

SB

170

<TARGET><BILL>SB 170</BILL><SUBJECT>SB
170</SUBJECT><COMM>HRES29</COMM></TARGET>

ALASKA STATE LEGISLATURE

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North to the Future

Senator Cathy Giessel
Senate District N

SENATE BILL 170 SPONSOR STATEMENT

The Alaska Department of Natural Resources' Geologic Materials Center in Anchorage offers a critical service to promoting our state's economy and scientific knowledge. The center serves as the main repository for geologic materials from all over Alaska, gathering samples from oil and gas exploration, mining, and infrastructure development. Having all these samples in one location allows scientists, companies, universities and other government agencies access to materials they otherwise would have to find themselves, saving time and money.

The center currently is unable to charge fees for the use of its space and samples because it is prevented by law. Virtually every other such facility in the United States requires a fee to see and work on the geologic materials. Recently, the center relocated from a series of trailers into a modern, integrated facility that meets scientific best practices. Without the ability to charge fees, the center will inevitably run at a loss.

Senate Bill 170 enables the Division of Geological and Geophysical Surveys to set and collect fees for the use of its facilities. The bill also directs those fees back to the Division and by extension the Geologic Materials Center, rather than into the general fund. User groups would pay fees in order to continue the operations of the center or for services they use. By setting a fee structure and the means to use those fees, Senate Bill 170 helps the center move towards its eventual goal of being self-sustaining.

I respectfully urge your consideration and support for this piece of legislation.

Senator.Cathy.Giessel@akleg.gov

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SENATE BILL 170 SECTIONAL ANALYSIS VERSION W (RES):

*Section 1. Provides that fees collected by the Department of Natural Resources (department) under AS 41.08.045, added by bill section 3, will be accounted for separately and that appropriations from these fees are not made from the unrestricted general fund.

*Section 2. Conforms AS 41.08.030 to the changes made to AS 41.08 by section 3 of the bill.

*Section 3. Adds a new section to AS 41.08 permitting the department's division of geological and geophysical surveys to charge and collect fees for facilities, equipment, products, or services that the division offers. Institutes a fee waiver for students using the facilities, equipment, products or services for educational purposes.

*Section 4. Amend uncodified law to permit the department to adopt regulations necessary to implement changes made by the Act.

*Section 5. Makes section 4 effective immediately.

*Section 6. Gives sections 1-3 an effective date of July 1, 2016.

Prepared by: Akis Gialopsos, Staff to Senator Giessel

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SENATE BILL 170
EXPLANATION OF CHANGES:
FROM VERSION A to VERSION W (RES)

1. *Section 3 was amended to add a new subsection (c) which read:
"The division shall waive fees under this section for a student who uses facilities, equipment, products, or services for educational purposes."

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SENATE BILL 170 **List of Presenters:**

Steve Masterman, State Geologist and Director, Division of Geological and Geophysical Surveys, Department of Natural Resources;

Akis Gialopsos, Staff to Senator



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources
DIVISION OF GEOLOGICAL & GEOPHYSICAL SURVEYS

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Fairbanks, Alaska 99709-3707
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February 16, 2016

Senator Cathy Giessel
State Capitol Room 427
Juneau AK, 99801

Dear Senator Giessel,

Thank you for sponsoring legislation to provide the Division of Geological and Geophysical Surveys fee collection authority to offset the cost of services provided at the new Geological Material Center (GMC) in Anchorage. This legislation is important to ensure the long-term viability of the facility, and to reduce the impact of the facility on the State's operating budget.

During planning this new facility the concept of charging for services was considered from the onset. We reviewed fee schedules from other similar facilities in the United States and Canada, and have been considering the range of fees charged at these facilities during our planning process. During the regulatory process the proposed fees will be reviewed by the Department of Law, and made available for public input. While the fee schedule has not been finalized, we share with you our intentions that:

- We will not charge for donations.
- Fees will be waived, or greatly reduced for other government agencies and academic research.
- Fees will be mid-range when compared to other U.S. and Canadian geologic material centers, with a fee structure that charges similar fees for similar services offered at other facilities around the country.

It is our intent to have a vibrant and well used facility, which meets the needs of the users, and continues to promote natural resource development and scientific research. We do not wish or intend to drive away potential users with high fees, which would be counterproductive to the overall goals of the GMC, and not in the best interest of the State.

Sincerely,

A handwritten signature in blue ink that reads "S. Masterman".

