

SENATE FINANCE COMMITTEE
March 18, 2015
9:07 a.m.

9:07:04 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Sheldon Fisher, Commissioner, Department of Administration;
Mark Meyers, Commissioner, Department of Natural Resources;
Jeanmarie Davis, Director, Division of Support Services,
Department of Natural Resources; Ed Fogels, Deputy
Commissioner, Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Steven Masterman, Director, Division of Geological and
Geophysical Surveys, Fairbanks; Brent Goodrum, Director,
Division of Mining, Land and Water, Department of Natural
Resources, Anchorage; Ben Ellis, Director, Alaska State
Parks, Department of Natural Resources.

SUMMARY

SB 26 BUDGET: CAPITAL

SB 26 was HEARD and HELD in committee for further consideration.

FY 16 BUDGET OVERVIEWS:

DEPARTMENT OF ADMINISTRATION
DEPARTMENT OF NATURAL RESOURCES

#sb26

SENATE BILL NO. 26

"An Act making appropriations, including capital appropriations and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

^OVERVIEW: FY 16 BUDGET DEPARTMENT OF ADMINISTRATION

9:07:17 AM

SHELDON FISHER, COMMISSIONER, DEPARTMENT OF ADMINISTRATION (DOA), related that the department had a single capital request; \$3 million for the public building funds, reference 54089. He clarified that the item was an annual request for funds to perform deferred maintenance on the twelve buildings within the public building fund. He reminded the committee that the funding was included for the rates DOA charged to other departments. He felt that it was a simple request and therefore had not prepared a presentation.

9:08:41 AM

Senator Dunleavy asked if there would be any life, safety, or catastrophic ramifications if the request was not funded for a year. Commissioner Fisher characterized the funding as a modest request, and was unsure if the lack of funding would be life threatening. He pointed out that it would delay the need to future years, and the safety ramifications would be dependent upon the circumstances and facts. He discussed emergency evacuation chairs, and stated that there were items on the list that could be life-threatening if not funded.

9:09:38 AM

Senator Dunleavy asked Commissioner Fisher to respond to the committee with information about anything in the request that might be life, safety, or emergency related. Commissioner Fisher related that he had reviewed the list of items in the request with his team. He described items and instances in which safety would be compromised if they were not funded. He discussed the state office building and the necessity of leaving it vacant, which he opined was "an unwise use of resources." He continued to say that the request was a pared-down list, and if not life-threatening, it was an important set of priorities.

[9:11:27 AM](#)

Senator Bishop commented had read a related report and requested that Commissioner Fisher refresh the backup details regarding the emergency generator. He furthered that in a tight budget environment, it was possible and prudent to extend the life of the generator by replacing some switching gear.

Co-Chair MacKinnon pointed out item 5 on page 3 of the "Deferred Maintenance Inventory" (copy on file), and wondered if there were going to be additional costs associated with the phased project as they remodeled the space to make it usable. Commissioner Fisher indicated that it would not be known after the first study. He mentioned the need for finishing the bidding specifications before having an expectation of what future phases of the project would cost.

Co-Chair MacKinnon asked if there would be a preliminary design phase and then a construction phase. Commissioner Fisher clarified that the first phase of the project was the design and bidding specifications, at the end of which the detail would be available regarding the larger cost. Co-Chair MacKinnon asked if it was the intention of the department to rent out the space to a potential buyer, or if state employees would be relocated to the space. Commissioner Fisher specified that DOA would be relocating other state employees in to the space.

[9:13:35 AM](#)

Senator Dunleavy clarified his earlier statements, noting that it would be nice if the items on the list that were "absolutes" were earmarked with an explanation provided.

Commissioner Fisher agreed to bring the committee more detail with regard to projects that were imperative to health and safety.

9:14:07 AM

AT EASE

9:16:10 AM

RECONVENED

^OVERVIEW: FY 16 BUDGET DEPARTMENT OF NATURAL RESOURCES

9:16:49 AM

MARK MEYERS, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (DNR), related that he wanted to have a great degree of transparency in order to assist the committee in making effective decisions. He wanted to honestly convey what the requested capital improvement projects (CIP) did, their status, and their importance. He summarized that all of the department's CIP requests were based on economic development; many in oil and gas and permitting. He asked the committee to please keep in mind that the CIPs of the previous and current administration were focusing on making sure there was large amounts of future revenue in the state by development of Alaska's resources.

9:18:18 AM

JEANMARIE DAVIS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, discussed page 2 of the presentation "Capital Budge Overview" (copy on file), including FY 16 capital requests, existing phased project status, and future capital funding needed to complete existing projects. She listed the funding categories for the FY 16 capital request: \$750,000 in Unrestricted General Fund (which in all cases matched other federal funds), \$7,650,000 in federal receipts, and \$3,900,000 in other funds for a total of \$12,300,000. She related that the total was in the governor's endorsed budget as it went forward. She pointed out that DNR would be making a request to withdraw one project in the amount of \$2.5 million of other funds, which would bring the net budget request to \$9.8 million.

9:20:03 AM

ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, presented page 3, discussing two similar capital projects that were mostly funded with federal grant monies:

National Recreational Trails Federal Grant Program - RefNum 6854

\$1,500.0 Fed Receipts / \$200.0 GF Match

Grant funds are awarded to organizations, agencies and local governments as 80/20 matching reimbursable grants for trail and trailhead development and maintenance, and for education programs relating to trail safety and responsible trail use. Grantees provide cash, labor and equipment to match at least 20 percent of grant funds. The end result is a variety of trails that are safe, high-quality, have year-round access, and include motorized, non-motorized, and diversified trails. This is an annual request as long as the federal program continues. In FY2014, 50 different trail projects were awarded grants.

National Historic Preservation Fund - RefNum 6865

\$650.0 Fed Receipts / \$150.0 GF Match

The National Historic Preservation Fund (NHPF) is a federal program which assists states with their historic preservation programs. The NHPF funds grants to local governments, agencies, organizations and individuals for restoration or stabilization of historic properties, and grants for survey, inventory, education, planning and training projects. This is an annual request as long as the federal program continues. In FY2015, 19 different grant projects were awarded funding.

[9:21:08 AM](#)

Senator Dunleavy asked what was absolutely essential to life and safety and by what other extraordinary reason did the requested projects have to be funded in FY 16. Mr. Fogels considered that within the trail work project there could be safety implications, however he was unsure if he could make the "life and safety connection" to the historic preservation fund request. He reiterated that the two requests were federal programs and the reason for the general fund match request was to access federal funds.

Senator Dunleavy wondered if the requests were not funded for one year, could the projects be funded the following year and attain the federal matching funds. Mr. Fogels answered in the affirmative. He commented that the downside of not funding the requests for a year would be the loss of key staff who would normally review projects and administer funds as part of a very heavy administrative load.

Commissioner Fisher added that the matching funds were dependent upon the federal budget, and there was a risk of not receiving the funds in the future.

Vice-Chair Micciche discussed the National Recreational Trails Program, and wondered about the ratios of grantee contribution and matching funds. Mr. Fogels clarified that there was a 20 percent match for the grant recipients, and it leveraged the total.

[9:24:30 AM](#)

Mr. Fogels discussed page 4, outlining the Abandoned Mine Lands Reclamation Federal Program and the Cooperative Water Resource Program Pass-Through to USGS for Stream Gaging Projects:

Abandoned Mine Lands Reclamation Federal Program -
RefNum 6855

\$3,200.0 Fed Receipts

The Legislature enacted the Alaska Surface Coal Mining Control and Reclamation Act in 1983 (AS 27.21). The main purpose of the act was to promote the reclamation of areas mined before enactment of the federal Surface Mining Control and Reclamation Act of 1977. Conditions on some of these mined areas could endanger public health and safety, have environmental implications, and prevent the beneficial use of or cause damage to land and water resources. All funding for this program comes from federal grants. Since FY2012, funding has been focused on projects in the Healy area.

Cooperative Water Resource Program Pass-Through to USGS
for Stream Gaging Projects - RefNum 37762

\$2,500.0 SDPR

Project request has been withdrawn.

