

HOUSE FINANCE COMMITTEE
January 31, 2014
1:31 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Angela Rodell, Commissioner, Department of Revenue; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Joe Balash, Commissioner, Department of Natural Resources; Jeanmarie Davis, Director, Division of Support Services, Department of Natural Resources.

SUMMARY

FY 15 GOVERNOR'S BUDGET OVERVIEWS:

Department of Revenue
Department of Natural Resources

HB 266 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 266 was HEARD and HELD in committee for further consideration.

HB 267 APPROP: MENTAL HEALTH BUDGET

HB 267 was HEARD and HELD in committee for further consideration.

#hb266

#hb267

HOUSE BILL NO. 266

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, and making reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund."

HOUSE BILL NO. 267

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program."

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^FY 15 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF REVENUE

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ANGELA RODELL, COMMISSIONER, DEPARTMENT OF REVENUE, presented the PowerPoint presentation: "State of Alaska Department of Revenue Budget Overview" (copy on file) She began with slide 2: "Alaska Department of Revenue":

The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes.

The Department has four major programs:

- Tax Division
Enforces the tax laws of the state; collects and accounts for tax revenues
- Treasury Division
Manages and invests state funds

- Permanent Fund Dividend Division
Administers the PFD program and distributes the annual dividend payment to eligible Alaskans
- Child Support Services Division
Collects and distributes child support to custodial parents

Commissioner Rodell presented slide 3: "Results in 2013":

Department of Revenue as a Whole

- The Department's website was updated to provide easy links to current fund balances and fund performance
- All Department of Revenue regulations were reviewed and updated as necessary

Treasury Division

- Alaska received its third AAA bond rating from Fitch in FY 13 making it one of the few states with top rating from all three rating agencies
- The FY 13 returns for 37 out of 39 funds managed by Treasury exceeded the benchmark returns.
- PERS and TRS funds returned 12.50 percent and 12.59 percent.

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Commissioner Rodell reviewed slide 4: "Results in 2013":

Permanent Fund Dividend Division (PFD)

- The cost of reviewing a PFD application and paying the dividend declined each year from 2011 TO 2013.
- Of the 139,254 eligibility cases that were created, 97 percent of them were contacted by the time dividend amount was announced in September. That is 7 percent better than the 90 percent contact rate in 2012, and 12 percent above our performance measure goal of 85 percent.
- The division had the lowest number of unreviewed cases ever recorded by the division at the point of the dividend announcement. Only 3,937 cases remained under reviewed at that point in time. Down from 16,410 in 2012. The net effect was that of the 670,000 applicants in 2013, only one half

of one percent has not been reached regarding their application.

- The division also overhauled our technician training program in 2013, hiring a new trainer and lead, who subsequently shaved an entire month off of our previously 3-month long training program. This means technicians are working cases and fielding questions from the public faster than ever.

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Commissioner Rodell directed attention to slide 5: "Results in 2013, Child Support Services Division":

- The federally required self-assessment review showed that CSSD exceeded all federal requirements for the child support program.
- CSSD increased its teenage outreach program, making 70 presentations in 48 schools throughout the state.

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Commissioner Rodell explained slide 6: "Results in 2013":

Tax Division

- Began implementation of our Tax Revenue Management System (TRMS), for which the legislature appropriated \$34.7 million in the 2011 session.
 - Phase 1 of the project is in its final stages, and will be rolled out for all corporate income tax filers, and many excise tax filers;
 - Phase 2 will be starting within the next few weeks (includes oil and gas production tax, property tax, and economic research).
- Successfully drafted and finalized a large regulations package within 6-7 months of the passage of SB 21 (MAP), so they were in effect when most of the bill's provisions went into effect (January 1, 2014). Interest rate calculation regulations have been filed with the Lt. Gov. as of last week.

- 98.5 percent of known taxpayers filed tax returns and made their payments timely

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Commissioner Rodell referenced slide 7: "Authorities and Corporations":

- Alaska Housing Finance Corporation
To provide Alaskans access to safe, quality and affordable housing.
- Alaska Permanent Fund Corporation
To maximize the value of the Permanent Fund within return objectives.
- Alaska Mental Health Trust Authority
To administer the Alaska Mental Health Trust as a perpetual trust and to ensure a comprehensive and integrated mental health program to improve the lives of beneficiaries.
- Alaska Municipal Bond Bank Authority
To provide municipalities with financing options for capital projects.

