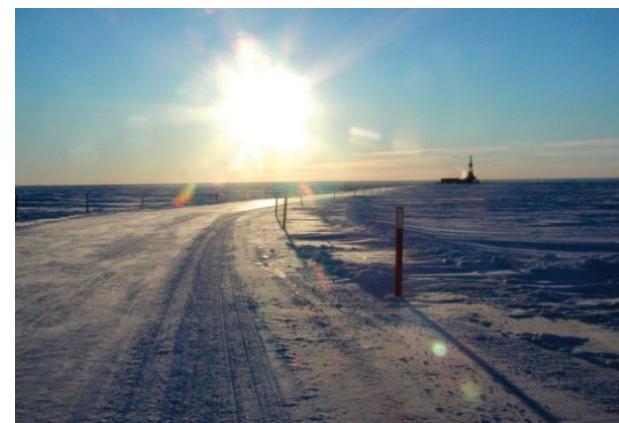
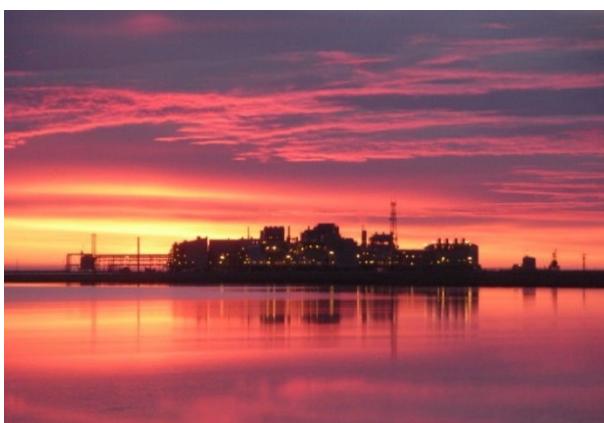


House Bill 49: Fiscal Picture

House Finance Committee



Presented by Rena Miller, Special Assistant
Office of the Commissioner
Alaska Department of Natural Resources (DNR)
May 3, 2023





Review: Two distinct paths under HB 49



State leases land to third party for a carbon purpose = '**Carbon Leases**' (HB 49 sections 3-5)



State undertakes carbon offset projects on state land = '**State Projects**' (HB 49 sections 1-2, 6-13)

Different costs, revenues under each path



Path 1: Carbon Leases



Path 1: Carbon leases

Costs:

- Promulgate regulations; receive, process applications. Monitor leases, ensure conditions met
 - 1 full-time, permanent position (total \$151.9 in FY24, \$141.9 in FY25 onward; Unrestricted General Fund (UGF) until leasing revenue sufficient to cover costs)
 - Will seek to fill out staffing based on program demand through annual legislative budget process

Revenue:

- Indeterminate in amount, timing. Driven by private sector demand, project value, area of lands leased.



Path 1: Carbon leases

- Because timber rights aren't conveyed with the lease, projects may focus more on niche or capital-intensive projects
- Hypothetical examples:
 - Company leases 10,000 acres of state land for 55 years, invests capital to plant trees/regenerate forest. May be 20+ years before project generates credits. State gets annual fee for land lease, percentage of carbon revenue once generating credits.
 - Kelp farm overlays carbon offset project to help kelp production economics; state gets annual fee for land lease, some percentage of carbon revenue.



