

ALASKA LEGISLATURE COMMITTEE FILES 1901-1902 0072
1877 SRES NATURAL RES. 2/23/81 - NATURAL RES. 1/22/82

Bristol Bay

A large amount of land will be turned over to the State in this area when pending D2 legislation passes. The State would be committed to a cooperative management program with the federal government, if this occurs. Resource interests in the area include minerals, oil and gas, water, coal, geothermal, soils and forests. Resource development will be in possible conflict with habitat and recreational interests in the area. The area has been identified by Regional Resource Plans as one where major amounts of resource information are needed. Information about the importance of various resources will be critical to land management decisions.

North Slope

The North Slope basin, onshore and offshore, has the highest potential for oil, gas and coal development of any area of North America. Resource evaluation of oil and gas on State lands is conducted under a separate CIP and coal is located mainly on federal land. The main resource information needs of the North Slope are sand and gravel locations, permafrost, and water. These are addressed in this CIP.

 CHUGACH - MATANUSKA

MINERALS 1458.18
 HYDROLOGY 893.21
 GEOTHERMAL 672.59
 SURF. & SOIL 822.28
 REC. & ARCH. 381.22
 FORESTRY 345.49

PROJECT SUMMARY

EQUIP.	155.00	11.55	12.10	13.98	15.37		
OTHER	677.98	921.78	989.76	867.79	907.66		
TOTAL	832.98	933.33	1001.86	881.77	923.03	TOTAL=	4572.97
FED. MATCH	30.00	198.00	217.80	39.93	43.92	FED. MATCH=	529.65

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 WESTERN SUSITNA

MINERALS 1585.89
 HYDROLOGY 963.99
 GEOTHERMAL 825.29
 SURF. & SOIL 844.16
 REC. & ARCH. 418.20
 FORESTRY 1354.51

PROJECT SUMMARY

EQUIP.	320.00	16.50	18.15	15.97	17.57		
OTHER	985.37	1230.21	1337.50	980.78	1069.99		
TOTAL	1305.37	1246.71	1355.65	996.75	1087.56	TOTAL=	5992.04
FED. MATCH	30.00	198.00	217.80	39.93	43.92	FED. MATCH=	529.65

 KUSKOKWIM

MINERALS 1435.67
 HYDROLOGY 1120.11
 SURF. & SOIL 758.75
 REC. & ARCH. 336.43
 FORESTRY 2897.63

PROJECT SUMMARY

EQUIP.	95.50	10.45	10.29	11.31	11.71		
OTHER	1038.36	1329.20	1440.33	1245.33	1355.82		
TOTAL	1133.86	1339.65	1450.62	1256.94	1367.53	TOTAL=	6548.60
FED. MATCH	40.00	209.00	229.90	53.24	58.56	FED. MATCH=	590.70

 SOUTHEASTERN ALASKA

MINERALS 1157.71
 HYDROLOGY 1275.79
 GEOTHERMAL 709.47
 SURF. & SOIL 371.80
 REC. & ARCH. 416.15
 FORESTRY 2032.11

PROJECT SUMMARY

EQUIP.	154.00	15.40	15.73	17.97	22.69		
OTHER	670.33	2382.41	909.71	884.22	890.59		
TOTAL	824.33	2397.81	925.44	902.19	913.28	TOTAL=	5963.05
FED. MATCH	50.00	55.00	60.50	66.55	73.20	FED. MATCH=	305.25

BROOKS RANGE

MINERALS	1299.17
HYDROLOGY	965.20
SURF. & SOIL	661.17
REC. & ARCH.	264.71
FORESTRY	630.84

PROJECT SUMMARY

EQUIP.	109.00	11.55	12.71	12.64	13.18		
OTHER	654.77	741.75	791.19	710.45	763.87		
TOTAL	763.77	753.30	803.90	723.09	777.05	TOTAL=	3921.11
FED. MATCH	30.00	33.00	36.30	39.93	43.92	FED. MATCH=	183.15

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SEWARD PENINSULA

MINERALS	1398.23
HYDROLOGY	1085.77
SURF. & SOIL	980.43
REC. & ARCH.	251.34
FORESTRY	62.53

PROJECT SUMMARY

EQUIP.	123.50	15.95	11.50	11.31	12.44		
OTHER	604.14	848.26	908.83	595.81	646.57		
TOTAL	727.64	864.21	920.33	607.13	659.01	TOTAL=	3778.37
FED. MATCH	50.00	220.00	242.00	66.55	73.20	FED. MATCH=	651.75

NORTH SLOPE

HYDROLOGY 1943.19

PROJECT SUMMARY

EQUIP.	125.00	16.50	12.10	13.31	14.64		
OTHER	291.66	318.62	344.43	382.87	424.06		
TOTAL	416.66	335.12	356.53	396.18	438.70	TOTAL=	1943.19
FED. MATCH	100.00	110.00	121.00	133.10	146.40	FED. MATCH=	610.50

COMPUTER MODELING

COMPUTER 1346.92

PROJECT TOTALS

EQUIP.	75.00	82.50	12.10	13.31	7.32		
OTHER	182.14	199.25	213.13	267.71	294.46		
TOTAL	257.14	281.75	225.23	281.02	301.78	TOTAL=	1346.92

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CIP SUMMARY

							MINERALS	11007.00
							HYDROLOGY	10411.29
							GEOTHERMAL	5070.94
							SURF. & SOIL	6612.84
							REC. & ARCH.	2991.24
YEAR	1	2	3	4	5		FORESTRY	12029.14
							COMPUTER	1346.92
EQUIP.	1493.50	243.65	147.04	151.06	158.82		TOTAL=	49469.27
OTHER	7564.84	10982.28	10278.27	8886.87	9562.99			
TOTAL	9058.34	11225.93	10425.30	9037.93	9721.81			
FED. MATCH	425.00	1457.50	1603.25	565.68	622.20			

CIP TOTAL= 49469.31
FED. MATCH= 4673.63



FEB 3 1981

Alaska State Legislature

Senate

JUNEAU, ALASKA

MEMORANDUM

30 January 1981

TO: Chairman Bettye Fahrenkamp
Senate Resources Committee

FROM: Senator Arliss Sturgulewski *AS*

RE: Agriculture

You may recall that at our briefing session I had several questions regarding the nature of our investment in agriculture. I would like to share with you some information collected for me by Legislative Finance.

Although the total of our investment to date in agriculture has been roughly \$88,224,500.00, this figure does not include operating budget items attributable to agricultural development. In checking through the Governor's six year capital plan, little appears regarding needed future commitments of funds for agricultural development in the state - nothing on Nenana, Point MacKenzie, transportation systems or price supports. If agriculture is to succeed in Alaska as a viable industry, it appears to me it is going to take consistent, timely commitment of major amounts of public funds. It seems important that the appropriate agency of the state develops a detailed six year capital plan so that appropriations can be considered at the most beneficial time.

*Smith Resources
File Copy*

AGRICULTURAL BRIEFING
TO THE
COMMITTEE ON NATURAL RESOURCES

February 23, 1981
by the Department of
Natural Resources

The purpose of this briefing is to delineate the cost and schedule of State investment in agricultural development through 1990. Three reports detail these costs and timetables:

1. Production Estimates for Planned Agricultural Development Projects

This report estimates agricultural production, development costs, employment generation, and other benefits.

2. Estimated Required State Funding for Ag Development Through 1990 by Task and Year.

3. Estimated Cash Flow for Various Infrastructure Investments

The Nenana Livestock Report, produced by Featherstone, Corporation on contract from the Alaska Agricultural Action Council, was heavily used to detail costs, production, and benefits for the Nenana barley-cattle industry project. Because of its length, it is not reproduced here.

The reports included in this briefing are based on the goal of developing an economy of scale agricultural industry, in which each component is self-sustaining and subsidy-free, that will produce, at equal or lower prices than those currently available:

1. The majority of milk consumed in the railbelt area;
2. The majority of red meat consumed in the railbelt area;
3. All feed grains needed to satisfy local demand;

4. Sufficient surplus feed grain to competitively enter the export grain trade.

In order to fulfill these goals by 1990, the following actions will be required:

1. Development of basic government programs to provide plant and animal inspection, research, extension services, and market assistance;
2. Disposals of net farmable acres, and construction of roads for the
 - A. Delta II disposal of 40,000 acres in 1981;
 - B. Nenana I disposal of 46,000 acres in 1982;
 - C. Nenana-Susitna disposal of 129,000 acres in 1983;
 - D. Nenana-Susitna II disposal of 45,000 acres in 1984;
 - E. Nenana-Susitna III disposal of 25,000 acres in 1985.
3. Completion of handling processing facilities by 1983.
4. Commitment to provide farm financing, capital costs for facilities, and facility operating subsidies as identified for specific periods of time.

This schedule is predicated on the majority of financing originating with the State and all costs are given in 1981 dollars. The disposal and development projections include the Point MacKenzie agricultural sale, but do not include small scale agricultural disposals scheduled by the Department of Natural Resources as part of the Land Disposal Program. These small disposals will total approximately 19,600 acres in 1981-82.

In summary the costs which will be incurred by the State to accomplish economy of scale agricultural development are:

1. Loans to individual farmers and for agricultural infrastructure capital projects such as grain elevators and processing plants:

A.	Farm Development	\$195,448.6
B.	Infrastructure Development	14,706.2
	TOTAL	<u>\$210,194,800</u>

2. Subsidy payments for the market organization, for infrastructure developers, for rural agricultural grants, for small farm clearing, and for the loss of opportunity costs, reflect the difference between the loan rates offered and prevailing market interest rates:

A.	Farm Development	\$19,811,500
B.	Infrastructure Development	4,506,400
C.	Market Subsidy	300,000
	TOTAL	<u>\$24,617,900</u>

3. Non-recoverable government costs for plant and animal inspection, research, extension services, market assistance, administration, data collection and land disposal.

Cost \$141,090,300

Total Loans Subsidies & Government
Costs \$375,903,000

4. Multi-industry capital infrastructure, such as roads, rail spurs and railroad cars, which may be used for a wide variety of extractive and renewable resource development.

Cost \$86,930,000

Total Development Costs \$462,833,000

TABLE A

PROJECTED AGRICULTURAL STATISTICS FOR ALASKA GRAIN AND LIVESTOCK AGRICULTURE, 1981-1987

BARLEY CROP (Tons Sold)	1981	1982	1983	1984	1985	1986	1987
In-State Use	7,000	9,750	14,725	21,200	28,500	36,400	43,500
Export	11,000	24,250	32,275	42,800	92,500	124,600	148,500
Total	18,000	35,000	47,000	64,000	121,000	161,000	192,000
<u>LIVESTOCK (NUMBER)</u>							
Hogs		7,000	17,500	28,000	42,000	56,000	70,000
Cattle (beef)		650	1,300	2,600	3,900	5,400	6,500
Cattle (dairy)	1,500	1,500	2,000	3,000	3,500	4,000	5,000
Reindeer	1,800	2,000	2,200	2,500	2,700	2,900	3,200
<u>LAND (ACRES)</u>							
Delta I	16,000	30,000	36,000	36,000	36,000	36,000	36,000
Delta II	-0-	-0-	5,000	15,000	27,000	27,000	27,000
Nenana I	-0-	-0-	-0-	5,000	27,000	27,000	27,000
Nenana II	-0-	-0-	-0-	-0-	15,000	50,000	77,000
Total	16,000	30,000	46,000	56,000	105,000	140,000	167,000

Table B

SUMMARY OF ESTIMATED STATE AGRICULTURAL DEVELOPMENT COSTS
1982-1990

	82	83	84	85	86	87	88	89	90
<u>Loans</u>									
Farm Development	32,488.0	78,262.0	47,066.0	16,073.8	6158.8				
Infrastructure Dev.	11,532.1	1,807.1	165.0	345.0	857.0			3000.0	
Subtotal	44,020.1	80,069.1	47,271.0	16,418.8	7015.8			3000.0	
<u>Subsidy</u>									
Farm Development	3,441.2	5,604.1	3,636.3	1,785.0	1220.9	800.0	800.0	800.0	800.0
Infrastructure Dev.	440.0	437.8	910.5	778.0	579.1	315.1	334.8	340.2	310.6
Marketing Subsidy	300.0	-	-	-	-	-	-	-	-
Subtotal	4,181.2	6,041.9	4,546.8	2,563.0	1800.0	1,115.1	1,134.8	1140.2	1,110.6
<u>Non-Recoverable Govt. Cost</u>									
Land Base	3,111.8	3,883.4	3,454.6	1,914.7	1352.9	1,302.9	1,202.8	1,102.9	902.9
Marketing Assistance	120.0	120.0	120.0	180.0	180.0	180.0	180.0	180.0	180.0
Research & Extension	26,069.5	15,526.5	7,425.0	7,476.9	8246.0	9,077.0	9,682.0	10,287.0	10,892.0
Adm. Ins. & Reg/	975.0	1,350.0	1,670.0	1,890.0	1960.0	1,960.0	2,040.0	2,040.0	2,040.0
Subtotal	30,356.9	18,879.9	12,669.8	12,791.6*	11,738.9	12,519.9	13,104.8	13,609.9	14,014.9
<u>Total Loans, Subsidy & Govt.</u>	78,558.2	105,990.9	64,487.6	33,443.4	20,654.7	13,635.0	14,239.6	17,750.0	12,125.5
<u>Multi-Industry Capital</u>									
Infrastructure	24,000	24,000	13,950.0	10,450.0	7,500.0	6,000			
<u>Total Development Costs</u>	102,558.2	129,990.9	78,467.6	40,893.4	28,154.7	19,635.0	14,239.6	17,750.0	12,125.5

* Corrected figure - not reflected in totals, adds 530.0 in survey costs.