Commissioner Rodell presented slide 8: "Look Back at Department Activities." She reported a 58 percent increase in revenues collected by the Tax Division, and a 147 percent increase in returns collected by the Treasury Division over the last eight years. She also acknowledged a 7 percent climb in the number of Permanent Fund Dividends paid to Alaskans from FY 05 to FY 14. She cited an escalation in the number of child support cases of 4 percent as well as a 15 percent rise in the dollar amount distributed to custodial parents from FY 05 to FY 13.

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Commissioner Rodell reviewed slide 9: "Growth in State Funds 2005 - 2014 CBRF and GeFonsi." She stated that the chart reflected tremendous growth in reserve funds in the state savings account over the last eight years.

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Commissioner Rodell explained slide 10: "Department of Revenue Share of Total Agency Operations." She noted that

agency operations costs stayed within a range of .80 to 1.0 percent of the total state budget for unrestricted general funds only. The department's budget had remained relatively stable over the last few years.

Commissioner Rodell discussed slide 11: "Department of Revenue Percent of Total Department's Budget by Fund Group." She indicated that the main change in the percent of the department's budget by fund group was due to an increase in federal receipts designated for the Child Support Services Division. She also noted increases in the "other state funds" category as well as increased revenues in the Permanent Fund and pension funds.

Commissioner Rodell referenced slide 12: "Department of Revenue FY 2015 Governor's Budget by Fund Source." She outlined the department's budget by fund source using the pie chart as a visual reference.

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Commissioner Rodell presented slide 13: "Department of Revenue FY 15 Governor's Budget by Program." She defined the budget allocations by program as shown in the pie chart. The Alaska Permanent Fund program was easily identified as the major contributor to state revenues.

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JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, continued with slide 14: "Key FY 15 Budget Changes." He commented that he worked with the commissioner to determine potential reductions for external services going forward, strategically evaluating each division. The largest reduction within the Treasury Division was non-pension, trust-related administrative costs for the state's retirement board. He explained that the associated services were no longer in demand relative to previous years. Aside from small decreases within each division, four full-time positions, one part-time position, and one temporary position were eliminated either within the Tax Division or the Permanent Fund Dividend Division. Rates charged for health benefits were slightly lowered and working reserve was somewhat diminished. He cited a total of approximately \$1 million in cutbacks. The department had one increment of \$23.8 million in management fees because

of the balance of the growing Permanent Fund and the complexity of managing Permanent Fund assets.

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Mr. Burnett discussed slide 15: "FY 15 Capital":

- PFD Division Computer Replacement 130.0 PFD Fund
- Child Support Computer Replacement 158.5 Fed/81.6 GF
- Alaska Housing Finance Corp Multiple Projects 76,800.0 GF/850.0 Other/12,200.0 Fed
 - o \$29 million Weatherization
 - o \$17.5 million Home Energy Rebate
 - o \$8 million Homeless Assistance Program
 - o \$7 million Supplemental Housing Development Program
 - o \$6 million Teacher, Health, Public Safety and VPSO Housing Loans
 - o \$4.5 million Senior Citizen Housing Development

Mr. Burnett elaborated that the Child Support Services and Permanent Fund Dividend Divisions had submitted an appeal for computer replacement funds. The department has each division on a computer replacement cycle. Historically, the department has submitted a capital request every year since 2004 to satisfy its replacement efforts. The balance of capital requests for the department came from the Alaska Housing Finance Corporation for multiple projects.

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Mr. Burnett discussed slides 16 and 17: "Department of Revenue Ten Year Expenditure Projection":

- The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes. The department achieves its mission through the efforts of four core agencies, two corporate agencies, and four boards and authorities.
- The following document provides an estimate of the department's budget changes over the next ten years. Projecting budgets ten years into the future for the various programs and funding sources of the Department of Revenue is a challenge. Changes to the department's

programs are not anticipated but are sometimes affected by legislative action. As a result, the assumptions and numbers that make up the plan will continue to change as new information becomes available.

Baseline Scenario Assumptions for DOR:

- The department's operations costs were increased by using a 2.5 percent annual inflation factor. The inflation calculation does not include personal services or investment management fees.
- External custody and investment management fees were calculated using anticipated rates applied to estimated future market values.

Baseline Scenario Assumptions for AHFC:

- Alaska Housing Finance Corporation's (AHFC) operations costs were increased by using 2.5 percent annual inflation factor. The inflation calculation does not include personal services or investment management fees.
- The Capital budget assumes that the Corporation's earnings will resume to pre-recession levels.
- The Weatherization program assumes the State will contribute \$100 million annually to maintain the current program.