Steven Masterman
State Geologist and Director
907.451.5007

cc: Courtney Sanborn, Legislative Liaison, DNR
Marty Rutherford, Deputy Commissioner, DNR
Ed Fogels, Deputy Commissioner, DNR



February 29, 2016

FAQs related to Senate Bill 170

Question – What is DNR doing to transition away from Unrestricted General Funds to Designated General Funds?

The Department of Natural Resources is progressively migrating from unrestricted general funds (UGF) to designated general funds (DGF) or program receipts (PR). This is core to the Department's strategy of a self-funding business model. This migration to a greater reliance on designated funds is occurring in multiple divisions within the department. This budgetary cycle several measures have been, or are being, proposed to continue this transition:

- The Division of Mining Land and Water has made multiple fund switches from UGF to DGF that will make the division more than 50% funded by designated general funds
- The Division of Parks and Outdoor Recreation has over a number of years been transitioning to DGF, with a goal of being at least 50% funded by DGF.
- The Division of Parks and Outdoor Recreation has a bill under consideration to allow it to sell merchandise, this will increase its revenue and assist this transition
- There is a department-wide review of fees
- DGGs is proposing to institute a fee for service funding mechanism at the Geological Material Center in Anchorage. This will help fund the facility and contribute to migrating the department to greater reliance on DGF/PR.
- The Division of Forestry is making the log phytosanitary certification program self-funded, and is moving a southeast Forestry position to be self-funded by timber receipts.
- The Division of Agriculture implemented a 20% increase on most fees in FY2016.

Question – Are there other DGGs facilities that will be affected by this legislation?

Yes, DGGs's main office is in Fairbanks. Currently all the geologic materials (rocks) that are publically accessible are in the GMC in Anchorage. DGGs does have other "in process materials" in its Fairbanks facility, these samples will be viewable once they are housed in the GMC. DGGs distributes its maps and reports from the Fairbanks facility, but we have received requests to similarly distribute those from the GMC. Other than helping to fund the facility, which will benefit the overall division, there are few direct effects on other portions of the division.

Question – What is a typical user of the GMC?

During the last few years we have been getting approximately 500 visitors annually at the GMC. This has broken down into the following rough percentages – oil and gas / mineral geologists 50-60%, academia 20%, other government agencies (USGS, DOE, BLM) 20%, public and school groups 5-10%. Typical users view the sample inventory online and know ahead of time the materials they are interested in viewing. Industry and academia typically review core and surface rock samples and thin sections. They typically request material for analyses and use the microscopes and cameras at the facility to document the materials. All results from analyses on GMC materials are provided to DGGs and published.

Question – Would there be different fees for different user groups?

Yes. We plan to charge industry users at full rates, academia at a reduced rate, and offer services free to other government agencies, and to school groups or other teaching uses such as core workshops held there by the University of Alaska. These practices are in line with other facilities nationally.

Question – Is there a monthly membership fee, or are charges based on a usage rate?

At this time we envision a blend of options for users:

- We plan to offer a monthly or yearly subscription so that larger or more frequent users need not bother with invoices for individual visits.
- We plan to offer packages that bundle commonly used services, this will also help reduce accounting and billing.
- We also plan to offer a per usage rate which will be for the occasional or low-use visitor.

Question – What kind of materials are in the GMC that make it so special?

The GMC contains samples representing 48,000,000 feet of exploration drilling, 195,000 thin sections and 336,000 surface rock samples from across Alaska. At a drilling cost of \$1,000-2,000/foot for oil and gas drilling, this represents \$50-\$100 billion of exploration expenditure in Alaska. The GMC also houses the entire USGS, BLM, BOEM, USBM and DGGs rock and sample collections.

In a recent letter, Repsol wrote while describing the role of DGGs publications and materials at the GMC in its recent exploration:

“We believe the GMC and DGGs have played an important role in helping us understand the regional petroleum system and ultimately becoming a successful explorer...” and “In 2012, we utilized samples / prepared microscope slides from eight wells from the GMC for biostratigraphic analyses. This work helped us tie together our regional correlation markers

from wells and seismic to a chronostratigraphic framework from biostratigraphy. These data, supplied by the DGGGS and GMC, helped to form part of our geological and correlation framework within the Colville Delta, a main focus of our exploration and appraisal activity.”

Repsol went on to announce an oil discovery with contingent resources between 500 million and 3.7 billion barrels of oil, which could make it the largest oilfield discovered in Alaska since the Prudhoe field.

Every box of samples at the GMC could contain the key to the next major oil or mineral discovery.