Path 2: State Projects



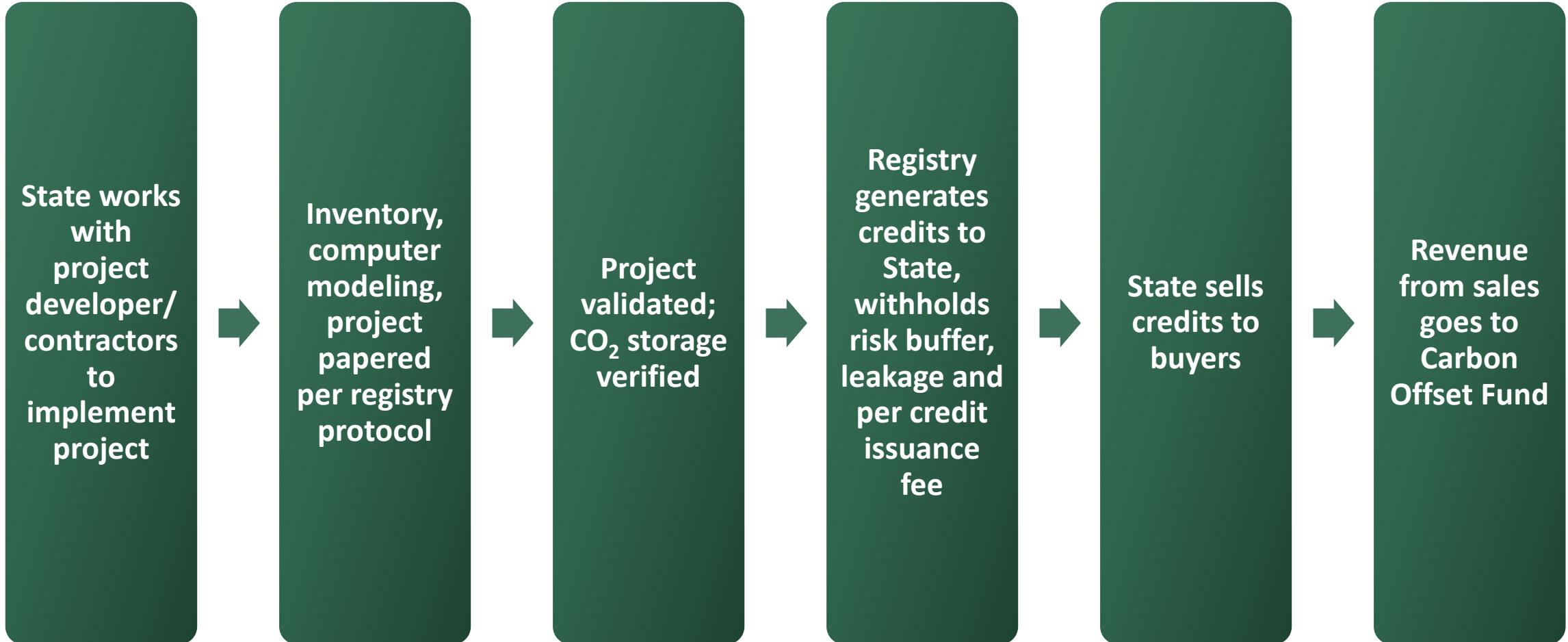
Path 2: State Projects - Review

Review:

- HB 49, section 6, stands up 'Carbon Offset Program' for state to undertake its own carbon offset projects
- State is project proponent – 'owns' the project
- State may work with a partner (project developer)
- Costs to start up, manage project over term
- Project generates credits for carbon stored on landscape
- State sells credits to buyers, generates revenue



Path 2: State Projects - Review





Path 2: State Projects - costs

- Fixed program costs regardless of number of projects
 - New Carbon Offset Program housed under existing Office of Project Management and Permitting (OPMP); 2 full-time, permanent positions (\$192.4 in FY24; \$367.8 in FY25; \$309.8 in FY26 onward, UGF until revenues sufficient to replace UGF)
 - Supported by Division of Forestry and Fire Protection (DOF); 1 full-time, permanent position (total \$147.3 in FY24; \$137.3 in FY 25 onward, UGF until revenues sufficient to replace UGF)
 - Initial capital to OPMP to establish framework, retain expertise (\$425.0 UGF in FY24 only)
- Project-dependent costs
 - Project feasibility analysis, implementation, ongoing project maintenance (inventories, modeling, audits)



Path 2: State Projects

Project-dependent costs, cont.