Baseline Scenario Assumptions for APFC:

- The Alaska Permanent Fund (APF) value was grown using median market expectations.
- External investment manager fees were calculated using anticipated rates applied to the projected value of the assets under management.
- Alaska Permanent Fund Corporation's (APFC) operations costs were grown by 2.5 percent (inflation). The inflation calculation does not include personal services or investment management fees.

Mr. Burnett stated that the remaining slides addressed the Department of Revenue's ten-year expenditure plan. The plan used a 2.5 percent annual inflation rate and calculated external custody and management fees based on anticipated rates applied to estimated future market values. The ten-year plan was not based on an anticipated number of PFD applications and did not include future contractual salary increases in any of the departments.

Mr. Burnett also indicated that the plan incorporated market expectations for APFC, resumed calculating the corporation's earnings at pre-recession levels, and continued to contribute annually to the weatherization program.

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Mr. Burnett discussed slide 18: "Ten Year Projection Graphs." He reported a shallow rise in future projections. He turned to slide 19: "Ten Year Projection Graphs." He explained that over the last ten years the annual budget growth in general funds only reflected a 3.2 percent incline.

Mr. Burnet looked at slide 20: "Ten Year Projection Graphs." He specified that the referenced graph demonstrated a 7.4 percent escalation in the annual budget for all funds in the same ten year period.

Commissioner Rodell concluded with slide 21: "Wrap-up":

- The Tax Division is actively engaged in improving its information system to insure efficient tax administration, to more effectively serve taxpayer and provide timely access to information necessary for assisting with tax policy decisions contemplated by the legislature.
- The Department of Revenue is the state's largest investment manager. We pride ourselves in prudent investment practices for a variety of programs and needs while achieving and maintaining the highest credit rating and thus the lowest cost of borrowing.
- Customer service sections in the PFD and Child Support Services Divisions have continuously improved their business practices in order to provide increased service levels without increasing staff.
- Our corporations receive national recognition for their exemplary program management and fiscal solvency.

Co-Chair Austerman asked about slide 4, regarding the Permanent Fund Dividend Division's performance measures of 85 percent and the need to adjust it.

Commissioner Rodell affirmed that the benchmark measurement should be reevaluated and adjusted depending on findings.

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Co-Chair Austerman asked about slide 6. He wanted more information regarding known and unknown tax payers.

Commissioner Rodell responded that the division did not have a way to evaluate compliance unless a business had previously filed with the state. The state only has an opportunity to investigate for fraud when violators are caught or reported. The division works in conjunction with the Department of Commerce, Community and Economic Development on compliance issues.

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Representative Thompson asked about the potential for future savings in personnel costs.

Commissioner Rodell responded that it was too soon to make a determination on staffing levels. She indicated that the state would be able to evaluate whether or not it uses its auditors to maximize tax revenues and to ensure tax payer compliance. The majority of the state's tax division resources were appropriated for managing oil and gas production tax, the lion's share of the state's revenue.

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Representative Thompson asked about oil taxes and the auditing process. He inquired what the costs would be if SB 21 was repealed and the state rolled back to Alaska's Clear and Equitable Share (ACES).

Commissioner Rodell replied that FY 07 encompassed two different tax structures, the Petroleum Profits Tax (PPT) and ACES. She informed the committee that the tax year would be finalized on March 31, 2014. She also reported the audits for FY 08 and FY 09 were currently being conducted. If the referendum to repeal SB 21 passed, the state would again encounter a split tax year. She confirmed that the tax revenue management system was programmed for the tax structure associated with SB 21-More Alaska Production Act (MAPA). She did not have a cost estimate reflecting the

effects of a repeal of SB 21 but offered to conduct further research to provide the information.

Co-Chair Austerman asked if the FY 06 audit was the most recently completed tax audit. Commissioner Rodell responded in the affirmative.

Co-Chair Austerman asked if the delays in completing audits were normal.

Commissioner Rodell answered that filings were made by March of the subsequent year. Also, participating oil and gas companies submitted monthly tax filings and made monthly tax payments. The associated filings were then reviewed by state auditors to confirm that the right amount of taxes was being paid. While the audits were in progress, the division kept the commissioner abreast of their status. She expressed her confidence in the accuracy of revenues being collected and that federal filings were being used as benchmarks to measure their correctness.

Co-Chair Austerman asked whether the delays were normal or if the state is behind in its audits because of a staffing deficiency within the department.

