

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 13, 2015

3:30 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

CS FOR HOUSE JOINT RESOLUTION NO. 10(RES)
Opposing the revised Comprehensive Conservation Plan and Environmental Impact Statement for the Arctic National Wildlife Refuge; opposing attempts by President Obama to alter management of the coastal plain of the Arctic National Wildlife Refuge; encouraging the United States Congress to reject a proposal based on the revised Comprehensive Conservation Plan or accompanying Environmental Impact Statement; and encouraging the United States Congress to reject a proposal that does not open the coastal plain of the Arctic National Wildlife Refuge to oil and gas development.

- MOVED SCS CSHJR 10(RES) OUT OF COMMITTEE

CONFIRMATION HEARINGS

Big Game Commercial Services Board

James David Jones - Kodiak, Alaska

Kelly Vrem - Wasilla, Alaska

- CONFIRMATIONS ADVANCED

SENATE BILL NO. 32

"An Act relating to the sale of timber on state land; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 10

SHORT TITLE: OPPOSE ANWR WILDERNESS DESIGNATION

SPONSOR(s): REPRESENTATIVE(s) NAGEAK

01/28/15	(H)	READ THE FIRST TIME - REFERRALS
01/28/15	(H)	RES
02/02/15	(H)	RES AT 1:00 PM BARNES 124
02/02/15	(H)	Moved CSHJR 10(RES) Out of Committee
02/02/15	(H)	MINUTE(RES)
02/04/15	(H)	RES RPT CS(RES) 7DP 1NR
02/04/15	(H)	DP: SEATON, OLSON, HERRON, JOSEPHSON, JOHNSON, HAWKER, TALERICO
02/04/15	(H)	NR: TARR
02/04/15	(H)	TRANSMITTED TO (S)
02/04/15	(H)	VERSION: CSHJR 10(RES)
02/06/15	(S)	READ THE FIRST TIME - REFERRALS
02/06/15	(S)	RES
02/13/15	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 32

SHORT TITLE: TIMBER SALES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/30/15	(S)	READ THE FIRST TIME - REFERRALS
01/30/15	(S)	RES, FIN
02/13/15	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

GARY ZEPP, staff to Representative Nageak
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Commented on CSHJR 10(RES) for the sponsor.

JAMES DAVID JONES
Kodiak, Alaska

POSITION STATEMENT: Nominee for the Big Game Commercial Services Board.

KELLY VREM,
Wasilla, Alaska

POSITION STATEMENT: Nominee to the Big Game Commercial Services Board who also supported Mr. Jones' re-appointment to the same board.

SAM ROHR, President
Alaska Professional Hunters Association (APHA)
Kodiak, Alaska

POSITION STATEMENT: Supported the re-appointments of Mr. Vrem and Mr. Jones to the Big Game Commercial Services Board.

CHRIS MAISCH, State Forester and Director
Division of Forestry
Department of Natural Resources (DNR)
Juneau, Alaska

POSITION STATEMENT: Commented on SB 32.

RICK ROGERS, Executive Director
Resource Development Council (RDC)
Anchorage, Alaska

POSITION STATEMENT: Supported SB 32.

ACTION NARRATIVE

[3:30:13 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Costello, Micciche, Wielechowski and Chair Giessel.

HJR 10-OPPOSE ANWR WILDERNESS DESIGNATION

CHAIR GIESSEL announced HJR 10 to be up for consideration. She said it is a companion bill to SJR 10, which has already moved from committee.

SENATOR COSTELLO moved to adopt SCS CSHJR 10(RES), version 29-LS0429\E, as the working document.

[3:31:44 PM](#)

CHAIR GIESSEL objected for discussion purposes and explained that the changes in the proposed committee substitute (CS) are clean-up provisions that more accurately fit the provisions in ANILCA. It also inserts two clauses from the Senate version that were identified as redundant and therefore removed.

SENATOR STOLTZE joined the committee.

CHAIR GIESSEL invited Mr. Zepp to explain the sponsor's perspective.

[3:32:13 PM](#)

GARY ZEPP, staff to Representative Nageak, Alaska State Legislature, Juneau, Alaska, said the sponsor agreed with the changes to CSHJR 10(RES).

CHAIR GIESSEL removed her objection and finding no further objections, announced that version E was adopted. She opened public comment and finding none, closed public testimony.