- Variety of ways for state to approach projects
 - State use state staff, funds
 - State contract with project developer(s), service providers
- Project developer(s) offer range of terms, services
 - ‘Turnkey’ – developer fronts project costs; receives fixed share of revenue once project generates credits
 - ‘Ala carte’ – one or more companies are contracted in fee-for-services approach to perform specific project tasks (inventory, marketing, etc.)



Path 2: State Projects - Scenarios

- Scenarios feature potential pilot projects identified by Anew
- Not conclusive view of State's carbon offset potential – DNR anticipates additional opportunities
- DNR may or may not proceed with pilots, as described in Anew report, if HB 49 passes
- State Forests are likely primary objectives due to high carbon storage potential
- Revenue dependent on number, timing, size of projects; verifiable carbon stored; credit price; marketing success. On credit sale, revenue flows to Carbon Offset Fund



Path 2: State Projects – 1-project scenario

Haines State Forest and Resource Management Area - as described in Anew report													
Date	Total Credits (pre- leakage and buffer)	Leakage Credits (30%)	Buffer Credits (18%)	Conservation Credits	Removals Credits	Conservation Credit Price (dollars)	Removal Credit Price (dollars)	Gross Project Revenue (dollars)	Project Expense (dollars)	Net Project Revenue (dollars)	Developer Share (20%) *if any (dollars)	DNR Program Costs (dollars)	Net State Revenue (dollars)
2023	157,000	-47,000	-19,000	41,000	50,000	15.00	25.00	1,865,000	(376,920)	1,488,080	(297,616)	(447,100)	743,364
2024	157,000	-47,000	-19,000	41,000	50,000	16.00	26.00	1,956,000	(28,470)	1,927,530	(385,506)	(447,100)	1,094,924
2025	157,000	-47,000	-19,000	41,000	50,000	17.00	27.00	2,047,000	(28,470)	2,018,530	(403,706)	(447,100)	1,167,724
2026	157,000	-47,000	-19,000	41,000	50,000	18.00	28.00	2,138,000	(28,470)	2,109,530	(421,906)	(447,100)	1,240,524
2027	157,000	-47,000	-19,000	41,000	50,000	19.00	29.00	2,229,000	(28,470)	2,200,530	(440,106)	(447,100)	1,313,324
2028	157,000	-47,000	-19,000	41,000	50,000	20.00	30.00	2,320,000	(165,970)	2,154,030	(430,806)	(447,100)	1,276,124
2029	157,000	-47,000	-19,000	41,000	50,000	21.00	31.00	2,411,000	(28,470)	2,382,530	(476,506)	(447,100)	1,458,924
2030	119,000	-34,000	-19,000	16,000	50,000	22.00	32.00	1,952,000	(24,220)	1,927,780	(385,556)	(447,100)	1,095,124
2031	90,000	-26,000	-14,000	0	50,000	23.00	33.00	1,650,000	(21,500)	1,628,500	(325,700)	(447,100)	855,700
2032	85,000	-25,000	-11,000	0	49,000	24.00	34.00	1,666,000	(21,330)	1,644,670	(328,934)	(447,100)	868,636
TOTAL	1,393,000	-414,000	-177,000	303,000	499,000	19.50	29.50	20,234,000	(752,290)	19,481,710	(3,896,342)	(4,471,000)	11,114,368
2033-2062	2,185,000	-653,000	-274,000	0	1,258,000	25.00	34.00	42,772,000	(1,864,000)	40,908,000	(8,181,600)	(13,413,000)	19,313,400
TOTAL	3,578,000	-1,067,000	-451,000	303,000	1,757,000	n/a	n/a	63,006,000	(2,616,290)	60,389,710	(12,077,942)	(17,884,000)	30,427,768

- Shows potential share to project developer contracted on commission-type basis. Other contractual frameworks may apply instead.
- Includes \$309,800 per FY for 2 positions at OPMP and \$137,300 per FY for 1 position at DOF; does not include one-time costs related to adding new positions; does not include potential commercial and legal expertise costs (requesting one-time capital of \$250,000 for expertise)