Commissioner Rodell responded that a request for an updated revenue management system and corresponding staff requirements began with the passage of ACES. In the case of the revenue management system, the funding did not become available until FY 11. Since acquiring funds, the division was working in an effort to get the system up and running and to complete the backlog of audits.

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Co-Chair Austerman asked the commissioner to anticipate the lead time for the completion of an audit. Commissioner Rodell replied that the department hoped to cover two years in one audit.

Vice-Chair Neuman asked if the 12.5 percent Public Employees Retirement System (PERS) and Teachers' Retirement System (TRS) fund returns on slide 3, were based on an average. Commissioner Rodell indicated the figures were actual percentages for FY 13.

Vice-Chair Neuman asked the commissioner for a ten-year average on the amount of fund returns from long-term investments.

Commissioner Rodell responded that the department did some historical evaluations and found that the average return was 7.78 percent over the life of the funds or 28 years; the average excluded FY 13 numbers.

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Vice-Chair Neuman expressed concern that the retirement systems relied on an 8 percent return.

Commissioner Rodell replied that the state actuary assumed 8 percent, a 6 percent return with a 2 percent inflation factor built in. The department set an asset allocation based on targeting an 8 percent return. Assumptions were adjusted going forward and in FY 13 the state beat its target. She reported that in FY 09 there was a 20 percent loss. The state invested in such a way to allow assets to make the benefit payments. She stated that she took all of the different funds seriously. She wanted to stay within statutory mandates and increase revenues to the state.

Vice-Chair Neuman commented on greater risk producing greater returns.

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Representative Gara expressed his concerns about the ACES audits. He indicated that the first audit had not occurred yet. He stated that ConocoPhillips earned approximately \$2 billion in profits in Alaska. He suggested that \$40 billion to \$50 billion dollars of profits under ACES were not yet audited. He wondered if the department had the staff to fully audit all of the tax returns related to ACES.

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Commissioner Rodell replied that the legislature was helpful in providing the necessary positions to get the job done. In 2013, two positions were added: a master auditor in oil and gas, and an oil and gas production auditor. In reference to the final audit for FY 08 the auditors were presently collecting data on the oil and gas companies.

Although the companies were making payments and completing their federal tax filings, they had to submit amended returns because of changes in regulations related to ACES. She stated that the department was confident in the accuracy of the amount of taxes paid and tax credits applied. She expressed confidence that revenue staff were diligently working to finish the audits and to get the tax revenue management system in place. She assured the committee that she and her staff were committed to ensuring the state gets every dollar it is entitled to.

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Representative Gara requested reassurance that the proper accounting activities were in place in order to acquire all taxes owed to the state. He emphasized the importance of audits.

Commissioner Rodell discussed how the work of 18 oil and gas production tax auditors was distributed. The group was divided in half with half of one group focused on deductions and credits while the other half concentrated on tax collection. She reported that the regulations associated with SB 21 were completed on time for the start of the tax year beginning on January 1, 2014.

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Representative Guttenberg asked the difference between monthly and year-end audits and whether or not it helped to conduct monthly audits.

Commissioner Rodell replied that there were no significant differences between monthly and year-end audits and that by conducting monthly audits the year-end audits were much easier.

Representative Guttenberg asked for verification that the master auditors were on task doing what they were hired to do.

Commissioner Rodell confirmed that the auditors were completing their assigned duties. They were also assisting programmers with the implementation of the tax revenue management system by making sure the system accurately reflects both regulation and statute.

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Representative Guttenberg asked about slide 14. He wondered if cuts to non-personnel external expenditures would show up in small increments in other places in the department's budget where the department assumed the responsibilities.

Mr. Burnett replied in the negative.

Representative Guttenberg asked about computer replacements. Mr. Burnett responded that the two divisions were on a four-year equipment cycle. He emphasized the importance of having up-to-date tools to provide the public with optimal feedback.

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^FY 15 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

JOE BALASH, COMMISSIONER DESIGNEE, DEPARTMENT OF NATURAL RESOURCES (DNR), delivered the PowerPoint presentation: "State of Alaska Department of Natural Resources" (copy on file).

Commissioner Balash discussed slide 4: "State of Alaska Department of Natural Resources." He stated that there had been some changes to the agency's organizational charts, mostly name changes, including Mr. Balash, listed as commissioner, and Bob Swenson, listed as deputy commissioner. He indicated that the chart also included the different divisions that make up the agency and the major components of the operating budget for the department. He reported that what was not included on the chart were various boards that function within or alongside some of the divisions.

