



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Office of the Governor

OFFICE OF MANAGEMENT AND BUDGET
Pat Pitney, Director

Court Plaza Building
240 Main Street, Suite 802
Juneau, Alaska 99811-0020
Main: 907.465.4660
Fax: 907.465.2090

November 1, 2015

Representative Mark Neuman
Co-Chair House Finance Committee
Alaska State Legislature
State Capitol, Room 505
Juneau, AK 99801

Dear Representative Nueman,

Via this letter the Administration concurs with the request amounts in the work draft of CSHB3001(FIN) for Department of Natural Resources (DNR) and Department of Revenue (DOR).

- Department of Natural Resources (DNR) supplemental revised to \$1,849.5 for personnel services modifications. See details below.
- Department of Revenue (DOR) supplemental revised to \$1,045.5 for personnel services modifications. See details below.

Department of Natural Resources (DNR)

The original HB3001 included a \$2,126.0 FY16 supplemental request for DNR of which \$579.8 was for backfilling the capacity of the positions on the next page. The positions listed are dedicated to the AKLNG project and are unable to do the remaining work in Division of Oil and Gas leaving that division without adequate capacity.

Position	Description	FY16 Projected (salary + benefits)
Deputy Commissioner	Project support – 50 percent of time	\$129,217
Petroleum Reservoir Engineer – DOG	Upstream Team support – 10 percent of time	\$25,174
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$25,194
Petroleum Reservoir Engineer – DOG	Upstream Team support – 10 percent of time	\$21,575
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$24,750
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$25,194
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$25,194
Commercial Analyst – DOG	Upstream Commercial support – 80 percent of time	\$158,890
Commercial Analyst – DOG	Upstream Commercial support – 90 percent of time	\$144,656
TOTAL		\$579,844

The administration is revising its DNR request to \$1,849.5, which includes \$303.5 to provide for long-term non-permanent positions and contractual services to replace the Commercial Analyst capacity highlighted above in the DNR Division of Oil and Gas.

DNR's Division of Oil and Gas UGF budget was reduced from FY15 to FY16 by \$981.5, or a 9.6% reduction. The North Slope Gas Commercialization budget accounting for the fund change was reduced from FY15 to FY16 by \$1,161.5, or an 11% reduction. Specific to the AKLNG project request of \$13,225.0 in the Governor's FY16 budget for North Slope Gas Commercialization, the funding provided by the legislature was \$4,238.5 less than needed. Of the \$13,225.0 FY16 Governor request for North Slope Gas Commercialization for AKLNG were RSA amounts for both the DNR Oil and Gas and the DOR Tax divisions that could no longer be met with \$4,238.5 less funding.

This supplemental request is required due to the reduced funding for AKLNG in North Slope Gas Commercialization and compounded by legislative and unallocated reductions in the Division of Oil and Gas Commercialization.

Specific to the supplemental funding for the commercial analyst capacity, the funding is needed to focus on regular oil and gas business activities, including:

- Analyzing commercial implications of laws, regulations, and contract provisions for policy, legislative, and regulatory decisions of the State.
- Analyze and negotiate royalty oil sales contracts, prepare best interest finding for royalty oil sales, present results to the royalty board and the legislature. There continues to be strong interest by in-state refineries for new royalty oil sales.
- Providing essential support in the Unit Plan of Development process.
- Responding to Royalty modification requests - analyze royalty valuation methodology, modification and in-kind contracts. In-depth, timely analysis of those requests is essential to the economic well-being of the state. Royalty modification requests are more likely now with the difficult pricing environment.
- Initiating royalty reopeners in order to verify/challenge allowed cost deductions or crude markers used in calculations. Without reopeners, the state may not receive the maximum royalty valuation.
- Establish financial assurance agreements for future abandonment obligations and royalty-in-kind sales contracts. Delays Royalty modification requests are more likely now with the difficult pricing environment. In-depth, timely analysis of those requests is essential to the economic well-being of the state. Analysis of royalty valuation methodology, modification and in-kind contracts and affect business decisions, which in turn affect their costs, which has been noted by the industry.

The Division of Oil and Gas did take a significant portion of DNR's unallocated reduction, \$435.5 through a 5-day mandatory furlough for XE positions, reduced travel, and not filling vacancies. The choice to address unallocated reductions in the Oil and Gas Division was necessary as the legislative cuts to other divisions in DNR were too significant to take additional unallocated reductions. For example, Forestry sustained a 33% reduction, Agricultural Development -20%, Plant Material Center -17%, and Parks Management and Access -18%. DNR's assigned unallocated reduction relative to other agencies was proportional to DNR's UGF budget. Some agencies, relative to total UGF, were assigned proportionally larger unallocated reductions.

Department of Revenue (DOR)

The original HB3001 included a \$1,381 FY16 supplemental request for DOR of which \$793.4 was for backfilling the capacity of the positions listed below. The positions listed are dedicated to the AKLNG project and are unable to do the remaining work with the largest impact being in the tax division. Three of the Tax Division employees are the most tenured professionals in the division.

Position	Description	FY16 Projected (salary + benefits)
Deputy Commissioner	Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time	\$214,934
Audit Master	Focuses on upstream deliverables - 90 percent of time	\$192,505
Audit Master	Focuses on property tax, some upstream deliverables - 75 percent of time	\$179,111
Commercial Analyst	Focuses on fiscals, finance, and property tax deliverables - 50 percent of time	\$86,906
Chief Economist	Focuses on marketing and finance deliverables - 10 percent of time	\$18,695
Petroleum Economist	Focuses on revenue aspects of marketing deliverables - 10 percent of time	\$13,216
Petroleum Economist	Focuses on property tax deliverables - 25 percent of time	\$36,062
State Investment Officer	Focuses on finance deliverables - 5 percent of time	\$18,632
State Investment Officer	Focuses on finance deliverables - 5 percent of time	\$18,632
State Investment Officer	Focuses on finance deliverables - 5 percent of time	\$14,744
TOTAL		\$793,437

The administration is revising its request for DOR from \$1,381.0 to \$1,045.5, which includes \$458.5 for long-term non-permanent positions and contractual services to address the two audit masters and commercial analyst capacity necessary in DOR's Tax Division through FY16. The capacity in the Tax Division is necessary in these areas:

- Support SB 138 property tax modeling, analysis, reporting and legislation
- Support for various regulations projects – property tax, allocation of lease expenditures and others
- Financing related economic modeling and reporting for official statement disclosure

- Analysis in support of revenue legislation
- Analyzing commercial implications of laws, regulations, and contract provisions for policy, legislative, and regulatory decisions of the State
- Providing essential support in the work plan development process

DOR's UGF budget was reduced from FY15 to FY16 by \$4,848.4, or a 14% reduction. The Tax Division's UGF budget was reduced from FY15 to FY16 by \$2,414.4, or a 14% reduction. Due to the severe reduction, the Tax Division did not receive any unallocated reduction.

Had the AKLNG project request of \$13,225.0 in the Governor's FY16 budget for North Slope Gas Commercialization been funded there would have been sufficient RSA amounts for the DOR.

Please let me know if you have additional questions.

Sincerely,



Pat Pitney
Director

cc: David Teal, Director, Legislative Finance