Mr. Fogels pointed out that the Mine Lands Reclamation Program was funded entirely from federal receipts. He

furthered that it was a national program generated on a fee; 28 cents per ton on the mining of surface coal, and 12 cents a ton on the mining of underground coal. The monies went to a fund that was distributed by the Federal Office of Surface Mining, and with Alaska's funding portion DNR participated in reclamation of abandoned coal mines in the state. He related that if much progress was made with abandoned coal mines, DNR could move to reclamation of abandoned non-coal mines. He clarified that much of the effort in recent years had been to put out coal fires in the Sutton area due to historic mining. Currently DNR was working in the historic mining area near Healy, where there were many deep pits that were hazardous to the public. Other recent work included closing old mining adits in a highly populated area.

[9:26:04 AM](#)

Co-Chair MacKinnon asked if regulations required reclamation or the establishment of reclamation funds for mines currently operating. Mr. Fogels explained that current law required reclamation for present-day Alaska mines.

Co-Chair MacKinnon asked for clarification that the funds were being utilized to bring past mines up to current safety standards. Mr. Fogels replied in the affirmative, that the work was to mitigate past practices completed before modern environmental laws were passed.

Co-Chair MacKinnon asked if there were any additional requirements or encumbrances on the property on which the reclamation was being done using federal funds. Mr. Fogels stated that he did not believe there was any further encumbrance on the property.

Co-Chair MacKinnon outlined the example of DNR Division of Parks and Recreation accepting federal funds [for purchase of land for parks], and later being unable to identify the properties. Further, the lack of identification of several million dollars of federal receipts precluded access by private property owners into the greenbelt. Mr. Fogels continued to state that there were not additional restrictions on the funding. He specified that DNR had done a lot of reclamation work in the Sutton area that had created nice areas for the public to recreate in; with no restrictions but for the choices of the original landowner.

Co-Chair MacKinnon asked if DNR prioritized state lands before private property owners. Mr. Fogels stated that the priority was for health and public safety, and that the more dangerous instances were prioritized.

Co-Chair MacKinnon asked if there was a list of land for reclamation, and wondered what the state's liability was for risk to the public. She clarified that she did not want a formal letter; rather just a conversation to convey the information.

9:29:01 AM

Senator Bishop asked if DNR had a pre-approved contractors list for those that do the remediation projects. Mr. Fogels stated that for each project, DNR went out to bid.

Mr. Fogels went back to slide 4, and discussed the Cooperative Water Resource Program Pass-Through. He specified that DNR had withdrawn the request after looking at the project more closely. He furthered that the program received statutory designated program receipts, and DNR had sufficient receipt authority on the books to last a couple of years.

Mr. Fogels presented slide 5:

Federal and Local Government Funded Forest Resources
and Fire Program Receipts - RefNum 37769
\$1,400.0 Fed Receipts / \$400.0 SDPR
This project provides receipt authority for federal
and local government funded projects including
competitive grant awards for hazardous fuels
reduction, Firewise and prevention education, special
forest disease surveys, forest restoration projects,
biomass inventories, towns and cities targeted for
community forestry projects and tree plantings, forest
stewardship plans, and agreements for one time local
government funded field projects.

EVOS Trustee Council Habitat Acquisition of Subsurface
Lands on Northern Afognak Island - RefNum 60290
\$1,000.0 EVOS
This project will use Exxon Valdez Oil Spill
settlement funds to purchase the subsurface estate or
a no surface occupancy agreement on approximately

36,370 acres of Northern Afognak Island. Acquisition of these lands or interest in these lands will ensure protected surface habitat values are not impacted by subsurface activities. In FY2015 the Legislature appropriated \$15 million of EVOS funds for acquisition of the surface estate.

Mr. Fogels discussed the Federal and Local Government Funded Forest Resources and Fire Program Receipts, and specified that it was a program in which DNR received funds to pass through. He detailed that the program did fire mitigation projects in local communities. He used an example of the Fairbanks NorthStar Borough funding a fuels-reduction program that protected about 100 houses from fire in the last couple of years. Work funded through the program also included the Mat-Su Borough funding a fuel-reduction program, and some work done on the Funny River fire fuel break.

Mr. Fogels discussed the Exxon Valdez Oil Spill (EVOS) Trustee Council budget item, explaining that it entailed habitat acquisition of subsurface lands on Northern Afognak Island. He detailed that the program included using EVOS settlement funds to purchase the subsurface estate for a parcel on which they were close to finalizing the purchase from Ouzinkie Corporation. He related that the surface negotiations had almost been completed. The sub-surface was owned by Koniag, Inc., and would require a separate transaction.

[9:31:45 AM](#)

Vice-Chair Micciche asked for a definition of subsurface as it pertained to the project. Mr. Fogel explained that the land was subject to valid existing rights, the land was private property, and DNR would be buying the entire subsurface estate (all mineral estate).

Vice-Chair Micciche asked if the lands would be off limits for any development in perpetuity. Mr. Fogels elaborated that the surface estate would be managed by the state park system. He went on to say the state park director had determined that the land would not be an additional fiscal burden to his management, due to its location and type of use. He added that the land would be part of the state park system. He continued that if the state acquired the surface, EVOST wanted to make sure that there would not be

parties attempting to develop mines in order to access the subsurface mineral resource. He shared that studies had shown that there was very little potential on the land for any mineralized terrain.

[9:33:22 AM](#)

Vice-Chair Micciche asked for verification of the terms, to demonstrate that the state was not "severing natural resources from the people of Alaska forever." He described EVOST control as "pretty absolute," and wanted some demonstration that the state was not giving up resources from the future of Alaska.

Senator Dunleavy asked for clarification that it was Alaska Native Claims Settlement Act (ANCSA) land or Native land, and the resources belonged to the Koniag Native Corporation. Mr. Fogels answered in the affirmative, and specified that the sale concerned private mineral rights that the seller wanted to sell for the state, and they would be off-limits to development.

[9:34:22 AM](#)

Co-Chair MacKinnon asked why it would be in the best interest of the state to pay for the subsurface rights. Mr. Fogels stated that the land purchase was an EVOST program, and they made the determination using established criteria. He described DNR as the real-estate broker for the trustee council.

Co-Chair MacKinnon stated that the committee would need a further evaluation of the trustee council, its mission, and the land acquisitions it was making across the state. She understood the council wanted to invest revenue in property that the people could enjoy, but wondered if purchasing subsurface rights from a private entity had been done before. Mr. Fogels indicated that it had quite commonly been done. He suggested that habitat protection was the driver for EVOST purchases; in order to sustain the habitat protection in the long-term, in many cases DNR would look at additionally acquiring subsurface.

[9:35:55 AM](#)

Co-Chair MacKinnon queried the committee as to whether they would be interested in having a presentation on the portion

of state statutes that describes the obligation of reclamation.

Vice-Chair Micciche asked why the state did not consider the subsurface rights when the property was purchased 15 years ago. He did not recall purchase of subsurface in the past. He stated the importance of protecting critical areas of habitat, but suggested that Alaskans might not understand that the mission of EVOST sometimes took the land out of even potential recreational development in perpetuity. He thought that some small communities in Alaska had experienced that eventuality. He expressed interest in having EVOST present for the discussion.

[9:37:12 AM](#)

Senator Dunleavy observed that he had originally thought the purchase was of state land rather than private/Native land. He asked if state parks would administer the land, and questioned the cost. Mr. Fogels related that there would be minimal costs associated with the land. He related that DNR was operating under the guiding philosophy that it did not want to take on additional state park lands that incurred additional management costs to the state. He furthered that for every parcel that someone wanted the state park to acquire, DNR evaluated it and decided if it would add a management burden or not.

Senator Dunleavy asked for clarification on the response regarding the cost of administering the land. While having no issue with private to private transactions of land that groups wanted to transact, he was concerned of any financial burden that might be put on the state. Mr. Fogels said there was potential for cost, but clarified that there was no planned facilities or maintenance to take place on the land. He characterized it as "passive management" of the land. He remarked on DNR's plan for future facilities to be revenue-generating, and to "wean" the park system off of general funds in the long-term.

[9:39:58 AM](#)

Senator Hoffman referred to materials which stated that the surface estate was currently being negotiated. He wondered if the transaction had been completed yet. Mr. Fogels confirmed that the transaction had not been completed, and

furthered that if it did not get completed, the subsurface estate would not be purchased.