Commissioner Balash turned to slide 5: "State of Alaska Department of Natural Resources." He reviewed the DNR core services:

1. Foster responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment
2. Provide access to state lands for public and private use, settlement, and recreation

3. Ensure sufficient data acquisition and assessment of land and resources to foster responsible resource development
4. Mitigate threat to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geological hazards

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Commissioner Balash directed attention to slide 6: "State of Alaska Department of Natural Resources." He asserted that DNR managed the State of Alaska's lands including 100 million acres of uplands, 60 million acres of tidelands, shore lands, and submerged lands, and 40 thousand miles of coastline. He emphasized the astounding responsibility DNR had.

Commissioner Balash referred to slide 7: "State of Alaska DNR has 7 Divisions." He noted the Division of Agriculture and the Division Forestry.

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Commissioner Balash revealed slide 8: "State of Alaska DNR has 7 Divisions." He focused on two divisions within DNR. First, he referenced the Division of Geological and Geophysical Surveys acknowledging Steve Masterman, the acting director of the division. He reported there was currently a search for the next state geologist to replace Mr. Swenson. The department was going to be looking for someone with a mineral background rather than an emphasis on energy. He then directed his attention to the Division of Mining, Land, and Water specifying Brent Goodrum, the division director. He noted the division was focused on addressing backlog as well as staying current with its review of new authorization applications.

Commissioner Balash advanced to slide 9: "State of Alaska DNR has 7 Divisions." He highlighted the Division of Oil and Gas and the Division of Parks and Outdoor Recreation. He shared that the state had one of the largest state parks in the country and one of the smallest state budgets. He stressed the excellent performance of the director. He also explained the role that the Office of History and

Archaeology played in the permitting system, specifically evaluating Section 106 compliance.

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Commissioner Balash moved on to slide 10: "State of Alaska DNR has 7 Divisions." He briefly discussed the Division of Support Services, the seventh division within DNR. He then drew attention to slide 11: "State of Alaska DNR Offices." He noted the Office of the Commissioner and the State Pipeline Coordinator's Office (SPCO). He highlighted the functions of the SPCO including landlord, rent collector, and regulator.

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Commissioner Balash advanced to slide 12: "State of Alaska DNR Offices." He reported that the Office of Project Management and Permitting operated on a Memorandum of Understanding (MOU) basis where applicants financed some of the services provided. He also outlined the work of the Alaska Mental Health Trust Land Office. He informed the committee that the Alaska Mental Health Trust Authority funded its programs through the development of its land assets within the state. The commissioner relayed that DNR had an agreement with the trust to establish and run the land office.

Commissioner Balash reviewed slide 13: "Key Performance Measures." The slide included a graph showing the dollar value of MOU agreements for large development projects permitting coordination. He stated that DNR needed additional personnel in order to stay ahead of the incoming workload.

Commissioner Balash referred to Slide 14: "Key Performance Measures." The slide included a graph of key performance measures for the Division of Mining, Land and Water. He discussed that the division was fully staffed and had been able to decrease the permit backlog. He credited the director for the progress that has been made within the division to reduce the bottleneck.

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Commissioner Balash pointed to slide 15 that included a key performance measurement chart for the percent of oil, gas,

and geothermal leases awarded within nine months of sale. The department undertook an evaluation of the lease process. He was happy to report that in recent months all leases were issued within seven weeks of sale. He detailed that the division would apply the seven-week target to the Cook Inlet sale before making a permanent change to the standard. Slide 16 included a chart that showed a tracking of the square miles of published minerals-related airborne geophysical data. The data reflected an increase in mineral claims and exploration. Commissioner Balash commented on the contribution that he felt mining made to small communities.

Commissioner Balash moved on to slide 17 that contained a graph showing park fee revenues. He discussed service fees paid by users. The chart indicated an uptick in park-fee revenue in FY 13. He noted that a balance existed between increasing fees and providing Alaskans with access to something they owned.

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JEANMARIE DAVIS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, moved to slide 19. She stated that DNR employed approximately 1,100 Alaskans. She continued with slide 20: "DNR FY 2015 Budget." She noted that in FY 06 DNR's general funds (GF) budget growth rate was 2.63 percent. In FY 15 DNR's GF budget growth rate was estimated at 2 percent, a slight decrease from the overall. The statewide annual growth rate in the last eight years for all agencies was 7.2 percent in comparison to DNR's 2.6 percent. She pointed out a few changes in DNR's budget including an uptick between the FY 08 and FY 09 management plan attributed to increments given in recognition for the workload undertaken in the Oil and Gas Division and to increased aviation contracts for firefighting. She acknowledged a budget incline between FY 11 through FY 14 attributed primarily to the Division of Mining, Land and Water. Money was budgeted to fill vacant positions as well as to create and fill new positions to help with the permitting backlog. Additional funding was added to support navigability work, ongoing litigation, the Department of Law, stewardship, and the state horticulture program.