TABLE C

ESTIMATED EMPLOYMENT AND NUMBER OF BUSINESSES REQUIRED TO SERVE ALASKAN AGRICULTURE FOR EACH YEAR, 1981-1987

EMPLOYMENT (NUMBER OF WORKERS)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
A. On Farm	266	403	507	689	1,196	1,501	1,859
B. Secondary Processing & Marketing	5	7	9	12	20	25	31
C. Tertiary							
General Business	53	81	101	140	239	300	372
Government	20	31	39	53	92	115	143
Total Employment	344	522	656	894	1,547	1,941	2,405

BUSINESSES (NUMBER OF)

A. Contract Construction	1	2	2	3	6	7	9
B. Manufacturing	1	1	2	2	4	5	6
C. Trans., Communications and Public Services	0	1	1	1	2	2	3
D. Wholesale and Retail Trade	6	9	11	16	28	35	43
E. Finance and Real Estate	1	1	2	2	4	5	6
F. Services	2	3	4	5	9	12	14
Total Businesses	11	17	22	29	53	66	81

ASSUMPTIONS FOR TABLE C

1. Total acreage in Table A was increased by 17,000, which represents current Alaska production without any state agricultural development projects.
2. Starting in 1984 additional acreage was added to total in production. This represents various types of farming from the myriad of smaller state agricultural land sales. The additional acreage is as follows:
1984 - 5,000 acres, 1985 - 10,000, 1986 - 15,000 acres and 1987
20,000 acres.
3. Method of forecast was to multiply total acreage for each year by estimates of secondary and tertiary employment and businesses per 10,000 acres as suggested in W.C. Thomas, Agriculture in Alaska: 1976-2000 AD. Alaska Review of Business and Economic Conditions. 13(2) June 1976, pp.21.
4. On farm employment was estimated by multiplying acreage per year by .0065 which is a composite of data provided in Thomas, 1976. pp. 20 and 24.

Table D

PROJECTED OPERATING COSTS FOR:

COUNTRY ELEVATORS

		81	82	83	84	85	86	87
Assume:	DELTA	1,182,835	467,165	1,650,000				
\$1.65 million construction cost for 40,000 ton facility	NENANA				1,650,000	1,650,000		
Operating cost is for all drying and handling	Ownership Costs							
	interest on investment	35,485	49,500	99,000	148,500	198,000	247,500	247,500
	Depreciation	39,033	54,450	108,900	163,350	217,800	272,250	272,250
	Total Operating Costs	315,687	546,845	810,669	1,134,420	1,952,975	2,577,940	2,999,833
	Total Cost	390,205	650,796	1,018,569	1,446,270	2,368,775	3,097,690	3,519,583
	Total Cost Per Person	21.68	18.59	21.67	22.60	19.58	19.24	18.33
	FIXED TARIFF	18.33	18.33	18.33	18.33	18.33	18.33	18.33
	Deficit per ton	(335)	(26)	(334)	(427)	(125)	(91)	?
	Total Deficit	(60300)	(9100)	(156980)	(273280)	(151250)	(146510)	0

Allowing for forgiveness of interest on the total investment of \$8.25 million for the initial 2 years on each plant will offset all deficits

i.e. $(8,250,000) (1.06)(2\text{years}) = \$990,000$

Table E

Projected Operating Costs, Export Elevator

Year	81	82	83	84	85	86	87
Tonnage	11,000	24,250	32,275	42,800	92,500	124,600	148,500
<u>981</u>							
EXPORT FACILITY							
Ownership Costs:							
5.7 MM construction cost	171,000	171,000	171,000	171,000	171,000	171,000	171,000
6 year moratorium on interest & thereafter a 30 year mortgage at 6% interest	188,100	188,100	188,100	188,100	188,100	188,100	188,100
	113,000	113,000	113,000	113,000	113,000	113,000	113,000
	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Subtotal	<u>492,100</u>	<u>492,100</u>	<u>492,100</u>	<u>492,100</u>	<u>492,100</u>	<u>492,100</u>	<u>492,100</u>
Operating Costs:							
Inventory Insurance	2,000	4,000	6,000	8,000	18,000	24,000	30,000
Management & Labor	52,500	77,000	93,775	113,137	215,958	290,900	346,700
Utilities	2,000	4,850	6,455	8,560	18,500	20,920	29,700
Misc.	1,000	2,000	2,000	4,000	9,000	12,000	15,000
Subtotal	<u>57,500</u>	<u>87,850</u>	<u>109,230</u>	<u>133,697</u>	<u>261,458</u>	<u>351,820</u>	<u>421,400</u>
Total Cost	<u>549,600</u>	<u>579,450</u>	<u>601,330</u>	<u>625,797</u>	<u>753,558</u>	<u>843,920</u>	<u>913,500</u>
Total Cost per Ton	49.96	23.92	18.63	14.62	8.15	6.77	6.15
FIXED TARRIFF (assume deficit portion)	<u>6.15</u> (43.81)	<u>6.15</u> (17.77)	<u>6.15</u> (12.48)	<u>6.15</u> (8.47)	<u>6.15</u> (2.00)	<u>6.15</u> (62)	<u>6.15</u> -0-
Total deficit	(481,910)	(430,922)	(402,792)	(362,516)	(185,000)	(77,252)	-0-

NOTE: A six year moratorium on interest reduces ownership costs by:

$$(5,700,000)(6)(.06) = \$2,052,000$$

Such a moratorium will offset all cumulative deficit associated with low volumes in initial years of operation

TABLE F

LABOR COST ESTIMATES
FOR OPERATION OF GRAIN EXPORT TERMINAL

ASSUMPTIONS:

1. Longshoring costs estimated @ \$7,500/approximate 10,000 ton shipment plus 10% incremental increase annually;
2. Foreman and laborers wages increased 10% annually;
3. 1981 - Foreman and 1 part-time casual laborer;
1982 - Foreman and 1 full time laborer;
1983 - Foreman and 1 full time laborer;
1984 - Foreman and 1 full time laborer;
1985 - Foreman and 2 full time laborers;
1986 - Foreman and 4 full time laborers;
1987 - Foreman and 4 full time laborers.

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Tons exported	11,500	24,250	32,275	42,800	92,500	124,600	148,500
Warehouse foreman	\$ 30,000	33,000	36,300	39,930	43,923	48,315	53,146
Laborer	\$ 15,000	27,500	30,250	33,275	36,603	40,263	40,263
"					\$ 36,603	40,263	40,263
"						\$ 40,263	40,263
"						\$ 40,263	40,263
Longshoreman	\$ 7,500	16,500	27,225	39,933	98,829	144,498	199,305
Total labor	\$ 52,500	77,000	93,775	113,137	215,958	353,865	429,608
Labor cost/ton	\$ 4.77	3.18	2.91	2.64	2.32	2.84	2.89

TABLE 5

PROJECTED GROWTH OF LIVESTOCK PRODUCTION
AND CORRESPONDING INCREASE IN GRAIN CONSUMPTION

YEAR	HOGS % OF TOTAL	# OF HEAD	TONS OF FEED GRAIN	CATTLE %	# OF HEAD	TONS OF FEED GRAIN
1982	10%	7,000	2,450	2.5%	650	1,300
1983	25%	17,500	6,125	5 %	1,300	2,600
1984	40%	28,000	9,800	10 %	2,600	5,400
1985	60%	42,000	14,700	15 %	3,900	7,800
1986	80%	56,000	19,600	20 %	5,400	10,800
1987	100%	70,000	24,500	25 %	6,500	13,000

IN-STATE CONSUMPTION OF FEED GRAINS

ANTICIPATED INCREASE

YEAR	CURRENT USAGE LEVEL	HOGS	CATTLE	TOTAL
1982	6,000	2,450	1,300	9,750
1983	6,000	6,125	2,600	14,725
1984	6,000	9,800	5,400	21,200
1985	6,000	14,700	7,800	28,500
1986	6,000	19,600	10,800	36,400
1987	6,000	24,500	13,000	43,500

PROJECTED VALUE OF AGRICULTURAL PRODUCED 1981-1987

	81	82	83	84	85	86	87
<u>Product</u>							
Barley	2200.0	4600.0	6100.0	8800.0	19100.0	27,400.0	34,300.0
Hogs	-	800.0	2200.0	3800.0	6100.0	8,800.0	11,800.0
Cattle (Beef)	-	400.0	900.0	2000.0	3300.0	4,900.0	6,200.0
Dairy	4000.0	4200.0	5900.0	9200.0	11200.0	13,300.0	1,730.0
Raindeer (Angler & Meat)	400.0	450.0	500.0	1000.0	1100.0	1,300.0	1,800.0
Vegetables	2127.7	*	*	*	*	*	*
Misc. Ag	2129.8	*	*	*	*	*	*
Village & Subsistence	232.1	464.2	696.3	928.4	1160.5	1,392.6	1,624.7
Employees (#)	344	522	656	894	1547	1941	2405
TOTAL	11,089.5	10,914.2	16,396.3	25,728.4	41,960.5	57,092.6	73,024.7

* Data not yet available

Produced by Dr. Wayne Thomas, U. of A.
Experiment Station and Department of Natural Resources

PROJECTED COSTS OF OPERATION

SLAUGHTER FACILITY

Year	81	83	84	85	86	87
Head of Service		7,000	17,500	28,000	42,000	56,000
Head of Beef		650	1,300	2,600	3,900	5,400
Slaughter Plant Investment	3,517,900					
Ownership Costs:						
Interest on Investment		26,384 ^{1/}	105,537	105,537	105,537	105,537
Depreciation		43,974	175,895	175,895	175,895	175,895
Operating Costs:						
Management		32,500	65,000	65,000	65,000	65,000
Other D.C. (Pork)		181,712	418,416	612,083	803,359	918,124
Other D.C. (Beef)		48,757	96,279	187,621	274,026	367,588
Total Cost		333,327	861,127	1,146,136	1,423,817	1,532,144
Total Cost/hd. pork		3,331	3,381	2,805	2,325	1,949
Fixed Tarriff/hd. (deficit/hd)		1,614 (1,717)	1,614 (1,767)	1,614 (1,191)	1,614 (711)	1,614 (335)
Total cost/hd. beef		15,413	20,730	13,878	11,468	10,015
Fixed Tarrif/hd. (deficit/hd.)		4,464 (10,949)	4,464 (16,266)	4,464 (9,414)	4,464 (7,004)	4,464 (5,551)
Total deficit		(191,359)	(520,683)	(578,244)	(571,776)	(487,354)

^{1/} Plant used only 3 montks, therefore interest and depreciation are 1/4 of annual cost

See following page for 88 - 93

88	89	90	91	92	93
70,000	70,000	70,000	70,000	70,000	70,000
6,500	8,645	11,498	15,292	20,339	26,000
105,537	105,537	105,537	105,537	105,537	105,537
175,895	175,895	175,895	175,895	175,895	175,895
65,000	65,000	65,000	65,000	65,000	65,000
956,379	956,379	956,379	956,379	956,379	956,379
432,022	547,502	680,269	819,986	940,667	987,480
1,734,834	1,850,313	1,983,080	2,122,797	2,243,478	2,290,291
1,614	1,614	1,614	1,614	1,614	1,614
1,614	1,614	1,614	1,614	1,614	1,614
-0-	-0-	-0-	-0-	-0-	-0-
9,311	8,337	7,423	6,495	5,477	4,464
4,464	4,464	4,464	4,464	4,464	4,464
(4,847)	(3,873)	(2,959)	(2,031)	(1,013)	-0-
(315,055)	(334,821)	(340,226)	(310,581)	(206,034)	(-0-)

ADMINISTRATIVE STRUCTURE AND RESPONSIBILITIES

During deliberations of this and other committees our analysis of and suggestions for improvement of the administrative structure and responsibilities for agricultural development has been requested. The Department of Natural Resources feels a redefinition of program responsibilities is needed and possible. At present, factors which will determine the success or failure of an industry such as availability of the base resource, developmental tools (financing, inspections), marketing programs, clearing programs, research, extension, and responsibility for construction of roads and infrastructure facilities are separated into a number of different agencies. We suggest the following realignment of responsibilities.

Agricultural Action Council Objective and Duties

1. To develop the State's overall agricultural development program and to advise the Governor and line agencies as to overall development goals and objectives.
2. Serve as Governor's liaison with the industry and the legislature on the overall ag program.
3. Provide the legislative liaison between the industry and the legislature.

To accomplish objective #1, the council would contract for feasibility studies for new industries and areas, hold public hearings to determine public needs and interests, collect and publish data and materials to "sell" the agricultural story in Alaska, and provide the Governor, the line agencies, and the legislature with a framework upon which to base the detailed operational program.

The Department of Natural Resources, Division of Agriculture, is the line agency with the staff structure and legal authority to be the principal program administrator. Responsibilities would include:

1. Administration of Ag Development Project upon funding by legislature
2. Platting of project and non-project Ag disposals
3. Supervision and inspection of disposed lands for compliance with conservation and development requirements
4. Operation of direct market assistance and inspection and grading programs
5. Administration of village ag and rural ag grant program
6. Develop and maintain plant and seed material.

Farm and processing loan program administration

8. Regulation and inspection for insects, disease, and noxious substances.

The Department of Commerce would be responsible for

1. International market assistance and sales programs
2. Construction and operation, while State owned, of any infrastructure components such as elevators and processing plants
3. negotiating lease and sale of infrastructure components when desirable
4. Power and Communication network system development

5. Promotion and development of small supporting entrepreneurial enterprise in the private sector.

The Department of Transportation and Public Facilities would retain the responsibility for design and construction of access and project roads, under the development schedules and guidelines set by the Council, and on the routes selected by DNR as part of the planning and farm layout process.