[3:33:24 PM](#)

SENATOR COSTELLO moved to report SCS CSHJR (RES), version 29-LS0429\E, from committee with individual recommendations and attached zero fiscal note. There were no objections and it was so ordered.

SENATOR COGHILL joined the committee.

[3:33:42 PM](#)

At ease

CONFIRMATION HEARINGS
Big Game Commercial Services Board

[3:35:48 PM](#)

CHAIR GIESSEL called the meeting back to order at 3:35 and invited Mr. Jones to let the committee know about his interest in serving on the Big Game Commercial Services Board and his credentials to do so.

JAMES DAVID JONES, nominee for the Big Game Commercial Services Board, Kodiak, Alaska, said he had already served on the board for three years and is just starting to get his head wrapped around it. He moved to Kodiak Island in 1977 after getting out of flight school and became an air taxi pilot. He acted as a fish spotter and a sport fishing guide. He has done quite a bit of commercial fishing and through that, was able to obtain his Coast Guard license in the early 1980s. He used that to become a marine transporter for big game services. He has also been a sport fishing guide working on both salt and fresh water since 1985. He holds several competitively-awarded special use permits on the Kodiak National Wildlife Refuge. These permits are for sport fish, but they are issued in the same manner as a competitively-awarded hunting guide permit, so he has some background with that process.

MR. JONES said his recent three years' experience on the board will make him more a more valuable member and that he would like to continue serving as the marine transporter seat.

CHAIR GIESSEL asked if he wanted to change anything on the board or in regulations.

MR. JONES responded that the board is very heavily influenced by the big game guide industry, and as a marine transporter and unguided hunter, he brings a different perspective to the table. He wanted to be consistent in handling punitive problems with licensees and wanted to make sure that any regulations that are developed will be beneficial not only to the big game guide industry but to the state's resources and its people.

3:40:43 PM

CHAIR GIESSEL thanked Mr. Jones and welcomed Mr. Vrem to the table and asked him to tell them his experience and why he is interested in serving on the Big Game Commercial Services Board.

3:40:53 PM

KELLY VREM, nominee to the Big Game Commercial Services Board, Wasilla, Alaska, said he is a medium-sized operator who uses airplanes primarily and some horses. He also endorsed Mr. Jones' appointment.

Mr. Vrem said he was born and raised in Alaska and received his first assistant guide license in July 1973. He had been a close observer and participant in the Big Game Commercial Services Board and the Guide Board before that. He brings an historical perspective to the board and wants to continue serving, because he has just figured the system out and is hitting his stride. The boards have a steep learning curve. The board has financial challenges and he is working on ideas to get it on a sound fiscal footing.

CHAIR GIESSEL noted that this particular board has the largest debt in the licensing division.

SENATOR STOLTZE said he appreciated Mr. Vrem's service on the board and that he knew his family well, many of whom are involved in the profession. Their conduct as members of the profession and the community exemplifies the type of values he wanted from Alaskans who serve on boards. He had never met Mr. Jones, but people he knows and trusts have resoundingly spoke highly of him.

SENATOR MICCICHE said he had received two additional letters of support for Mr. Vrem and Mr. Jones. A common theme in the letters was that even people who don't agree with all of their

decisions still support them in the process; they are very hard working and valuable.

CHAIR GIESSEL said she had also observed only letters of support. Finding no further questions, she opened public comment.

[3:45:49 PM](#)

SAM ROHR, President, Alaska Professional Hunters Association (APHA), Kodiak, Alaska, supported the appointments of Mr. Vrem and Mr. Jones to the Big Game Commercial Services Board. Mr. Vrem is an experienced chair who knows the process and issues well and is well-regarded within the guiding community.

Mr. Jones represents an often under-represented segment of the industry, the marine transporters. He brings a unique perspective and approaches issues with an open mind. He is continually becoming more familiar with the issues that both the guiding and the transporting industry face.

[3:47:52 PM](#)

CHAIR GIESSEL, finding no further questions, closed public testimony and said in accordance with AS 39.05.080, the Resources Committee reviewed the following and recommends the appointments be forwarded to a joint session for consideration: James David Jones and Kelly Vrem. She said this does not reflect an intent by any members to vote for or against the confirmation of the individuals during any further sessions. There were no objections.

[3:48:20 PM](#)

At ease

SB 32-TIMBER SALES

[3:49:43 PM](#)

CHAIR GIESSEL called the meeting back to order and announced SB 32, expanding the Department of Natural Resources' (DNR) authority to offer negotiated timber sales statewide, to be up for consideration.