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Ms. Davis directed attention to slide 21: "DNR FY 15 Budget." She reviewed the chart which showed the percentage of the department's budget by fund group. The percentages across the years remained fairly consistent. Federal receipts made up about 13 percent of the budget and remained the same from FY 06 to FY 15. An increase was seen in other state funds, the statutory designated program receipts, and in funds that support the Pipeline Coordinator's Office and the Mental Health Trust Authority Land Office.

Ms. Davis reviewed slide 22: "DNR FY 15 Budget." She explained that the chart depicted a comparison of the continued budget growth of 2.6 percent annually to the department's ten-year fiscal plan GF only. All of the divisions contributed to the ten-year plan by evaluating workloads and trends.

Ms. Davis noted that slide 23 was the same comparison represented on slide 22 based on all funds.

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Ms. Davis referenced slide 24: "DNR FY2013/FY2015 Budget." She asserted that because natural hazard threats are unpredictable from year-to-year budgets can differ dramatically. She drew attention to the different percentages of costs for mitigating natural hazard threats in FY 13 versus those in FY 15. The state had a much heavier fire season in FY 13 than in FY 15 throwing off the comparison.

Ms. Davis presented slide 25: "DNR FY2013/FY2015 Budgets." She pointed out that the fire activity component was removed in the comparison by fund type to get a more accurate contrast between the two years for the remaining fund categories.

Ms. Davis summarized slide 26: "DNR FY2015 Budget." She detailed a snapshot of the department's FY 15 budget request broken out by division or office. The largest portion of funds was allocated to the Division of Forestry at 27.6 percent of which 23.7 percent was designated for fire suppression.

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Ms. Davis turned to slide 27: "DNR FY2015 Budget." She explained that the governor used the FY 14 management plan as a starting place in calculating the FY 15 adjusted base. Legislative Finance then identified one time appropriations made in FY 14 and removed those from the FY 15 adjusted base in order to make appropriate comparisons. The net reduction to the FY 15 budget was approximately \$3 million. Key changes were statewide contractual salary increases, health insurance and working reserve rate reductions, multiple one-time item reversals, and the transfer of one position from the Department of Transportation and Public Facilities into DNR's budget. The bottom line was a net zero to the state.

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Ms. Davis advanced to slide 28: "DNR FY2015 Budget." She reported that changes from FY 14 to FY 15 were noted in the slide and totaled approximately \$1.6 million in reductions. She referenced two key reductions, the Gas Pipeline Project Office and the deletion of long-term vacant positions. Additional key changes included the restoration of items that were appropriated as one-time items in FY 14, subsequently backed out of the budget, and then appeared as new requests for FY 15. Other key GF increases requested in FY 15 included funding for existing and vacant positions for field operations, park staff, and staff for the South Denali implementation. The second request was for funds for the geological materials center, scheduled to be occupied in September 2014. The third item was for another position to support the oil and gas workload. The remainder of the changes was related to other funding sources and technical reductions.

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Ms. Davis directed attention to slide 29: "DNR FY 2015 Budget." She emphasized that DNR generated an average of \$2.6 billion in revenue annually (e.g. unrestricted general fund, permanent fund, constitutional budget reserve fund, and a mix of other revenue funds) in comparison to DNR's average annual unrestricted general fund budget of \$71.6 million. The annual average was based on averages taken from FY 06 through FY 13.

Co-Chair Austerman asked what the turnaround time was for processing a permit and what the processing time would be for the 1,237 permits referred to on slide 14. He recalled that at one point the department had estimated a five-year delay.

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Commissioner Balash replied that there were a number of factors which affect processing time including the number of incoming applications. He indicated that the department was working on the backlog while simultaneously addressing new applications. The type of application drives the cycle time. The data graph reflected all of the different types of authorizations that get reviewed. He reported that the previous year the department received over 750 applications for permits to mine in Alaska. He stated that in order to determine a specific processing time a particular category of authorization would need to be identified (e.g. easements, leases, temporary water leases, water reservations, and water rights applications).

Co-Chair Austerman stated that in 2011, DNR quoted five years to process a tideland permit application to install and connect a dock to land. He asked what DNR's current quote would be for the same type of permit.

