all jobs are important, some are more important than others, and other jobs have completely different resource impacts on the combined human and natural resources environment of Pima County. The combined impact of the Roche/Ventana Medical Systems announcement to the local economy exceeds \$700 million, again with little or no impacts to the natural environment.

Total Statewide Economic Impact

Freeport McMoRan publishes their economic impacts on Pima County and the State on their website. It appears they use the same authors as the 2009 Rosemont-funded economic study. Freeport's estimated impacts cannot be compared to Rosemont as the Rosemont study does not break down the impacts beyond the tri-county area. However, both studies do provide comparable statewide economic impacts. The Rosemont study shows an annual increase in economic activity of \$907 million for the State, whereas Freeport McMoRan shows \$319 million annually for the State. I was quite surprised the economic impacts for Rosemont were almost three times that of Freeport's, which indicates the Rosemont data is suspect and quite likely incorrect. Freeport employs 1,000 people, more than twice Rosemont's estimated 406 jobs. It appears Rosemont does not expect to be producing more copper annually than Freeport, so it is confusing that Rosemont's economic impacts are shown to be so much larger.

Three-dimensional Model

I have asked staff to develop a three-dimensional model of the Santa Rita Mountains and the proposed mine site, including the configuration of the mine as it was proposed in the Mine Plan of Operations. Since the EIS must include alternatives, I have also asked that the model include an option for the addition of separate components to reflect the alternative waste rock and tailing formations as they are made available by the Forest Service. Rosemont uses a small model as a prop in their mine tour but does not meaningfully show the topography of the mountains and the mine extraction and waste disposition features.

An accurate, adequately sized three-dimensional model will greatly assist the public in visualizing the proposed project and alternatives. Models such as this make it easier for people to gain a better understanding of the mining proposal and its impacts.

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Not only will modeling assist the general public in understanding the specific geographic and spatial relationships associated with the Rosemont proposal, it will allow for more complex and modern alternatives analysis that should be undertaken by the Forest Service. It is now commonplace to develop complex computer modeling associated with impacts in various time-continuous and location-specific alternatives for this mining operation, particularly as it relates to waste disposal, overburden placement and a dry-stack tailing arrangement. It is these components that are the most problematic and have the greatest impacts on natural resources. This three-dimensional model with various alternatives considered will also facilitate direct analysis and interpretation of alternatives that may be available to the Forest Service regarding their efforts.

Summary

Rosemont has a long and complex road ahead in the legally required permitting process, and Pima County's air quality permit is only one of many major permits still needed by Rosemont. In fact, our permit, while important, is not the most important permit required even though air quality is a very important aspect.

As the Board knows, we recently settled two air quality violations by ASARCO, LLC for excessive dust emissions from blowing tailings that violated permit standards and national ambient air quality standards. The settlement with ASARCO, LLC for these two violations was \$450,000. The primary reason the County is being so careful in reviewing the air quality aspects of the permitting for Rosemont is to avoid subjecting the individuals who may be located in proximity to Rosemont to similar air quality violations regarding regulated air quality emissions.

From an economic impact perspective, the Rosemont-funded study is flawed and misleading in that it only provides the benefits of the mine without addressing the costs of adverse impacts. The Power's study effectively summarizes the adverse economic impacts of the proposed mine, but additional analysis is likely needed. Although the mine would create jobs, other jobs may be lost based on potential adverse impacts to our local economy. Estimates of what appear to be direct property taxes to Pima County show how insignificant the Rosemont Mine would be to our tax base. Similarly, mining in general continues to decline in importance to the overall strength of our tax base.

CHH/mjk

c: Julia Fonseca, Pima County Environmental Planning Manager
Nicole Fyffe, Executive Assistant to the County Administrator