Senator Hoffman asked why the state was paying \$1 million for "minimal" subsurface rights if it was never going to be developed. Mr. Fogels related that DNR did not make such determinations; rather, it was acting as real-estate broker for EVOST, who had determined it wanted to acquire the subsurface estate. He referred to some instances in Prince William Sound, in which EVOST had purchased the surface estate and not the subsurface; and later entities wanted to conduct mining on subsurface potential that DNR had not known was in existence.

[9:41:26 AM](#)

Co-Chair MacKinnon wondered how EVOST determined subsurface value, and proposed that it was a question for a later date.

Senator Hoffman suggested that a further question was if EVOST was going to be acquiring properties in the future, it would seem to be a better negotiating position if acquiring surface and subsurface rights together.

[9:41:58 AM](#)

Vice-Chair Micciche expressed his worry that the state was part of the effort to "turn Alaska into a giant park." He pointed out that EVOST was a well-funded entity that had eliminated lands from access and even recreational development. He revealed that he had personal experience with observing land that remained in a wilderness state in communities that had demand for additional recreational access. He avowed to ask about such considerations when the committee met with EVOST.

[9:43:02 AM](#)

Commissioner Meyers presented slide 6, and spoke about the Cook Inlet Oil and Gas Resources and Statewide Energy Database project. He noted that the CIP had multiple components and pertained to DNR's Division of Geological & Geophysical Surveys (DGGs). He discussed one area of oil and gas interest in Cook Inlet; the oil potential, particularly in the lower inlet. He pointed out that DNR knew there were good oil source rocks, yet had not yet

quantified the oil potential. He referred to the large developed fields in Swanson River, and commented that there had only been relatively minor success on oil since. He explained that the project would complete the geologic studies necessary to understand the oil potential better, as well as look at database development and data compilation of relevant geological and geophysical surveys in the state. He remarked on the current lack of centralized, consistent, and archived data; and alleged that system improvements would be a huge marketing tool. He praised the state survey division and its quality control. He added that the CIP had a one-to-one match with funding from the U.S. Geological Survey (USGS) for doing cooperative mapping. He summarized that the request would help the state understand oil and gas potential in Cook Inlet. He noted that all of the oil in the inlet all went to a local refinery, and in the long run could support better in-state refining capacity.

[9:45:10 AM](#)

Commissioner Meyers continued on slide 6 and discussed the Upgrade and Repair of Critical Volcano Monitoring Instruments project request:

Upgrade and Repair of Critical Volcano Monitoring
Instruments - RefNum 60704

\$500.0 Fed Receipts

As part of a cooperative agreement between the USGS and DNR, this funding authority provides helicopter, fuel, and logistical support for all Alaska Volcano Observatory field operations to install, repair, and upgrade volcanic monitoring instruments at high-threat volcanoes in Alaska.

Commissioner Myers referred to the Pacific Rim of Fire and its active volcanos, and noted that much of the instrumentation that was put on the volcanos had been destroyed. He commented on the expense of installation and the purpose of the instruments. He pointed out that results of the instrumentation were crucial to air safety. He commented that DNR's monitoring network was highly under capacity, with many serious volcanos not instrumented. He commented that the Alaska Volcano Observatory, which conducted the field operations, was a partnership between USGS, state DGGs and the University of Alaska Fairbanks.

Senator Dunleavy asked if there was zero state funds being requested. Commissioner Myers responded in the affirmative, that the CIP requested federal receipts only.

[9:46:35 AM](#)

Co-Chair MacKinnon referred to a cost shift in Pacific Rim volcano monitoring in recent years and her subsequent comments that had made national news. She related that the federal government had stepped away from the cost of research on volcano activity, and wondered how much in general funds (GF) the state was now expending on a program to protect the state. She noted that the federal government was subsidizing the program somewhat. Commissioner Meyers gave some background on the program, stating that it was fundamentally funded by the USGS and supplemented by the University of Alaska with National Science Foundation and other grants. He added that the USGS funding had significantly decreased as budgets had tightened.

STEVEN MASTERMAN, DIRECTOR, DIVISION OF GEOLOGICAL AND GEOPHYSICAL SURVEYS, FAIRBANKS (via teleconference), confirmed that current use of state GF contributions toward the volcano observatory was zero. He stated that the staff and their support was 100 percent federally funded through the USGS grant system.

Co-Chair MacKinnon asked if there was a reduction in activity or ability to track volcanoes when the government withdrew years ago. Mr. Masterman shared that there had been several more staff within DGGS that had to be let go when the federal funds decreased, as there was no state funding forthcoming. Additionally, the University staff shrank, and there was attenuation of the viability of the monitoring system as some volcano monitoring sites went down without funding to support them. He welcomed the funding increase, and stated it would mostly go toward repair and upgrade of monitoring instruments on the volcanoes. He stated that there would be no new staff hires, but the monitoring system would be upgraded considerably.

[9:49:14 AM](#)

Commissioner Myers related that he was USGS director when the budget cuts came into effect, \$3 million of which were Federal Aviation Administration (FAA) funds that former

U.S. Senator Ted Stevens had earmarked specifically for volcanic ash monitoring. He shared that he had personally called the FAA director, his only lateral equivalent at the time, and the director was the only individual that had returned his call. He recounted that there had been strong support for the funding on the federal and USGS side, and Senator Stevens had pushed very hard for the funding.

Co-Chair MacKinnon expressed appreciation for the investment by the federal government in helping to monitor volcanic activity in the Pacific Rim.

[9:50:09 AM](#)

Mr. Fogels discussed slide 7, outlining the request for a \$1 million reappropriation for the Unified Permit Automation and Document Management Project. He explained that the funds were originally for the Shale Oil Environmental Database Project, which DNR felt was no longer a top priority, as the shale oil activity had decreased to the point that the money would be better utilized to fund continued efforts to automate permitting in the Division of Mining, Land, and Water. He reminded the committee that the project was a core part of what DNR had tried to accomplish over the preceding four years. He discussed increased land use and the subsequent permitting load; and automating the permit process to reduce the backlog. He shared that DNR had already fully automated land use permits and was almost complete in automating water rights permits. He shared that efficiencies had been implemented with scanning of documents and diminishing large case files. He estimated that the department had achieved a 20 percent increased rate of efficiency. He alleged that the additional funding would help to complete the water rights automations and easements, which were the bulk of DNR's permitting workload. He described the project as "core to resource development" and stated that it continued to support businesses that needed permits to do their resource development work.

[9:52:17 AM](#)

Co-Chair MacKinnon shared her concern that capital funds were being reappropriated for an operating function. She related that past co-chairs of the Senate Finance Committee had explicitly tried to eschew such grey areas in order to foster public understanding of ongoing practices versus

one-time capital expenditures. She worried about the lack of clarity and the possible future expectations of funds that were not meant to be there. Commissioner Myers addressed her concerns, suggesting that the project was really more of a capital investment than an operating expense. He expressed appreciation for the challenge of appropriating funds without having gone through an appropriation process. He discussed the shale oil project, and addressed concerns about expediency. Recognizing that shale oil was an abundant and important resource on the North Slope, he explained that current oil prices were resulting in companies slowing down and doing only basic exploration work. He thought the shale oil project could wait for a later time.

Commissioner Myers elaborated that the permit automation project entailed programming and development of the system itself rather than the operation, and thereby was a capital expenditure. He furthered that the project included a great deal of outsourced computer expertise and initial software purchases. He pointed out that permitting activity and complexity was increasing, and that DNR would be expected to do future permitting with less staff. He stated that the capital request would streamline the system and increase efficiency. He restated that there would be a 20 percent increase in efficiency if the system was fully developed, and the funding would allow DNR to complete three of the five phases for the permitting process. He pointed out the potential savings in operating costs due to reduction in necessary personnel to run the system.

[9:54:56 AM](#)

Mr. Fogels reiterated that there would be future operating costs to keep the system going, however the funds in question would reduce the amount of staff time spent on permitting projects. He furthered that it would help DNR keep up with the incoming workload of permitting and have a net economic benefit to the state.

