



Highlights of [GAO-09-429T](#), a testimony before the Subcommittee on Energy and Mineral Resources, Committee on Natural Resources, House of Representatives

Why GAO Did This Study

The General Mining Act of 1872 helped open the West by allowing individuals to obtain exclusive rights to mine billions of dollars worth of gold, silver, and other hardrock (locatable) minerals from federal lands without having to pay a federal royalty. However, western states charge royalties so that they share in the proceeds from various hardrock minerals extracted from their lands. For years, some mining operators did not reclaim land used in their mining operations, creating environmental and physical safety hazards. To curb further growth in the number of abandoned hardrock mines on federal lands, in 1981, the Department of the Interior's Bureau of Land Management (BLM) began requiring mining operators to reclaim BLM land disturbed by these operations, and in 2001 began requiring operators to provide financial assurances to cover reclamation costs before they began exploration or mining operations.

This testimony focuses on the (1) royalties states charge, (2) number of abandoned hardrock mine sites and hazards, and (3) value and coverage of financial assurances operators use to guarantee reclamation costs. It is based on two GAO reports: *Hardrock Mining: Information on Abandoned Mines and Value and Coverage of Financial Assurances on BLM Land*, [GAO-08-574T](#) (Mar. 12, 2008) and *Hardrock Mining: Information on State Royalties and Trends in Imports and Exports*, [GAO-08-849R](#) (July 21, 2008).

To view the full product, including the scope and methodology, click on [GAO-09-429T](#). For more information, contact Robin M. Nazzaro at (202) 512-3841 or nazzaror@gao.gov.

HARDROCK MINING

Information on Types of State Royalties, Number of Abandoned Mines, and Financial Assurances on BLM Land

What GAO Found

Twelve western states, including Alaska, that GAO reviewed assess royalties on hardrock mining operations on state lands. In addition, each of these states, except Oregon, assesses taxes that function like a royalty, which GAO refers to as functional royalties, on the hardrock mining operations on private, state, and federal lands. The royalties the states assess often differ depending on land ownership and the mineral being extracted. For example, for private mining operations conducted on federal, state, or private land, Arizona assesses a functional royalty of 1.25 percent of net revenue on gold mining operations, and an additional royalty of at least 2 percent of gross value for gold mining operations on state lands. The actual amount assessed for a particular mine may depend not only on the type of royalty, its rate, and exclusions, but also on other factors, such as the mine's location relative to markets.

Over the past 10 years, estimates of the number of abandoned hardrock mine sites in the 12 western states reviewed, as well as South Dakota, have varied widely, in part because there is no generally accepted definition for a hardrock mine site. Using a consistent definition that GAO provided, these states reported the number of abandoned sites in their states. On the basis of these data, GAO estimated that there are at least 161,000 abandoned hardrock mine sites in these states, and these sites have at least 332,000 features that may pose physical safety hazards and at least 33,000 sites that have degraded the environment.

According to BLM data, as of November 2007, hardrock mining operators had provided financial assurances worth approximately \$982 million to guarantee reclamation costs for 1,463 hardrock mining operations on BLM land and 52 of these operations had financial assurances valued at about \$28 million less than needed to fully cover estimated reclamation costs. However, GAO determined that the assurances for these 52 operations should be more accurately reported as about \$61 million less than needed for full coverage. The \$33 million difference between GAO's and BLM's estimated shortfalls occurs because BLM calculated its shortfall by comparing the total value of financial assurances in place with the total estimated reclamation costs. This approach effectively offsets the shortfalls in some operations with the higher than needed financial assurances of others. However, the financial assurances that are greater than the amount required for an operation cannot be transferred to an operation with inadequate financial assurances. In contrast, GAO totaled the difference between the financial assurances in place for an operation and the financial assurances needed for that operation to determine the actual shortfall for each of the 52 operations for which BLM had determined that financial assurances were inadequate. BLM has taken steps to correct the reporting problem GAO identified.