The Department of Natural Resources, Division of Forest, Lands and Water Management would continue to be responsible for land disposals and in cooperation with the Department's Research and Development Division for the necessary area and regional plans in the areas to be impacted by agricultural development disposals.

The Department of Natural Resources, Division of Research and Development would continue to be responsible for the land planning that identifies the resource base and coordinates agricultural development planning with planning and development for other resources such as forestry, parts, minerals, etc.

The Department of Natural Resources, Division of Technical Services would continue to be responsible for the surveying required in agricultural land disposals.

The Department of Natural Resources, DGCS would be responsible for agricultural related data collection such as soil and vegetation surveys and climatic studies.

In effect, the AAAC would function as an advisory and coordinating board to the Departments, and its primary functions would be overall program development, selling that program to the legislature and the public and legislature, and obtaining funding from the legislature and other sources for the various programs. The line agencies would administer, within the framework of the Council's developed game plan, all programs.

The Council would also serve as the preliminary review agency for budgets for the line agencies, as well as for the relevant parts of the University of Alaska's budgets for research and extension. This review would allow total active support of the Council in obtaining funding, as well as providing the mechanism for coordination of programs, insuring that all facets are covered, yet eliminating any chance of duplication.

FORESTRY ISSUESForest Resources and Practices Act

The recently passed, and still to be fully-implemented Act states:

- (1) The forest resources of Alaska are among the most valuable natural resources of the state, and furnish timber and wood products, fish and wildlife, tourism, outdoor recreation, water, soil, air, minerals, and general health and welfare;
- (2) economic enterprises and other activities and pursuits derived from forest resources warrant the continuing recognition and support of the state;
- (3) the state has a fundamental obligation to insure that management of forest resources guarantees perpetual supplies of renewable resources, provides nonrenewable resources in a manner consistent with that obligation, and serves the needs of all Alaska for the many products, benefits and services obtained from them;
- (4) government administration for forest resources should combine professional management services, regulatory measures, and economic incentives in a complementary fashion, and should draw upon the expertise of professional foresters in conjunction with other disciplines; etc.

In our opinion this administration--not just the Department of Natural Resources--does not even pretend to meet the tenets set forth in the Forest Practices Act. It has, rather than meet the intent of "forestry" for human benefit, placed animals and inanimate objects above humans.

This has been done by selecting only those parts of the laws and regulations administrators find important, and putting all their effort and interpretation of the laws and regulations behind selected--and out of context--premises. By operating out of context, the priorities have been placed on the "restrictive" portions of the acts and regulations rather than the positive "development and management" aspects.

This does not mean forestry, and particularly that branch of forestry dealing with harvesting and marketing timber products, is insensitive to fish and wildlife, soil, water and scenic values. However, those persons and companies involved in harvesting (which by definition is an integral part of silviculture, or the growing and management of forests) are treated as if the only goal for those individuals and companies is money, above all else.

As a result there is an unnecessary antagonism between state officials and the private sector, an antagonism which we believe is created and fostered by people in and outside your department, along with their closely allied non-profit preservationist pressure groups.

The end result, to date, has been that during the past six years (and the Governor is not above reproach for this), there has not been one large-scale timber sale on state land, laid out, sold and managed by your department.

There has not been one state forest created for the perpetuation of raw material and other public amenities. There has been wholesale discouragement, interference and downright roadblocks put in the way of managers and developers from the private sector. There is not one new sawmill or other manufacturing plant, and many that were in existence or planned six years ago are not in operation today.

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2

Timber Sales

We have evidenced "lip-service" concerning timber sales and development. The recently advertised Icy Bay #2 Timber Sale is a good example. After thousands of man hours of work, bureaucratic delay, priority shifting and the expenditure of a great deal of public money, this 46-million board foot sale was offered at a price which, if not stopped by a court suit, would have driven private industry away. Also, to qualify for bidding, the bidder was required to offer almost a million dollars cash or equivalent to be considered a legitimate bidder.

COMPETITIVE BIDDING!

The result of sales such as this is negative and gives the state the "excuse" that there was no interest in the sale. In other words, "Why should industry gripe; the state has put up timber," and "Where are the takers?"

The Haines timber situation, where RDC played a strong advocacy role to generate employment and income to the community through management of the resource, is another example of negative rather than positive support of timber development. As a result of personnel's attitudes and close alliances with preservationists, nearly two-thirds of the timber resources on state lands were removed from potential harvesting in that area.

Fairbanks as well has been shortchanged. State lands in the Tanana Valley could produce a sizeable amount of the lumber/wood needs of that area; yet the calculated annual cut, which has never yet been met, is a small percentage of the potential.

Staff Activities

The forestry bureaucracy in the Division of Forest, Land and Water Management (created by the Forest Practices Act) has grown by leaps and bounds the past two years. Yet in talks with individual foresters, we find a great deal of dissatisfaction, because only a small percentage of their time (some as low as 15%) is devoted to timber sales, forest improvement or management. The remainder is spent on fire control contingency (not fire fighting) and other activities not related to production.

What all this amounts to is that, despite more funding, more manpower, ;reater responsibility, more power, etc., less and less is being positively accomplished concerning Alaska's forests, and particularly the actual and potential forest products industry.

There is little, if any, extension work of a positive nature (mostly it has been negative, discouraging landowners--particularly native corporations) being done. There is less timber being sold. There is little if any forest improvement work. There are as yet no dedicated state forests to be managed. under the multiple-use concept.

DNR's Role

We cannot in good conscious lay all of this "negative forestry" responsibility on the Department of Natural Resources. The anti-development, anti-management attitude begins with the Governor who, by authority of the Alaska Constitution, wields a great deal of power. The buck stops there. We have also seen other agencies usurp responsibilities from DNR, among these ADF&G, DPDP, DEC.

However, while all cannot be laid on DNR, certainly a large portion can be. DNR has, in our opinion, never been a strong advocate of "forestry for human benefit." It has consistently downplayed the social and economic potential of the state's forest lands, both those in state and private ownership. It has not hustled the legislature for personnel and funding that could result in positive activities.

DNR has worked to discourage entrepreneurship in the forest-based industries through selective and narrow interpretation of laws and regulations. It has abdicated its role as a strong management agency in favor of a passive, which becomes a negative, role concerning forest management.

It has, in our opinion, misplaced priorities, if forestry is truly the "science, art and practice of managing and using for human benefit the natural resources that occur on and in association with forest lands."*

*Definition of forestry adopted by the Society of American Foresters, the professional forestry organization representing more than 20,000 foresters in our nation.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

JH
JAY S. HAMMOND, GOVERNOR

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Paula P. Easley
Executive Director
Resource Development Council
for Alaska, Inc.
Box 516
Anchorage, Alaska 99510

Dear Ms. Easley:

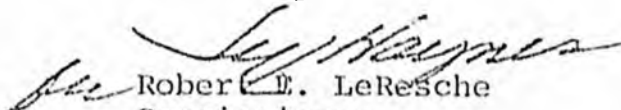
Your letter of November 19, in which you outline in detail your perceptions of deficiencies in the Department of Natural Resources, is very much appreciated.

Please find attached the Department's reply to your letter. My remarks are organized using the headings employed in your letter so that you can easily determine our response to each of your points.

I understand that we have agreed on Thursday morning, January 22, as the date for our joint meeting. I am looking forward to discussing the matters raised in your letter as well as anything else of interest involving DNR. The deputy commissioner and all nine division directors will be present along with myself. I hope that as many RDC members as possible can attend.

Thank you again for taking the time and effort to set forth your views in such detail.

Sincerely


Robert E. LeResche
Commissioner

OIL, GAS AND MINING ISSUES

Non-Utilization of Technically Trained Personnel

There has been no harrassment of employees by the Commissioner's Office other than our continuing insistence that the projects assigned to the Department by the Legislature through the Budget be completed. During this fiscal year, we have been assigned close to 150 operating budget projects and are responsible for an approximately equivalent number of capital projects. Nearly all of these projects involve resource development, such as oil and gas lease sales and land disposals. Since the State's economy revolves around natural resources, we cannot fail to produce on these projects, and we are therefore extremely demanding of our employees in this respect. I can only conclude that those professionals that feel they are being harrassed are philosphically-oriented rather than performance-oriented and do not belong in the bureaucracy in the first place.

With respect to advocacy by employees, any administrator is foolish if he or she does not hear all possible points of view before going public with a decision. As a result, I have always encouraged all of our employees to make their views known within the Department in advance of any decision, and I have altered my thinking more than once as a result of facts provided by the Department's professionals. However, any employee advancing a point of view must (1) present his views in a usable format within the time frame available for a decision, and (2) live with the final decision regardless of whether or not he agrees fully with it. I suspect the complaints you refer to are from employees who cannot live by those rules. These rules are common to any business, public or private.

We have never transferred responsibility away from any individual unless that individual has had difficulty producing the assignments made to him consonant with the rules of the organization. The only philosophy we demand of our employees is that they be open minded, willing to listen to and consider the views of the public that employs them, and capable of second guessing their own work.

I have difficulty with your distinction between "professionals" and "lay people". I hope, and I am sure you do as well, that all of our employees are professional. The credentials

required of an employee to perform a given task are simply a function of the division of labor within the organization. Surely you would not suggest that we employ a Petroleum Geophysicist to attend to the bureaucratic paperwork details of an oil and gas lease sale, such as writing legal notices; we can accomplish this type of work more efficiently with someone trained in such work at less expense to the public.

The oversight regarding withdrawal of a tract at the most recent oil and gas lease sale was a simple mistake, attributable at least partially to ambiguity in a law that is only two years old. Someone with twenty years experience in handling oil and gas lease sales would have been just as likely to make that mistake as someone with only two years experience. In any event, the party responsible for the omission was a fine, highly-trained professional oil and gas expert. If this is the only serious procedural flaw you have noticed in the last three oil and gas lease sales we have held, then I feel that our inexperienced personnel are doing a rather remarkable job.

One of the common misconceptions about DMEM is that most of its work is technical in nature rather than bureaucratic or managerial. In fact, the opposite is true. The largest amount of work precedent to any lease sale concerns compliance with various notice, finding, and documentation provisions of the law. Were we to employ only technical personnel at DMEM, the result would be excellent professional advice on proposed lease sales that would never happen, because no one would properly carry out all the ministerial duties required by law.

I would mention also that we have a continuing problem in attracting qualified personnel to State government. We are a natural resources agency, and we are competing for personnel with private businesses which comprise most of the economy of the State. Often, a private business can offer more attractive salary and working conditions to a qualified individual without the delays attendant with our personnel system. As a result, we often lose out in this competition, despite our continual efforts to increase the rewards we can offer professionals.

The Mineral Closing Order regarding the Alaska Gas Pipeline route which you refer to was issued originally to prevent bad faith claims which could be subsequently used to block construction of the gas pipeline without a large payment from the pipeline's sponsor out of proportion to the value of the claim. Since that time, the route of the pipeline has become much more certain, and the Mineral Closing Order was determined to be over broad in its scope. This was

originally brought to our attention by members of the public who were interested in that land for one purpose or another. We are in the process of reducing the area closed.

Concern About Attitudes

I cannot agree with your opinion that the Department has a "block everything" attitude. A review of our budget will demonstrate that we asked for, and received, funds for projects to develop resources in every resource field under our jurisdiction, including oil and gas, coal, minerals, geothermal energy, agriculture, lands, water resources, timber, plant materials, pipeline systems, grazing, and parks.

There are, I believe, two things that lead you to your perception. The first concerns the numerous and complex procedures set up by law which we must follow prior to any disposal of resources. Most of these procedures are in the form of alleged "safeguards" originally suggested by a member of the public or legislature to prevent a potential abuse by the department. However, when you add up the literally hundreds of "safeguards", which we are required by law to follow, the cumulative results are perceived as "roadblocks". A good example is the notice provisions contained in AS 38.05.305 and 345 which we must comply with prior to the disposition of any interest in State land. The complexity and length of these notice provisions means that we cannot legally dispose of any interest in land in less than four months. While this notice provision was formulated with the good intention of informing the public of what we are doing, we feel that it is excessively complex and obstructive, and will recommend its amendment during this legislative session as we did during the last session without success. Simplifying and reducing the length of time required for notice would make a tremendous difference in the speed which we can act on dispositions of interest in land. I might add, as we discussed at your meeting, that each new batch of procedures we are required to comply with inevitably requires additional personnel to achieve that compliance. That is one of the reasons government continues to get larger.

The second source of your perception might be the fact that many of our decisions on dispositions of interests necessitate resolving conflicts between competing interests. For example, on page 8 of your letter, you complain that we have not classified enough land containing class II and class III soils as agriculture so that it can be devoted to agricultural

use. On page 6, you object that we have not put enough land containing commercial timber in a forestry classification. It should not surprise you that a substantial portion of the lands containing class II and III soils in the State also contain commercial timber, placing agricultural and timber squarely at odds with each other in many locations. The dispute over timber salvage at the Pt. McKenzie project (which will undoubtedly be repeated in future agricultural projects) is an example of this type of conflict.

Permit Review

We agree that the agency review process for permits is presently much too slow and cumbersome. Once again, the prime cause is an accumulation of too many "safeguards" in the statutes, each of which must be complied with before a permit is issued. We supported the amended version of SB 548 introduced in the last legislature relating to permit reform and establishing deadlines provisions for permits. Although that legislation did not pass, we have participated in the Governor's permit reform project which would implement the concept of SB 548 by regulation, establishing deadlines on permits and creating uniform standard procedures for their issuance. We are also reviewing all of our existing procedures, regulations, and statutes for the purpose of eliminating unnecessary obstacles to the issuance of permits or other authorizations relating to the use or disposition of land. Revisions to the regulations will be published shortly and legislation will be introduced this session to eliminate unwarranted obstacles presently contained in Title 38.