Question – Why can’t this happen in the private sector?

We do not know of any private core facilities that are open for visitation. Numerous major oil and gas and mineral companies operate core and sample repositories for their corporate use, but we do not know of any that are open to general viewing of the materials. To open these up for viewing would be counter to competitive advantage gained from storing the materials.

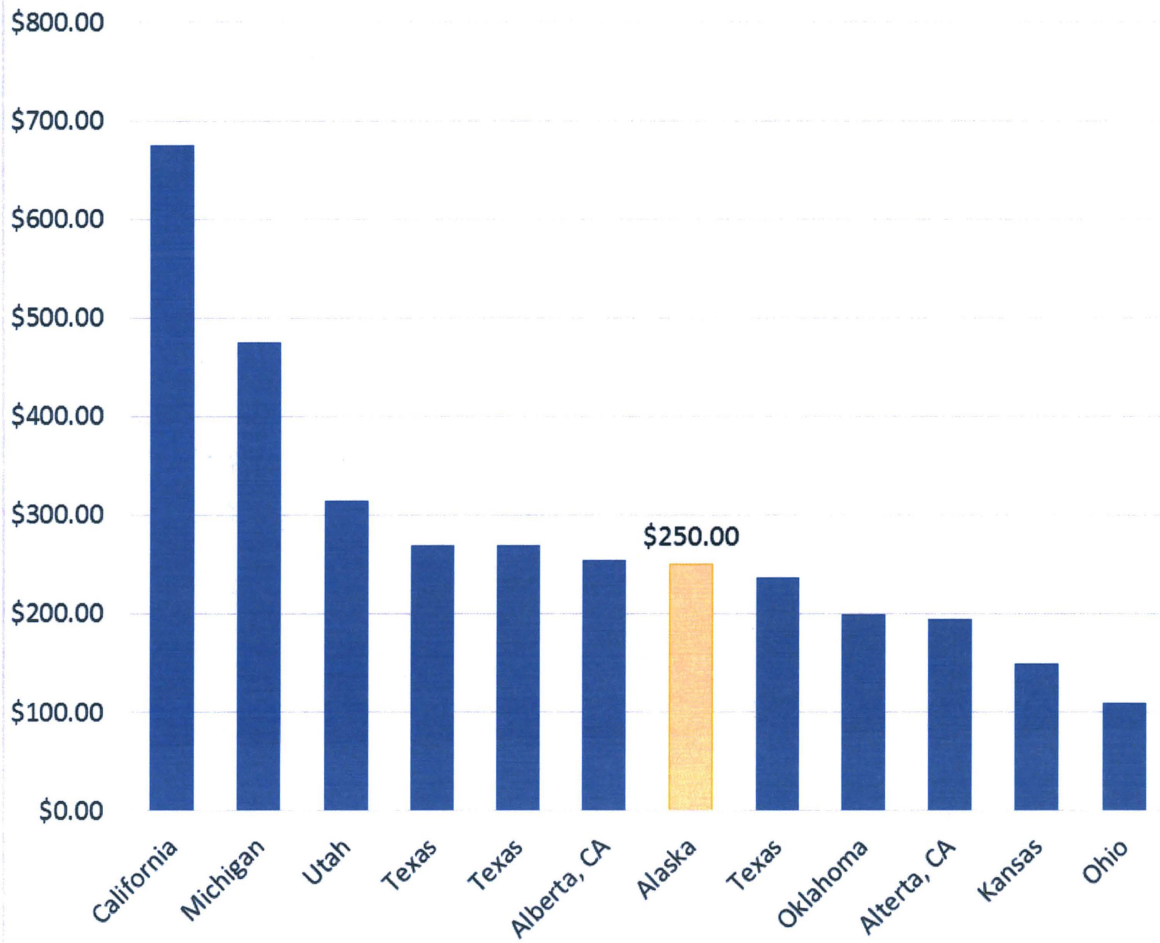
Government-run facilities provide for the long term and secure operation that will preserve these materials for their future use. Corporations come and go, and mandates change with management focus. To lose this material as a result of cost-cutting or corporate decision making would be a severe blow to future resource development in the state. Government operation secures this collection’s availability to assist in resource development and geologic research in Alaska.

Question – How do the operations of the GMC compare to other core facilities of its kind in other states?