CHRIS MAISCH, State Forester and Director, Division of Forestry, Department of Natural Resources (DNR), Juneau, Alaska, began by walking the committee through options for selling state timber in the "Review of State Timber Sale Types."

He explained that he would refer to the statutes by their shorthand, the last three digits of the statute number.

The 120 authority is for competitive sales: timber sales that are offered in a competitive way either through an oral outcry auction or a sealed bid auction. The best bidder with the highest price is successful in acquiring that timber sale. Oral outcry auctions are used in areas where there are a number of purchasers. Sealed bid sales are used in areas where there may be just one or two potential purchasers. That tends to achieve the best purchase price for the state.

MR. MAISCH said negotiated sales use three methods. The 115 authority is the small negotiated sales for less than 500,000 board feet. It may sound like a lot of timber volume, but it really isn't. There would be about 20 acres in Southeast Alaska, about 125 acres in Southcentral Alaska, and about 80 acres in Interior Alaska. This has to do with the different types of forests and their productivity in terms of how much acreage it takes to meet that volume.

The sales currently can only be for one year in length, but the division is in the process of changing a regulation to allow those sales to be two years in length. These sales are typically purchased by very small operators, someone who might have a sole proprietorship or a one or two-person kind of a mom and pop-type sawmill operation.

[3:53:40 PM](#)

The 123 authority is for negotiated sales that are high-value 10 million board feet per year for 10 years. They have to meet the definition of high-value added wood products as opposed to just a definition of value-added wood products. A value-added wood product would be a sawmill that produces sawn lumber but doesn't kiln dry, plane it or grade it, so it could be used structurally. High-value added would be a facility that does that: kiln dry, planed and graded. Wood pellets are on this list. This enables the department to use the 123 authority to prepare a timber sale for a pellet mill that is located between Fairbanks and North Pole.

[3:54:59 PM](#)

MR. MAISCH said the 118 authority is the subject of this proposed legislation. It is also a negotiated sale that fits in between the other two. It can be up to 25 years in length and has three criteria:

1. There has to be a high level of unemployment in the census district as calculated by the Alaska Department of Labor and Workforce Development (DOLWD). It has to be greater than 135 percent of the statewide average, a high hurdle. But places that meet it are the Fairbanks North Star Borough, the Mat-Su Borough, the Kenai Peninsula, and the Juneau Borough. That authority cannot be used in those areas currently and the proposed change would allow the department to start using this authority in those areas if it is the best way to sell timber.

2. There has to be an under-utilized allowable cut. That means extra volume has to be available to offer under a negotiated sale; for example, in Southern Southeast Alaska where the annual allowable cut is 13 million feet per year off the Southeast State Forest. That is managed on a 10-year basis, so in any given year they may sell 13 million or 5 million board feet. If they only sell 5 million, they put 8 million feet in reserve to be brought forward at a later time and can actually have a sale for over 13 million feet. The key is that it has to be managed on a 10-year rolling basis, so the allowable cut can never be exceeded in a 10 year period.

MR. MAISCH explained that right now the department is ramping up the timber sale program in Southern Southeast Alaska to help the mills survive the downturn in the federal timber sale program on the Tongass, because it is going through a plan amendment process in which very little timber is being made available. The department is essentially trying to buy some time for the remaining industry in Southeast, especially the manufacturing industries.

3. The facility that the wood would be used in has to have underutilized manufacturing capacity. This would mean a mill could add a second shift to the operation or it might mean instead of operating only eight months the mill could actually operate 12 months, because they have enough wood to do so.

MR. MAISCH explained that the reason they use the 118 authority in Southern Southeast so much is because of the competition between round-log export and domestic manufacturing. The Pacific Rim markets can afford to pay a much higher value for a round log, so if the competitive timber sale authority is used in Southeast, the wood would go mostly offshore. However, it has long been a policy of the department and various administrations to try and have state-owned wood go to manufacturing facilities in Alaskan communities. That's what this 118 authority allows

them to do; it allows them to use other factors besides price in their decision process.

[3:58:45 PM](#)

SENATOR WIELECHOWSKI asked if competitive bids typically go to outside organizations.

MR. MAISCH answered yes.