[9:55:55 AM](#)

Co-Chair MacKinnon referred to the phased approach of the project, asked DNR to look forward to FY 17, and wondered when the committee could expect additional operating requests should they be successful in the efficiencies that were discussed. Ms. Davis related that DNR anticipated that

in addition to the \$1 million from FY 16, there would be \$1.5 million requested in FY 17. She recounted that the project had been in the capital budget for 5 or 6 years. She noted that there were five primary permit types corresponding to each phase of the project, and it was the goal of the department to have them all part of the automated system: land use, water rights, leases, easements, and material sales. She believed they could accomplish the task by the end of FY 17, at which point DNR anticipated transitioning a core portion of the programming team into the operating budget for the ongoing maintenance and upgrades expected for the system. She added that the department wanted to pursue getting additional permit types in the department added to the system; perhaps the State Pipeline Coordinator's Office, Oil and Gas, Parks and Recreation, or division issuing permits. She reiterated that DNR saw the project as a long-term efficiency.

[9:58:19 AM](#)

BRENT GOODRUM, DIRECTOR, DIVISION OF MINING, LAND AND WATER, DEPARTMENT OF NATURAL RESOURCES, ANCHORAGE (via teleconference), underscored the previous speakers in saying that since FY 12, DNR had been working aggressively on the effort of permit automation and had reduced the overall backlog of authorizations by over 61 percent (over 1,600 authorizations). He stated that there was work left to do, and thus far the project had been done through the capital budget. He furthered that DNR hoped to build up the capability with the remaining authorization types, and looked forward to the time the critical project would transition to operational stage.

Vice-Chair Micciche asked how much had been spent on the permit automation project to date. Ms. Davis clarified that DNR had spent just over \$11 million, with \$600,000 encumbered.

Co-Chair MacKinnon recounted past expenditures on the project: \$800,000 in FY 10; \$2.5 million in FY 11; \$3.3 million in FY 12; \$2.5 million in FY 13; and \$3.9 million in FY 14. Ms. Davis agreed to the accuracy of the figures, and clarified that DNR had not fully spent the appropriation from SLA 2014.

[10:01:07 AM](#)

Vice-Chair Micciche remarked that there had been a noticeable improvement in permitting efficiency, and a fairly dramatic reduction in the backlog. He asked how much DNR would attribute to the improvements of the system. Mr. Fogels thought that a significant portion would be attributable to the system, and clarified that only the land use permits had been fully automated. He furthered that the water right permits were almost automated.

Mr. Goodrum clarified that the long-term strategy of the unified permit project required dedication of a great deal of staff time, which also impacted current functions. While some backlog reductions could be attributed to their efforts thus far, he opined that the greatest gain from the capital project would be seen in the long-term.

Vice-Chair Micciche followed up to say that the current year's austerities were obvious, and cautioned the committee to consider not disadvantaging a program that would save the department a lot of money in the long-term as permit applicants became more familiar with the system. He clarified that he was not necessarily supporting the entire appropriation, but stated that the permit automation was a worthwhile effort.

[10:03:21 AM](#)

Senator Bishop concurred with Vice-Chair Micciche's prior comments and referred to the efficiencies discussed by Ms. Davis. He suggested that efficiencies could go both ways and was concerned with DNR having staffing levels to complete the project in a timely fashion. He remarked that everyone was aware the state needed the revenue from the permit applications.

[10:04:13 AM](#)

Commissioner Myers discussed slide 8, noting that they were now presenting the status of existing phased capital projects, most of which were very advanced but not complete. He wanted to update the committee on potential consequences if the "money was swept out of the fund to the projects." He discussed the Assessment of In-State Gas Energy Potential, explaining that it was a study by the State Geological Survey and had two phases:

Assessment of In-State Gas Energy Potential

Phases: 3

Total Authorized \$1,200.0 / Total Expended & Encumbered \$811.5 / Balance \$388.5

A statewide review of publicly available data regarding the fossil fuel potential of Alaska's frontier basins has been completed and published as DGGs Special Report 66. Funds are being used to study the natural gas potential of the Susitna basin and the Nenana basin. Findings from this program have been released to the public and additional reports will be published as the final evaluations are completed, estimated by December 2017. This new data will help reduce exploration risk and spur investment in these basins.

Commissioner Myers informed that Doyon Ltd., now thought there was oil potential in the Nenana basin based on some source rock information from their wells. He continued that the Nenana basin information was critical to understanding the Yukon Flats and other high-potential gas basins; and that largely the U.S. Fish and Wildlife Service but also Doyon had a significant interest in the basin. He clarified that the remaining phases of the review were to do fieldwork on the edges of the basin. He discussed subsurface geology, describing it as a four-dimensional jigsaw puzzle under the ground. He explained that the edges of the basin provided for access to exposed gas potential source rocks or reservoir rocks; whereas looking into the center of the basin required other techniques such as remote sensing and geophysical seismic data. He furthered that part of what the state survey had done was to put in seismic geophones to monitor sound waves, using natural earthquakes as an energy source, which he likened to doing a sonogram of the earth. He discussed formation of the basin and how it aided in understanding of the resources that might be available within.

He discussed data gained from key wells that Doyon had drilled, and described the company as "very bullish on Nenana." He thought it would be very exciting to find a significant source of gas or gas and oil so close to Fairbanks and the Trans-Alaska Pipeline System (TAPS).

Commissioner Myers discussed the Upper Susitna basin, calling it another extension of Cook Inlet, and recounted that there were some exploration wells that were drilled there, but nothing recently. He shared that the largest

potential in the area was gas generated in coal seams or coal-bed methane. He explained that the data being done in the area was to understand the Susitna basin. He concluded that the project had a remaining balance of approximately \$388,000, which would finish the compilations and reports as well as some fieldwork the following summer.

10:07:14 AM

Senator Dunleavy wondered if it was the state's responsibility to help reduce exploration risk for investment. He stated that some would say the responsibility was within the purview of a private company, and the state could help with regulations and perhaps assist with suits brought by certain groups that did not want exploration. He asked Commissioner Myers if he viewed risk exploration as a function of state government. Commissioner Myers related that he had seen the issue from different perspectives; and had experience as an explorer working in the industry, as well as in federal and state government. He postulated that there was "a dividing line" as to when it was beneficial for the government to engage in the work of risk assessment versus when it was more beneficial for the private sector or private-public partnerships to do the work. He referred to a range of outcomes and a range of successes; recounting that historically, large owners of oil and gas potential had done baseline studies to engage interest in their basin from companies who might have a short time-frame with capital. He added that often companies needed to make capital decisions quickly while having little time to send teams up to do fieldwork, nor did they necessarily have the area expertise needed to do so. He specified that often DNR tried to attract companies that worked around the world, such as Repsol, that were not familiar with Alaska. Further, a lot of state data and work by Armstrong Oil and Gas had made exploration attractive and Repsol had subsequently drilled ten wells. He described exploration licensing DNR had done in the Susitna basin while providing large chunks of land cheaply and requiring the company to release a certain amount of information to the public.

Commissioner Myers further discussed the advantages of risk exploration and asserted that having basic public information available, companies could make good decisions on drilling and exploration; adding that it also generally reflected better on the lease terms due to more discernable

potential in the basin. The more potential to be seen in the basin would result in higher bids for exploration licenses and greater interest in the development. He continued that risk exploration by the state informed state policy, aiding the department as well as the committee in decisions about in-state gas, off-takes on gaslines, potential resources, and investment and infrastructure decisions. He asserted that the information narrowed uncertainty in public decision-making with regard to oil and gas, as well as helping on the environmental and permitting side by informing the most favored alternative. He used examples of areas where the information would be used; such as resource reports to the Federal Energy Regulatory Commission (FERC), or environmental impact statements done on a continued basis. He referred to the risk exploration information as "seed corn," that if limited and managed effectively, was critical in Alaska because of the huge potential and very little data.

Commissioner Myers elaborated that he had worked helping new companies come to Alaska. He relayed a story about when Conoco Phillips first came to Alaska, looking in the Alaska National Wildlife Refuge (ANWR), where they wanted to do a field program. He recounted how the head of the geological field program had called him with their plans to hike (in one day) over the top of the mountains in rubber boots to look at analogs. He specified that the company had no idea, logistically, how to get there or how to manage the field program. He estimated that the same would be true of almost every new company that would come to Alaska.

[10:11:22 AM](#)

Mr. Fogels added to the commissioner's remarks, stating that another reason to consider DNR's data gathering was that the department still had 5 million acres of land to acquire from the federal government, with a big pool to choose from that was largely unexplored. He suggested that additional data from DNR programs could help make wise choices to finalize the land selection.