Of the 28 public core repositories in the US and Canada, ten are over 25,000 square feet in size (GMC is 100,000 square feet). Of these larger facilities, nine either currently charge fees (seven), or are in the process of adopting fees (two, including the GMC). All the facilities operate in much the same way, archiving and making geological materials available for inspection, analysis and interpretation, and offer very similar services. Some have more advanced services and instrumentation than currently available at the GMC, but the methods and means of examining geologic samples is common from facility to facility.

We have reviewed charges at other facilities and our proposed fee schedule will be mid-range when compared to these other facilities. For example, we compared the cost for a small visitor to the facility between our proposed fees, and those in place at other facilities:

Core Repository Service Fees



Based upon a half-day (4 hrs):
1. Viewing 10 boxes of core
2. Viewing 10 boxes of cuttings
3. Having 10 plugs made from core

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 170
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB170CS(RES)-DNR-GGS-3-11-2016
Title: DNR FEES FOR GEOLOGICAL SERVICES
Sponsor: GIESSEL
Requester: Senate Finance

Department: Department of Natural Resources
Appropriation: Fire Suppression, Land & Water Resources
Allocation: Geological & Geophysical Surveys
OMB Component Number: 1031

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2017 | Included in | Out-Year Cost Estimates | | | | | |
|-------------------------------|-------------------------|---------------------------|-------------------------|----------------|----------------|----------------|----------------|----------------|
| | Appropriation Requested | Governor's FY2017 Request | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| OPERATING EXPENDITURES | FY 2017 | FY 2017 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| Personal Services | | | | | | | | |
| Travel | | | | | | | | |
| Services | | | | | | | | |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants & Benefits | | | | | | | | |
| Miscellaneous | | | | | | | | |
| Total Operating | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Fund Source (Operating Only)

| | | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Positions

| | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

| | | | | | | | |
|---------------------------|------|--|-------|-------|-------|-------|-------|
| Change in Revenues | 85.0 | | 200.0 | 275.0 | 350.0 | 425.0 | 485.0 |
|---------------------------|------|--|-------|-------|-------|-------|-------|

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? **yes**
If yes, by what date are the regulations to be adopted, amended or repealed? **02/01/17**

Why this fiscal note differs from previous version:

Revised to include revenue estimates.

| | | | |
|--------------|--|--------|---------------------|
| Prepared By: | Steven Masterman | Phone: | (907)451-5007 |
| Division: | Division of Geological & Geophysical Surveys | Date: | 03/11/2016 12:00 AM |
| Approved By: | Marty Rutherford, Acting Commissioner | Date: | 03/11/16 |
| Agency: | Department of Natural Resources | | |

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. CSSB 170 (RES)

Analysis

This bill modifies statute **AS 41.08.030 Printing and Distribution of Reports**, and includes a new section **AS 41.08.045 Fees for facilities, equipment, products and services** to the statutes governing the Division of Geological & Geophysical Surveys (DGGGS). This revision and new section provide the division authority to charge fees for products and services provided by the division at the new Geological Material Center (GMC) in Anchorage.

The new center is a greatly improved, expanded, and upgraded facility when compared to the old location in Eagle River. Expectedly, operating and maintenance costs associated with this state-of-the-art facility have substantially increased, and providing a sustainable funding mechanism for the facility through charging for services has been planned since the project's conceptual design.

It is DNR's objective to ultimately place the GMC into the public building fund (PBF) managed by the Department of Administration. Current funding is adequate to operate the facility, but is insufficient to allow the facility to enter the PBF. Entering the PBF is advantageous, as it provides the capital for stable long-term operation, maintenance, and upgrades to the facility. Staying outside the PBF exposes the state to unforeseen costly maintenance projects, such as a roof replacement, additional shelving, or other necessary improvements. By initiating fees at the GMC, DGGGS is being proactive to ultimately make the facility primarily user-funded.

The most recent estimate from the Department of Administration is \$400.0 to allow the facility to enter the PBF. Based on visitation rates and our draft fee schedule, receipts are estimated to be between \$150.0 and \$300.0 over the next several years. Over the next decade we will be steadily increasing the amount of seismic geophysical data available from the facility, which will steadily increase revenue. Coupled with increased use of the facility, the expanding collection, and increased range of services offered, we project that over a five year time frame revenues will increase to the level required to enter the PBF. At that time the department will request general fund program receipt authority. Until revenues reach that level, any revenue above the divisions receipt authority will be deposited into the general fund.

Fees will be adopted through the regulatory process. This process generally takes six to nine months to allow for legal review and public comment. As this process will result in revenue generation for the division, there is internal pressure to complete the regulatory process as soon as possible to begin revenue receipt.