SENATOR WIELECHOWSKI asked if they are trying to get timber that will get sold, no matter what, to Alaskan manufacturers as opposed to outside corporations.

MR. MAISCH replied that was correct.

[4:00:28 PM](#)

SENATOR MICCICHE asked if he had any areas in mind (with a harvestable surplus above the 135 percent of statewide average for unemployment).

MR. MAISCH answered yes. He explained that Southern Southeast Alaska has three state forests, two of them are the Southeast State Forest and the Haines State Forest, both of which have forest management plans and associated allowable cuts. It also has lands that are classified for forestry use under various areas plans around the state. The department determines where timber sales will happen based on the five year schedule of timber sales. That can be put out every year but is only required to be put out every other year. This is the early notice to industry and the public of areas where they are contemplating proposing a timber sale.

SENATOR MICCICHE asked if the vast majority of communities in Southeast where the sales will take place are above the 135 percent statewide average for unemployment.

MR. MAISCH answered that was correct. That criterion is not an issue; the criterion that is the issue is the allowable cut. Because after this ramped-up program is used for two or three years, that criteria will no longer be met (because all of the available surplus will have been used) and the 120 authority will be used to sell all of the remaining wood.

SENATOR MICCICHE asked if anywhere else in the state would be able to satisfy all three criteria.

MR. MAISCH answered yes; Tok is where they last proposed to use the 118 sale authority for a power facility that would have used wood chips to produce electricity. They entered the 118 process with a preliminary best interest finding and in that process another competitor showed up. That competitor proved to have the ability to perform, and so that sale was offered as a 120 sale.

SENATOR WIELECHOWSKI noted the zero fiscal note, but said he thought that revenues should increase as the industry diversifies. To be fair, though, there could also be a decrease since they will no longer go out to a competitive process.

[4:03:51 PM](#)

MR. MAISCH agreed that was correct and added that it's definitely a tradeoff in Southern Southeast. The decision has been made to support the communities' manufacturing and the associated jobs that come with that because of the wood going to a domestic source rather than selling for price only.

The department has the ability under the current timber sale program to collect some timber sale receipts and that amounts to about \$850,000 per year. This is used to support a couple forester positions, do reforestation and to maintain roads in the state forest system. Roads are typically built by the timber purchasers and are appraised against the value of the timber sale. So, the roads are initially constructed by those purchasers who maintain them while they are being used for timber purposes. Once they are not, the maintenance reverts back to the Division of Forestry.

SENATOR WIELECHOWSKI asked what happens when foreign companies want to negotiate a sale.

MR. MAISCH explained that first it has to meet the criteria of why a sale would be negotiated. If it's in an area where the department would normally do a competitive sale, they would politely say no. As a state agency, they don't want to pick who the winner and loser is in a negotiation process if the two parties are not on equal footing.

SENATOR WIELECHOWSKI said except they are trying to pick the winners. So, there could be problems down the line with foreign organizations.

MR. MAISCH explained that an RFP process is associated with a negotiated sale. Some of the questions they can ask in the RFP are the number of jobs created, how many high-value products

will be made and where they will be sold, so they can determine what will produce the most value in terms of jobs and community support. Points are awarded for the different types of questions and a high bidder is chosen; then they negotiate the terms. Even when they negotiate, the buyer has to meet all the bonding requirements, fiscal due diligence and sign a standard timber sale contract.

[4:07:29 PM](#)

SENATOR WIELECHOWSKI said he appreciated what they were trying to do, but wondered if the language could be tweaked to specifically give Alaskans preference, because legally they are allowed to be given some preference.

MR. MAISCH replied that the department has a good track record of using 118 authorities in Southeast and currently has three active timber sales that were sold under it. Foreign interests have come to Alaska to look at purchasing timber - all the time, actually. But no offshore party has been willing to make an investment in Alaska, because of the cost and the fact that the state doesn't have that much timber to support the industry (that went from 5,000 direct employees in Southeast Alaska to about 250 today) when the Forest Service quit selling the amount of timber it should be selling.

SENATOR COGHILL asked if what he has been talking about is a part of the criteria in the best interest finding.

MR. MAISCH answered yes; it can be made the criteria. He explained that section 1 adds a subsection clarifying that the commissioner currently has the authority to choose which timber sale authority is the appropriate one to use and the way that would be done will be with a best interest finding. A best interest finding is not needed for 115 sales. He added that the small "b" best interest finding is not the large "B" Best Interest Finding, which means an actual best interest finding.

