

HOUSE FINANCE COMMITTEE
January 26, 2012
1:37 p.m.

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CALL TO ORDER

Co-Chair Thomas called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Major General Thomas H. Katkus, Commissioner, Department of Military and Veterans Affairs (DMVA); McHugh Pierre, Deputy Commissioner, Department of Military and Veterans Affairs; Daniel Sullivan, Commissioner, Department of Natural Resources (DNR); Ed Fogels, Deputy Commissioner, Department of Natural Resources; Joe Balash, Deputy Commissioner, Department of Natural Resources; Representative Mike Chenault; Representative Dan Saddler.

SUMMARY

BUDGET OVERVIEWS:

Department of Military and Veterans Affairs
Department of Natural Resources

^BUDGET OVERVIEW: DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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MAJOR GENERAL THOMAS H. KATKUS, COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA), noted that the department's total budget impact was small (0.5 percent of the state's budget), but its impact on the state's citizens was significant. He highlighted his intent to discuss the department's mission and core responsibilities. Additionally, he would play a video showing the department's activities in the past year; he believed the video revealed that money invested in the department had positively impacted citizens of the state. He elaborated that the video had been made by a young second lieutenant and demonstrated the sense of pride and ownership the young men and women were taking in the department.

Commissioner Katkus looked at slide 2 of a PowerPoint presentation titled "Department of Military and Veterans Affairs FY 2013 Budget Overview." The DMVA mission was to provide military forces to accomplish military assignments in the state or around the world and to provide homeland security and defense, statewide emergency response, veterans services (including the establishment and working of cemeteries), youth military style training and education (an alternative path for some youth experiencing difficulty with the traditional education system), and aerospace resources [Alaska Aerospace Corporation]. He stated that core services of the department (slide 3) included the defense and protection of Alaska and the United States, the preparation and response to disasters (he emphasized how well DMVA was preparing communities for disasters), intervention for youths with no other options as a result of poor choices, and outreach to veterans and military families to ensure they received all of their benefits and the right integration back into their communities.

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Commissioner Katkus showed a video titled National Guard Alaska.

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Commissioner Katkus discussed that the video helped to show why the department was so proud of the men and women in the National Guard. He relayed that DMVA did not anticipate dropping away from any efforts included in the video. He pointed to the department's list of priorities (slide 4), which began with emergency food supply. He referred to the 2011 earthquake and tsunami disaster in Japan the previous year that had resulted in concern related to the threat of radiation; the event had brought up the issue of accessibility to iodine supplies as a protective response. The department had worked on an effort to address water purification and to make a power generation asset available in an emergency stockpile the prior year. Currently the focus was on food supplies; planners were working towards the goal of having enough food to feed 40,000 for one week. Another DMVA priority was the expansion of services for veterans. He elaborated that currently less than two-thirds of the state's 77,000 veterans were registered for service and benefits in Alaska. The benefits represented money to the economy and veterans' households and addressed the health and welfare of the families. He emphasized that there were many individuals who deserved the benefits; DMVA would make every effort possible to reach them.

Commissioner Katkus addressed the last priority listed on slide 4: Alaska Aerospace Corporation. He described the corporation as "the new kid on the block" and shared that it consisted of new technology, potential, and opportunity. He expounded that the corporation encompassed much more than the Kodiak launch complex, which had a reputation in the industry as being modern, responsive, and fiscally accurate. He furthered that the opportunity to grow the program in the current environment was significant; DMVA would work to maintain its relevancy, capacity, and technology, which changed on a regular basis.

Co-Chair Thomas asked how long the state would maintain the complex if it was not being used. Commissioner Katkus could not speculate on the number of years the facility would be maintained. He explained that there were existing interests that were working to solidify their positions in order to make commitments. He recalled that Representative Doogan had asked him a similar question the prior year and he had responded that he would be the one to make the call. In the past year he had continued to see interests and potential from professionals in the aerospace field. He furthered

that the complex was a gem that would not turn around overnight.

Co-Chair Thomas remarked that the item cost \$8 million per year. He relayed that in two years the state would be in a deficit and it would be necessary to begin making cuts in various areas. He supported the military, but noted that there was a point when it was necessary to quit when programs were not successful.

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Commissioner Katkus agreed. He moved on to slide 5 related to the results of the prior year's investment. The lives of 79 individuals had been saved (pilots, hunters, snow machiners, four wheelers, and other) primarily through the Air and Army National Guard. Additionally, there had been 25 saves in Afghanistan under direct fire (at least one situation was under consideration for the Silver Star) in the past year. One minor injury had occurred; the outcome was a result of the resiliency, training, and responsiveness the soldiers experienced in Alaska. There had been five state declared disasters (three of the five had been federally declared disasters). He briefly drew attention to the youth academy. There were 14,360 veteran claims for disability processed in the prior year; \$43.7 million had been returned directly to veterans. He relayed that veteran registration had increased by 5,000; the department was working to increase the number in the upcoming year.

