Corporate guarantees and self-insurance are essentially the same. They leave an agency with nothing in the event of a bankruptcy, which is when most bond forfeitures occur. Independent analysis of western state bonding practices recommended that “No type or variety of corporate guarantee or self-bonding shall be accepted as financial assurance.”

Similar analysis has been conducted for coal mines in central Appalachia:


Alaska

No provision for corporate guarantees.

Arizona

R11-2-811 allows for the use of Corporate guarantees for financial assurance:

An owner or operator may satisfy the requirements of this Section upon successful completion of a financial test specified in subsection (A) or (B). Successful completion is determined by meeting the criteria of subsection (C):

A. The owner or operator shall have:

1. 2 of the following 3 ratios: a ratio of total liabilities to net worth of less than 2.0; a ratio of the sum of net income plus depreciation, depletion, and amortization to total liabilities greater than 0.1; or a ratio of current assets to current liabilities greater than 1.5;

2. Net working capital and tangible net worth each at least 6 times the costs estimated in the approved reclamation plan for reclamation;

3. Tangible net worth of at least $10 million; and

4. Assets located in the United States amounting to at least 90% of total assets or at least 6 times the costs estimated in the approved reclamation plan for reclamation.

B. The owner or operator shall have all of the following:

1. A current rating for the most recent bond issuance of AAA, AA, A, or BBB as issued by Standard and Poor’s or Aaa, Aa, A, or Baa as issued by Moody’s;

2. Tangible net worth at least 6 times the sum of the costs estimated in the approved reclamation plan for reclamation;

3. Tangible net worth of at least $10 million; and
4. Assets located in the United States amounting to at least 90% of total assets or at least 6 times the costs estimated in the approved reclamation plan for reclamation.

C. To show successful completion of the corporate financial test, the owner or operator shall submit the following to the State Mine Inspector:

1. A letter signed by the owner’s or operator’s chief financial officer demonstrating compliance with this Section;

2. A copy of the ICPA’s report on examination of the owner’s or operator’s financial statements for the latest completed fiscal year; and

3. A special report from the owner’s or operator’s ICPA to the owner or operator saying:
   a. The ICPA has compared the data (which the letter from the chief financial officer specified) as having been derived from the independently audited, year-end financial statements for the latest fiscal year with the amounts in the financial statements; and
   b. No matters caused the ICPA to believe the specified data should be adjusted.

D. After the initial submission of items specified in subsection (C), the owner or operator shall send updated information to the State Mine Inspector within 90 days after the close of each succeeding fiscal year. This information shall consist of all items specified in subsection (C).

E. If the owner or operator no longer meets the requirements of subsection (A) or (B), the owner or operator shall send notice of intent to establish alternative financial assurance to the State Mine Inspector. The notice shall be sent by certified mail within 90 days after the end of the fiscal year for which the year-end financial data show that the owner or operator no longer meets the requirements. The owner or operator shall provide the alternative financial assurance that meets the requirements of the Act and this Chapter within 120 days after the end of the fiscal year.

F. The State Mine Inspector may, based on reasonable belief that the owner or operator may no longer meet the requirements of subsection (A) or (B), require reports of financial condition by written request, at any time, from the owner or operator, in addition to those specified in subsection (C). If the State Mine Inspector makes a written finding, on the basis of the reports or other information, that the owner or operator no longer meets the requirements of subsection (A) or (B), the owner or operator shall provide alternate financial assurance that meets the requirements of the Act and this Chapter within 120 days after notification of this written finding.

G. The State Mine Inspector may disallow use of this test on the basis of qualifications in the opinion expressed by the ICPA in the report on examination of the owner’s or operator’s financial statements. An adverse opinion or a disclaimer of opinion will be cause for disallowance. The State Mine Inspector will evaluate other qualifications on an individual basis. The owner or operator shall provide alternate financial assurance that meets the requirements of the Act and this Chapter within 120 days after notification of this disallowance.

H. The owner or operator is no longer required to submit the items specified in subsection (C) when:

   1. An owner or operator substitutes alternate financial assurance that meets the requirements of the Act and this Chapter; or
2. The State Mine Inspector releases the owner or operator’s financial assurance under the Act and this Chapter.

