



State of Alaska

Department of Natural Resources

House Finance Subcommittee

Overview of Fees and Fee Revenue

February 17, 2017



DNR FEE OVERVIEW

PART I: Existing Fee Structures

PART II: Division Examples & Current Revenue

PART III: Possible Upcoming Changes

DNR FEES – PART I

EXISTING FEE STRUCTURES – OVERVIEW

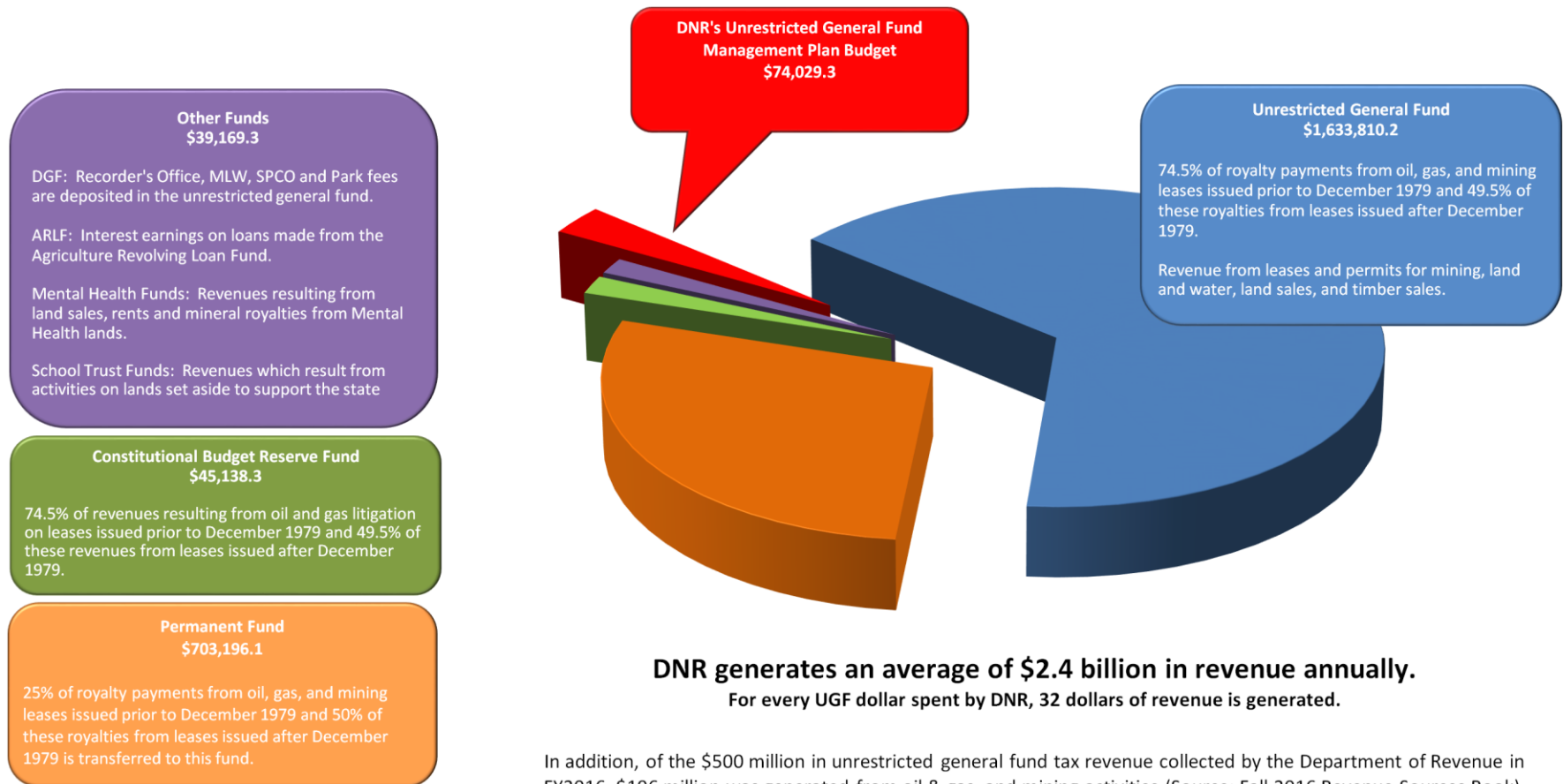
- The Department of Natural Resources (DNR) collects hundreds of different payment streams annually with most categorized as rentals, royalty payments, bonus payments, and fees.
- The most significant source of DNR revenue is royalty payments from the sale of oil, gas, and minerals from state owned lands under state issued leases.
- DNR land and water use authorizations also facilitate a variety of activities that lead to Department of Revenue collected tax revenue and general economic activity.
- A number of Alaska Statutes set fees or provide authority for DNR to promulgate regulations that set fees – primarily found in 11 AAC 05.
- Between FY2007 – FY2016, DNR generated a yearly average of \$2.4 billion in revenue, or \$32 dollars for every \$1 dollar of appropriated unrestricted general funds (UGF).