Vice-Chair Micciche assumed that the state would pay for the information gathering either way, through credits. He considered that credits worked best when exploration efforts were more pointed, and more likely to result in production. He thought the state was more efficient on the general data, or companies would be unlikely to invest in

the overall basin analysis. He questioned if his comments were a fair explanation. Commissioner Myers thought the co-chair's comments were a perfect explanation.

[10:12:23 AM](#)

Senator Dunleavy asked if it was a foregone conclusion that the state would pay through the capital budget or through credits. Commissioner Myers stated that DNR had an abundant series of credits - a credit system that was very aggressive; the Middle Earth credits, the Cook Inlet credits, and the credits under SB 21 [oil and gas tax credit legislation that passed in 2013]. He clarified that companies would get the credits whether they drilled or not. He furthered that depending on the credits, and the program under which they applied, companies could release a certain amount of information. He reminded the committee that even with the credits, frontier basins were risky; if Alaska could provide information to lower the risk and lower the upfront initial investment, it would encourage companies to invest in a project. He noted that the system was heavily geared toward competition; the more explores that were in the state, the more capital investment was made in the structure. He thought that by providing a base level of information, the state also was providing a base level parity between potential bidders, which could often raise bidding prices.

[10:13:38 AM](#)

Senator Dunleavy commented that the legislature had recently reduced funding for "pushing back on the feds" and related that he had gleaned that the environment in Alaska was often times difficult for companies as a result of permitting and lawsuits from entities that were against oil exploration. He asked if DNR could comment on pushing back on the federal government, Non-Governmental Organizations (NGOs), or environmentalist groups that were not in favor of oil exploration. He postulated that the state could map everything, but if other challenges were in existence no one would get any resources from the ground. Commissioner Myers agreed and suggested that the state needed a multi-pronged approach. He pointed out that all aspects of the endeavor were important, including effectively protecting the state's interest with the federal process. He mentioned a program which was valued for coordinating comments during the EIS process. He discussed the difficulties in dealing

with branches of the federal government over oil and gas development, and underscored the importance of having a good understanding of the Alaska National Interest Lands Conservation Act (ANILCA).

Commissioner Myers continued to discuss the gas potential assessment project and working with the federal government. He described recent cuts to the DNR budget as "unfortunate" and shared his hope that some of the funding would be restored. He felt he had cut DNR's budget too deeply given the ongoing lawsuits, the navigability, and RS 2477 issues [Revised Statute 2477 pertains to highway right of way]. He referred to the challenges of cutting the department's budget and not wanting to take funding from economic development. He acknowledged that the legislature would be scrutinizing new future energy potential studies; and reminded the committee that the projects being discussed pertained to ongoing studies that if not completed, would never fully utilize the remaining funding. He emphasized the importance of good data and necessary environmental work to increase chances of success in working with the federal government. He furthered that the studies made for strong arguments and provided a greater chance of success if there was any future litigation, whereas without the baseline data, the state was much more vulnerable.

[10:16:31 AM](#)

Vice-Chair Micciche referred to different areas of lower-potential oil and gas production in the state and considered the in-state energy solutions in the Interior to be largely a "Band-Aid." He thought the potential for the Interior areas to provide natural gas for Alaskans was pretty good, even if not in concentrated form, and for that reason it was worthwhile to complete the energy potential studies.

[10:17:13 AM](#)

Co-Chair MacKinnon commented that resource development had been a mainstay of Alaska's general fund investment, and that it provided almost \$1.3 billion in to the state's school system, and \$1.3 billion towards delivering health and human services to areas across the state. She asserted that as the state tightened its investments, it needed to be very conscientious about who had been providing the economy and the revenue resource to invest in different

areas of the state. She expressed appreciation for the committee's discussion of the DNR projects.

[10:18:25 AM](#)

Commissioner Myers spoke about the Foothills Oil and Gas Development Infrastructure project on page 8:

Foothills Oil and Gas Development Infrastructure

Phases: 2

Total Authorized \$740.0 / Total Expended & Encumbered \$436.2 / Balance \$303.8

This phased project aims to provide a modern synthesis of the petroleum geology around the stranded Umiat and Gubik oil & gas fields on the North Slope foothills in order to generate new exploration targets. Work to date has focused on conducting extensive new field geologic mapping in the Umiat area and collecting new rock samples for scientific analysis. Work to be done includes integration of the new analytical results with extensive seismic and well data, possible targeted field work as necessary to fill data gaps, and completion and publication of the geologic map.

Commissioner Myers explained that the project pertained to petroleum geology, particularly around the Umiat field, and had public numbers of about 150 million barrels of oil. He recounted that there had been various development attempts and that DNR hoped to see it developed. He referred to the Gubik oil and gas fields on the foothills of the North Slope, where there was a lot of gas. He was unsure of how commercial the gas was, and hoped for better understanding to aid in future development. He mentioned that new gas would be needed for the Alaska Liquid Natural Gas (AKLNG) project between year 15 and year 20; it would be important to know the resources to understand how the gas was phased in. He discussed the need for expansion capacity in the system, and explained that much of the gas in the foothills was Native corporation owned, but there was mixed state land as well. He saw the development of the area as a collaboration, and spoke to the potential of the area. He mentioned the incorporation of more subsurface information, and specified that it had been a combined effort between DGGs and the Division of Oil and Gas. He reiterated the inherent value of such data to new companies interested in development.

10:20:35 AM

Senator Hoffman asked if DNR anticipated completing the Foothills Oil and Gas project in the next fiscal year. Mr. Masterman guessed that it would be finished in the following two fiscal years, and agreed to check to ensure that was a correct assumption. Ms. Davis confirmed that the project would be completed over the next two fiscal years.

Vice-Chair Micciche understood that the projects being discussed (on pages 8 and 9) were not requests for additional total authorized funds; rather, they were a continuation of the work with remaining funds. Ms. Davis clarified that projects on pages 8, 9, 10, 11, 12, 13 and 14 were all current phased capital projects and were status updates rather than funding requests.

Co-Chair MacKinnon commented that many people across the legislature had been looking at reappropriations and whether there was unexpended funds that could be rolled in to the general fund to meet the revenue shortfall. She expressed her appreciation for the thorough job DNR had done in helping the committee understand the benefit of its current projects.

10:22:54 AM

Commissioner Myers presented slide 9, outlining the Gas Pipeline Corridor Geologic Hazards project.

Gas Pipeline Corridor Geologic Hazards

Phases: 3

Total Authorized \$2,050.0 / Total Expended & Encumbered \$1,922.1 / Balance \$127.9

Fieldwork performing a hazard assessment of the proposed gasline corridors from Delta Junction to the Canada border and Livengood to Valdez was completed in the summer 2014. Remaining work includes publishing a comprehensive report and geologic maps of the Alaska Highway Corridor and completing and publishing LiDAR-based hazard assessment for Livengood-Valdez route.

Commissioner Myers relayed that the project was started when the conceived route for the proposed gasline corridor was for a Lower 48 or Valdez-based project; part of which was a valuable airborne laser LiDar survey that gave a very

good view of Earth and helped identify new geologic hazards. The survey was paid for, made public, and was still valid and important for the Livengood area.

[10:23:48 AM](#)

Mr. Fogels presented the second project on page 9, Alaska Land Mobile Radio Emergency Response and Narrowband Compliance, which he noted was a four phase project.

Alaska Land Mobile Radio Emergency Response and Narrowband Compliance

Phases: 4

Total Authorized \$5,326.5 / Total Expended & Encumbered \$4,936.9 / Balance \$389.6

This project has funded DNR's migration to the FCC mandated narrowband efficiency standards, and the Alaska Land Mobile Radio (ALMR) to provide essential communication across federal, state and local jurisdictions to enhance public safety and operational capability.

The Divisions of Forestry, Geologic and Geophysical Surveys, and Parks have made significant progress in migrating to the narrowband standards as well as purchasing and installing equipment. The remaining balance is being used to complete the upgrades of equipment and legacy repeaters, implement wind and solar systems to charge radio equipment in the field, and purchase and install of mobile radios in fire engines.

Mr. Fogels discussed the ALMR system and specified that it was primarily used within the DNR firefighting force, but was also used by state park rangers and remote geologic survey crews. He furthered that the department was close to completing the system migration.

[10:24:46 AM](#)

Co-Chair MacKinnon asked the department to consider ways to pay for ALMR that spread the cost of the project differently. She discussed small local firefighting units, and remarked on the substantial fees being asked of them. She wondered how field communications were handled elsewhere and mentioned having further discussion about a secondary system.