I. An owner or operator may meet the requirements of this Section by obtaining a written guarantee. The guarantor shall be the direct or higher-tier parent corporation of the owner or operator, a group of legal entities which are controlled through stock ownership by a common parent corporation, a firm whose parent corporation is also the parent corporation of the owner or operator, or a firm with a substantial business relationship with the owner or operator. The guarantor shall meet the requirements for owners or operators in subsections (A) through (I) and shall comply with the terms of the guarantee. The certified copy of the guarantee shall accompany the items sent to the State Mine Inspector as specified in subsection (C). One of these items shall be the letter from the guarantor’s chief financial officer. If the guarantor’s parent corporation is also the parent corporation of the owner or operator, the letter shall describe the value received in consideration of the guarantee. If the guarantor is a firm with a substantial business relationship with the owner or operator, this letter shall describe this substantial business relationship and the value received in consideration of the guarantee. The terms of the guarantee shall provide that:

1. If the owner or operator fails to perform the reclamation covered by the guarantee under the approved reclamation plan, the guarantor will do so or establish a trust fund as specified in the Act and this Chapter in the name of the owner or operator.

2. The corporate guarantee will remain in force unless the guarantor sends notice of cancellation by certified mail to the owner or operator and to the State Mine Inspector. Cancellation may not occur during the 120 days beginning on the date of receipt of the notice of cancellation by both the owner or operator and the State Mine Inspector, as evidenced by the return receipts.

3. If the owner or operator fails to provide alternate financial assurance that meets the requirements of the Act and this Chapter within 120 days after the owner or operator and the State Mine Inspector receive notice of cancellation of the corporate guarantee from the guarantor, the guarantor shall provide the alternate financial assurance in the name of the owner or operator.

Missouri

The State of Missouri does allow corporate guarantees on a case by case basis.

Montana

No provision for corporate guarantees.

The State of Montana prepared a report in 2004, and it stated: “Corporate guarantees have proved to be risky because the fortunes of the companies and their corporate subsidiaries can change rapidly, as Montana learned in the Pegasus case.” The 1998 Pegasus bankruptcy resulted in a $46 million bond forfeiture at the Zortman-Landusky Mine. As of 2018, about $77 million has been spent on reclamation and water management. Between reclamation costs and a long term trust fund for water treatment, almost $50 million of public money has been obligated. $32 million was state money.

Nevada

NAC 519A.350 allows the use of a corporate guarantee for financial assurance. Requirements include:

(a) Not more than 75 percent of the required surety may be satisfied by the corporate guarantee, which is subject to periodic review and approval by the Administrator of the Division. The remaining portion of the surety must be satisfied by a surety identified in this section.

(b) The audited financial statements of the corporation must indicate that the corporation has two of the following three ratios:

   (1) A ratio of total liabilities to stockholder’s equity less than 2 to 1.
   (2) A ratio of the sum of net income plus depreciation, depletion and amortization to total liabilities greater than 0.1 to 1.
   (3) A ratio of current assets to current liabilities greater than 1.5 to 1.

(c) The net working capital and tangible net worth each must equal or exceed the amount established for reclamation pursuant to NAC 519A.360.

(d) The tangible net worth must be at least $10,000,000.

(e) Ninety percent of the assets of the corporation must be:

   (1) Located in the United States; or
   (2) At least six times the amount established pursuant to NAC 519A.360.

New Mexico

No provision for corporate guarantees.

Pennsylvania

Self bonding is authorized in PAC 86.156(a) for coal mining reclamation, but not for water treatment. Specific conditions are in PAC 86.159. Parent companies may provide the guarantee.

(f) The applicant shall satisfy one of the following financial tests in paragraph (1), (2) or (3):

   (1) The applicant satisfies the following requirements:

      (i) A current rating for its most recent bond issuance of either: AAA, AA or A as issued by Standard and Poor’s Corporation; or Aaa, Aa or A as issued by Moody’s Investor Services. The ratings may not have been assigned as a result of the bond issue being independently insured.

      (ii) Tangible net worth at least six times the total amount of outstanding and proposed self-bonds for coal mining activities in this Commonwealth.

      (iii) Assets in the United States amounting to at least 90% of total assets.
(2) The applicant satisfies the following requirements:

   (i) Tangible net worth of at least $10 million.

   (ii) A ratio of total liabilities to net worth of 2.5 times or less and a ratio of current assets to current liabilities of 1.2 times or greater.

