

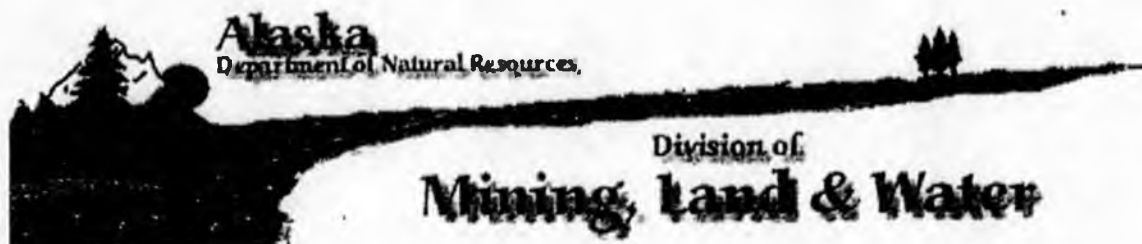
**OVERVIEW:  
DEPT. OF  
NATURAL  
RESOURCES,  
2005**

Need  
UPDATE  
1-12-05

State of Alaska  
Department of Natural Resources  
Division of Mining, Land and Water

FY 2006 Budget Overview

Tom Irwin, Commissioner  
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January 2005



Department of Natural Resources  
Division of Mining, Land and Water

## RESPONSIBILITIES

- **Authorize the Use and Protection of Alaska's Land — Maximum Use Consistent With The Public Interest.**  
Authorizations made by the Division are fundamental to all resource industries in the state. For example:
  - *Oil and Gas*: exploration, ice roads, support facility leases, and camps
  - *Mining*: Claims, leases, access, and plans of operation
  - *Timber*: Log-transfer sites, access, and support camps
  - *Commercial Fishing*: leases and water for processors, shore-fishery leases
  - *Tourism*: lodge sites and access
  
- **Acquire and Defend the State's Title**
  - Acquire the state's land from the federal government
  - Defends state title (RS 2477; navigable waters; other easements; other defense)
  - Maintain Clear Title (fundamental to oil and gas sales; forestry; land sales.)
  
- **Land Sales — Individuals and Municipal Conveyance**
  - Land Sales to individual Alaskans
  - Municipal Conveyance
  
- **Water rights**
  - Provides water property rights and temporary use to citizens and industry.
  - Provide hydrologic information to applicants and state government.

## REVENUE-BASED BUDGET

The Division produces revenue:

- FY 04 **Revenues: \$15.2 million**
- FY 04 **Cost: \$13.3 million** (General Fund Cost \$8.6 million)

Revenues include lease payments, mining rentals, land sales, and material sales. It does not include sources such as taxes, oil and gas royalties, or timber stumpage that the Division helps create, but that are received through other divisions. In FY 06, the Division expects to take in \$17.4 million in fees, rents royalties, principal and interest. The general fund cost is \$10.1 million, with a total cost from all sources of \$17.1 million.

Not all components provide a return to the state. The *Claims, Permits, And Leases* component and the *Land Sales and Municipal Entitlement* components generate more in revenues than they cost to operate. The remaining components provide basic services for Alaskans that do not generate revenue.

# ORGANIZATION — 5 BUDGET COMPONENTS

## **1. Claims, Permits and Leases**

This component provides authorization for use of state land. Its work is fundamental to every resource industry in the state. The work costs government less than it generates in revenue. In FY 06 this component is expected to cost \$9 million but will generate over \$10 million in revenue.

## **2. Land Sales and Municipal Entitlements**

Selling state land should generate a profit. It does. The sale of state land more than funds the program, plus provides for the funds for the municipal entitlement program. (The cost of this component is \$4.0 million; estimate revenues for FY 05 is \$5.8 million)

## **3. Title Acquisition and Defense**

Acquiring and defending the title to state land is a basic responsibility of the state. It does not directly generate income, though it is the basis for almost all income generated in the state. The cost is \$1.9 million; revenues are only 0.75 million most of which are interagency and federal receipts.

## **4. Water Development**

This component provides water rights, Alaska's hydrologic survey, and a dam safety program. The cost of this program is \$1.6 million; revenues are \$0.6 million.

## **5. Director's Office**

This component directs the operation of the Division, which was once three separate divisions with individual directors.