I am not aware of any instances where a permit application has been affected by an employee going on vacation, although we have complained about this to other agencies. Permit reform regulations will establish deadlines on all permits. When this is implemented, all permit applications going to the Department of Natural Resources will be date stamped with the applicable deadline. This should eliminate any instances of this problem.

You claim that permit approvals are delayed by lack of delegation of authority to personnel in the field. However, elsewhere in the letter, you have emphasized the necessity of close supervision of employees by the Commissioner's Office so that they could not undertake unintended activities. I think the answer is to place more employees in the field (rather than in central offices) but insure that they know explicitly the results they are to produce during the year.

It should interest you to know that as a result of our new result oriented budget, employees in most cases have numerical quotas of case files which they must process. Checking within the Department indicates that employees are very much aware of these quotas and are complying with them, with a result of substantial increase in the efficiency of production by the Department. Consequently, I absolutely disagree with your claim that there is a greater lack of accountability in the Department than before. One of the major benefits of the reorganization and the other parts of the management system we instituted is that there is no longer substantial question about the responsibilities of each Division or its employees. This was previously a serious problem and led to the necessity for the Commissioner to have to establish procedures and jurisdiction over every new project, with considerable delay, confusion and conflicts.

It is correct that some of the tri-agency placer mining permits applied for during the summer of 1980 remain unprocessed. The overall performance of State government regarding the tri-agency placer mining permit program during 1980 was less than satisfactory. We were aware of the extremely important nature of this program, and we will redouble our efforts to insure a success during the coming season.

If the Commissioner of Fish and Game utilized any permit program for purely punitive purposes, I would obviously attempt to resolve the matter with him and if that were unsuccessful, take it up with the Governor, if anyone informed me this was happening.

Protection of Confidentiality

This Department has the highest respect for confidential data in our possession. While it might have been better handled, I do not believe the recent disclosure of reserve data which generated a misunderstanding on Wall Street constituted a leak of confidential data. All the information contained in the reserves report was from public sources; DMEM simply put the data together under one cover, something which I would have expected competent Wall Street brokers to have done long ago.

Our employees are subject to both fines and imprisonment under current State statute protecting confidential information. In addition, procedures to preserve the confidentiality of all classified data in one of DMEM's highest priorities. That includes adoption of regulations, if necessary, and the further training of personnel in the handling of confidential data. We will be happy to discuss this in detail with you at our upcoming meeting.

The rationale for requiring geophysical data in conjunction with land use permits is one which we have discussed often in recent years. The State has an obligation and a responsibility to provide for the development and use of its natural resources for the maximum benefit of its people. Seismic information gained through the permit procedure will be one more tool used by the State to assign an appropriate value to its resources, a step necessary to prudent and common sense management.

Staffing

I could not agree more that the Division of Minerals and Energy Management has been understaffed, particularly considering the vast increase of work load created by the oil and gas leasing program and a 400% increase in the number of mining claims filed within the last year. I devoutly hope that this will be rectified in our next Budget in which our request places DMEM as the highest priority for additional staffing.

Additional positions are also warranted in district offices as a result of numerous projects involving the disposition of resources; however, I would not characterize them as chronically understaffed. Part of the problem will be solved by moving central office employees into the field (including additional ones in the Fairbanks area), which will be completed during this fiscal year. The remainder of the staffing problem is a philosophical one. We can, of course, add numerous positions to insure faster compliance with the multitude of procedural requirements presently contained in regulations and statutes. However, our present emphasis is on reducing the total number of procedural requirements through amendments, regulation simplification and statute revision because, for the reasons cited above we believe that they are excessive. This will allow us to eliminate those requirements which do not yield a substantial public benefit, and be much more selective about adding new positions in district offices or elsewhere in the Department.

Increases in the Division of Technical Services are primarily related to the land disposal program (which requires administration of dozens of contracts with private surveys annually), the municipal entitlements program and the vast increase in the work load involving land records associated with the land disposals, oil and gas lease sales, municipal entitlements, mining claims, and every type of resource development activity. It should be noted also that the Division of Technical Services' increase in size is substantially attributable to the State Recorder's Office being moved from the Department of Commerce to this department on July 1, 1980.

Increases in the Division of Parks are attributable to two things. First, the number of capital projects with which the Division of Parks is charged has substantially increased in the last year. Most of these requests have come from individual legislators and were included in HB 60 last year. Second, there has been a need for additional personnel simply to operate and maintain the State Park system. The system has experienced a tremendous increase in the number of visitors in the past several years. This demonstrates that the State Park system, unlike federal recreational areas, emphasize use and access by the public in developed and undeveloped recreational activities consonant with its close ties with our tourism and recreation industries. However, a number of our park areas have no rangers at all assigned to them, and since 1975 there has been a 144% decrease in the ratio of Parks personnel to Park System visitors.

Finally, I would note that our Budget is unique in that it ties each position in the Department to a particular project. Consequently, every position we ask for is automatically related to very specific results which will be delivered by that position; it is, therefore, much easier to judge whether the position is justified. If a project is not funded by the legislature, then neither are the positions. One of the major purposes of the project budget system is to insure accountability with respect to each new position we ask for so that we obtain only those positions justifiable to perform approved results.

I would agree with you that the current budgetary and personnel systems lack responsiveness to deal with emergency conditions. However, these systems were all designed to curb perceived abuses and excessive discretion in the administration of funds by government agencies. Since we now operate with little or no margin of error, there is not much budgetary flexibility to handle a situation such as occurred last year when the price of gold increased with the corresponding 400% increase in mining claims. However, the alternative is a contingency fund, and these are viewed with great suspicion by the legislature, often with good reason. Revisions to the Temporary Hire Law of 1979 were again enacted to eliminate perceived abuses, and certainly do not help us administratively.

Jeopardy of Surface Use

I do not think your summation of the surface use problems is accurate. This issue arose at the instigation of the oil companies because of their concern with municipal entitlements granted to the North Slope Borough. They noted that activities

taking place on the surface pursuant to an oil and gas lease were not being serialized and placed on the status plats, because legally they were not a separate encumbrance on the land. In order to make the surface manager, as well as the public, aware of activities taking place, the decision was made to make some kind of notation on the status plats. Procedures decided upon last July were that the companies will submit their lease operations plans for surface activity over the lands covered by the leases. Assuming that said operations are directly related to and necessary for the exploration and development of sub-surface resource (the standard established by the lease itself) the plans will be approved and the facility so noted on State records. Your reference to a 40 year lease apparently originates from the fact that a separate surface lease for oil and gas development facility was one of the alternatives considered to resolve this problem before the final procedure was decided upon.

Freezes

New offshore prospecting permits have not been issued because current laws and regulations which govern their issuance need to be revised to insure diligence and discourage speculation. Currently, there are 300 applications pending; 215 of those applications are by one party for 547,840 (66.6%) or the total 822,298 acres under application. Conversion of permits to leases continue to be processed when all appropriate terms and conditions are met. In our opinion, it would be a mistake to make long-term commitments for the use of the valuable public resource without first instituting a contemporary system which carefully balance other public interests with the interests of the mining industry. We are now in the process of designing changes which will primarily: (1) require diligent prospecting efforts (2) require production to commence with a reasonable period of time following lease issuance (3) increase rentals and (4) limit the total number of acres which can be permitted or leased by a single operator. Legislation is being prepared for introduction this session. Following consideration by the legislature and adoption of any necessary changes in our regulations, we will proceed to review and process pending applications.

Similarly, the coal leasing program is on hold pending revision and/or clarification of current coal regulations. In November of 1979, the Department was prepared to proceed with unnecessary revisions, but agreed to delay action pending the outcome of legislative deliberations on HN 955. As you know, HB 955 was considered and died in the House Resources Committee. A new draft of regulations, based in large part of the final version of that bill, is being prepared by staff in the Division of Minerals and Energy Management.

It is not true that we are developing these regulations in collusion with Sierra Club representatives. As is normally

the case, first drafts are being prepared "in-house" by employees most familiar with the subject matter including, in this case, an individual with substantial background in the area. Following my review of staff recommendations, draft regulations will be widely circulated and public comment encouraged. No final decisions will be made until we have thoroughly evaluated those comments. We are particularly concerned that the industry and other interested members of the public have adequate opportunity to discuss the implications of any suggested changes to the royalty provisions.

I would like to underscore that proposed regulations will largely be based upon our discussions with industry last session during HB 955 hearings. We are not trying to put coal miners out of business. We are merely trying to develop rules which adequately reflect our responsibilities. Once those rules are in place, we have no intention of changing them. Before new development decisions are made (and we accept that some will be made in the near future) everybody will know where they stand.

Minerals Policy

First, your suggestion that there is not a professional person in DNR who is a proponent of mineral development is grossly wrong. I think that you will find that the entire staff of the Division of Geological and Geophysical Surveys are as interested in mineral development as you and I are. Mr. Pedro Denton is employed by the Division of Minerals and Energy Management to work on surface mining. Moreover, we are currently looking for a Deputy Director for Minerals for the Division of Minerals and Energy Management and we would welcome your suggestions on who might fill this position. We are looking for someone with a strong mining background who is also a first class government manager.

I would be the first to agree with you that the State in the past has given less than adequate attention to the mining industry. However, developments in the last two years demonstrate that this is changing rapidly.

You ask for the minerals policy of the Department: I will make a flat statement on this subject. First, there is a tremendous opportunity to capture a substantial portion of the Pacific Rim market for exports of steam coal from Alaska. Usibelli Coal Mine, Inc. is substantially ahead of its potential competitors in the lower 48 in negotiating export contracts with Pacific Rim purchasers, and we applaud the fact that it is doing so without significant government involvement in the true capitalist tradition. This Department strongly encourages coal development and will take every reasonable measure to assist it. Second, strategic and critical minerals are an extremely important part of the

State's future. I expect in the coming decades this industry will grow and become a part of our economy of the magnitude that oil and gas is now. We are trying to facilitate that growth now by expediting placer mining permits, designing our land permit regulations to except a number of typical mining exploration and development activities, classifying areas with minerals as the primary use (four such areas were reclassified this year), establishing a one stop mining claims filing system, protecting the prerogatives of the Alaska miner with respect to the Federal Surface Mining Reclamation Act, eliminating the backlog in mining claims, and inaugurating a large scale resource assessment program to assist the development of the minerals industry.

With respect to land exchanges, these must be accomplished and conformance with AS 38.50, the State's land exchange law. The law sets up procedural and substantive requirements which all land exchanges must meet. These include providing public notice and hearings considering alternatives to an exchange and making public written report of findings relating to the exchange proposal. The law also distinguishes between two types of exchanges based upon whether appraised fair market value of exchanged land can be clearly demonstrated to be equal. For equal value exchanges, the Commissioner's approval of the final decision is required. For unequal value exchanges, the legislature must also review the proposal before it can be effected.

The authority to negotiate for equal value exchanges is co-delegated to the directors of DMEM and Forest, Land and Water Management. Equal value exchanges usually involve only the surface estate of lands. The subsurface (minerals) estate is included only if the Division of Geological and Geophysical Surveys determine the mineral value to be negligible. Where mineral values are determined by DGGS to be important, mineralized areas will either be excluded from the exchange or pursued as an unequal value exchange requiring legislative review.

Unequal value exchanges also rely upon the expertise of DGGS and DMEM for mineral evaluations and appraisals and on other divisions, agencies and contractors to provide evaluations and appraisals. All major decisions during the negotiating phase are discussed with Division Directors and approved by the Commissioner.

Exchanges that involve important mineral lands are by their nature almost always treated as unequal value exchanges (reviewed by the legislature) largely because it is not possible to make an explicit fair market value determination of a mineralized area. The Department's best estimate of

mineral values is factored into the Department's recommendations. Moreover, our assessments and considerations of mineral values are made available to the public prior to public hearing.

Unitization Philosophy

I do not understand your reference to operators being unable to get units approved and there being no response back from the Department. Specific examples would help me solve this problem if it exists.

The Department has circulated for informal comment the first draft of proposed unitization regulations. The second draft was issued on the 2nd of January, 1981. The public hearing is scheduled for February 4, 1981. This forum should serve as an opportunity to make your beliefs known regarding unitization and unitization philosophy. The proposed regulatory changes clarify and revise the unitization procedures, requiring public notice of unitization applications, establishing a preliminary and final approval process, prescribing a standard unit form, and specifying requirements for unit Plans of Operation, Plans of Exploration and Plans of Development.

Our general approach to unitization is stated in the criteria outlined in the regulations for unitization approval: protection of the public interest through consideration of such factors as conservation of all natural resources; prevention of economic and physical waste; environmental costs and benefits; economic costs and benefits; geologic and engineering characteristics of the potential hydrocarbon accumulation or reservoir proposed for unitization; and the protection of all parties of interest, including the State.

Input From Other Agencies

It is the Governor's policy that important resource development decisions be referred to other agencies for their views and I certainly concur. It is our policy, however, that their views be substantiated by facts and limited to subjects within their primary area of expertise. If comments do not meet these standards, they are disregarded. Plainly, it makes no sense to issue an oil and gas lease that includes stipulations which make it uneconomic to develop the leases. Consequently, we try to include only those stipulations which are reasonable and for which the public benefits outweigh the costs. However, "reasonable" development is certainly a subjective term.

The "backdoor commenting" problem by State agencies will be solved by the Governor's permit reform program. The regulations contained as part of that program allow DNR to make Coastal Zone consistency determinations on land dispositions (including

oil and gas lease sales and plans of operations) that will bind other agencies to our determination. This will prevent other State agencies from officially making contradictory comments to Federal agencies and having those comments reflected in the Federal agencies permitting action.