10:25:35 AM

Commissioner Myers presented slide 10, and discussed the Strategic and Critical Minerals project.

Strategic and Critical Minerals

Phases: 4

Total Authorized \$6,103.0 / Total Expended & Encumbered \$4,958.5 / Balance \$1,144.5

Additional Funding Needed to Complete \$3,065.0

To date, the previous funding for this project has acquired 1,588 square miles of airborne geophysical data, conducted a 2,600 square-mile resource assessment, geologically mapped a 450-square mile area, digitized locations of 5,390 historical geochemical analyses, and obtained modern geochemical analyses on 5,180 new and archived samples. In addition, a collaborative agreement with the U.S. Geological Survey (USGS) to obtain modern geochemical analyses from historical samples collected by the USGS from State land was initiated. Most raw data is published and have been presented in public and professional forums.

Commissioner Myers explained that the project was spurred by recognition of opportunities for rare earth materials and other strategic minerals including members of the platinum group. He asserted that identifying such key resources was a priority on both state and Native lands; and reminded the committee that the state was badly under-mapped. Differently than oil and gas, after getting the basic data it was a priority to sample soils and rocks to test for mineralization; geo-chemical analysis patterning was an important component. He highlighted that modern technology had allowed for many findings that were previously impossible with traditional "old style" analysis. He listed prioritization of land-selection area in the Ray Mountains of the Yukon as an example of the success of the data gathered from the survey, and noted that the data would be used on an ongoing basis for land selection. Additionally, the data was invaluable for prospecting companies.

Commissioner Myers commented that DNR had cut back the operating budget; including postponing the airborne gravity magnetic surveys. He hoped that the airborne gravity

magnetic surveys would continue in the future, and in the meantime would rely on the key datasets from the Strategic and Critical Minerals program.

[10:27:43 AM](#)

Mr. Fogels spoke to the Wildland Fire Engine Replacement project.

Wildland Fire Engine Replacement

Phases: 4 Total Authorized \$2,300.0/ Total Expended & Encumbered \$2,188.2 / Balance \$111.8

A total of 37 engines have been purchased since FY2009. The remainder of the appropriation is being used for essential fire safety equipment; installation of light bars, sirens, striping, radios, GPS tracking, and additional pumps.

[10:28:13 AM](#)

Commissioner Myers presented slide 11. He discussed the Reservoir Studies for North Slope and Cook Inlet project; noting that the project was critical to the state economy.

Reservoir Studies for North Slope and Cook Inlet

Phases: 2

Total Authorized \$7,500.0 / Total Expended & Encumbered \$4,077.5 / Balance \$3,422.5

The project provides funds needed to carry out a variety of essential statutory and regulatory requirements (AS 38.05.180, 11 AAC 83, Article 3, and others) critical for supporting a wide range of the Oil & Gas Resource Evaluation Sections' mandated tasks to collect, maintain, and analyze subsurface data on oil and gas reservoirs and resource potential throughout the state. Projects such as these are often unforeseen and require Oil & Gas to hire outside consultants or employ specialized software or analyses to protect the state's interests. This funding provides the division much needed flexibility for meeting its ongoing and long-term responsibility of addressing these issues.

Commissioner Myers discussed the importance of understanding an oil and gas field in terms of the location of the resource, the amount of production, and how it would be managed. He furthered that it was key to understand what

the royalties were, and also the correlative rights of the different companies. He discussed joint management of resources and the need for information as the funding moved between the different entities. He discussed the complexities of a dynamic underground reservoir system, which changed over time as additional information was gained through production. For full understanding of a reservoir, ongoing scientifically technical study and continuous evaluation was needed; including engineering, geophysical and geological data sets, and economic analysis. He discussed the challenges of early negotiations of royalties with a dearth of available reservoir data. To mitigate the difficulties, conflict, and financial disputes; parties could agree on a complex reservoir model, under which reevaluation benchmarks would be established using highly technical information. Such complex models included some work done in the state, but also required consultants. He mentioned an example of a re-determination using the reservoir model approach that gained the state \$100 million. He asserted that the complex reservoir models were absolutely critical, and cited the gas offtakes of the gasline as an example. He mentioned new units formed (such as the large unit being formed between Alpine and Prudhoe Bay) was crucial to develop the methodology and run the initial models. Additionally, the regulation of units and plans of development depended upon having the model data.

Commissioner Myers spoke to the complexity of newer reservoirs (such as Nuna) and described the management of their reservoir models as critical. He concluded that the models were a cost of doing business, but were a benefit to all parties that would ensure the state received what it was fairly entitled to.

[10:32:41 AM](#)

Senator Bishop asked if the project would also help to identify new oil (from a tax credit perspective). Commissioner Myers responded in the affirmative, and clarified that particularly when the first exploration well was drilled. He discussed many small new wells with reservoirs that were very hard to model, with subtle and small changes determining whether they were economic or not. He spoke to the new technology available, and credited it with opening up wide fairways of oil and gas potential in the North Slope, all of which needed reservoir models.

[10:34:26 AM](#)

Vice-Chair Micciche asked if DNR could produce a report to include a list of objectives that included realistic and potentially viable interested parties. He wondered if DNR thought it probable that severance and royalty would end up in the general fund. He asked if there was available historic data to reflect upon and strategize with when considering investments. Commissioner Myers responded in the affirmative, specifying that it was particularly so on oil and gas, because Alaska had a single 100-million barrel field. He qualified that filling the pipeline added additional value to existing production and cost structure and flow. He furthered that lighter oil added value, and that it was much of what was currently being found in the state. He discussed prioritization of investments in items with the greatest economic value, and considered that the net present value of the reservoir studies was the most positive investment that could be made. He mentioned existing cash flow, fair management of the oil and gas fields for all parties, and economic benefits related to using such models as the reservoir studies. He mentioned initial partnership agreements based on the science of the studies; and used the state and oil companies, and as well as the state and the federal government as examples. He restated the huge economic value of the reservoir studies, and indicated that DNR had numbers to quantify it.

Commissioner Myers discussed oil and gas exploration, and stated that DGGS had provided speculative up-front data projecting possible returns. He asserted that "the wisdom had worked" and referred to a test core hole for coal bed methane near Wasilla, which resulted in Evergreen Drilling coming to the state. He clarified that the state hadn't moved to a successful industry from the test, but asserted that the potential was still present. He recounted that there was "environmental hiccups" in terms of the licensing-leasing program. He stated that there was significant investment in the area, and companies like Lynx Oil had also come to the state to look at the potential. He believed that eventually the resources [coal bed methane] would be produced in Alaska for in-state demand. He summarized that the Wasilla area testing was an example of baseline data garnering interest from companies.

[10:37:54 AM](#)

Vice-Chair Micciche related that he would like to see more strategy being employed with the limited funds that were available for assessments, and that it would be especially helpful for the legislature to understand the primary objectives of the entire department and where it was going for the next four years. Commissioner Myers thought the projects being presented could have been bundled together in a better way, rather than scattered. He thought it would have been clearer if the projects had been put into a systematic structure before presenting.

[10:38:54 AM](#)

Senator Dunleavy asked about the coal-bed methane that had been mentioned and wondered if it had not been developed because there was not in sufficient quantity, or for other reasons. Commissioner Myers related that there had been a number of reasons that the industry did not flourish, the largest of which was environmental opposition to the project, which started with the Shell gas leasing program which did not have public process. He furthered that the leases with the most potential were within a fairly densely populated area in which local environmental opposition grew over time.

Senator Dunleavy asked if there had been a lot of gas in the area. Commissioner Myers clarified that there was a lot of potential, but the wells had not produced much gas and were not as successful as anticipated. There were many factors that influenced the decision; there was gas in the coals but the coal fracture pattern was not optimal as previously considered. He commented that the environmental factors were in many cases as important as the subsurface factors, and on the coal-bed project there was not good alignment. He opined that there had not been enough tests to evaluate the resource, and clarified that the drilled wells had not been commercial. In combination with the environmental opposition, the well outcome changed the company's view. He referred to environmental activism, and to the challenges of obtaining leases in multiple-use densely populated areas.