# Division of Mining, Land and Water

## Overview: Cost, Funding Source, and Revenue

(in Thousand Dollars; FY 2006 Budget)

AUTHORIZED	Director's Office	Claims, Permits & Leases	Title Acquisition & Defense	Land Sales & Municipal Entitlements	Water Development	TOTAL
<b>Budget for each Component (by Funding Source)</b>						
Federal Funds	\$ -	\$ 955.4	\$ -	\$ 96.8	\$ 40.9	\$ 1,093.1
GF Match	-	193.7	-	-	-	193.7
General Fund	408.0	3,199.9	1,146.5	-	990.1	5,744.5
Program Receipts	-	2,598.7	-	-	81.6	2,680.3
Other receipts, incl SDPR	20.2	2,195.1	750.0	129.6	512.4	3,607.3
IA & IA Oil/Haz	20.2	468.5	50.0	55.0	166.7	760.4
Rcpt Svcs	-	-	-	-	249.2	249.2
Pfund Rcpts	-	1,320.0	-	-	-	1,320.0
Shorefish	-	343.9	-	-	-	343.9
SDPR/CIP Rcpts	-	62.7	700.0	74.6	96.5	933.8
Land Disposal	-	-	-	3,807.4	-	3,807.4
<i>Subtotal: General Fund &amp; Program Receipts</i>	<i>408.0</i>	<i>7,312.3</i>	<i>1,146.5</i>	<i>-</i>	<i>1,320.9</i>	<i>10,187.7</i>
<b>Total Cost:</b>	<b>\$ 428.2</b>	<b>\$ 9,142.8</b>	<b>\$ 1,896.5</b>	<b>\$ 4,033.8</b>	<b>\$ 1,625.0</b>	<b>\$ 17,126.3</b>
<b>Revenue Generated by each Component</b>						
<b>ESTIMATED Revenues</b>						
Fees, Rent, Royalty, Principal & Interest1:	\$ -	\$ 8,296.0	\$ -	\$ 5,600.0	\$ 326.8	\$ 14,222.8
Federal Revenue	-	955.4	-	96.8	40.9	1,093.1
Other Revenue	20.2	875.1	750.0	129.6	267.2	2,042.1
<b>Total Revenue:</b>	<b>\$ 20.2</b>	<b>\$ 10,126.5</b>	<b>\$ 750.0</b>	<b>\$ 5,826.4</b>	<b>\$ 634.9</b>	<b>\$ 17,358.0</b>

**Division of Mining, Land and Water**  
**Overview of Project Costs and Revenues**  
**FY 2006 Budget**

(Figures in Thousand Dollars)

<b>Claims, Permits, &amp; Leases</b>	<u>FY06 Mgmt</u>	<u>FY06 Projected</u>	<u>Actual FY04</u>	<b>Land Sales &amp; Municipal Entitlements</b>	<u>FY06</u>	<u>FY06</u>	<u>Actual FY04</u>
	<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>		<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>
<b>Land Permits</b>				<b>Land Sales to Individual Alaskans</b>		\$ 5,800.0	\$ 6,247.7
Upland and Tideland Permits	1,521.3	\$ 387.6	\$ 343.6	New Land Sales	2,942.0		
Trapping Cabins	See Note 1	\$ 0.5	\$ 0.3	Existing Land Sale Contracts	383.5		
Commercial Recreation Permits	See Note 1	\$ 180.1	\$ 150.1	Preference Rights	43.9	\$ 55.6	\$ 27.0
<b>Land Leases</b>				Special Projects	83.8	\$ 126.8	\$ 18.2
Upland and Tideland Leases	1,671.4	\$ 2,000.0	\$ 1,882.1	Municipal Entitlements	580.6	\$ 44.0	\$ 42.0
Recreation Facilities Development Lease	See Note 2	See Note 2	See Note 2	<b>Total:</b>	<b>\$ 4,033.8</b>	<b>\$ 5,826.4</b>	<b>\$ 6,334.9</b>
Aquatic Farm Lease	86.4	\$ 52.0	\$ 50.7				
Set Net Leases	289.1	\$ 349.4	\$ 307.7				
Public & Charitable Use	155.0	\$ 45.0	\$ 40.6	<b>Title Acquisit'n &amp; Defense</b>			
Log Transfer Facilities	104.0	\$ 306.2	\$ 306.2	<u>FY06 Mgmt</u>	<u>FY06</u>	<u>Actual FY04</u>	
Mineral Sales	534.8	720.0	667.1	<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenue</u>	
<b>Easement Management</b>				Acquire Land	975.0	\$ 700.0	\$ -
Assertion/General Management	460.9	\$ -	\$ 51.7	Provide Title Reports	296.4		
Vacations Requests	200.9	\$ 3.0	\$ -	Issue Conveyance Documents	151.6		\$ -
Rights-of-Way	1,145.4	\$ 362.7	\$ 277.9	Title Defense/Incl Navigability	396.6	\$ 50.0	\$ 35.7
<b>Misc. Land Authorizations</b>				Maintain Records of State Ownership	76.9		
Plat Approval - Unorganized Borough	132.4	\$ 27.0	\$ 32.9	<b>Total Cost:</b>	<b>\$ 1,896.5</b>	<b>\$ 750.0</b>	<b>\$ 35.7</b>
Interagency Land Management Assignment	193.4	\$ -	\$ -				
<b>Mining Permits and Leases</b>				<b>Water Development</b>			
Mineral Property Managmnt	467.9	\$ 4,600.0	\$ 3,731.8	<u>FY06</u>	<u>FY06 Mgmt</u>	<u>Projected</u>	<u>Actual FY04</u>
General Mine Permitting	773.4	\$ 50.0	\$ 44.0	<u>Plan Authorized</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Revenue</u>
Coal Regulatory	374.1	\$ 297.1	\$ 193.4	Water Management (Water Rights)	828.3	\$ 355.8	\$ 219.9
Coal Abandoned Mine Land	569.5	\$ 569.5	\$ 452.2	Hydrologic Survey	625.4	\$ 157.1	\$ 96.1
<b>Special Projects</b>	147.9	\$ 196.4	\$ 124.8	Dam Safety	171.3	\$ 122.0	\$ 66.8
<b>General Public Contact</b>	315.0	\$ -	\$ -	<b>Total:</b>	<b>\$ 1,625.0</b>	<b>\$ 634.9</b>	<b>\$ 382.6</b>
<b>Total:</b>	<b>\$ 9,142.8</b>	<b>\$ 10,126.5</b>	<b>\$ 8,457.1</b>				