FORESTRY ISSUES

Forest Resources and Practices Act

Your complaints regarding administration of the Forest Practices Act are difficult to react to because they are not specific. However, remember first that most of the "practices" adopted under the Forest Practices Act are in the form of "best management practices", which are not mandatory. Only the forest practice standards are contained in the regulations themselves as binding provisions. This approach was used at the suggestion of industry to maximize innovation and the flexibility of the operator, rather than simply impose arbitrary practices which might suit one situation and not another.

Second, the regulations were reviewed in extreme detail by the Board of Forestry, which is made up in anybody's estimation predominantly of industry representatives. Furthermore, as a result of industry comments submitted after the Board had advised the Department on a final set of regulations, further changes were made in the regulations that are even more favorable to industry than what the Board recommended.

It is plainly our policy, therefore, to use the Forest Practices Act in an eminently reasonable manner rather than as a tool to obstruct industry. This does not mean, however, that any operator can do what he pleases. Timber and the other resources on forest land in Alaska are a capital asset, a capital asset that should not be lost or wasted unnecessarily. At its most recent meeting, the Board of Forestry reviewed a number of operations currently underway in Alaska. While the vast majority were favorably viewed by the Board, there were two of which the Board were extremely critical because the practices did not meet industry standards.

To say that there have been no new timber sales on State land in the past six years is plainly wrong. In addition to the dozens of small timber sales that have been held, the Haines Timber Sale was concluded last year amounting to 12 million board feet per year over a fifteen year period. In

addition, at the request of industry, we designed and advertised the Icy Bay #2 Timber Sale in a little more than a year, a period of time substantially less than the average time to prepare a timber sale. The reason was to respond to a shortage of logs in the Southcentral Alaska area. Regarding areas classified forestry, we have recently gone through all our resource inventory data and identified approximately 14 million acres of State land which at the present time warrants a forestry emphasis. Data is not sufficiently specific on all these lands to justify any kind of legislative designation at this point. However, the entire purpose of this project was to identify forest and other lands in the State with reasonable certainty so that industry could make their plans in reliance on that land being made available for timber. We will be pleased to make a more detailed presentation at your meeting if you so wish. The absence of new sawmills and manufacturing facilities for timber products can be attributed primarily to the abysmal market situation and to the lack of timber available on federal lands as a result of D-2 and Rare II deliberations. I can only say that the Haines Timber Sale and the Icy Bay #2 Sale were made available largely because of the absence of adequate timber sales on federal land. To blame the State for this is simply wrong.

Timber Sales

To say that the Icy Bay #2 Timber Sale is a sham is grossly unfair. In response to an emergency request by the industry we immediately began preparations for the sale, obtained a supplemental appropriation, finished all of the preliminary work, advertised and established a sale date for the sale in slightly more than a year. The fact that a lawsuit was filed over the primary manufacturing requirement by Southcentral Timber Co. was completely beyond our control. Kenai Lumber Co., which asked for the sale, was aware that Southcentral would likely file such a lawsuit at the time they made the original request, since Southcentral had made no secret of their intent. I presume that you would not suggest we take no action on a potential disposal any time there is a threat of litigation, since this would result in virtually no project ever going ahead.

Our information is that two or three companies were planning to bid on the Icy Bay #2 Sale since the price would be reappraised every year. The bid premium (that which is bid above the appraised value) would have been added to the appraised price. The appraisal system we use is the same that is used by the Forest Service, and it is well established in the industry. Contrary to your information, we have received no complaints on this contract specification.

Regulation requires that a bid deposit of 10% of the appraised value be deposited with the State by interested bidders. This requirement is not unreasonable for a sale of this value and volume. Our inventory of the sale area showed that it contained some of the highest volumes of standing timber anywhere in Alaska, which necessarily results in a relatively high appraised value. Moreover, contract specifications allowed the successful bidder to reduce the bid deposit upon signing the contract.

To say that the Department did not support timber development in Haines is unbelievable.

Of the 84 thousand acres of commercial forest land, only 12,815 acres have been closed to timber harvesting, which is a mere 15 1/2% of commercial quality lands. You may recall that one of the most strongly voiced complaints by preservationist groups regarding the Haines Land Use Plan was that our retention factors were substantially lower than those used by the Forest Service. Moreover, in responding to the lawsuit filed by preservationist groups on the Haines Timber Sale, Department employees up to and including the Deputy Commissioner spent many hours preparing for this suit and testifying in court (the trial lasted nearly 3 weeks) in order that the sale might go ahead. I take considerable satisfaction from the fact that the Superior Court Judge dismissed all of the nearly 90 counts in the complaint filed against the sale.

There is no question of the importance of consolidation of the timber base in the Fairbanks area. That is the purpose of the regional and area inventory and planning projects now underway, which will be the subject of a more detailed presentation at our next meeting. The principal problem in the Fairbanks area is to accommodate the many demands for land and resource disposals (especially subdivision, agriculture projects and commercial forest land) in an area where these inevitably conflict.

Staff Activities

You are correct that some of our foresters have been critical that our timber sales program is not sufficiently aggressive. I might add that these are the same people who complained bitterly when we told them they had to complete the Icy Bay Timber Sale in one year instead of their customary three because of the emergency nature of the sale.

I would be interested in knowing what areas you recommend for future timber sales. The budget is designed in a way

that any legislator can include a project for a new timber sale. If it is funded, we will do it.

The percentage of time spent by foresters on timber sales is strictly a function of the amount of the budget that is allocated by the Legislature for a particular timber sale; we have included in our budget request every major timber sale that has been requested. Remember also that the amount of commercial forest land is somewhat illusory in terms of immediately available timber; a large portion of that timber is presently inaccessible. Until access is developed on an economic basis the timber will not be marketable.

DNR's Role

Your comments are difficult to respond to because they are general. I would only say that we will not hustle the Legislature for additional government personnel and funds unless there is a specific purpose for those funds. As I have mentioned, we have included in our budget a project for each major timber sale that has so far been requested. The laws and regulations are not being selectively and narrowly interpreted unless you feel that the Board of Forestry has adopted this position. If that is so I would encourage you to attend the next meeting and tell them just that. Finally, I have no argument with the definition of Forestry adopted by the Society of American Foresters; it is coincident with ours.

AGRICULTURE

First, the Department vigorously resisted the transfer of inspection functions to another agency. However, we lost that argument, as both the Executive Branch and Legislative Branch felt that consolidation of health inspection functions in one agency was justified. We were especially concerned because persons performing inspection functions also performed extension services and marketing assistance for farmers and persons in the agricultural industry. We did not want to lose these latter functions, and negotiated as part of the transfer deal several replacement positions devoted to agricultural development and promotion to insure that the Division of Agriculture suffered no loss of this capability. We were successful in obtaining these positions.

Planning and Land Classification

It is correct that a 1976 law required that we classify 650,000 acres of lands containing Class II and III soils for agriculture, and that we were unable to locate more than

around 500,000 acres of agriculture land which met these specifications out of our existing inventory of TA'd and patented lands. Remember, however, that the State fell at the tail end of the selection priority list resulting in other entities obtaining some of the best agriculture land. In addition, subsequent to the 1976 law, other laws were passed also establishing mandates for classification and/or disposition of lands including municipal entitlements (867,000 acres) and the land disposal program (100,000 acres per annum). Obviously, some of the best land for both these purposes is agricultural land, and these mandates necessarily created conflicts. As a result, although we were only able to classify about 500,000 acres for agriculture, we identified an additional 300,000 acres on State selected lands as a safeguard to insure that the 650,000 acre total would be met once we received those lands from the federal government. Furthermore, our regional resource inventory and planning program has identified more than 3 million acres of land potentially suitable for agricultural development. As far as soil surveys, they are an integral part of the 5-year, \$50 million resource assessment capital budget which we have submitted to the Governor, and which the Governor has approved the first two years of.

The Department's agricultural planning effort includes a long range statewide program to determine the area, type, and process for individual disposals. We have completed a statewide plan which defines the overall goals and objectives for agriculture which we will present to you at our next meeting. All of the Department's agricultural land disposals conform to the principles of that plan. The plan defines the acreages in agricultural land necessary to achieve production goals and incorporates the needs of such diverse interests and subsistence, grazing (including range requirements), part-time farmers and large scale enterprises.

The policy of the Department is that Agricultural land sales will be in economic sized units, and that all Class II and III lands will be classed as agricultural unless there is an overwhelming counter-consideration. The substantial role played by the Division of Agriculture in determining the use and disposal of all State land insures that the values of Class II and III lands are quantified and presented whenever a decision on disposal is sought.

When the Delta project was designed, the principle of basing parcel sizes according to large farm economics was at no time in jeopardy. The small parcel homesite (subdivision), areas located within the Delta project (as well as other Ag sale areas) were the result of the desire of the Department to meet the demand for these types of parcels. Those disposals

are all located on unfarmable soil, and were supported by the agricultural industry and the community and have developed into an asset for farmers by providing nearby homesites for farm labor.

The Department views the grazing industry as a substantial component of the overall Ag development program. We have developed a Department policy concerning classification and use of State grazing lands, and are now incorporating that policy into regulation. The poor record of the Department in classification of grazing lands has been caused by the lack of sound scientific information about vegetation and soils, and subsequent inability to quantify carrying capacities. To rectify that situation, our budget request for FY'82 includes matching funds to increase our soil and vegetation inventory through cooperation with the USDA Soil Conservation Service.

Although the Department does have authority over domestic buffalo, the responsibility for the wild herd such as that of at Delta still rests with the Department of Fish and Game. Naturally, we will cooperate in any way in devising a management plan. We certainly agree managers of wildlife must also concern themselves with carrying capacity.

Land Issues

First, I would like to clear up one misconception about the classification process. The classification law (AS 38.05.300) is for the benefit of the industry and the general public, not the Department. We could, of course, have a classification and land designation system known only to the Department's Land Managers and never subjected to public scrutiny. AS 38.05.300 and the regulations promulgated thereunder require that we go through a formal classification process so that designation of lands is subject to public scrutiny. This enables you and all other citizens of the State to understand for what purposes we intend to use particular lands and to influence our decision on determining that purpose.

Second, designations we place on lands through classifications really are for the purpose of stating the objective which we intend to promote for those lands rather than for the purpose of implementing restrictions. To some extent, the existing classification regulations unfortunately create the latter impression and we will be rewriting them shortly to eliminate that feature. I would like to go into this much more fully at our meeting. Another thing to remember about classification is that it is not a means of eliminating multiple use (except

where the land is being disposed of). Rather it is a means of designating preferences amongst beneficial (multiple) uses so that the resource constituencies in the State have some certainty as to what particular lands will be used for and can make their plans accordingly.

Earlier in your letter, you mention the importance of classifying lands for agriculture and classifying land for forestry in order to consolidate the land basis for those industries as a means of stimulating development; it is for precisely this reason that designating a primary use among multiple uses (i.e. classification) is advantageous to each industry. For that reason I would not want to limit State retained (multiple use) lands in one classification category. This would present no opportunity for resource industries to plan their own future.

I certainly agree that laws governing the Department of Natural Resources are now exceedingly complicated and that constant changes (requiring continuing changes in regulations) presents an unstable environment in which to develop resources and conduct business. In fact, I'll bet you don't know the half of it. The permit reform program (plus the other matters we are doing to streamline and stabilize procedure together with changes we will be proposing regarding the land disposal law and elimination of obstructionist provisions in Title 38 should provide a substantially improved, though not ideal, atmosphere in this respect. I certainly hope that you will support these changes.

I disagree very strongly with your suggestion that we delete the requirement for homeowners associations in conjunction with land disposal. I strongly believe property owners associations have had an excellent record in many areas of the United States as a substitute for government regulations. I have seen this system work just as well among recreational property owners as it has where all of the owners are fulltime permanent residents. The alternative is to include additional regulations or restrictions on land sales contracts which will have to be enforced by "absentee" government bureaucrats.

I do not agree that the State has been involved in any program to lock up lands. All of the State park areas that you mentioned were created by the Legislature through specific State laws, including the provisions relating to mineral resources. I think when I show you at our meeting what our expectations are for various other resources (including Agriculture, Forestry and Subsurface Development) you will withdraw this comment.

It is not true that lands selected by the State for mineral values have necessarily been classified under non-mineral

use categories. We recently classified three high value mineral areas in the Fairbanks area and one in the Mat-Su Valley as minerals lands with that as the primary use. Moreover, the vast majority of State and patented lands are currently open for mineral entry; only where there is a very specific and compelling justification for closing an area to mineral entry is a mineral closing order issued. In fact, mineral exploration and staking are booming on State lands. We received over 13,500 mining claims last year alone.

Obviously, it is sometimes difficult to estimate the mineral value contained in the subsurface where a surface use (such as a disposal) is being considered. The information available to us is never as complete as we would like it to be, and one does not know the content of the subsurface until it has been fully produced. All of the disposal nominations and other surface dispositions involve an analysis of mineral resources prior to a final decision; we have dropped a number of disposal areas in both our Northcentral and Southcentral Districts as a result of estimated potential of mineral resources. It is flatly wrong that specific requests of administrative mining personnel to participate in these decisions has been denied; one employee who was responsible for reviewing proposed disposals for conflicts with subsurface values did have difficulties completing these assignments on time; however, that employee is no longer with us, and I hope his successors provide a much more effective advocacy and competent performance.

DEPARTMENT
OF

NATURAL
RESOURCES
BRIEFING

1-22-82



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

COMMITTEE BRIEFING

SENATE RESOURCES COMMITTEE

January 22, 1982

Friday

1:30 p.m.
Beltz Room
Room 211 Capitol

John Katz, Commissioner, Department
of Natural Resources - Briefing



Official Business

Alaska State Legislature

Senate

RESOURCES COMMITTEE

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Senate Resources Committee Members
FROM: Senate Resources Committee Staff
DATE: January 23, 1982
RE: January 21st briefing by Commissioner Katz

After the meeting Friday, Commissioner Katz requested that the attached information be distributed to the Committee members.