   (iii) Tangible net worth at least six times the total amount of outstanding and proposed self-bonds for coal mining activities in this Commonwealth.

   (iv) Assets in the United States amounting to at least 90% of total assets.

(3) The applicant satisfies the following requirements:

   (i) Possesses fixed assets in the United States of at least $20 million.

   (ii) Has a ratio of total liabilities to net worth of 2.5 times or less and a ratio of current assets to current liabilities of 1.2 times or greater.

   (iii) Has tangible net worth at least six times the total amount of outstanding and proposed self-bonds for coal mining activities in this Commonwealth.

   (iv) Has assets in the United States amounting to at least 90% of total assets.

Other requirements are also present. Permittee must provide replacement bonding within 90 days after being notified by the agency that the permittee is no longer eligible to self-bond.

**Utah**

The State of Utah does allow corporate guarantees on a case by case basis.

**Wyoming**

Self-bonding is allowed for financial assurance under Rule 020-0007, Chapter 6, Subsection 4. The application for self-bonding is submitted at the same time an operator applies for a license to mine. Existing operations with more than a five year life of mine may also apply. A parent company may also submit a guarantee if they meet the same financial criteria. Foreign parent companies have additional requirements. An indemnity agreement is required for all self bonds, as is an annual report that confirms compliance with the financial criteria with the full report from the credit reporting agency.

The information required includes:

   (A) Identification of operator:

      (I) For corporations, name, address, telephone number, state of incorporation, principal place of business and name, title and authority of person signing application, and statement of authority to do business in the State of Wyoming, or

      (II) For all other forms of business enterprises, name, address and telephone number and statement of how the enterprise is organized, law of the State under which it is formed, place of business, and relationship and authority of the person signing the application.
(B) Amount of bond proposed to be under a self-bond in accordance with W.S. § 35-11-417(c)(i). The proposed self-bond maximum amount shall not exceed seventy-five percent (75%) of the required bond amount.

(C) Type of operation and anticipated dates performance is to be commenced and completed.

(D) Brief chronological history of business operations conducted within the last five years which would illustrate a continuous operation for five years immediately preceding the time of application. The Administrator may allow a joint venture or syndicate with less than five years of continuous operation to qualify under this requirement, if each member of the joint venture or syndicate has been in continuous operation for at least five years immediately preceding the time of application.

(E) Information in sufficient detail to show good-faith performance of past mining and reclamation obligations. The compliance information in the permit and/or annual reports may be referenced to satisfy part of this requirement.

(F) Financial information in sufficient detail to show that the operator and ultimate parent entity:

(I) Have a rating for all bond issuance actions and long term credit rating within the current year of “Aa3” or higher as issued by Moody’s Investor Service, “AA-” or higher as issued by Standard and Poor’s Corporation or “AA-” or higher as issued by Fitch Ratings. The operator is eligible for a maximum of seventy-five percent (75%) of the approved reclamation cost estimate in the most recent Director’s bond letter.

(II) Have a rating for all bond issuance actions and long term credit rating within the current year of “A2” or higher as issued by Moody’s Investor Service, “A” or higher as issued by Standard and Poor’s Corporation or “A” or higher as issued by Fitch Ratings. The operator is eligible for a maximum of seventy percent (70%) of the approved reclamation cost estimate in the most recent Director’s bond letter unless the requirements of subsection (I) are met above.

(III) Have a rating for all bond issuance actions and long term credit rating within the current year of “Baa2” or higher as issued by Moody’s Investor Service, “BBB” or higher as issued by Standard and Poor’s Corporation or “BBB” or higher as issued by Fitch Ratings. The operator is eligible for a maximum of fifty percent (50%) of the approved reclamation cost estimate in the most recent Director’s bond letter unless the requirements of subsection (II) are met above.

(IV) In the event of a split rating, the Director has the discretion to determine which rating would be accepted and applied to (I), (II) or (III) of this subsection.

According to reports, Peabody would not even qualify for a corporate guarantee under the proposed rules.


Office of Surface Mining Reclamation and Enforcement (OSMRE)

Self-insurance is allowed for coal mines under the federal Surface Mining Control and Reclamation Act (SMCRA). As stated on the Office of Surface Mining’s (OSMRE) websites, self bonding is a:
“(legally binding corporate promises without separate surety or collateral, available only to permittees who meet certain financial tests). State regulatory programs vary somewhat in terms of which financial instruments are acceptable. A few states also have exercised their discretion to exclude the self-bond option.