Commissioner Balash replied that he would provide the information to the co-chair.

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Representative Wilson asked about the amount of money spent on fire suppression referred to on slide 25.

Ms. Davis responded that in FY 13 the cost of fire activity was \$46 million of which \$22 million was from general funds.

Representative Wilson spoke to the prevalence of poor air quality in her region and the need for firewood for home heating. She wondered about a forest management plan that would reduce forest fires and at the same time provide increased timber as a fuel source.

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Commissioner Balash replied that safety programs could be used to thin forested areas. However, the authorizations to cut wood were limited by road access and many of the fires that eat up considerable resources occurred far away from infrastructure. He suggested that fire suppression expenses directly correlated with the proximity of fires to populated areas.

Representative Wilson surmised that fires were not suppressed until a community's safety was threatened. She suggested that the state consider selling any wood that gets cleared for fire safety as a means for generating additional revenues.

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Commissioner Balash explained that the ownership of land played a part in the management process. The state has a say in what happens to its own lands but does not in the case of federally-owned or privately-owned land. Moreover, fire is unpredictable in nature, making managing a tree-thinning safety program even more challenging.

Representative Wilson remarked about opening up an area to bring dry wood into communities.

Representative Gara asked about the prior year's presentations and whether or not they reflected the costs associated with canceling the state's contract with the Alaska Gas Inducement Act (AGIA). He asked if there was an amount allocated to pay TransCanada for treble damages.

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Commissioner Balash stated that the AGIA license remained in effect. The parties have pre-agreed to withdraw mutually from the license depending on certain outcomes of the session and whether or not the project is determined economically viable. Since inception of the license in December 2008 the licensee and its partners have spent \$430 million of which the state has reimbursed approximately \$300 million. The treble damages clause was potentially payable to the licensee if the state were to breach the contract. Since the state has honored the agreement thus far, there is no need for an appropriation.

Representative Gara asked Commissioner Balash to clarify the meaning of "certain things happening this session." He also asked if any provisions existed in the proposed agreements or the related bill regarding potential litigation.

[3:04:51 PM](#)

Commissioner Balash replied that the department had a MOU to mutually agree to withdraw from the license if enabling legislation passed. The transition out of AGIA into the heads of agreement framework would be activated if the legislation passed, leaving the license behind without further obligation.

Co-Chair Austerman expressed his concerns regarding potential litigation if the enabling legislation did not pass.

Representative Gara asked if there was an agreement with TransCanada to use language that allows them to walk away from the AGIA license.

Commissioner Balash offered to explain the MOU in detail off-line and to explain the details of the agreement. He stated he was unclear about Representative Gara's question.

Representative Gara asked if the state would be in violation if it did not accept certain provisions of the MOU with TransCanada.

[3:07:51 PM](#)

Commissioner Balash mentioned one provision in the MOU that would be helpful in addressing Representative Gara's question but deferred to Co-Chair Austerman before reading it.

Co-Chair Austerman allowed for a single provision to be read from the MOU.

Commissioner Balash read article 2.1 part D. He explained in layman's terms that the parties would agree on a set of terms later in the current year if the enabling legislation passed. The parties might or might not have an agreement if the legislature changed the legislation.

Representative Gara wanted to know specifically what provisions would have to stay intact in order to maintain an agreement with TransCanada if enabling legislation passed.

Co-Chair Austerman surmised that the state would not know if it had an agreement until it knew whether or not the correlating legislation passed. If not, the state would have to start over with legislation.

3:09:41 PM

Representative Thompson reported that the federal government was in the process of publishing new federal maps of Alaska and that RS2477 trails would not be included. He asked the commissioner if the State of Alaska was planning on publishing new maps and, if so, would they contain the RS2477 trails.

Commissioner Balash replied that the state was in the process of publishing some of the revised maps with overlays that reflect the RS2477 trails as well as 17B easements. The easements provided for crossing through Alaska Native Claims Settlement Act lands in order to reach public lands.

Representative Thompson asked if there was an implied message from the federal government that it was resisting public use of the RS2477 trails by not including them on its maps.

Commissioner Balash replied that he would get back to Representative Thompson with an answer as soon as possible.

3:11:41 PM

Representative Edgmon asked if there were any plans to add tribes, persons, or non-government organizations to the list of applicants eligible to apply for water rights reservations outlined in HB 77.

Commissioner Balash replied that HB 77 was presently in the Senate Rules Committee. The Department of Natural Resources held hearings during the interim to gather public input. The topic of in-stream flow reservations was one of community concern. The department was attempting to match

up its objectives with feedback it received at the hearings.