Attachments



Alaska State Legislature
Senate

JUNEAU, ALASKA

RESOURCES COMMITTEE

TO: Representatives Sutcliffe and Fanning
FROM: Senate Resources Committee Staff
DATE: January 25, 1982
RE: January 21st Briefing by Commissioner Katz

After the meeting Friday, Commissioner Katz requested that the attached information be distributed to the Committee members.

Attachments

Alaska State Legislature

BETTYE FAHRENKAMP, CHAIRMAN
VIC FISCHER, VICE-CHAIRMAN
BRAD BRADLEY
DICK ELIASON
DON GILMAN
BOB MULCAHY
ARLISS STURGULEWSKI



POUCH V
STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

Senate

Committee on Resources

January 22, 1982
1:30 p.m.

Beltz Room
211 - Capitol

Joint House and Senate Resource Committees

MEMBERS PRESENT

Senator Fahrenkamp
Senator Fischer
Senator Bradley
Senator Eliason
Senator Gilman
Senator Mulcahy
Senator Sturgulewski

Representative Sutcliffe
Representative Halford
Representative Grussendorf
Representative Vaska
Representative Fanning

Briefing on the Department of Natural Resources
by John Katz, Commissioner

Major Personnel Changes and Reorganization - Have created a Division of Forestry (Ted Smith, Director) and decentralized field level operations to better serve the public.

Land Selection - Due to the D-2 legislation the state's selections were increased to 125 million acres and the time to select was extended 10 years. DNR has undertaken a comprehensive process to identify land and will refine selections through public input process. Serious issues can arise in regard to disposal of tentatively approved land. DNR is taking steps to advise people of strengths and pitfalls of such lands.

Royalty Oil - Amending pending solicitation to fit state requirement. Currently, there are six active sets of negotiations: three existing in-state refineries, one proposed refinery in Fairbanks, one in-state supplier, one mineral producer. Negotiations will be finalized next week, and contracts with specific recommendations will go to the legislature for approval by the end of this month.

State Oil and Gas Lease Program - DNR is committed to the 5-year program, and to exploration of new sources of oil and gas. The state's policy of one high value and two moderate value lease sales per year will be continued. To have high value sales that will lead to State revenues, offshore areas must be looked into.

Hard Rock Mining - The principal barrier to mining development is the infrastructure, especially surface transportation. Discussions with DOT are in progress. The backlog in mining claim adjudications is being examined for efficiency.

Coal - Working on recommendations of task force: developing coal reclamation statute, actively planning transportation system in Beluga, revising coal leasing regulations, seeking source of petracoke. The first shipments of coal from Beluga could be in 1985-1987.

Agriculture - Katz described the responsibilities of AAAC and DNR. AAAC is responsible for policy and planning for agricultural disposals; DNR is responsible for implementing the disposals. Delta II East will proceed on schedule, but Delta II West has been postponed indefinitely. DNR is working on a Homestead "sweat equity" Bill to meet public desire for small agriculture parcels.

Forestry - DNR will support legislation to create a State system of forests if the designated lands have timber values.

Fire Suppression - Funds are needed for both fire suppression and presuppression. Working with federal, private, and Native agencies to develop more coordination and long term planning.

Land Exchange - Only land exchanges of equal value and that benefit the state in a range of resource considerations can be enacted without legislative approval.

Land Disposal - When completed, DNR will provide the legislature with a demand assessment; an option paper with ranking from high to low, cost figures, and recommendations on disposal; capital costs in subdivisions, boroughs, and outside.

Water - Through the Administration, DNR is proposing a basin-wide water adjudication bill. This would determine water rights on a systematic and comprehensive basis.

Dow Shell - Working on recommendations of the government Petrochemical Task Force. There are no grounds for actual disposal of gas liquids at this time.

Northwest Gas Pipeline Project - Governor created a 5-member Task Force to determine if the State should make a financial contribution to the project, and, if so, how? The IDT report is due the end of February, with a report by Kidder-Peabody due soon after.

Resource Inventory CIP - Due to a \$9 million appropriation last year, the Department has ongoing 35 separate resource inventory projects.

The meeting was adjourned at 3:00 p.m.

(907) 465-2400

December 18, 1981

Mr. David Heatwole
President
Alaska Miners Association
509 W. Third Avenue
Suite 17
Anchorage, AK 99501

Dear Dave:

At the last meeting of the Commissioner's Hardrock Advisory Committee, you took the position on behalf of the Alaska Miners Association, that the State should take no action in response to the Attorney General's interpretation of Section 6(i) of the Alaska Statehood Act.

I have since discussed this matter with the Governor, and he has agreed with me that no remedial legislative or administrative action is required at this time. Therefore, the Department of Natural Resources will not alter existing State practice with respect to the location of mining claims on 6(a) and 6(b) lands. The reasons for our decision have been discussed publicly on prior occasions, and so I will not dwell upon them here. Basically, we have concluded that State interests related to mineral entry are adequately protected by the current matrix of collateral law.

However, it should be noted that someday circumstances beyond our control may dictate that this issue be addressed. In that event, I ask that channels of communication remain open as the association and the Department study our available options.

Thanks again for the Association's advice on this matter.

Sincerely,

John W. Katz
Commissioner

cc: Mike Whitehead

4852.5

(907)465-2400

December 30, 1981

The Honorable Ted Stevens
United States Senate
127 Russell Building
Washington, D. C. 20510

Dear Ted:

In a recent teleconference with Lloyd Meeds, counsel for Chugach Natives, Inc., we were advised that CNI might be willing to relinquish its ANCSA Sec. 14(h)(8) selections on Montague Island (Patton Bay, Macleod Harbor and Stockdale Harbor), if it would facilitate a federal-state land exchange involving state lands at Cape Yakataga and a final settlement acceptable to CNI.

You will recall from our letter of December 1, 1981, to you and the other members of the Alaska delegation that, based on numerous consultations with CNI and concerned state agencies, if an exchange took place involving Yakataga lands, it would be confined to land between the Duktoth and White Rivers. Based on preliminary estimates of appraisable values, it appears that Montague Island (while possessing significantly greater acreage) is very close in value to state lands identified at Cape Yakataga, and (subject to refined valuation), may satisfy the exchange requirements of AS 38.50.

We think that CNI's apparent willingness to consider relinquishing their legal interests on Montague Island is a significant step forward by that corporation in seeking a compromise administrative solution. Early in the study process, the State of Alaska identified a principal public purpose which would be served by a federal-state land exchange. Public testimony received by the Chugach Region Study Group in Cordova and Anchorage, as well as state agency concerns for fish, wildlife, and recreational resources, argued

strongly for the retention in public ownership of coastal lands in Prince William Sound. The State, therefore, has sought to retain in public ownership a number of important public values in Prince William Sound by shifting private corporate ownership to more remote state owned lands which meet the Congressional criteria of Section 1430, ANILCA. An exchange of state land at Cape Yakataga for national forest land on Montague Island would accomplish this public purpose, while simultaneously laying to rest a 10-year struggle by CNI to gain the fair and just settlement promised by Congress.

The Forest Service's stated objection to the loss of national forest land to CNI (and other conveyances) is that it would deny the Forest Service the ability to maintain a viable multiple-use program on the Chugach National Forest, and a continuous supply of goods and services to the nation.

These federal concerns could be met by the State's acceptance of Montague Island with a deed restriction which guaranteed continued public ownership and use (as permitted by state exchange law AS 38.50). Furthermore, the State of Alaska is considering the creation of a state forest system to insure the long-term commitment of suitable state lands for multiple-use purposes. This action would assure that multiple-use values are protected, and that the public could continue to use and enjoy Montague Island and its multiple-use values. These values would be greatly impaired if CNI chooses to exercise its selection rights under Sec. 1429 ANILCA.

The Chugach National Forest, moreover, would be capable of continuing to support a viable multiple-use program even after 103,000 acres of national forest land are conveyed to CNI (as contained in the November 13, 1981 federal offer), and Montague Island (approximately 194,000 acres) is traded to the State of Alaska - a reduction in the size of the Chugach National Forest of about 5 percent. Two-thirds of that reduction, however, would continue to serve public purposes under State of Alaska ownership.

For the foregoing reasons, I believe that there is sufficient new information to warrant a short extension of the negotiating period. I do want to reiterate, however, that the State's ultimate willingness to participate in an exchange is dependent on four factors:

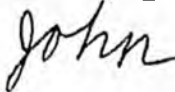
1. All of Montague Island must be transferred from the USFS to the State.
2. CNI must relinquish its section 14(h)(9) selections on Montague Island.

December 30, 1981

3. The State of Alaska must retain a manageable forest unit at Cape Yakataga. While there is no question that Montague Island possesses a multiplicity of resource values which are of interest to the State, Cape Yakataga contains some of the highest value timber lands in State ownership. Therefore, I believe that one or more manageable units must be retained in order to preserve the Legislature's option to create a State forest at Cape Yakataga - a matter which will likely be considered in the upcoming session.
4. The State must be able to demonstrate compliance with the equal value requirements of AS 38.50. This process would probably require legislative approval before an exchange could be finalized. In other words, any proposed exchange must be supportable from both a substantive and political point of view.

I recognize that these standards may be difficult to achieve. However, Chugach's long travail justifies the effort. We look forward to working with you and the rest of the Congressional delegation in an effort to bring this matter to a satisfactory resolution.

Sincerely,



John W. Katz
Commissioner

cc: Representative Young
Senator Murkowski
Mike Whitehead
John Sandor
Lionel Drage
Vernon Wiggins
Bill Horn

5102

October 9, 1981

The Honorable Frank H. Murkowski
Senator
United States Senate
Washington, D.C. 20510

Dear Senator Murkowski:

In response to your recent inquiry regarding the proposed McCarthy land exchange, the following summary of events should be useful.

Early in 1981, the State was requested by the National Park Service to consider a land exchange for approximately 18,000 acres of State land around McCarthy. The Park Service was concerned that a proposed State land disposal would result in additional land management problems in the newly created Wrangell/St. Elias National Park.

Subsequently, the Governor and former Commissioner LeResche agreed to postpone the proposed land disposal until the fall of 1981 and to negotiate with the Park Service for lands of equal value to the State. These negotiations were conducted through September and were unsuccessful due to unwillingness by the Park Service to make available lands of equal value.

A more recent overture by the Park Service to the State was a proposed three way exchange including Cook Inlet Region, Inc. This proposal does not appear likely to win Department of Interior support due to Cook Inlet's objective of receiving title to NPRA lands and BLM's opposition to such a transfer.

The Honorable Frank H. Murkowski
Page Two
October 9, 1981

The Department of Natural Resources will make one additional attempt to consummate an exchange which satisfies the requirements of Alaska Statute 38.50. Toward this end, we have postponed the proposed sale until the spring of 1982. Should this effort not be successful, the State will not likely move forward with plans for a disposal near McCarthy.

The key to successful completion of this exchange is the willingness by the Park Service to offer lands of equal quality to those they wish to receive in exchange.

Since the Alaska lands legislation significantly expands State selection opportunities, we have taken the position that the Federal government must offer lands which we are not otherwise authorized to select. This has made it more difficult for the Park Service to find mineral, oil and gas, settlement, sport hunting, or other lands which meet the equal value criterion.

If you have any further questions, please contact me.

I hope that all is well with you.

Sincerely,

John W. Katz
Commissioner

cc: The Honorable Brian Rogers

JWK:SB:db

(907) 465-2400

November 27, 1981

Mr. John Cook, Area Director
National Park Service
540 W. 5th Avenue
Anchorage, AK 99501

Dear John:

I understand that serious discussions between the State and the National Park Service regarding the proposed McCarthy land exchange are scheduled to begin during the first week in December. I am hopeful that these talks will be fruitful.

In order to ensure effective State participation in these discussions, I have asked Mr. Reed Stoops to coordinate State agency involvement. Before these talks begin, key State agencies will have completed a review of the list of possible exchange lands which you have submitted to us.

As you know, the State must consider land exchanges within the parameters set by AS 38.50, which requires that the State receive lands of equal value. Moreover, due to the liberal State selection provisions of ANILCA, the State must receive lands which are otherwise unavailable for selection using our remaining Statehood entitlement.

To date, no exchange offer has come close to equal value. As we have previously advised, we are seeking lands which benefit a broad range of resource uses to offset the multiple resource values of State lands near McCarthy.

Although the State will work diligently and in good faith to develop with you viable exchange options, I want to make it clear that if an acceptable agreement cannot be reached, the State will not consider postponing for a third time its planned McCarthy land disposal. I mention this simply to underscore the importance that I attach to the upcoming discussions.

Please feel free to call me if you have any suggestions for or comments on these exchange talks.