DNR FEES – PART I

EXISTING FEE STRUCTURES – OVERALL REVENUE

DNR Generated Revenues Compared to DNR's Unrestricted General Fund Budget

Averages for FY2007 - FY2016 (in thousands)



In addition, of the \$500 million in unrestricted general fund tax revenue collected by the Department of Revenue in FY2016, \$196 million was generated from oil & gas, and mining activities (Source: Fall 2016 Revenue Sources Book).

DNR FEES – PART I

EXISTING FEE STRUCTURES

- DNR fees are assessed for many different uses and activities on state land. From individual recreational users to large industrial projects, a given user may be assessed a number of unique DNR fees, potentially from different divisions.
- Fee revenue is a major source of designated general funds which supports DNR operations; DNR partially pays for itself.
- This has been a critical focus recently, as DNR moves increasingly from UGF dependence to reliance on revenue we generate. DNR has had nearly \$6 million in fund source changes from UGF to Designated General Funds (DGF) since FY2016, \$5 million from existing fees and \$1 million from new fee revenue.
 - In FY2016 Division of Mining, Land and Water generated \$9.8 million more in DGF than was appropriated, almost \$90.0 million over the last 10 years.
 - Division of Parks and Outdoor Recreation continues to decrease its reliance on UGF, with field operations funded 49% by DGF, up from 37% in FY2016.
 - In FY2016 Support Services Division generated \$1.3 million more in DGF than was spent.
 - Division of Geological and Geophysical Surveys' legislation allowing fees to be charged for services at the Geological Materials Center is expected to bring in approximately \$330.0 in FY2018.

DNR FEES – PART I

EXISTING FEE STRUCTURES

Fees in Statute

AS 03.05.075(c) – Elk farming license

AS 38.05.057(d)(2) – Application to participate in land lottery

AS 38.05.065(d) – Reverse breach of contract in sale of state land

AS 38.05.211(a)(1) – Mining prospecting site

AS 38.05.211(a)(2) – Mining claim and leasehold location

AS 38.05.211(a)(2) – Mining lease

AS 27.19.040(b) – Annual fee for statewide reclamation bonding pool

Inactive Programs:

AS 38.05.132(c)(6) – Application for oil and gas exploration license

AS 38.08.040(a) – Home site entry permit rental fee

AS 38.08.030(b) – Application fee to participate in state land disposal during initial filing period

AS 38.95.080(c)(5) – Trapping cabin construction permit

AS 38.05.073(k) – Recreational facilities development lease

DNR FEES – PART II

DIVISION EXAMPLES & REVENUE

Division of Parks and Outdoor Recreation (DPOR)

- DPOR has been moving towards complete self-sustainability to limit draws from the state general fund.
- Critical to this effort has been fee increases for the variety of improvements and services DPOR provides, such as public use cabins, boat launches, and facility rentals.
- While DPOR is looking at other revenue streams, including selling merchandise under recently passed legislation, further fee increases may be needed.
- FY2016 DPOR Revenue - \$4,079.8
 - \$3,688.8 General Fund Program Receipts – park fees, special use permits, cabin rentals, commercial use
 - \$391.0 General Funds - due to ADFG for Dingell-Johnson boating sites managed by DNR

Division of Geological and Geophysical Surveys (DGGS)

- Recently passed legislation permits DGGS to charge fees for the use of the Geological Materials Center and its extensive collection of geologic samples. These receipts will go towards funding and maintaining the facility once regulations are put in place.
- FY2016 DGGS Revenue - \$1.5
 - \$1.5 General Fund Program Receipts – publication sales