[4:10:24 PM](#)

SENATOR COGHILL asked for the criteria under the little "b" best interest finding.

MR. MAISCH replied that it has to be read as a two-part statement. First you choose the authority you're going to use - the applicable sale method. If the commissioner decided to use the 118 authority, then a large "B" Best interest finding is required (and for most of the other authorities). The only authority that doesn't require that big "B" Best Interest

Finding is the 115 small negotiated sales, because it's too much process to go through for 500,000 board feet, but it still has to comply with all the normal forest practices and other standards. He asked the Department of Law (DOL) for a legal opinion on their interpretation and that should be forthcoming soon.

[4:11:36 PM](#)

SENATOR COSTELLO said she understood that this bill came out of a recommendation from the Alaska Timber Jobs Task Force and asked if this is the first or highest priority recommendation.

MR. MAISCH answered that this is one of the recommendations that came out of the Alaska Timber Jobs Task Force under the previous administration that was completed in 2012. It made roughly 32 or 36 specific recommendations; some were prioritized and some were not. This did not fall in that top five priority, but it was worth pursuing. It was in the first two sections of the Susitna State Forest legislation that was discussed in the previous legislature. The Board of Forestry and the Tanana Citizens Advisory Committee support this legislation.

SENATOR MICCICHE asked when the department determines maximum and best use, if someone wants to create wood pellets and employ three people in a particular piece of forest where there is no volume limit and someone else comes along, maybe another company, that wants to manufacture staircase spindles for some company outside of Alaska, except they want to hire hundreds of Alaskans, finish the product here and send it outside, that they are not just focused on some Alaskan company when they may potentially be able to employ hundreds of other Alaskans with the other option under the 118 authority.

MR. MAISCH agreed with that example, but clarified that "no volume limit" means they can do a large sale, but it still has to comply with sustained yield and annual harvest quantities. However, the second company he described would perhaps fit much better under their 123 authority, because they are making a very high-value finished product in Alaska that gets shipped to markets in other parts of the world.

[4:16:12 PM](#)

SENATOR STOLTZE said he didn't see any dialogue about this legislation from the pro-development group in the Mat-Su Borough.

MR. MAISCH said the Susitna State Forest is not part of this; he just mentioned it because it was in that previous legislation.

[4:18:26 PM](#)

SENATOR WIELECHOWSKI asked if deleting the provision of "must have a high level of local unemployment" would include the Susitna State Forest if it were to become a state forest.

MR. MAISCH answered yes, because it would be a statewide authority.

CHAIR GIESSEL opened public comment and invited Mr. Rogers to comment.

RICK ROGERS, Executive Director, Resource Development Council (RDC), Anchorage, Alaska, supported SB 32. It's a small step to adjust statutes to help get some timber supply, which is the big impediment to the industry, particularly in Southeast Alaska. The DNR has been very effective in using what limited lands it holds in Southeast Alaska to help bridge the gap for timber supply for the remaining mills. The timber sale statutes have not been modified for a couple of decades, and this change acknowledges the market for wood chips, a new industry with respect to biomass energy.

[4:22:53 PM](#)

CHAIR GIESSEL left public testimony open and said she would hold SB 32.

SENATOR WIELECHOWSKI asked the department for a list of competitive sales with a comparison to their appraised values for the past couple of years, to get a handle on how much this bill would cost.

MR. MAISCH answered he would do that, but he also knew that there was a range of 30-50 percent difference in what they would get if they offered a sale under a 120 authority. That amounts from tens of thousands to maybe a hundred thousand dollar difference in purchase price for an export sale versus a negotiated sale.

SENATOR MICCICHE asked if there is any way to quantify the value of local employment and its trickle-down effect into the community using a per board foot measurement.

MR. MAISCH replied that the Forest Service and others have tried to do that, but it is tough, because there are a lot of

intangibles. The economic, social and an environmental aspects of managing the forests are hard to put numbers on, but he would do his best to at least give him some rules of thumb the department uses in making those decisions.

SENATOR COSTELLO asked what problem as identified by the task force that this bill solves.

MR. MAISCH answered that he would provide a written response to that question.

CHAIR GIESSEL said she would hold SB 32 for a further hearing.

4:27:05 PM

Finding no further business to come before the committee, Chair Giessel adjourned the Senate Resources Committee meeting at 4:27 p.m.