Co-Chair Thomas commented that many veterans had a hard time admitting to problems. He observed that work needed to be done with families, which could be difficult because of the sensitivity of the issue. He discussed a personal story related to veterans in the Vietnam War.

Commissioner Katkus agreed and explained that the U.S. military saw the issue as a holistic approach. As a result many veterans from prior conflicts had been found and were receiving the same help as those from more recent wars. He elaborated that the U.S. military was working to make the acknowledgement of disabilities more socially acceptable so treatment could be administered.

Co-Chair Thomas observed how difficult it was for a veteran who was trained to be strong to admit that a problem existed.

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Commissioner Katkus replied that DMVA would focus on the issue in the current year. He pointed to challenges and pressing issues on slide 6 including emergency preparedness. He communicated that it was not possible to ever be completely prepared for "the big emergency" or "the big problem," but a plan was better than no plan. He furthered that many moving pieces were involved with the U.S. Northern Command and that the emphasis was on a synergistic approach that began at a local level with the appropriate training. He pointed to the Alaska Military Youth Academy and shared that its funding formula was not in sync with results. He believed the academy could increase its results under a lower budget. Additionally, the department would work to outline the goal and timeframe related to the Alaska Aerospace Corporation.

Co-Chair Stoltze asked whether the current level of service officers would be sufficient to handle increased workload as the department worked to expand veterans' awareness of eligibility for services.

Commissioner Katkus replied that that DMVA had taken the issue into account. The department anticipated that its budget request for additional resources would meet the demand as more information reached veterans deserving benefits.

Co-Chair Stoltze referred to an issue related to unpreparedness. He relayed that he belonged to many service organizations and opined that government did not operate cheaply or very efficiently. He told a story about the Chugiak Lions Club that bought a generator for the American Legion Hall in Peter's Creek; because the purchaser was a service organization and for other reasons the cost was not high, which would not have been possible for a government organization. He discussed the high cost of heating buildings in rural Alaska that belonged to service clubs or the community. He noted that Cordova struggled to pay taxes. He surmised that instead of constructing new government buildings the state should work with non-profits and service organizations in communities across the state

in order to dramatically save costs. He wondered about the department's thoughts on the idea.

Commissioner Katkus responded in the affirmative. He elaborated that he had asked the planning team to look at course of action development in order to provide options. He furthered that preferably capacity existed within the National Guard armories or other facilities. Capacity also existed within the state defense workforce; there were subject matter experts who did the work on a voluntary basis (using Alaska's soldiers on active duty was much cheaper than hiring other employees). He furthered that maintenance on the facilities could be done efficiently. He stressed the importance of easy and quick access to the facilities (through aviation or other methods) in order to quickly bring a resource to the problem without a lot of extra time and energy on coordination with other entities.

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Co-Chair Stoltze would follow up on the issue. He remarked that not all communities had armories or National Guard facilities. He discussed emergency response related to flooding in the state. He gave an example of a constituent who conducted strategic blasting and "perforating" as a solution to flooding; the constituent had approached the department with the idea and had been told that there was too much liability. He wondered whether the issue had been vetted.

Commissioner Katkus replied that the question had come up in the past related to using the Air Force to bomb the ice; the option was not a viable solution because ice would lodge in another area, which would create a greater problem downstream. The solution was to mitigate the problem over time, usually letting nature work its course. Other solutions included building communities above high water marks or response. The department provided education prior to ice buildup through the River Watch program and flew community leaders over areas to look at ice. He furthered that community leaders were subject matter experts who could predict outcomes. He elaborated that it was rare that the right measures could not be taken to address the issue. He reiterated that the use of explosives was not the best course of action.

Co-Chair Thomas had met with Deputy Commissioner McHugh Pierre who had shared that the veterans service office was moving to the same location as a veterans clinic. He opined that the act of moving the office closer to the clinic would increase the number of veterans using the resources.

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Representative Edgmon asked whether there had been any new rural armories put in place. Commissioner Katkus answered that the Bethel armory had opened next to the airport aviation facility in the past several months; the current unit living in the facility was preparing for a tour in Afghanistan. The department was also assessing statewide locations with two or three buildings to determine whether it would be better for the excess buildings to be given or divested to the communities (as long as the wartime or state mission of the department was not hindered by the loss of a facility). For example, Toksook Bay had a very small post office that could not handle the influx of mail during the holidays; the department had a building in the area that it could divest to the community for the purpose.

MCHUGH PIERRE, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, added that there were two locations under consideration for armory relocations including Delta Junction and Dillingham. The department had seen an increase in individuals interested in joining the National Guard in the areas. The Fort Greely facility was located near Delta Junction; however, Fort Greely was not designated for traditional drill activities. The department currently had 400-plus buildings in 77 communities and was working to determine how much it would cost to move some of the buildings to locations that would better serve members.