[10:40:40 AM](#)

Co-Chair MacKinnon asked how the department interacted with the Alaska Oil and Gas Conservation Commission (AOGCC). She thought that some of the items that DNR wanted to contract

for were available internally. She wondered if DNR was hiring contractors to expedite the understanding of below-surface opportunities, or if there had been a timing or access issue which necessitated the contractors. Commissioner Myers remarked that the oil and gas law in the state was complicated, and clarified that AOGCC was a quasi-judicial regulatory agency that did not protect the state's interest (any more than they protect Exxon, Conoco-Phillips, BP, Repsol, etc). The commission's job was to be objectively neutral and adjudicate certain things that were required in law; including conservation, prevention of physical waste, and well safety. He furthered that some of the functions of AOGCC had parallel functions in DNR oil and gas statutes and laws. For example, while AOGCC had to prevent physical waste, DNR had to prevent physical and economic waste. Additionally, DNR had to develop plans of development for the unit and protect correlative rights of all parties.

Commissioner Myers related that he had previously been a hearing officer as oil and gas director, protecting one company's right after another company, and adjudicating between companies' interests and challenges. He clarified that although the functions were similar, DNR and AOGCC operated differently through laws and regulations, and in some cases purposes. He furthered that DNR's law was adapted from the federal system, whereas AOGCC's was adapted from the State of Oklahoma. He discussed the role of DNR in representing the state's commercial interest, and asserted that it took a balanced view while developing the resource appropriately. He reiterated that the reservoir model was critical to all of the elements mentioned; and critical to understanding the state's resources, as well as Royalty in Kind (RIK), Royalty in Value, and the fact that the state was supplying oil to the refineries. He continued that the state had to know where the supply was coming from, and it was important that it was not done in a way that adversely affected production. Understanding the mechanisms of the reservoir would ensure that when the state did a RIK sale, it would understand the consequences to all parties.

Commissioner Myers argued that the type of data from the reservoir studies was interwoven in the state's responsibilities, whereas AOGCC was separate and distinct and not entitled to see the state's data unless asked for in a regulatory function. The state was not entitled to see

AOGCC's confidential data on a normal basis, although there were some statutes in place under which the state could see the confidential data. He added that the state's reservoir modelling was more proactive in nature; where AOGCC did not need to model anything until a case was before them, at which time they would ask for models from the state and the companies in question. He asserted that the state needed to model reservoirs independently, or jointly with companies through an agreement during the earliest stages of development of a field.

Co-Chair MacKinnon expressed appreciation for the thoughtful way in which the department shared information.

10:45:08 AM

AT EASE

10:47:06 AM

RECONVENED

Co-Chair MacKinnon discussed the schedule. She explained that she would recess the meeting so that DNR could continue with their presentation later in the day.

10:48:06 AM

Mr. Fogels presented the second project on slide 11.

Knik River Public Use Area Target Shooting Facility

Phases: 2

Total Authorized \$900.0/ Total Expended & Encumbered \$889.8 / Balance \$10.2

Phase 1 of construction was completed on 7/18/14. Phase 2 should be completed by September 2015 and will widen the existing range, construct a pistol range and create pavilions over the firing line to reduce noise and protect the firing line from weather. This phase is partially built, and design and engineering work is finished.

The project is currently out for competitive bid.

Mr. Fogels explained that the completed first phase of project was a 40-foot wide by 100-foot shooting range, and the encumbered funds would extend the facility to 120-foot wide by 100 yards with the addition of some pavilions. He noted that the facility was a core component of the larger

management of the Knik River Public Use Area, where target shooting was largely banned due to public safety concerns.

[10:49:27 AM](#)

RECESSED

[1:33:33 PM](#)

RECONVENED

Mr. Fogels presented slide 12, which outlined two phased capital appropriations, both on the Kasilof River.

Mr. Fogels discussed the Public Access and User Facilities Improvements at the Mouth of the Kasilof River CIP, which was a two-phase capital appropriation for an extremely high public use area for personal use dip netting.

Co-Chair MacKinnon asked if the project could be discussed later when Vice-Chair Micciche was present since it was located in his district.

[1:34:53 PM](#)

Mr. Fogels presented slide 13, and discussed the South Denali Visitors Center, which was a two-phase project. He specified that phase one was almost completed, and DNR had the funds for completion. Phase 2 had a much larger scope of project that would probably require a number of years for completion. The overall plan was for a visitor complex along the Parks Highway in the Denali State Park. Components included a lower facility with a campground, a ranger facility, and a pavilion; with a road to the top of the ridge and eventually a grand visitor facility at the top with views of Denali. He detailed that the lower facility was almost complete; and consisted of an RV campground with 32 spots and electricity, possible after the capital appropriation funded transmission line from Trapper Creek to the facility. He had visited the site the previous summer and described it as one of the nicest campground facilities in the state. He estimated that once the facility was up and running, it would more than pay for the management costs on the facility.

Senator Dunleavy stressed the need for supporting projects with the greatest urgency or importance, and putting others on hold for the future.

[1:36:50 PM](#)

Senator Olson asked about outside investors from the private sector, and wondered if they were also hampered by the possibility of DNR not receiving the CIP funding. Mr. Fogels reiterated that it was a phased project for which they had already secured funds. He clarified that there were private investors, and detailed that Princess Tours had contributed \$1 million towards the transmission line; Sea Lion and the village of Hooper Bay had donated land. He furthered that there had been a land exchange that allowed for reduced project costs for DNR in return for better access for a possible lodge facility. He described it as a very productive public-private partnership.

Senator Olson asked if any change in funding would jeopardize the public-private partnership. Mr. Fogels specified that the portion of the facility built on the property in question had already been constructed, therefore the land exchange would be complete. The consequence of a change or lack of further funding would be non-completion of the campground.

[1:38:37 PM](#)

Senator Dunleavy commented on the number of projects that DNR had brought forward. He referred to a Senate Education Committee meeting from the previous day, where a superintendent from the Mat-Su school district had called in and expressed support for the bonding concept while at the same time expressing understanding of the fiscal climate and willingness to curtail additional project requests. He reiterated that it would be helpful if others did the same. He thought that many of the DNR CIPs were good projects, but asserted that if the state could "take a break" it would help the state treasury.

[1:39:59 PM](#)

Mr. Fogels went back to slide 12, noting two projects that were both on the Kasilof River.

Public Access and User Facilities Improvements at the Mouth of the Kasilof River
Phases: 2
Total Authorized \$2,800.0 / Total Expended & Encumbered \$2,795.2 / Balance \$4.8

This project creates access and user facilities on the north side of the Kasilof River to support the Personal Use Fisheries each June through August, which provides thousands of Alaskan residents an economical food source. Phase 1 construction is expected to be completed by June 2016 and includes parking for 120 vehicles, turnaround areas, two toilets and areas for portable toilets and dumpsters. Phase 2 includes the purchase of land on the north side of the river and has been designed to include parking for 93 more vehicles, camping area and designated RV sites, gravel loop road joining parking and camping areas, and repair of existing dune fencing. Further construction efforts are on hold pending the outcome of a land purchase negotiation. Should we be unable to acquire the land, the project scope will focus on expanding the parking and turnaround areas to ensure access to emergency vehicles.

Lower Kasilof River Drift Boat Takeout

Phases: 2

Total Authorized \$3,600.0 / Total Expended & Encumbered \$508.9 / Balance \$3,091.1

This project includes the acquisition of two land parcels along the lower Kasilof River for development into a drift boat take out facility. One piece of land has been acquired, and the acquisition of adjacent land is in progress. Both parcels require an environmental assessment and potential clean-up work, and once the second parcel is acquired we will complete the cleanup and begin improvements.

Mr. Fogels discussed the Public Access and User Facilities Improvements at the Mouth of the Kasilof River, a two phase project that would be half complete by the following summer and fully complete by the subsequent summer. He pointed out that most of the funds for the project had been expended to encumbered. He continued that the improvements were in an very heavily used area where the environmental damage had become extreme. The improvements were an effort to clean up the damage while building hardened parking facilities, sanitary facilities, and camping facilities.

Co-Chair MacKinnon remarked that it was a small amount of funding on the balance of the project, but she appreciated the update.

Vice-Chair Micciche commented that he was very supportive of the project, and that it was unfortunate that the state had provided an expanded fishery before the area had the facilities necessary to handle the crowds. He was grateful for the investment.