Sincerely,

John W. Katz
Commissioner

#1 McKinley Village
(2,500 acres)



3 a Downtown Skagway
(3 lots)

AVENUE

AVENUE

AVENUE

AVENUE

BROADWAY

STREET

SPRING

STREET

KIRMSE TRACT

PULLEN TRACT

101-25
101-24

35
101-37

3rd

4th

5th

6th

101-23
101-53

101-32

101-13
101-12

101-08

101-20
101-21
101-22

101-17

101-10

101-10
101-15
101-14

101-58
101-59

101-50

101-05
101-06

101-01

101-19
101-18

101-09

101-50

101-49

101-42

101-61

27

6

7

5

7

6

12

12

1

12

1

7

6

7

6

6

26

25

24

12

12

1

1

7

6

7

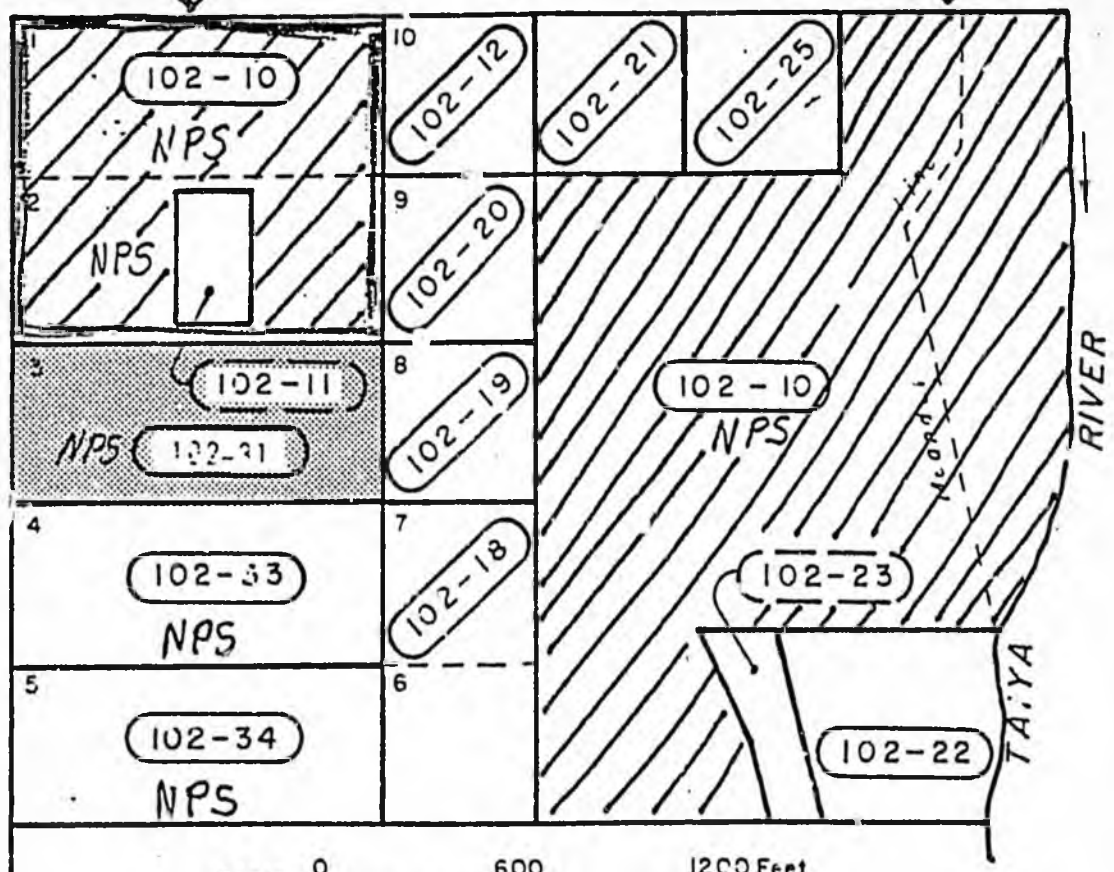
6

3 b Skagway - West Creek

Tract A
18 acres

Tract B
approx 35 acres

INSET "A"



Scale 0 600 1200 Feet

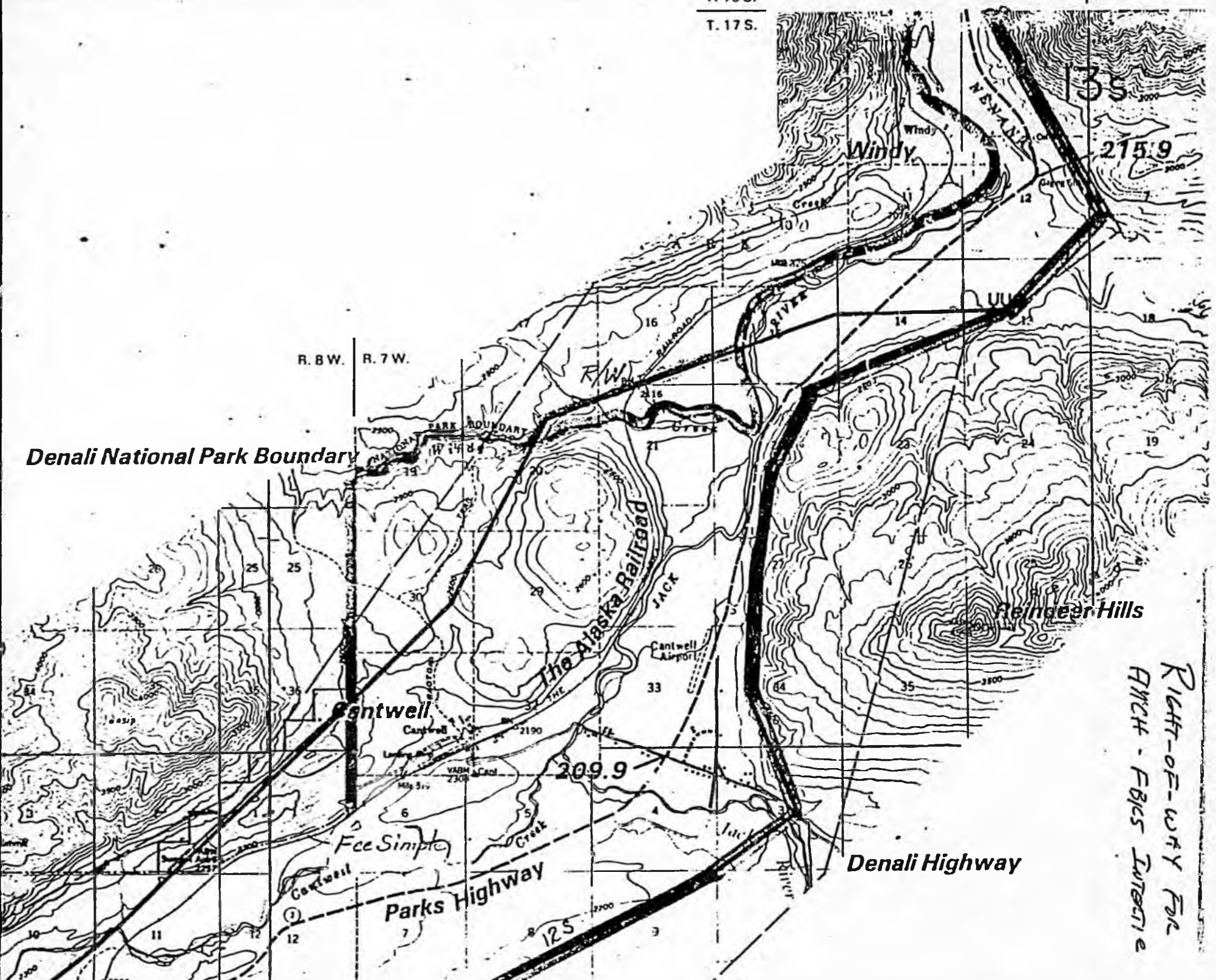
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25
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CALIFORNIA
UNITED STATES

T. 16 S.
T. 17 S.

R. 8 W. R. 7 W.

Denali National Park Boundary

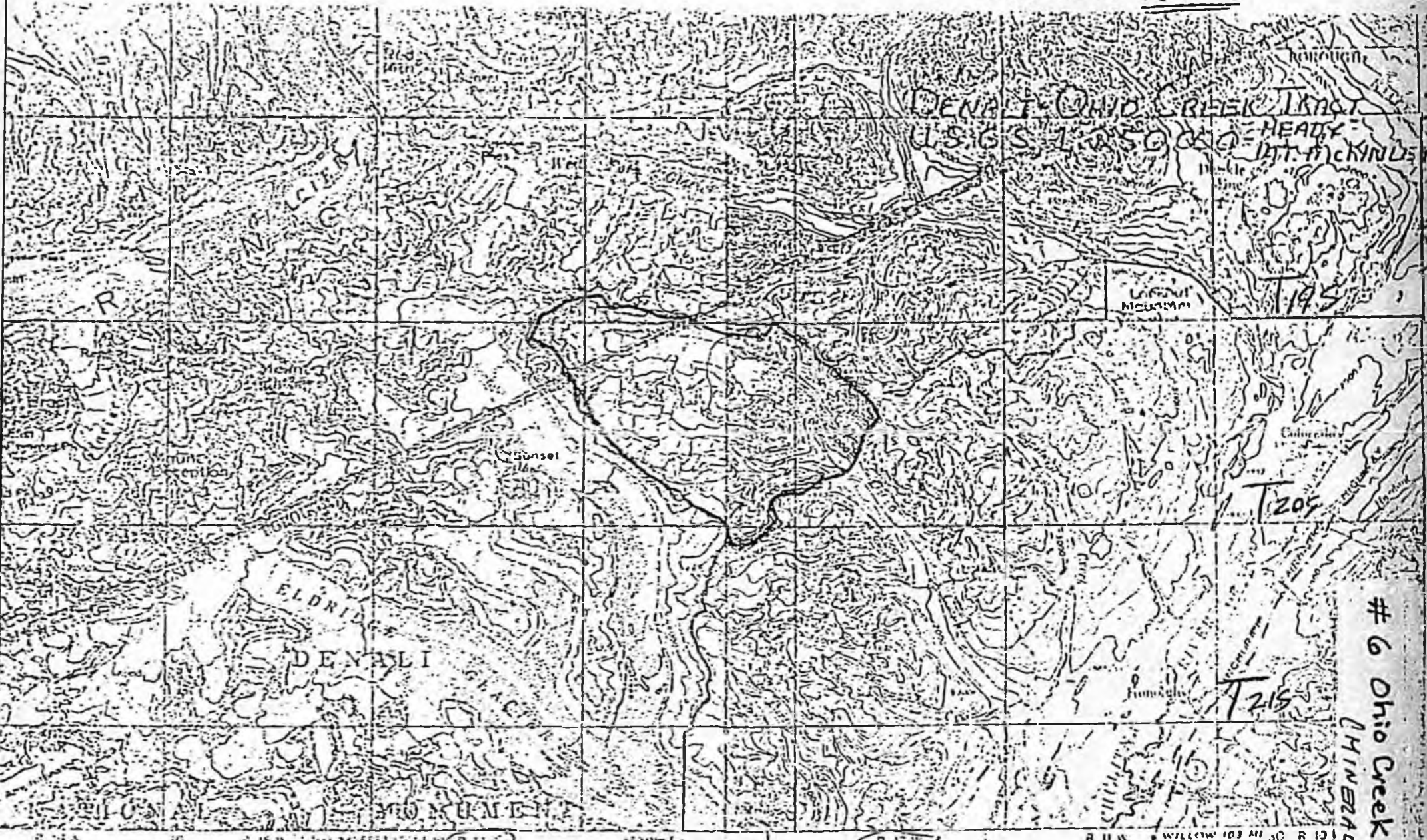


#4 Cantwell (650 acres)

RIGHT-OF-WAY FOR
FMCH - FBIS INTERIOR

Denali Highway

Return to N.P.S.



6 Ohio Creek (22,000 ac.)
(MINERAL RIGHTS)

Chuck Hawkey & Associates

PRODUCED BY THE U. S. GEOLOGICAL SURVEY, 1955 MAPS REVISIONS 1959
 USGS AND USCRS
 1962 FROM U. S. GEOLOGICAL SURVEY 1:50,000 SCALE MAPS,
 1950-1956. MAP NOT FIELD CHECKED
 TRANSVERSE MERCATOR PROJECTION, 1927 NORTH AMERICAN DATUM
 OF GRID BASED ON ALASKA COORDINATE SYSTEM, ZONES 2 AND 3

13
 12
 11
 10
 9
 8
 7
 6
 5
 4
 3
 2
 1
 of State, natl

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE:

November 18, 1981

Mr. J. D. Hembree
Dow Chemical Company
2040 Dow Center
Midland, Michigan 48640

Mr. J. R. Street
Shell Chemical Company
One Shell Plaza
Houston, Texas 77001

Gentlemen:

Within the parameters of the Governor's policy statement on petrochemical development, the State will continue to pursue with the Dow-Shell Group an analysis of a petrochemical facility in Alaska.

In response to the recent recommendation of the Governor's Task Force on Petrochemicals, the State through this letter proposes to amend the Memorandum of Understanding and Intent as to term and other pertinent aspects as needed.

Pursuant to our recent conversations and subject to your concurrence, the State of Alaska hereby agrees to amend the Memorandum of Understanding and Intent between the State and the Dow-Shell as follows:

First, Article 6 shall be deleted and replaced with the following:

Sponsors agree to maintain open communications with the State on petrochemical feasibility and to provide status reports upon request.

Second, Article 26(c) shall be amended as follows:

(c) This memorandum terminates if Sponsors and the Commissioner of Natural Resources of the State

Mr. J. D. Hembree
Mr. J. R. Street

- 2 -

November 18, 1981

of Alaska have not executed an agreement for sale and purchase of the State's royalty natural gas liquids, or other agreement satisfactory to the parties, by June 30, 1982, unless extended by mutual concurrence of the parties.

In addition to the above changes in the Memorandum of Understanding, I would like to also note other items for our mutual understanding and the public record:

First, Doyon, Ltd. and E.I. duPont de Nemours are not participants in the Dow-Shell group.

Second, Earth Resources Company of Alaska, a participant in the Dow-Shell Group, has been renamed Mapco Alaska, Inc.

Third, the responsibilities of Doyon, Ltd. and E. I. duPont de Nemours under the Memorandum were assigned by Dow Chemical U.S.A. and Shell Chemical Company under their role as Sponsors.