Commissioner Katkus expounded that DMVA had collaborated with the Department of Public Safety and that the armories in Selawik and Emmonak both contained troopers; it helped DMVA to be connected to the local law enforcement and provided insight into looking for qualified recruits for the National Guard.

Representative Joule addressed veteran services and observed that occasionally very positive things could come out of bad experiences. He referred to Vietnam War veterans in particular and believed that sometimes bad experiences paved the way for support provided to veterans coming out

of conflicts. He noted that DMVA had broken some ground on the issue and that good things were happening as a result in terms of the state's ability to provide support in a quicker time period. He wondered whether a coordination for veterans existed between the Indian Health Service (IHS) and DMVA related to benefits that were offered.

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Commissioner Katkus responded that he had been in Bethel the prior week where TriWest Healthcare Alliance had previously signed an agreement with IHS to make sure coverage was reaching veterans in the area. He communicated that a strong effort existed to ensure that healthcare services were locally available in order to cut down on travel and to increase responsiveness. He stated that TriWest had taken on the responsibility one year earlier and had done a phenomenal job; the company had been advised on the importance of getting out and doing it right.

Mr. Pierre furthered that the local providers were IHS staff. The Veteran Administration (VA) had begun reimbursing the IHS and Bureau of Indian Affairs (BIA) health efforts; therefore, the same staff understood both sides and could recommend the best course of action for the individual. The service level had been improved and DMVA was hoping to continue improvements by increasing its visits to rural areas with VA health experts, DMVA veteran service officers, and other family counselors.

Representative Joule acknowledged the department for its emergency preparedness efforts specifically related to a large storm that had taken place the prior fall.

Representative Guttenberg thanked DMVA for its work on coordinating the development of the veterans' cemetery in Fairbanks.

Co-Chair Thomas made a comment about his staff Aaron Schroeder who had done two tours in Iraq and was looking to get into the Alaska National Guard unit.

Co-Chair Stoltze referred his earlier question related to ice blasting. He pointed to letter from a Department of Transportation and Public Facilities regional manager recommending that the department look at the option as a potential solution. He wondered how much the issue had been

assessed and knew blasting had been used at Peter's Creek. He noted that the option did work in some places. He understood that there were considerations about what happened down river. He emphasized that he was not advocating one way or the other, but wanted to make sure the option had been vetted.

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Commissioner Katkus stressed that local comments were taken into consideration.

Co-Chair Stoltze had been surprised that the VA did not buy coffee for the veterans waiting at the facility. He shared that his local Lion's Club had voted to spend \$1,200 for a four month's supply of coffee. He believed providing coffee for individuals in a place that historically had long waits was a relatively easy and inexpensive thing to do.

Commissioner Katkus encouraged committee members to not be shy in thanking military members for their service. He thanked the committee for its time.

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^BUDGET OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

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DANIEL SULLIVAN, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (DNR), introduced department staff. He discussed that having a strong relationship with the legislature was a top DNR priority. He highlighted topics he would discuss during the meeting including strategies and results from the prior year and key aspects of the FY 13 budget proposal. He provided a PowerPoint presentation titled "DNR FY 2013 Budget Overview." He began on slide 4 and explained that DNR had revamped its mission statement and four core services in order to provide a better reflection of the agency and its work overall.

Representative Edgmon relayed that he had been receiving feedback on the new mission statement from constituents. He

likened a mission statement to a bumper sticker slogan; it was a statement of symbolic meaning. He had been informed that Title 37 placed department mission statements under the purview of the legislature. He asked what the changes were and how they would impact the department.

Commissioner Sullivan responded that it was important to have DNR's mission statement aligned with the directive in the Alaska Constitution. He had been unaware of the statute in Title 37 until recently; it had been confirmed by the Department of Law (DOL) that it was under the prerogative of the legislature to set department missions; however, commissioners also had the ability to make changes if they had not taken place in some time. He welcomed legislative input on the matter. Additionally, he had been surprised to learn that there was a sense in numerous communities that DNR viewed the state's land as its own. He did not believe the idea was the proper impression to give Alaska's citizens. He relayed that the media had asked whether the revised mission statement meant that DNR was not focused on conservation or future generations. He answered absolutely not. The department believed that responsibly developing land in the public's interest encompassed conservation and the importance of development for future generations. He emphasized that DNR had entire divisions focused on conservation (e.g. Division of Parks and Recreation). He acknowledged that the issue had become larger than he had anticipated and that DNR would welcome input from the legislature. He reiterated that he had been unaware of the statute and believed that the legislature had not changed department mission statements since 2003.

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Representative Guttenberg had heard comments on the issue as well. He explained that missions and measures were on the table every year, but the committee was currently working on the items more than it had in the past. He was concerned about DOL advice that DNR should feel free to make changes to its mission if the legislature had not made changes in a while. He opined that the advice seemed to be pretty erroneous.