DNR FEES – PART II

DIVISION EXAMPLES & REVENUE

Division of Oil & Gas (DOG)

- In addition to royalty income, DNR collects application fees from holders of oil and gas leases to conduct activities on leases, such as plans of operation and plans of development.
- FY2016 DOG Revenue - \$1,286,553.8
 - \$870,018.4 Unrestricted General Fund – 49.5% of royalties from oil and gas leases
 - \$390,485.5 Permanent Fund – 50% of royalties from oil and gas leases
 - \$13,317.4 Constitutional Budget Reserve fund – 74.5% of revenue resulting from oil and gas litigation
 - \$5,532.6 General Fund Program Receipts – pipeline right of way material sales and leases
 - \$750.8 General Fund Program Receipts – oil and gas lease payments, application fees
 - \$6,392.3 Public School Trust Fund – ½ percent of revenue derived from the management of state land
 - \$56.8 School Fund Escrow – revenues derived from School Trust lands

Support Services Division (SSD)

- Recording fees support the Recorder's Office which provides essential commercial and land records services without drawing on general fund dollars.
- FY2016 SSD Revenue - \$5,223.8
 - \$5,191.3 General Fund Program Receipts – recording fees
 - \$32.5 Unrestricted General Funds – late fees on land sale contracts

DNR FEES – PART II

DIVISION EXAMPLES & REVENUE

Division of Mining, Land & Water (DMLW)

Authorizations Related to Oil and Gas

- DOG administers oil and gas units, leasing, and a number of other activities but oil and gas companies and their service contractors often do business with DMLW.
- Authorizations include water withdrawals and state land access for ice roads, material sales contracts for gravel supplies, and other surface uses in unleased areas on the North Slope.

General Land Use

- Transporting equipment across state land, mining exploration, commercial guiding, and shore fish leasing represent some of the varied uses of state land that require authorization and generate revenue.
- Revenue comes from individuals recreating on state land, small personal developers, and large infrastructure and development projects that may require numerous authorizations.

Material Sales

- Proceeds of material sales, primarily for gravel, are treated as revenue and priced according to the DNR regulations.
- Gravel sales support development across the state, and are a major source of the designated funds that support DMLW providing over \$7.1 million in revenue in FY2016.

Water Use

- DMLW's work to adjudicate water rights and temporary water authorizations generated over \$200.0 in revenue in FY2016.

DNR FEES – PART II

DIVISION EXAMPLES & REVENUE

Division of Mining, Land & Water

- FY2016 DMLW Revenue - \$29,359.2
 - \$4,849.6 Unrestricted General Fund – coal royalties, land leases, permit rights of way
 - \$14,849.4 General Fund Program Receipts – material sales, mining claims and leases, mining royalties, leases
 - \$51.6 Public School Trust Fund – ½ percent of revenue derived from the management of state land
 - \$95.4 School Fund Escrow – revenues derived from School Trust lands
 - \$4,761.3 Land Disposal Income Fund – loan principle and interest, remote recreational cabin survey fees
 - \$4,672.7 Permanent Fund – 50% of all mineral lease rentals, royalties, royalty sale proceeds
 - \$79.2 Reclamation Bonding Fund – reclamation bonds for mining and land

Division of Forestry (DOF)

- Issuance and review of timber sales authorizations
- FY2016 DOF Revenue - \$1,096.9
 - \$29.4 Unrestricted General Fund – fire suppression recovery, forest resources penalties
 - \$1,062.2 Timber Receipts – timber sales
 - \$5.2 Public School Trust Fund – ½ percent of revenue derived from the management of state land

DNR FEES – PART II

DIVISION EXAMPLES & REVENUE

Division of Agriculture (DoA)

- Inspection and authorization services, including work at the Plant Materials Center
- FY2016 DoA Revenue - \$2,400.9
 - \$.5 Unrestricted General Fund – Brand registration
 - \$46.3 General Fund Program Receipts – elk license fees, seed cleaning, seed sales
 - \$1,888.2 Agricultural Revolving Loan Fund (ARLF) – loan interest, meat plant fees and sales
 - \$465.9 Land Disposal Income Fund – loan principle and interest