Fourth, the Dow-Shell Group completed and submitted to the State a Feasibility Study Report for the manufacture of petrochemicals in Alaska on September 9, 1981, which justifies the further analysis of petrochemical development. The Sponsors notified the State on September 9, 1981, that they wished to continue their efforts towards the development of a petrochemical industry in Alaska.

Fifth, Alaska Interior Resources Company, Inc., with the cooperation of Dow Chemical U.S.A., studied the feasibility of providing coal-fired electric power to the petrochemical project and studied the feasibility of constructing a coal-based methanol plant in Interior Alaska. In addition, Alaska Interior Resources Company studied the feasibility of a methanol facility located in Interior Alaska utilizing methane as feedstock. These studies were submitted to the State as part of the Dow-Shell Feasibility Study Report of September 9, 1981.

Sixth, the Sponsors provided oral progress reports on the Feasibility Study to the State upon request and Sponsors submitted written monthly progress reports to the State beginning with the end of the third month following the execution of the Memorandum.

Seventh, the Sponsors entered into negotiations with North Slope producers for the purchase of natural gas liquids.

Mr. J. D. Hembree
Mr. J. R. Street

- 3 -

November 18, 1981

Eighth, the Sponsors provided engineering expertise to the State during the design of the conditioning plant/gas pipeline.

Ninth, the Sponsors completed and submitted to the State a study detailing the project's electrical power requirements and alternative means of meeting those requirements. This study was submitted to the State as part of the Dow-Shell Feasibility Study Report of September 9, 1981.

Tenth, the State assisted the Sponsors in their efforts to secure non-royalty natural gas liquids through communications with the North Slope producers.

Eleventh, the State, with the Sponsors' concurrence, did not carry out a study on a natural gas liquids pipeline.

Twelfth, the State, with the Sponsors' concurrence, expanded the membership of the Alaska Citizens Advisory Council from five to seven members.

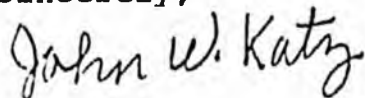
Thirteenth, the Alaska Citizens Advisory Council presented its report to the State in October, 1981. The Community Advisory Board presented its report to the Governor in September, 1981.

Fourteenth, the State examined the infrastructure, such as roads, docks, and other facilities which may be needed for the project at the potential sites.

Fifteenth, the State examined what incentives (e.g., tax exempt financing) to the building of a project by the Dow-Shell Group can appropriately be granted by the State under State law.

If you are in concurrence with the above, please indicate by signing below, and returning the original.

Sincerely,



John W. Katz
Commissioner

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES - OFFICE OF COMMISSIONER

TO: The Honorable Jay S. Hammond
Governor of Alaska

DATE: December 31, 1981

FILE NO:

TELEPHONE NO: 465-2400

FROM: John W. Katz *JWK*
Commissioner

SUBJECT: State Examination of
Alaska Natural Gas
Transportation System
(ANGTS) Financing

At your request, we have designed the following process for the State's examination of ANGTS financing and of the advisability of a State contribution to pipeline financing. The Cabinet group consisting of Attorney General Wilson Condon, Revenue Commissioner Tom Williams, and myself has been joined by Senator Bettye Fahrenkamp and Representative Rick Halford of the Alaska State Legislature.

Objectives

The objectives of our work will be threefold: (1) Analysis of whether State financial participation in ANGTS appears desirable and feasible. In other words, should the State participate in ANGTS financing? (2) If State participation appears desirable and feasible, analysis of the possible structure or methods of State participation in ANGTS financing, with an emphasis on the gas conditioning plant; and (3) If State participation appears desirable and feasible, analysis of the competing and prudent uses of State funds for meeting Alaska's needs.

Significant Issues

In making these analyses, we will review a number of significant questions which would be asked by any prudent investor and some of particular interest to the State of Alaska. Among the general factors which would have to be considered would be the following: Prudhoe Bay gas marketability; impact of gas deregulation; availability of alternate gas supplies; availability of investment capital; project risk analysis; and proposed financing structure of project.

Issues of particular interest to Alaska include the following: provision of adequate information to the State; costs/benefits analysis; in-state use, including possible petrochemical development; State's financing capability; State's comparative investment options; and regulatory and tax implications of State participation in pipeline financing. A costs/benefits analysis would cover such areas as wellhead value;

royalties, severance taxes, property taxes; secondary and tertiary economic benefits, such as jobs and spinoff industries; and social and environmental effects.

Procedure

In carrying out these analyses, we will meet with the major project participants for in-depth discussions of project financing. These discussions will cover the nature of the risk which the State might assume through State participation in the project, and the structure(s) of State participation, if any. A meeting with Northwest Alaska and its financial counsel the first week of December initiated this process.

We are also in the process of hiring an investment banking firm as the State's consultant on the financing issues. Initial interviews with four investment firms have already illustrated the valuable services they will be able to provide.

Finally, we will carry out appropriate in-house research. To assist in the work, a staff group from the Departments of Natural Resources, Revenue, Law, Budget and Management, and the Legislature has been formed.

Timeline and Work Product

By March 1, 1982, we propose to provide a written interim report of our findings to that date and recommendations, if any. This report will cover review of the general issues and should allow a conceptual decision about whether the State should participate in gas pipeline financing or not.

Our ability to follow the proposed timeline will depend, in large part, on the availability and adequacy of information provided by Northwest Alaska, its investment bankers, and others. If the necessary information is not submitted in sufficient depth or in a timely fashion, our work will have to be adjusted accordingly.

By mid-May, we propose to submit a final report, if appropriate, to you and the Legislature for your consideration.



Alaska State Legislature

Official Business

Resources Committee

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Senate Resources Committee
FROM: Senate Resources Committee Staff
RE: Briefing on DNR, 1/22/82
DATE: January 29, 1982

Commissioner Katz, during his 1/22/82 briefing on the Department of Natural Resources, said he would supply the Committee with the following two memorandums:

"Presale Evaluations for State Oil and Gas Lease Sales 34 and 39"

"Status of Miscellaneous Land Use Permit Regulations Litigation"

Please find them attached.

MEMORANDUM

State of Alaska

TO: The Honorable John W. Katz
Commissioner
Department of Natural Resources

DATE: January 19, 1982

FILE NO:

TELEPHONE NO:

FROM: Kay Brown
Acting Director
Division of Minerals &
Energy Management
Department of Natural Resources

SUBJECT: Presale Evaluations
for State Oil and
Gas Lease Sales 34
and 39

This memorandum is to apprise you of the need for legislative assistance in order to conduct lease sales under the Five-Year Oil and Gas Leasing Schedule. As a result of a recent ruling by the Alaska Superior Court, the Department's ability to meet its objective of maintaining a predictable sale schedule has been seriously affected.

As you are aware, prior to each oil and gas lease sale, the Department conducts an extensive presale evaluation as required by AS 38.05.180(f) to assess the resource value of each tract proposed for lease. This tract evaluation assists the Department in determining: 1) tracts that should be leased; 2) leasing (or bidding) methods for each tract; and 3) adequacy of the bid offered for each tract. This presale evaluation depends heavily on geophysical (seismic) data. In March 1981, the Department amended its miscellaneous land use permit ("MLUP") regulations to require geophysical explorers for oil and gas resources on State lands to submit to the Department copies of all raw and processed, noninterpreted data and information as a condition of its exploration permit. Under the regulations, the Department reimburses the permittee for all costs directly incurred by the submission of this information. The Department keeps this information confidential upon the request of the permittee.

The MLUP regulations were challenged in Alaska Superior Court in two different lawsuits. In the first challenge, the Department prevailed and the Superior Court validated the regulations. Chevron v. LeResche, Alaska Superior Court No. 3AN-81-4154 Civ. (September 16, 1981). In the second challenge, the permittee prevailed and the regulations were found to be invalid primarily because the Department did not have sufficient legislative authority for their adoption. Exxon v. Katz, Alaska Superior Court. No. 3AN-81-6041 Civ. (January 8, 1982). The Department has been enjoined from enforcing these regulations pending reversal on an appeal the Department plans to file sometime next week. The effect of these lawsuits is that the Department may not acquire copies of the geophysical information acquired on State lands except through outright purchase.

The dilemma the Department faces can be anticipated. Oil and Gas Lease Sale 34 (Prudhoe Bay Uplands) is scheduled for September 28, 1982, and the Department's existing geophysical data base is inadequate to conduct the required presale analysis prior to that sale. The Department was anticipating the submission of extensive geophysical information under the MLUP regulations to conduct its presale analysis; however, it is now unable to acquire that information unless that information can be purchased. The Department has learned that two of its permittees are now willing to sell geophysical information acquired from the Sale 34 area for a total of \$5.3 million. However, only \$2.7 million remain in the Department's budget for the purchase of geophysical information through the remainder of FY 83 and these monies primarily were earmarked for the purchase of geophysical information for Sale 39, the third Beaufort Sea lease sale. (Discussions with one permittee are still continuing, and it is possible that the \$5.3 million needed could be reduced to as little as \$2.3 million. A firm answer on the price is expected by Wednesday, January 20.)

In light of this dilemma, there appear to be several short-term options available to the Department on which we would appreciate your direction and assistance in pursuing:

1. Seek an immediate supplemental to the FY 82 CIP budget of up to \$5.3 million for data acquisition for Sale 34. A supplemental appropriation would have to be approved by the last week in February if the sale is to stay on schedule.
2. In the event that adequate data for Sale 34 can be purchased for less than \$2.7 million, spend the available monies for Sale 34 and later seek reinstatement of funds to cover Sale 39 costs.
3. Postpone Sale 34 for 15 months until the earliest possible date allowable by law (January 1984, assuming a decision to amend the 1932 Five-Year Leasing Schedule is made by January 22, 1982) and await the outcome of the Alaska Supreme Court's decision on the validity of the MLUP regulations. If the regulations are validated by the Supreme Court before June or July 1983, the Department would acquire information from the Sale 34 area in time for a January 1984 sale without the need for a legislative appropriation.

Under both options above, an FY 83 CIP appropriation of \$1.9 million should be requested to supplement monies needed to acquire data for Sale 39 and upcoming FY 84 sales. (The existing and planned CIP appropriations are seriously underestimated due to unanticipated higher costs). In addition, under both options, the Department should seek

explicit legislative authority this year to acquire geophysical data as a condition of a State exploration permit so that the Department may receive the benefit of future geophysical exploration on unleased State lands. Provisions of this bill are being discussed with the Department of Law and will be discussed with your staff.

TO: John W. Katz, Commissioner
Dept. of Natural Resources
Pouch M
Juneau

DATE: January 5, 1982

FILE NO:

TELEPHONE NO:

FROM: WILSON L. CONDON
ATTORNEY GENERAL
Michael Arruda
By: Michael Arruda
Assistant Attorney General
Anchorage - AGO

SUBJECT: Status of
Miscellaneous
Land Use Permit
Regulations
Litigation

You have requested, through the Division of Minerals and Energy Management, a status report on the litigation surrounding the March, 1981, amendments to the Miscellaneous Land Use Permit ("MLUP") regulations, 11 AAC 96.010 -- 11 AAC 96.250. As you recall, these amendments join oil and gas permittees into the state land use permit program by requiring that a person seeking to conduct geophysical exploration or drill a stratigraphic test well on state land first acquire a permit from the Department of Natural Resources ("Department"). Upon completion of activities under the permit, the permittee is required to make available to the Department specifically identified non-interpreted data and information acquired from those activities on state lands. 11 AAC 96.210. The Department will reimburse the permittee for all reasonable costs directly incurred by the permittee due to the submission of these data and information. 11 AAC 96.230. The regulations further provide that the Department will keep confidential all data and information submitted by the permittee when the permittee requests the Department to do so. There is no time limit on this period of confidentiality. 11 AAC 96.220. Thus, the regulations describe the terms under which the Department will allow permittees to enter state lands for the purpose of collecting valuable geophysical data and information.

The MLUP regulations are currently at issue in five civil actions in the Alaska court system. The first of these actions was filed on June 16, 1981, by Chevron U.S.A., Inc., Marathon Oil Company, and Phillips Petroleum Company (collectively, "Chevron"). Chevron complained that the MLUP regulations were invalid on both substantive and procedural grounds. The focus of Chevron's complaint was that the regulations were not authorized by AS 38.05.180 and that the legislative history of AS 38.05.180(x) expressed an intention to specifically deny the Department the authority to acquire geophysical data and information on unleased state lands. Following briefing and oral argument by counsel, the Alaska superior court, Judge Mark Rowland presiding, unequivocally validated the regulations in all respects, making the following findings and conclusions:

Re: Status of Miscellaneous
Land Use Permit Regulations
Litigation

2. This court finds and concludes that:

(a) the Commissioner of the Department of Natural Resources has the authority to adopt regulations;

(b) the miscellaneous land use permit regulations (11 AAC 96.010-11 AAC 96.250) are within the scope of the authority conferred upon the Department of Natural Resources;

(c) the miscellaneous land use permit regulations are consistent with the statutes the Department of Natural Resources relies upon for its authorization;

(d) the miscellaneous land use permit regulations are reasonably necessary to carry out the purpose of the statutes the Department of Natural Resources relies upon for its authorization;

(e) the miscellaneous land use permit regulations are reasonable and not arbitrary.

Thus, in accordance with AS 44.62.300, this court declares that the miscellaneous land use permit regulations (11 AAC 96.010-11 AAC 96.250) are valid.

Final Judgment, Chevron v. LeResche, No. 3AN 81-4154 CIV. (Alaska Superior Court, September 16, 1981).

An appeal to the Alaska supreme court was filed by Chevron on October 9, 1981, and that case is awaiting briefing, with Chevron's opening brief currently due on January 12, 1982.