Commissioner Sullivan replied that he had probably misspoken if he had used the words "feel free." He relayed that he could provide the committee with the directive. From the department's perspective it was clear that the

issue was a legislative prerogative. He did not want to make work for someone or to be involved with a controversy over the mission of the department. He believed there was something to be said for aligning the mission of the agency that was most responsible for managing resource development with the directive of the state's constitution. He noted that Article 8, Section 1 of the state's constitution was a unique provision; there were not many states that laid out the main policy directive of the state in a constitution.

Commissioner Sullivan pointed to the department's core services and relayed that they had been expanded to include a better reflection of the department's overall focus (slide 4). He noted that there was much more to the department than resource development issues. He briefly touched on slides 5 and 6 related to land ownership and estimated resources. He shared that the U.S. Geological Survey (USGS) had been released in June 2011 with updated estimates for Cook Inlet (slide 6). He furthered that according to the USGS the hydrocarbons in Cook Inlet and the oil on the North Slope were present in very large numbers. Slide 7 provided USGS and other estimates of important minerals in the state and showed where Alaska would rank if it were an independent country. He moved to slide 8 related to the different divisions within the department.

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Commissioner Sullivan continued to discuss DNR divisions on slide 8. The Division of Forestry accounted for almost 30 percent of the department's operating budget.

Representative Guttenberg asked whether the committee would be updated on the governor's efforts to increase activity in the Rare Earth Elements categories. Commissioner Sullivan shared his intent to discuss the issue later in the presentation and noted there had been a summit in Fairbanks.

Commissioner Sullivan returned to the Division of Forestry. The significant size of the division budget was due largely to forest fighting activities.

Co-Chair Stoltze asked for detail on the proposed Susitna forest. He wondered whether DNR was supporting the proposed legislation related to the forest.

ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, answered that the Susitna State Forest proposal had been laid out in the recently adopted Susitna Area Plan (a DNR land management plan). The plan recommended that certain lands within the Susitna area be legislatively designated as a state forest. He explained that the lands encompassed the area's commercially valuable timber as identified by department experts. The designation would enable the Division of Forestry to better manage the forest lands for commercial and other forest activities.

Co-Chair Stoltze surmised that DNR was responsible for the proposal. Mr. Fogels responded in the affirmative; the recommendation was in the DNR area plan.

Commissioner Sullivan elaborated that the proposal was an important result from the prior legislative session on the expansion of state forests for management. The state had experienced problems (particularly in the Susitna area) with access to federal lands and significant loss of forest/timber related jobs.

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Representative Gara pointed to important salmon and trout streams located in the Susitna area. He discussed that the Forestry Act allowed for a broad range of no-logging setbacks along streams. He wondered how wide the no-logging setbacks would be along the important streams to prevent muddying of the waters.

Mr. Fogels replied that he would follow up with the exact buffers. Buffers were prescribed by the state's Forest Practices Act and there was discretion for the division director to make adjustments depending on the need. He elaborated that there would be a management plan requirement if the state forest was approved. The management plan would potentially identify the more important areas that may need protection and public input would be considered.

Representative Gara asked whether the bill had to be passed before they would know whether the setbacks would be broad enough. Mr. Fogels responded that at a minimum the setbacks would comply with the state's Forest Practices Act. He would follow up with detailed information.

Representative Gara noted that some of the minimum setbacks were not very broad and ranged between 67 feet and 100 feet. He understood that the commissioner had the discretion to increase the setback on an important stream, but he was not comforted by the minimum setback for the more important streams in the area. He was interested to know if the department could assure him that the setbacks for important streams would be greater than the minimum.

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Commissioner Sullivan continued on slides 9 through 11 that showed division detail. He felt that the department had put together a strong team with experienced and committed leaders. He relayed that the pipeline office had done a significant amount of important work over the past year (slide 12). He pointed to slide 13 related to the Office of Project Management and Permitting (OPMP) and the Alaska Mental Health Trust Authority (AMHTA); OPMP was responsible for coordinating project permitting and was currently working to address some related issues (he noted that the division did outstanding work). He relayed that DNR collaborated with AMHTA on work carried out for beneficiaries.

Representative Joule asked whether the department had made headway on its backlog of permit applications. Commissioner Sullivan responded in the affirmative. He would provide additional detail later in the presentation.

Co-Chair Stoltze appreciated the collaborative relationship between DNR and AMHTA and acknowledged that AMHTA staff was working to fulfill its mission related to development from leases, rentals, and other. He stressed that if the legislature tied the agencies hands it would prevent funds from reaching trust beneficiaries. He listed trusted agency employees and noted that the trust's responsibility extended beyond its beneficiaries to include the land it managed. He believed that any suggestion that the trustees would not be excellent stewards did not take into account what a trust was, especially with its legal and moral responsibilities.