**Note 1.** The cost for Trapping Cabins and Commercial Recreation Permits are included in the Upland and Tideland Permits cost.

**Note 2:** The cost and revenues for the Recreation Facility Development Lease Program is not broken out separately. It is included in the amount for upland and tideland leases.

## DIVISION INITIATIVES

### **Settling Land Ownership/Defending State's Rights**

Uncertainty over land title frustrates development. Finalizing land ownership so that Alaskans citizens and industry can work with the final owner is an important initiative of the Division. It includes multiple programs:

1. **BLM 2009.** BLM 2009 is an ambitious program to accomplish the land transfers promised by the federal government to Native Corporations, Native Allottees, and the state by 2009. This is our promised land — not just promised to Alaskans by the Statehood Act, but promised to Alaskan Natives by ANCSA and various Native Allotment bills. Alaska is still owed 15 million acres out of our 105-million acre entitlement. Native Corporations are owed over 8 million acres out of their 44-million acre entitlement, and Allottees are owed over 2,700 parcels. In addition, the BLM needs to survey and issue patent to over 80 million acres owed to the state and ANCSA corporations.

The Division is the primary state agency working with BLM on this effort. DMLW is responsible for setting the priorities for the state's remaining 15 million acres, directing BLM's transfer of the land, reviewing all BLM conveyance decisions and title documents, and maintaining state land title records. DMLW reviews all ANCSA transfers by BLM to ensure that state interests are protected, such as ensuring that access easements to public lands (under ANCSA Section 17(b)) are reserved and state navigable waters are recognized. DMLW plays a major role in resolving the transfer of Native Allotments, particularly where lands were erroneously transferred to the state and need to be returned to the allottee.

2. **RS 2477.** DMLW is responsible for asserting ownership of and managing state owned RS 2477 rights-of-way. DMLW staff identify and frequently assert the state's ownership of RS 2477 routes when access problems arise.

Unfortunately, the only way to get RS 2477 rights recognized by the federal government is through court. Federal law requires that the state give a 180-day notice to the federal government before filing quiet title action in court. That notice has been given on 13 routes. DNR is working with the Department of Law to actually file actions this spring on three RS 2477 routes in the vicinity of Coldfoot to Chandalar Lake. DMLW staff provide the research and documentation required to file these lawsuits.

**3. Navigable Waters (Recordable Disclaimers).** Alaska received title to its Navigable Waters at statehood. Until recently, confirming that title required a long and expensive litigation against the federal government. As a result, between statehood and 2003, the state only confirmed title to 13 waterbodies. BLM's new process for Recordable Disclaimers provides a much more efficient alternative.

To date, DNR has submitted 13 applications to BLM for these Disclaimers. The applications include 21 Rivers and 10 Lakes. Alaska is the only state in the nation to have received a Recordable Disclaimer. BLM has issued disclaimers in response to three applications: the Black River, the Kvichak River and Lake Illiamna (approximately 752,000 acres), and Klutina River and Lake.