Path 2: State Projects – 3-project scenario

Haines State Forest, Tanana Valley State Forest and Mat-Su pilot projects, concurrently														
Date	Total Credits (pre- leakage and buffer)	Leakage Credits (30%)	Buffer Credits (18%)	Conservation Credits	Removals Credits	Conservation Credit Price (dollars)	Removal Credit Price (dollars)	Gross Project Revenue (dollars)	Project Expense (dollars)	Net Project Revenue (dollars)	Developer Share (20%) * if any (dollars)	DNR Program Costs (dollars)	Net State Revenue (dollars)	
2023	443,000	-126,000	-56,000	41,000	220,000	15.00	25.00	6,115,000	(1,128,920)	4,986,080	(997,216)	(447,100)	3,541,764	
2024	443,000	-126,000	-56,000	41,000	220,000	16.00	26.00	6,376,000	(83,470)	6,292,530	(1,258,506)	(447,100)	4,586,924	
2025	443,000	-126,000	-56,000	41,000	220,000	17.00	27.00	6,637,000	(83,470)	6,553,530	(1,310,706)	(447,100)	4,795,724	
2026	443,000	-126,000	-56,000	41,000	220,000	18.00	28.00	6,898,000	(83,470)	6,814,530	(1,362,906)	(447,100)	5,004,524	
2027	443,000	-126,000	-56,000	41,000	220,000	19.00	29.00	7,159,000	(83,470)	7,075,530	(1,415,106)	(447,100)	5,213,324	
2028	443,000	-126,000	-56,000	41,000	220,000	20.00	30.00	7,420,000	(495,970)	6,924,030	(1,384,806)	(447,100)	5,092,124	
2029	443,000	-126,000	-56,000	41,000	220,000	21.00	31.00	7,681,000	(83,470)	7,597,530	(1,519,506)	(447,100)	5,630,924	
2030	405,000	-113,000	-56,000	16,000	220,000	22.00	32.00	7,392,000	(79,220)	7,312,780	(1,462,556)	(447,100)	5,403,124	
2031	376,000	-105,000	-51,000	0	220,000	23.00	33.00	7,260,000	(76,500)	7,183,500	(1,436,700)	(447,100)	5,299,700	
2032	371,000	-104,000	-48,000	0	219,000	24.00	34.00	7,446,000	(76,330)	7,369,670	(1,473,934)	(447,100)	5,448,636	
TOTAL	4,253,000	-1,204,000	-547,000	303,000	2,199,000	19.50	29.50	70,384,000	(2,274,290)	68,109,710	(13,621,942)	(4,471,000)	50,016,768	
2033-2062	10,239,000	-2,876,000	-1,324,000	0	6,039,000	25.00	34.00	205,326,000	(5,977,000)	199,349,000	(39,869,800)	(13,413,000)	146,066,200	
TOTAL	14,492,000	-4,080,000	-1,871,000	303,000	8,238,000	n/a	n/a	275,710,000	(8,251,290)	267,458,710	(53,491,742)	(17,884,000)	196,082,968	

- Shows potential share to project developer contracted on commission-type basis. Other contractual frameworks may apply instead.
- Includes \$309,800 per FY for 2 positions at OPMP and \$137,300 per FY for 1 position at DOF; does not include one-time costs related to adding new positions; does not include potential commercial and legal expertise costs (requesting one-time capital of \$250,000 for expertise)



Path 2: Carbon Offset Revenue Fund

HB 49 version \U:

- Fund is outside general fund (GF)
- Revenue automatically flows into fund – “shall” be deposited
- Legislative appropriation required for DNR fund use
- Used for purposes of Carbon Offset Program
- Unobligated amount over \$10M returns to GF annually



Path 2: Carbon Offset Revenue Fund

- Pay project bills if any
- Required project maintenance
 - Will vary on registry, protocol, project design
 - Examples: recurring inventories, audits
 - Other project-specific costs
- Initiate new carbon offset projects
 - Feasibility, start-up, implementation costs





Thank you

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