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Commissioner Sullivan agreed and pointed to aligned issues between DNR and AMHTA. He would discuss activities and state strategies beginning to "bear fruit" in the resource development sector. He reminded the committee that although there were lengthy lead times on some of the resources they represented future revenues. He stated that the Trans Alaska Pipeline System (TAPS) throughput decline had been the department's principle focus, which was a critical issue facing the state (slide 15).

Representative Edgmon pointed to his time on the committee and had learned that the state would not be able to cut its way out of a future budget crisis. He believed the governor's number one priority of increasing throughput needed to be the legislature's number one priority as well. He noted that disagreements existed related to the appropriate vehicle or method. He wondered whether the public understood the critical nature of the issue. He recalled Commissioner Sullivan's remark from the prior year that the issue was not about big oil. He appreciated the comments because many constituents asked why "fat cat" oil companies deserved a large tax break when they were making record profits off of Alaska's oil resources. He observed that the statement went back a number of years through numerous past actions that none of the current committee members were responsible for. He wondered whether Alaskans understood and would support taking drastic measures. He queried whether the state had effectively made the case with the public; according to comments from his district it had not.

Commissioner Sullivan hoped that the state was making the case that TAPS throughput is a critical issue. Additionally, DNR had been working to make the case to Washington D.C. that the issue was critical for Alaska and for the national energy security interests of the country; he felt that progress had been made. He stressed that DNR worked on a daily basis to make the case related to the continued serious decline of the state's main source of government revenue and one of its biggest drivers of economic activity. He expounded that the issue made more striking when almost every other hydrocarbon basin in the world was booming. He stressed that if there was no more oil the state would have to accept the reality, but that was not the case. The department believed that a world-class resource existed in Alaska. He furthered that the decline did not have to be the state's destiny. He

communicated that the tax reform was a cornerstone of the issue, but there were many different related factors.

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Representative Edgmon felt he had done his part to bring awareness to his district in the Bristol Bay/Aleutian regions. He was concerned that the administration had not gone out to make the case. He referred to hard and fast opinions about the oil industry. He understood that DNR was trying, but he wondered what a survey would show in terms of the number of Alaskans who were opposed to lowering taxes on the oil industry. He surmised that there was more work to be done on the issue.

Commissioner Sullivan answered that DNR had traveled to multiple areas, but it could always do a better job. From DNR's perspective the tax reform proposal had nothing to do with trying to increase profits; its goal was to increase production, which was key. His job was to try to increase in-state oil production, not to care about how much money oil companies were making. He had met with companies that had voiced the tax issue as a deterrent for investing in Alaska. He stated that the companies all knew Alaska had a great basin, but there were certain costs the state could control; Alaska was a high-cost location to conduct oil exploration and production and many of the costs were inevitable.

Co-Chair Stoltze remarked that the issue was a difficult one. He disputed public reports that 150,000 barrels per day would be a sufficient level of production.

Representative Gara observed that the public did not like it when two groups have different ideas and nothing gets done (e.g. the current Congress). He believed it was obvious to the public that the Senate, House, and the governor all had different ideas. He asked DNR to remain open to alternatives to the governor's proposed [oil tax reform] legislation. He believed that one thing everyone agreed on was the desire to reverse the decline of throughput in the pipeline, which was crucial to the state. He referred to the Norwegian system where unused leases were either taken back or the country conducted exploration on the land itself and charged for it. He did not imagine the state would go that far, but wondered whether it had

the ability to take back and rebid a lease if a company was not acting on it.

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Commissioner Sullivan concurred and believed that the House, Senate, and governor were working to come to an agreement on tax reform. He pointed out that the focus of the strategy was on tax reform, but there were a number of elements involved that he believed would receive very broad support. He opined that the strategy contained many factors that were not at all controversial. He referred to leases and relayed that the department had taken a number of actions in the past year that worked to accelerate development on state land. Applications had been rejected when DNR did not believe they showed an efficient production commitment. He furthered that the department had denied leases to companies wanting to unitize entire areas of the state who had not conducted sufficient exploration or shown adequate commercial quantities.

Commissioner Sullivan furthered that the department had taken some strong actions and was very focused on accelerating lease development. He pointed to Cook Inlet and aggressive lease terms that had been negotiated related to the Cosmopolitan unit; a commitment had been "baked in" because DNR knew the area contained oil. He shared that for the December 2011 North Slope lease sale DNR had increased a rental rate that had not been changed since statehood; the department had experimented with 5-year and 7-year terms, but the 10-year term had been maintained given the difficulty of the work on the North Slope. He added that the rental rates increased significantly in the last 3 years of the 10-year term if a well had not been drilled. The department believed that the four actions worked towards the goal of accelerating production in a variety of ways.

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Commissioner Sullivan turned to slides 16 and 17. The department expected a strong exploration season on the North Slope that included approximately 20 wells. There had been a strong lease sale, which had included aggressive conversations with companies and investors over the past year. Some companies that the department had expected to receive bids from had failed to do so; therefore, DNR was

in the process of following up to determine the reason. Some companies had communicated that they were not interested in investing until the state changed its cost structure; however, some world-class companies (Shell, ConocoPhillips, Repsol) were taking up more state acreage.