By the end of FY 05, DNR expects to have submitted 25-30 applications.

**4. Municipal Entitlements.** DNR transfers state land to municipalities to provide for an economic base. Municipalities have the right to select some of the State's best land for development. In 2001, DNR had a 600,000-acre backlog, and was conveying entitlements at only 12,500 acres/yr — a 50-year backlog! Since that time the Division has embarked significantly accelerated conveyance. In FY 06, we hope to convey 120,000 acres, and to clear the backlog within a decade.

**5. 260,000-acre University Land Conveyance.** The Governor is expected to announce legislation to implement the intent of the 260,000-acre University Land Conveyance passed as Senate Bill 7 in 2001. This legislation would efficiently convey the specific acreage to the University, to resolve the conveyance in a quick and cost-effective manner. It would finalize conveyance within three years rather than the decades long, expensive process anticipated for SB 7.

## **Tundra Travel: Extending the Winter North Slope Oil Exploration Season**

Over the last three decades, the winter oil exploration on the North Slope has decreased by half. Extending the winter exploration season in an environmentally responsible manner is an important challenge for the Division, the oil industry, and for Alaska.

The Division is responsible for authorizing oil exploration outside of the oil leases. The winter exploration season is open for general travel when the ground is sufficient hard to protect the tundra. IN the 1970s, this policy provided for an exploration season 208-days long. In 2002, the season was only 103 days long. The exploration is now too short, and a serious impediment to oil exploration.

In 2003, the Division began a scientific peer-reviewed study designed to extend the winter exploration season in an environmentally responsible manner. On December 3<sup>rd</sup>, the Governor announced the results. The study shows that revised criteria for opening the tundra would allow a three- to six-week increase in the season. While, the new criteria will be implemented this year, monitoring in FY 06 will be required to confirm the results of the study, and to adapt DNR's policy to the results of monitoring and to industry's changing technology.

## **Mining Exploration and Development**

Evaluating and permitting Alaska's expanding hard-rock mining industry is an opportunity for Alaskan and a challenge for the Division.

Gold prices have increased from a low of less than \$250 per ounce in 2001 to over \$425 per ounce today. The prices have revitalized the placer industry, and expanded exploration and permitting of the state's large mines. Never in Alaska's history has the state had the opportunity to evaluate, permit or revise so many major mines:

- Fort Knox: Evaluating the Gil Extension
- Kensington Gold Mine: Final EIS and permitting now underway
- Donlin Creek Gold Mine: Continued Exploration or Initiating of Mine Permitting
- Pebble Copper Project: Continued Exploration and Background Data Collection.
- Red Dog Mine: Revision of the Reclamation Plan and Bonding
- Coal: Possible Expansion of the industry at Healy or Cook Inlet.
- Illinois Creek Gold Mine: Final Reclamation Close-out

## **Land Disposal**

DNR is implementing Alaska's largest land sale program in 20 years. It is the largest since the early 1980s, (when the budget for the program was approximately \$20 million in today's dollars). Today, DNR has over 20,000 acres for sale at any DNR office or over the internet.

**Remote Recreation Cabin Program.** DNR offers the opportunity for Alaskans to stake their own land. Each year, DNR offers the opportunity to stake 250 lots under this program.

**Subdivision/Pre-surveyed Lots.** In FY 05, DNR offered 100 pre-surveyed lots. This amount will increase to 200 lots in FY 06 and 300 lots in FY 07 and future years.

The land sale program makes money for the state. While it costs money to put land up for sale, the program more than returns its cost. Land sale revenue has increased from approximately \$2 million in FY 01 to \$5.3 million in FY 04.

## **Permits and Leases**

The Division is continuously looking for means to improve its service to Alaskans who seek permits, leases, and other authorizations to use state land. The Division is working on new computer techniques to make its adjudicators more efficient, and continuously revises policies and regulations to improve service. There is no individual new policy or technique that is expected to rise to the level of legislative interest, the Division's responsibility to efficiently provide authorizations to Alaskans, and to do so in an environmentally responsible manner that protects the state's interest is a major function of the Division.

The FY 05 and FY 06 budgets include funding for a Revenue Backlog Project. This project will assign three staff to work on that part of the Division's backlog that actually produces revenue to the state. The Division expects that over these two fiscal years, the revenue brought into the Division will more than cover the cost.