Mr. Fogels discussed the Lower Kasilof River Drift Boat Takeout. He described the safety concerns that were a motivation for the project. He relayed that the department was currently negotiating for two parcels of land in a location that would allow for the building of a takeout facility where boats could be pulled out of the river safely.

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Senator Dunleavy asked how the drift boat takeout was not a part of a larger boat launch project. Mr. Fogels thought that perhaps Senator Dunleavy was referring to a Department of Fish and Game budget discussion. He explained that the put-in for the Kasilof River was a state park facility, and the money was thereby appropriated to DNR.

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Vice-Chair Micciche referred to land parcel dialogues and asked if the lower parcel property owner was still interested in negotiating. Mr. Fogels thought that the property owner in question had backed out of the deal at least once, and clarified that DNR was currently in negotiations with him. He referred to State Parks Director Ben Ellis for further information regarding the negotiations.

Senator Dunleavy asked if there were operating costs associated with the project. Mr. Fogels relayed that there were indeed operating costs, much or all of which would be recouped through fees.

BEN ELLIS, DIRECTOR, ALASKA STATE PARKS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), projected that revenue generated from the boat launch would cover the operating costs of the facility once it was operational.

Vice-Chair Micciche observed that the second piece of property in question seemed far superior to make the project more viable. He mentioned a state launch facility

well upstream and discussed safety concerns in the area due to lack of options for boat launches and take-outs. He described the changes on the Kasilof River to be relatively dramatic over the last decade.

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Co-Chair MacKinnon commented that she would like to help the negotiations, and stated that the committee would be checking on whether negotiations had concluded before moving the capital budget out of committee.

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Commissioner Myers presented slide 14, and discussed the Statewide Digital Mapping Initiative. The project was an effort to recognize Alaska as the worst mapped state in the country. He described a partnership between the state and federal government to work on a cooperative mapping program in which the state paid one-third and the federal government paid two-thirds. Outcomes included a consistent statewide imagery product done through the University of Alaska using a spot satellite; and a digital elevation model, which had significant geographic and safety implications. He discussed technical aspects of the elevation model, specifying that the project utilized airborne radar tools. He summarized that the partnership had been very productive, with approximately 61 percent of the state being covered, but needed monies to assure the matching funds. He furthered that there was a lot of support from the federal government, and thought the project could be moved forward with much less ratio of state matching funds. He noted that every base map that was drawn in the state utilized the base data from the project. Additionally there was cooperation with DNR providing land records data, and the project was strongly supported by the private sector and private mapping community.

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Co-Chair MacKinnon referred to other mapping projects in Alaska, including at the university, at the Alaska Aerospace Corporation, and with private contractors; and surmised that it would be prudent to ensure there was no overlap. She highlighted the importance of public understanding of the different approaches and funding of varied mapping projects. Commissioner Myers discussed the

coordination of state mapping needs by the Alaska Geospatial Council, a group set up by the previous administration that included deputy commissioners from all the departments who wanted to participate in mapping. He added that the university had also participated. He furthered that there was a larger geospatial mapping council that in turn facilitated coordination through federal, state, and integrated levels; overseen by a high level political appointee, the Assistant Secretary for Water and Science at the U.S. Department of Interior. He added that there was much input from the private sector. He discussed early formation of the group and the lack of a coordinated plan. He clarified the nature of the data as baseline topographic mapping rather than vegetation, hydrology, or cadastral mapping; and the baseline data provided other state maps with fidelity.

Commissioner Myers listed numerous state agency functions that required a digital elevation model and could utilize the consistent base of data provided by the mapping initiative: aviation safety, community development, resource development, pipeline routing and right-of-ways, coastal erosion, and glacier mass and water balances. He discussed the instances in which higher resolution data was needed and used the examples of pipelines, flood plain measurement, and coast line mapping. He praised the deputy commissioner's work on the Geospatial Council, and shared that he planned on approaching the governor regarding reformation of a committee to ensure coordinated spending of the remaining funds for the project.

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Mr. Fogels added that USGS was using DNR data to update all of its topographic maps in Alaska. He furthered that the current topo maps were 60 years old and very inaccurate, and new ones would be based on the data from the mapping initiative. USGS had completed approximately 10 percent of the state thus far.

Commissioner Myers shared a story about when he was USGS director and there was no intention of increasing the Alaska topographic map base. He had demanded that the survey reinvent the topographic maps to the high resolution 1 inch to 1 mile scale, and brought the executive leadership team to Alaska to discuss the progress on the project and other issues. A map of Eagle River was used as

an illustration to the group, with beautiful new hydrography and good vegetation coverage; yet with buildings and infrastructure from 1962. He recounted the lack of major features on the example map (such as bridges and highways) and the obvious demonstration that there was a major lack of systematic baseline data. He discussed the importance of map layers being of the same quality with regard to the age and viability of data; and asserted that integrated maps were now being produced using automated technology. He summarized that the mapping initiative data underpinned the efforts to get the elevation model consistent with other mapping data.

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Vice-Chair Micciche asked if all the digital data was obtained using fixed-wing aircraft, or via satellite. Commissioner Myers stated that the current Interferometric Synthetic Aperture Radar (IfSAR) data being gathered was via high-altitude airborne operations. He clarified that the ability to use high-resolution satellites was also available, although traditionally its data set had not been adequate over Alaska. He discussed his previous chairmanship of the U.S. Civil Applications Committee, which allowed for use of military data; and commented that the military underwrote much of the cost of commercial satellites. He explained that the National Geospatial Agency (the military mapping equivalent to the USGS) gathered but did not map polar-orbiting data over Alaska collected by half-resolution U.S. satellites. He furthered that there was a new method that used satellite-based data to acquire a digital elevation product at a much lower cost, and had recommended the method as a product to the U.S. chairs of the Arctic Council. He qualified that the concept had gained significant traction with the state department. He explained that through negotiations with the University of Alaska and the National Science Foundation, data was being made available to federal users; and through an agreement with the geospatial agency some of the derivative product of the data (a digital elevation model) could be released publicly. He reiterated the importance of quality and consistency of the data as compared to the higher-resolution airborne data. He pointed out that part of the requested funds would be utilized to do such a comparison and determine if the new data was adequate for federal and state needs. He reiterated the utility of an

automated mapping process that would be available for future re-mappings.

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Mr. Fogels referred to page 15, "Future Capital Funding Needed to Complete Existing Projects (GF Only)."

Atwood Building Renovation (additional \$2,900.0)
The current \$4,600.0 appropriation partially funds the renovation and implementation of Universal Space Standards on DNR occupied floors in the state-owned Anchorage Atwood building. The project is on hold until the cost and savings generated from full implementation can be evaluated in the current fiscal situation. It is estimated that, at a minimum, an additional \$2,900.0 would be required to fully implement. Future funding may be requested in FY2017 or FY2018 to complete the project.

Deferred Maintenance
Current balance of existing deferred maintenance projects for the Divisions of Parks, Forestry, and Agriculture is \$8,146.6.
The deferred maintenance inventory of projects remaining to be addressed is \$71,957.3.
The divisions will focus efforts on completing the projects currently funded. DNR expects to request additional deferred maintenance funds for the most critical repairs in the next two to three years.

Mr. Fogels discussed the Atwood Building Renovation, stating that DNR occupied floors 6 through 14 of the building. He stated that with new office space standards, the department would be compressing down to about 7 floors; requiring a major renovation and new furniture. He detailed that the department had \$4.6 million in an appropriation to fund the move, however it was projected to cost an additional \$2.9 million to fund the move in its entirety.

Mr. Fogels discussed the deferred maintenance request. He stated that DNR had a deferred maintenance inventory of \$71.9 million, \$62.4 million of which was in the state parks system; with the remainder in the Division of Forestry and Division of Agriculture. He specified that DNR

had \$8.1 million in hand to do the work, and there was a lot more to do.

Vice-Chair Micciche stated that he would like to see a prioritized list of critical repairs that would be forthcoming in the next three to five years of capital requests. Mr. Fogels agreed to provide the information to the committee.

[2:01:19 PM](#)

Commissioner Myers thanked the committee for its diligence and dialogue. He expressed appreciation for the questions of the committee. He understood that the committee was interested in seeing requests bundled in categories rather than based on the budget book, and affirmed to do so in the future. Co-Chair MacKinnon thanked the DNR team.

SB 26 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[2:02:23 PM](#)

The meeting was adjourned at 2:02 p.m.