Commissioner Sullivan directed attention to slide 19 related to Cook Inlet. He relayed that a substantial amount of activity was beginning to occur (that would not have been predicted over a year ago) as a result of enacted legislative policies. The recent USGS estimate was 19 trillion cubic feet of natural gas in Cook Inlet. Additionally, the last lease sale was probably the best the state had seen in 30 years. From the department's perspective and through conversations with companies, tax incentives were one of the key drivers of the strong lease sale. He had briefed company CEOs on lease terms, which had added to the successful lease sale. He emphasized that there were some new players in the area and DNR had been very involved in the supervisory regulatory role in order to ensure that activity was done safely.

Representative Guttenberg asked how aggressive the department had been with Doyon related to their drilling and exploration efforts in the Nenana Basin and the Yukon foothills. Commissioner Sullivan deferred the question to Deputy Commissioner Joe Balash due to a conflict of interest.

JOE BALASH, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, responded that Doyon had been on a slight "slow burn" since it had spud the well in the Nenana Basin; a discovery had not been announced and the company had been taken by surprise by what it learned from the well. Doyon had been in contact with the Division of Oil and Gas and the Division of Geologic and Geophysical Surveys to explain what they believed was in the ground and what the potential was. The company was pursuing seismic research in the area and intended to obtain capital to drill two additional wells in the next couple of years. Doyon had not made any specific requests at the time; the department had been an open door and had made its technical expertise available.

Representative Guttenberg queried whether Doyon had talked about any infrastructure needs that the legislature could provide for. He wondered whether a bridge over the Nenana

would help to increase effort and other opportunity in the area.

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Mr. Balash answered that under the rubric of Roads to Resources DNR had been considering what additional areas may make sense. The Nenana Basin contained a number of resources apart from oil and gas that may be attractive and worthy of merit under the program, but nothing of the kind had been included in the FY 13 budget request.

Commissioner Sullivan relayed that another positive aspect of 2011 was the increase in mineral production in the state (slides 21 and 22). He stated that Alaska was becoming a focus of the country's exploration investment; approximately one-third of all U.S. exploration investment in 2010 took place in Alaska. He expounded that 34 different projects spent over \$1 million in Alaska in 2010. The department believed the figures were promising particularly because the projects had enormous impacts on local communities related to increased jobs.

Commissioner Sullivan pointed to an image showing different types of activity throughout the state (slide 23). The department had held a Strategic and Critical Minerals Summit in Fairbanks in September 2011. The summit had focused on Rare Earth Elements; the sold out event had included U.S. investors, Japanese government officials and other. He noted that Reuters and Bloomberg both ran stories on the event. He shared that the event had generated excitement about the opportunities in the state. The governor had laid out the state's five-part strategy on strategic and critical minerals, which he could brief the committee about at a different time.

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Co-Chair Stoltze perceived that revenues from mining had surpassed fishery revenues and questioned if the department expected the number to rise.

Mr. Fogels explained that there are seven major operating mines in the state, only two of which were on state land (Pogo and Usibelli). Fort Knox was located on AMHTA land.

Co-Chair Stoltze observed that AMHTA land was an indirect route to the state. Mr. Fogels agreed. He communicated that DNR had not made any plans to look at changes to the revenue structure of mining projects.

Co-Chair Stoltze clarified that he was not referring to taxes; he had been referring to the goal of increasing mine and oil production. Mr. Fogels responded that the future was looking bright and the DNR permitting office was currently very busy. Donlin Gold was expected to submit its permit application in the near future; if approved the mine would be the largest gold mine (potentially double the size of Fort Knox). Additionally, the gas line to the mine would probably be the largest construction project in the state since TAPS. He relayed that the Livengood project near Fairbanks was large and moving full steam towards acquiring permitting in a couple of years. He furthered that the Pebble Mine was a couple of years out from submitting permitting applications. He pointed to the Niblack project in Southeast Alaska as a promising Greens Creek-sized project on Prince of Wales Island that was a year or two out from submitting an application. He communicated that there were a number of significant exploration prospects (e.g. the Pyramid copper project on the Alaska Peninsula). He furthered that there was a substantial amount of activity occurring in Alaska and believed that if the projects could be developed responsibly there would be a significant increase in revenues from mining.

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Representative Gara remarked that excluding some recent applications, the mining history in Alaska was strong and responsible. He asked what the current mining royalty was. He noted that entities were not responsible for corporate taxes unless they were C corporations. He queried whether mining companies were all C corporations. Mr. Fogels replied that mining companies did not avoid the corporation tax; taxes included a 9 percent corporate income tax and a 7.5 percent mining license tax. He relayed that the royalty was 3 percent of net after the first 3 years.