# OVERVIEW OF PROPOSED INCREMENTS

## Service to the Mining Industry

- \$349,900 General Fund
- \$ 62,700 General Fund Match
- \$ 80,000 Inter-Agency Receipts

***Metal Prices Mean More Claim Staking and More Mining.*** The resurgence in metal prices combined with an improved business climate and regulatory improvements has led to a significant rise in mineral claim staking, mineral exploration, and mining activities. In FY 04, the Division processed over 4,000 claims on state land. This is the largest number since 1999. Most of these claims staked were the large ¼-section MTRSC claims. Thus, more acreage is being staked than in any year in the past. Through FY 05, we expect to have almost 2.5 million acres of state land under mining claim. This is more acreage than in any time in recent history.

***Staffing still at 1990s Levels.*** Mining staff has been relatively unchanged since the early 1990s, when Alaska had a much smaller industry and far fewer state mining claims than exists today. At that time, the state had an active placer industry but the Division was involved with no large mines. Today, we have a healthy placer industry and the same staff must provide service to an expanding suite of large mines: Red Dog, Greens Creek, Fort Knox, True North, and Pogo. Within the next few years we hope to see Donlin Creek, Gill and perhaps the Pebble Copper mine in permitting.

***An Increment To Maintain Appropriate Service For The Mining Industry.*** The Division does not have staff to adequately support the current level of mining activity. Without adequate staff, permitting of large mine projects will suffer, permitting times for exploration and placer mining applications will lengthen, and staff will be unable to adequately assure compliance with permit conditions in the field. Finally, without this increment, times to process mining claims will increase.

The six positions proposed in this increment are expected to be appropriate to support permitting and compliance with large mine operations; to ensure that field staff adequately visit each placer mining district; and to decrease mining claim processing times back to the 2-3 weeks that were achieved a few years ago.

This increment does not specifically return more income than it costs. That is, the addition of additional staff for permitting and field compliance does not automatically bring in more money. However, the mining industry much more than pays the state its government management cost, and this increment is necessary to provide an appropriate level of service to Alaskan citizens and the industry.

## Land Disposal Land Surveyors

- **\$195,800 Land Disposal Income Fund**

The Division is requesting two additional land surveyors to meet the land sale performance goals funded in a previous increment. In FY 04, the legislature funded an increment to increase land offerings in one of the Division's land sale programs: specifically to increase offerings from 100 pre-surveyed parcels, which has been the historical performance measure, to 200 lots in FY 06, and then 300 in FY 07 and subsequent years. Unfortunately, the Division underestimated the survey burden on that this created on Division Surveyors. Currently, despite the fact that most survey work is performed by private contractors, managing the survey and road-building contracts has created a bottleneck in the subdivision development process. The addition of two surveyors will clear the bottleneck.

Even with this increment, offering and sale of these lots will more than pay the cost of developing them. This is a revenue-producing increment because it will result in a long-term income stream from land sales.

## Water Management — Change in Fund Source

- **Decrement: \$300,000 Receipt-supported Services**
- **Increment: \$300,000 General Fund**

Last year, the legislature made a technical change in the Water Management budget that did not work out. Specifically, last year the legislature transferred \$300,000 from general funds to receipt supported services in the Water Management Component. This change required the Division to raise fees to generate this additional \$300,000 in revenue. Unfortunately, state law prevents DNR from collecting this additional revenue.

The 2001 Legislature had a long discussion with DNR about how much should be charged for its water program. The legislature recognized the problem created by inadequate staff in the water program. The discussion focused on how much of the water program should rely on general funds, and how much through fees. The legislature's solution was CSHB 185(FIN) enacted in law as Chapter 100 SLA 01. That law directed DNR to raise fees to support the staff needed for the water rights program. However, to protect the public, the law included an upper limit on what DNR may charge for water rights applications. That statutory limit is, "the estimated average reasonable direct cost incurred...in providing the...service" (AS 37.10.052(a)). The Division is currently in the process of developing regulations to raise fees to the limit of the average reasonable direct cost. However, the statute does not allow DNR to raise fees to pay the full cost of processing water rights for residential users, for processing the backlog of water rights permits, to cover unusually complex or contentious applications or to cover any overhead costs. The increased revenue from the revised fees are expected to fall approximately \$113,000 short of the receipt-supported services expected *before* the \$300,000 fund switch. That switch is, therefore, effectively a budget reduction of \$300,000 because DNR cannot, under state law, increase fees to cover this cost. Such a reduction would eliminate the Division's ability to process all applications received in a

year. It would eliminate the Division's ability to meet the performance measure of achieving processing a typical water right application within 60 days, and a typical temporary water use application within 30 days. Therefore, DNR is requesting to have this funding switched back to the General Fund.