To remain qualified, self-bonded permittees must maintain a tangible net worth of at least $10 million, possess fixed assets in the U.S. of at least $20 million, and either meet certain financial ratios or have an “A” or higher bond rating.”


OSMRE provided further analysis and policy guidance. In 2016, three of the largest coal mines in the United States filed for bankruptcy. They held about $2 billion in self-bonds, and the ability of the agencies to ensure reclamation is uncertain. Additional bankruptcy filings are expected in this mining sector. As a result, Colorado has stopped accepting new self-bonds, and Virginia is proposing to eliminate them. OSMRE recommends the following:

- Inquiry into a mining company’s financial health, both present and future. This extends to parent companies, guarantors, or other related entities.
- Require a company to switch to surety or collateral bonds if their financial status degrades.


The federal rules outlining the requirements for self bonds and corporate guarantees are found here: https://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=713cb1a3e9b624b58129941f6ee032cb&rgn=div5&view=text&node=30:3.0.1.10.44&idno=30#se30.3.800_116

The Government Accounting Office (GAO) recommended eliminating self-bonding in 2018:

“Self-bonding presents a risk to the government because it is difficult to (1) ascertain the financial health of an operator, (2) determine whether the operator qualifies for self-bonding, and (3) obtain a replacement for existing self-bonds when an operator no longer qualifies. In addition, some stakeholders said that the risk from self-bonding is greater now than when the practice was first authorized under the Surface Mining Control and Reclamation Act (SMCRA).”

“GAO also previously reviewed federal financial assurance requirements for various energy and mineral extraction sectors and found that coal mining is the only one where self-bonding was allowed.” https://www.gao.gov/products/GAO-18-305

Bureau of Land Management

BLM in Nevada does not accept any new corporate guarantees:


Environmental Protection Agency
EPA does allow corporate guarantees under their RCRA and CERCLA programs. In 2017 the EPA’s Office of Inspector General recommended eliminating the use of all corporate self-insurance instruments. The agency is unable to validate a company’s self-insurance which threatens the effectiveness of these programs.


40 CFR 258-74 does allow for corporate guarantees under RCRA:

(e) Corporate financial test. An owner or operator that satisfies the requirements of this paragraph (e) may demonstrate financial assurance up to the amount specified in this paragraph (e):

(1) Financial component.

(i) The owner or operator must satisfy one of the following three conditions:

(A) A current rating for its senior unsubordinated debt of AAA, AA, A, or BBB as issued by Standard and Poor’s or Aaa, Aa, A or Baa as issued by Moody’s; or

(B) A ratio of less than 1.5 comparing total liabilities to net worth; or

(C) A ratio of greater than 0.10 comparing the sum of net income plus depreciation, depletion and amortization, minus $10 million, to total liabilities.

(ii) The tangible net worth of the owner or operator must be greater than:

(A) The sum of the current closure, post-closure care, corrective action cost estimates and any other environmental obligations, including guarantees, covered by a financial test plus $10 million except as provided in paragraph (e)(1)(ii)(B) of this section.

(B) $10 million in net worth plus the amount of any guarantees that have not been recognized as liabilities on the financial statements provided all of the current closure, post-closure care, and corrective action costs and any other environmental obligations covered by a financial test are recognized as liabilities on the owner’s or operator’s audited financial statements, and subject to the approval of the State Director.

(iii) The owner or operator must have assets located in the United States amounting to at least the sum of current closure, post-closure care, corrective action cost estimates and any other environmental obligations covered by a financial test as described in paragraph (e)(3) of this section.

(2) Recordkeeping and reporting requirements.

(i) The owner or operator must place the following items into the facility’s operating record:

(A) A letter signed by the owner’s or operator’s chief financial officer that:

(1) Lists all the current cost estimates covered by a financial test, including, but not limited to, cost estimates required for municipal solid waste management facilities
under this part 258, cost estimates required for UIC facilities under 40 CFR part 144, if applicable, cost estimates required for petroleum underground storage tank facilities under 40 CFR part 280, if applicable, cost estimates required for PCB storage facilities under 40 CFR part 761, if applicable, and cost estimates required for hazardous waste treatment, storage, and disposal facilities under 40 CFR parts 264 and 265, if applicable; and

(2) Provides evidence demonstrating that the firm meets the conditions of either paragraph (e)(1)(i)(A) or (e)(1)(i)(B) or (e)(1)(i)(C) of this section and paragraphs (e)(1)(ii) and (e)(1)(iii) of this section.