Representative Joule recognized audience member former state representative Chuck Degnan from Unalakleet. He referred to the 6.7 million ounces of silver produced by the Red Dog mine in 2010 (slide 21). He wondered whether any mines were close to producing that amount in Alaska and

how it compared to silver production nationally. Mr. Fogels would follow up with detailed information. He added that Greens Creek was the fifth largest silver mine in the world; it had produced 7.2 million ounces of silver in 2010.

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Representative Guttenberg pointed to a Rare Earth Element project at Bokan Mountain (slide 22); he believed there were others around the state. He had attended the minerals summit and lauded its success. Commissioner Sullivan was very happy with the summit; he emphasized the magnitude of the agenda and pointed out that DNR only had five weeks to put the summit together. He added that the turnout was such that people had been turned away.

Representative Guttenberg had been impressed by the significant process that occurs after Rare Earth Elements are mined. He stressed that it was important to put a procedure in place that would keep the processing of the elements in Alaska. He believed that it was best to do it now because the resource was available. He had learned that China had control of the market, but it was not exporting any longer and was expected to run out of the resource. Subsequently, there would be a major gap in the availability of the resource worldwide.

Commissioner Sullivan agreed. He relayed that in addition to the significant enthusiasm which resulted from the summit, there had been on-the-side deal making occurring as well. Alaska Industrial Development and Export Authority representatives had engaged in positive dialogues with company senior executives. He furthered that the discussion related to processing had begun.

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Commissioner Sullivan moved to slide 25 related to the summit strategy. He listed permitting reform as a strategy aimed at improving Alaska's future through the increase of oil production (slide 26). He thanked the legislature for its bipartisan support related to the issues. He believed DNR had made more progress than it had anticipated and acknowledged Brent Goodrum, Director, Division of Mining, Land and Water. Significant progress had been made towards filling vacant positions; DNR requested that the positions

be included in the baseline budget (slide 27). The department was planning to revamp its information technology system in order to prevent the backlog level from escalating again in the future; the backlog had been reduced by 21 percent in the first six months of FY 12 (it had been approximately 2,600 the past July and was currently about 2,000). The department had been holding public hearings throughout the state in order to gather public input on ways to improve its permitting system. He emphasized that the goal was to improve efficiencies and increase turnaround time of permits, but not to cut corners. He remarked that there was a significant amount of work occurring in a variety of areas that DNR would collaborate with the legislature on in the current session.

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Co-Chair Thomas asked whether development permits had been awarded at an accelerated or decelerated rate in the absence of the Alaska Coastal Management Program.

Commissioner Sullivan replied that the principal example of the issue was related to the exploration season on the North Slope. Twenty exploration wells required a lot of work in terms of rigs, permits, water use, ice roads, etc. Normally the process would have gone through the coastal zone process; in its absence the state worked very closely with the North Slope Borough. He elaborated that the coordination effort had been used, but the department was working on ways to improve the process. The season had resulted in a significant surge in the number of permit applications. He expounded that all permits related to the North Slope exploration season had been acted on by DNR or the borough.

Commissioner Sullivan reiterated that there had been significant progress in the permit backlog (slide 27). He briefly highlighted accomplishments in the agriculture sector. He relayed that DNR was talking with the Office of Management and Budget about expanding a horticulture program in order to fill a gap resulting from USDA closures. He referred to accomplishments in parks and outdoor recreation and pointed to children's lives that had been saved as a result of programs (slide 29). He discussed timber resources and the department's proposal to increase the size of the state forest (slide 30). He communicated

that there was no big news related to wildland fires because teams had done a good job fighting them (slide 31).

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Representative Guttenberg disclosed that he is a peony farmer and thanked DNR for bringing attention to the loss of USDA positions, which would be a big gap for Alaskan farmers. He pointed out that most states had state supported infrastructure that was paid for by industry. He addressed food security, school gardens, and Farm to School programs; he was uncertain the state was ready for a cabinet level position that had been discussed by farmers around the state related to the issue. He noted that one of the committee co-chairs had been given a Friend of Farmers award. He opined that local foods were much better than bringing in foods from out of state.

Representative Neuman discussed the importance of the federal excess property program to the volunteer fire department that he had worked on for years with the department. As a result of work done by the state and legislature and through American Recovery and Reinvestment Act funds there was state excess equipment available to the local volunteer fire departments.

Commissioner Sullivan opined that the firefighting teams had done an excellent job preventing fires from getting out of control particularly in the Fairbanks area. He moved to slide 32 titled "Less Hostile Federal Government in 2011?" He stated that the department had seen signs that the federal government was easing up on a very hostile view of resource development in Alaska. He continued that it was a "one step forward, two steps back" situation; progress had been made on a CD-5 decision, but federal issues were arising related to Point Thomson, which was located on state land.

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Representative Wilson wondered where DNR saw access with Mosquito Fork and the Revised Statute 2477 (R.S. 2477). She noted that money had been designated the prior year in the hopes that it would help resolve the issue or make the federal government less hostile.