Mental Health Trust Land Office (MHTLO)

- Manages and develops Alaska Mental Health Trust lands on behalf of the Alaska Mental Health Trust Authority to help improve the lives and circumstances of Trust beneficiaries.
- FY2016 MHTLO Revenue - \$9,114.2
 - \$3,950.3 Mental Health Fund, Income – rents and fees, real estate management plan, program related investments
 - \$5,163.9 Mental Health Fund, Corpus – land sales revenue, hydrocarbon and mineral royalties

DNR FEES – PART III

POTENTIAL UPCOMING CHANGES – 11 AAC 05

In light of the fiscal challenges facing the state, DNR is considering broad revisions to the existing fee regulations at 11 AAC 05.

- DNR has identified a number of guiding principles for this effort:
 - Fees should be organized in clear, accessible ways so the public can easily determine which fees are assessed for what services and what fees can be expected for a given project.
 - Fees should be proportional to the state resources required to provide the service.
 - Fees should be flexible so that simple work can be handled without undue cost to users, but complicated work is not significantly subsidized by state general fund dollars.
- DNR has conducted a scoping process for public review and commentary on current fees, the first step in the regulatory process for potential changes.
- These regulations have not been holistically reviewed and updated for a significant period of time, and for many regulations not since they were originally put in place.
- Any changes to these regulations will require a full public process. The next step would be for DNR to publish specific proposed changes for review and comment by the public, the legislature, and industry.

DNR FEES – PART III

POTENTIAL UPCOMING CHANGES – MAGNITUDE

The scope of changes under consideration is significant because many existing fees are for nominal amounts and providing these services requires extensive state time and resources.

- Changes are focused on aligning the costs of services with the resources expended to provide them. Many fees are currently set at nominal amounts unrelated to the costs of providing the service.
- Changes could increase these fees significantly and in some cases by orders of magnitude.
- Changes also could allow for charging variable rates where fees are based on both flat costs as well as the time expended on a particular service. This would allow simple authorizations to proceed without extra cost burdens, and additional fees to be assessed for especially complex services.
- DNR recognizes that increasing fees may place a cost burden and challenge on those utilizing DNR's services, even though our fiscal situation requires adjustments be made.

DNR FEES – PART III

POTENTIAL UPCOMING CHANGES – MAGNITUDE

As a hypothetical example, the magnitude of fee increases DNR could put in place for three major groups of DMLW authorizations and the resulting changes in revenue that might be realized is shown below.

DMLW Service	FY2016 Applications Received	FY2016 Application Fee	FY2016 Revenue	FY2018 Potential Application Fee Range (with new increases)	FY2018 Potential Revenue Range
Permits	1442	\$100	\$144,200	\$200/350/500	\$288,400/504,700/721,000
Leases	262	\$100	\$26,200	\$500/2,000/5,000	\$131,000/524,000/1,310,000
Easements	224	\$100	\$22,400	\$500/1,000/2,000	\$112,000/224,000/448,000

FY2016 Total \$192,800 Potential FY2018 Total \$531,400/1,252,700/2,479,000

The potential revenue range indicated above does not reflect any decrease in authorizations due to fee increases, but some decrease would be expected if increases went into effect.

DNR FEES – PART III

POTENTIAL UPCOMING CHANGES – SEISMIC DATA

The State has acquired a significant portfolio of seismic exploration data over the past decade, primarily from the North Slope, due to a variety of tax credit programs that required turning data over to the State.

- The Administration feels the current legal framework provides the latitude needed to maximize the value of this data to the state – primarily through encouraging lease activity, increased production, and competition in areas where data is available.
- DOG and DGGS are working to delineate fees for accessing this data in a manner that recoups state cost for maintaining it under the applicable laws.
- To maximize the value of this data to the State, DNR is working to make the data available in a way that maximizes activity in state lease sales (creating rental and bonus revenue), stimulates production (creating royalty revenue), and accelerates activity on leases (creating fees and general economic activity).
- The costs to maintain this data are extensive and its value is significant, so DNR has been very carefully evaluating these policy and legal matters as it establishes processes for the release of the data. However, the sooner this information can be distributed the sooner the State of Alaska can realize its value.

DNR FEES

Thank you, any questions?