Commissioner Balash communicated that the department's chief concern was that while persons have been able to apply for in-stream flow reservations for more than 30 years, it has only been in the previous two years that individuals have applied. The first application the department received was associated with the Chuitna coal project on the west side of Cook Inlet. A company with valid mining claims obtained temporary water use permits in order to engage in exploration activities to complete the National Environmental Policy Act (NEPA) process. Area residents filed an application for an in-stream flow reservation for 100 percent of the water in the related area. Following their submission, residents attempted to block temporary water use by petitioning DNR in court. The department was concerned that a private entity or an individual could stop temporary water use for a period of five years simply by making an application for an in-stream flow reservation. In the example the commissioner gave, the judge ruled in DNR's favor contending that filling a request for a water reservation did not constitute blocking other uses of water on a temporary basis.

[3:16:43 PM](#)

Commissioner Balash indicated the Superior Court decision was not binding. He concluded that clarity was needed when competing filings existed which lead to conversations with the Department of Law.

Representative Edgmon stated that he would pursue further information outside of the committee discussion.

Co-Chair Austerman referenced the Chuitna water use application for 100 percent use of the water and asked what the department's response would be if the application for 100 percent water use was not warranted.

Commissioner Balash explained that DNR can grant a partial request rather than a total request depending on its findings.

[3:19:51 PM](#)

Co-Chair Austerman asked if the Chuitna Coal Company applied for and used its first water right.

Commissioner Balash reported that the company had applied for temporary water usage. Other longer-term water usage would be necessary, but not before getting through the permitting process. A temporary water use permit would satisfy the company's need to gather necessary data for further processing.

Co-Chair Austerman invited Representative Edgmon and DNR representatives to have a more detailed discussion outside of the committee.

[3:21:45 PM](#)

Representative Munoz asked for an update on DNR's review of dredge and fill permitting that the legislature authorized the previous year.

Commissioner Balash explained that through legislation DNR and the Department of Environmental Conservation were authorized to jointly consider whether or not applying for and obtaining primacy on 404 permitting activities was a benefit to the state. He knew that along with costs there would be associated benefits. The legislation allowed for two new positions in the Office of Project Management and Permitting. DNR executed an MOU with the Army Corps of Engineers and the Environmental Protection Agency to assist the state in gathering information to evaluate the effects of primacy.

Representative Munoz asked the commissioner when the department's recommendations would be submitted. Commissioner Balash answered that recommendations would be available in 2016.

[3:23:36 PM](#)

Representative Gara asked the department to provide him with the number of fishing streams in Alaska that are protected through state water reservations.

Commissioner Balash replied that the department has adjudicated a vast number of fishing streams in the state, particularly streams targeting King Salmon. The ability to allow for fish in every stream in Alaska would require a

great amount of state resources. He offered to provide Representative Gara the most current numbers. In 2013 the department adjudicated and completed reservations on more streams than in the past 20 years.

[3:25:36 PM](#)

Representative Gara reiterated his request for the number of Alaska streams that have been adjudicated through state-initiated water reservations.

Commissioner Balash replied that typically public agencies such as U.S. Fish and Wildlife Service and the Alaska Department of Fish and Game apply for water reservations. He emphasized that it has only been in the last five years that individuals submitted their applications. He specified that the department completed approximately 20 requests the prior year.

Representative Gara asked the commissioner to confirm the total number of water reservations in state history. Commissioner Balash responded that he would provide the figures in writing the following week.

[3:27:10 PM](#)

Representative Munoz asked if the names of in-stream flow reservation applicants were available to the public. She also asked for the names of the organizations that have applied for reservations relating to the Chuitna project.

Commissioner Balash replied in the affirmative and agreed to provide a list of names.

Representative Edgmon put on record that his region had concerns with the related legislation because so many very sensitive bodies of water in the highly productive Bristol Bay water sheds have been cataloged or measured. He opined that percentages the commissioner offered were greater than what the actual percentage rates would be if the state was reviewed region by region. He pointed out that Bristol Bay had many active salmon bearing streams that had not yet been measured or reserved which could become a conflict down the road with larger development projects.

Commissioner Balash appreciated the distinction between salmon and thought he had referenced the King Salmon

fishery. He acknowledged that Bristol Bay's sustainable sockeye salmon fishery extended beyond the region's king salmon fishery.

Co-Chair Austerman discussed the schedule for the following day.

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ADJOURNMENT

3:29:19 PM

The meeting was adjourned at 3:29 p.m.