(B) A copy of the independent certified public accountant’s unqualified opinion of the owner’s or operator’s financial statements for the latest completed fiscal year. To be eligible to use the financial test, the owner’s or operator’s financial statements must receive an unqualified opinion from the independent certified public accountant.

An adverse opinion, disclaimer of opinion, or other qualified opinion will be cause for disallowance, with the potential exception for qualified opinions provided in the next sentence. The Director of an approved State may evaluate qualified opinions on a case-by-case basis and allow use of the financial test in cases where the Director deems that the matters which form the basis for the qualification are insufficient to warrant disallowance of the test. If the Director of an approved State does not allow use of the test, the owner or operator must provide alternate financial assurance that meets the requirements of this section.

(C) If the chief financial officer’s letter providing evidence of financial assurance includes financial data showing that owner or operator satisfies paragraph (e)(1)(i)(B) or (e)(1)(i)(C) of this section that are different from data in the audited financial statements referred to in paragraph (e)(2)(i)(B) of this section or any other audited financial statement or data filed with the SEC, then a special report from the owner’s or operator’s independent certified public accountant to the owner or operator is required. The special report shall be based upon an agreed upon procedures engagement in accordance with professional auditing standards and shall describe the procedures performed in comparing the data in the chief financial officer’s letter derived from the independently audited, year-end financial statements for the latest fiscal year with the amounts in such financial statements, the findings of that comparison, and the reasons for any differences.

(D) If the chief financial officer’s letter provides a demonstration that the firm has assured for environmental obligations as provided in paragraph (e)(1)(ii)(B) of this section, then the letter shall include a report from the independent certified public accountant that verifies that all of the environmental obligations covered by a financial test have been recognized as liabilities on the audited financial statements, how these obligations have been measured and reported, and that the tangible net worth of the firm is at least $10 million plus the amount of any guarantees provided.
(ii) An owner or operator must place the items specified in paragraph (e)(2)(i) of this section in the operating record and notify the State Director that these items have been placed in the operating record before the initial receipt of waste or before the effective date of the requirements of this section (April 9, 1997 or October 9, 1997 for MSWLF units meeting the conditions of § 258.1(f)(1)), whichever is later in the case of closure, and post-closure care, or no later than 120 days after the corrective action remedy has been selected in accordance with the requirements of § 258.58.

(iii) After the initial placement of items specified in paragraph (e)(2)(i) of this section in the operating record, the owner or operator must annually update the information and place updated information in the operating record within 90 days following the close of the owner or operator’s fiscal year. The Director of a State may provide up to an additional 45 days for an owner or operator who can demonstrate that 90 days is insufficient time to acquire audited financial statements. The updated information must consist of all items specified in paragraph (e)(2)(i) of this section.

(iv) The owner or operator is no longer required to submit the items specified in this paragraph (e)(2) or comply with the requirements of this paragraph (e) when:

   (A) He substitutes alternate financial assurance as specified in this section that is not subject to these recordkeeping and reporting requirements; or

   (B) He is released from the requirements of this section in accordance with § 258.71(b), § 258.72(b), or § 258.73(b).

(v) If the owner or operator no longer meets the requirements of paragraph (e)(1) of this section, the owner or operator must, within 120 days following the close of the owner or operator’s fiscal year, obtain alternative financial assurance that meets the requirements of this section, place the required submissions for that assurance in the operating record, and notify the State Director that the owner or operator no longer meets the criteria of the financial test and that alternate assurance has been obtained.

(vi) The Director of an approved State may, based on a reasonable belief that the owner or operator may no longer meet the requirements of paragraph (e)(1) of this section, require at any time the owner or operator to provide reports of its financial condition in addition to or including current financial test documentation as specified in paragraph (e)(2) of this section.

Question: Mining has been classified by Surety Companies as a high risk for bonding. How are RCRA sites classified by Surety Companies? Try to get report from Surety & Fidelity Association of America, Dept. of Insurance may have access to it.

References


[https://www.pacode.com/secure/data/025/chapter86/subchapFtoc.html](https://www.pacode.com/secure/data/025/chapter86/subchapFtoc.html)