Commissioner Sullivan replied that DNR had been conducting research. He shared that the attorney general had indicated that the state would seek legal recourse on a number of the items. He expounded that the state was moving forward aggressively on the R.S. 2477 issue.

Co-Chair Stoltze acknowledged the former attorney general [Commissioner Sullivan] on a job well done related to a wide array of litigations. He appreciated the continuity and hoped it would continue going forward.

Mr. Fogels added that DNR had conducted a large amount of fieldwork over the prior summer related to the R.S. 2477 and Mosquito Fork issues; data was currently being compiled and would be available in a report in the near future. There was an assistant attorney general assigned to R.S. 2477 who was helping DNR reevaluate its strategy. The state had formed a partnership with Utah that had been facing the same issues. Utah was also experiencing the same issues; therefore, the states had joined together to learn and share their strategies. The department would provide a detailed briefing to the committee in the future.

Representative Wilson noted that there were two separate issues related to rivers and trails. She pointed to Mosquito Fork in the Chicken area and thought it was senseless to be fighting over whether a river was navigable when it obviously was. There were miners who would be renewing claims that they had owned for many years; she wanted to ensure that they were supported. She recognized that there were people who spent part of the year in some horrible conditions in the hopes that they would successfully find minerals.

Representative Neuman had been contacted by a miner operating a small business in his district who had received notice about needing further OSHA and safety compliance. He stated that the amount of paperwork required was excessive. He wondered whether the requirements were a result of state or federal changes in regulation in the past year.

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Mr. Fogels responded that mining safety was regulated by the federal Mine Safety and Health Administration (MSHA). He observed that there had been some serious coal mining accidents in the Lower 48 in recent years, which had

resulted in increased MSHA regulatory oversight. He communicated that the state had a very limited role in mining safety.

Commissioner Sullivan moved to slides 35 and 36. He stated that none of the significant challenges outlined in the presentation were a surprise, but the goal was to highlight challenges and tie them into the proposed budget. He touched on the TAPS throughput decline as a challenge. The department believed significant progress had been made related to the commercializing of North Slope gas, particularly regarding the governor's shift related to Liquid Natural Gas (key parameters were listed on slide 36); the governor had laid out what he saw as a road map during his State of the State speech the prior week. He discussed that DNR worked on a daily basis to strike a balance between responsible resource development and environmental stewardship (slide 39); he believed the department had a good record of maintaining the balance.

Commissioner Sullivan directed attention to a seven-year look back related to the DNR budget (slide 42). The department's average annual growth rate was 5.7 percent; DNR had represented a decreasing percentage of the state general fund over the past five or six years. He pointed to a pie chart illustrating the FY 13 operating budget broken out by core services on slide 43. Slide 44 included a pie chart showing the operating budget broken out by division/office. Slide 45 depicted the difference between the FY 12 management plan and the governor's FY 13 request; the overall increase was \$11.6 million; \$6.5 million of the total was increased federal receipts to support fire suppression activity and \$2.2 million was industry supported fees for the Office of Project Management and Permitting. The unrestricted general fund increase was approximately \$2.3 million. Slides 46 and 47 included snapshots of high priority areas (in the governor's proposed FY 13 budget) by subject including TAPS, strategic minerals, gasoline, permitting, agriculture, and parks.

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Representative Gara discussed the short drilling season in some areas on the North Slope that was related to warming winters. He wondered whether there were actions that could be taken to extend the season in the areas.

Commissioner Sullivan replied that some high costs associated with the oil and gas business in Alaska were inevitable including those associated with its remoteness, the extreme weather, logistics, and other. He stressed that the short drilling season was a topic that came up frequently. The exploration season in Alaska was approximately 4 months compared to Texas or North Dakota where activity occurred year-round. He communicated that the department had looked at ways to extend the season. He shared that Great Bear Petroleum was looking at shale plays and the company had chosen initial exploration wells along the haul road where previous activity had occurred, which would allow for an extended exploration season. He highlighted that roads would help with the possibility of year-round exploration (e.g. the road to Umiat). He noted that ice roads served an important function with regard to minimal impact to sensitive North Slope areas, but finding ways to extend the exploration season was very important as it would help decrease the significant costs.

Representative Gara remarked that the state could build roads, but there could be economic incentive for companies to build roads as well. He asked whether there was a way to streamline and simplify the permitting process for companies interested in building roads to prospective oil sites.

Commissioner Sullivan responded that DNR hoped the answer was yes. He shared that both state and federal issues were involved related to Environmental Impact Statements and 404(c) permits associated with the Clean Water Act. Action would be taken if it could be done in a way that would not cut corners and that allowed the state to be a good steward of the environment. The department was looking at regulations and statutes statewide to find ways to improve project efficiencies that would not take six to eight years.

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Co-Chair Stoltze discussed the schedule for the next couple of days.

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ADJOURNMENT

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The meeting was adjourned at 3:50 p.m.