

Alaska House of Representatives

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Rep. Eric Feige
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House Finance Subcommittee Department of Natural Resources

FY 2014 HOUSE FINANCE BUDGET SUBCOMMITTEE NARRATIVE REPORT

SUBCOMMITTEE MEMBERS:

Rep. Mia Costello, Chair	Rep. Feige	Rep. Foster
Rep. Guttenberg	Rep. Kreiss-Tomkins	Rep. Pruitt
Rep. Saddler		

RECOMMENDATIONS:

The House Finance Budget Subcommittee for the Department of Natural Resources submits a recommended operating budget for FY2014 to the House Finance Committee as follows:

Unrestricted General Funds (UGF)	\$ 78,916.9	(dollars in thousands)
Designated General Funds (DGF)	25,649.5	
Other Funds	40,325.8	
Federal Funds	13,934.1	
Total	\$ 158,826.3	

BUDGET ACTION:

The House Finance Budget Subcommittee for the Department of Natural Resources held eight meetings with the department and analyzed all of the Governor's budget transactions. The subcommittee also examined the current programs, missions, and results-based measures relating to the department's operating base budget. The following are budget action highlights:

- The subcommittee recommends authorizing \$2,276.0 less of general funds and nine fewer temporary positions than the Governor's Amended FY2014 request.

- The subcommittee recommends a total increase from the FY2014 Adjusted Base of \$3,185.5 UGF and a total decrease of \$285.2 DGF for a total General Fund change of \$2,900.3. The change from Adjusted Base in Other Funds is \$2,253.3 and from Federal Funds is (\$123.4). The total change from Adjusted Base is \$5,030.2 and the same number of full-time positions.

Increments Accepted

1. Multiple allocations – Department of Administration Core Services Rates; \$284.8 UGF total.

The department requested increments totaling \$284.8 across multiple allocations to partially offset increased estimated charges for core services provided by the Department of Administration.

2. Office of Project Management and Permitting (OPMP) – Permitting Coordination Projects; \$1,000.0 Statutory Designated Program Receipts (SDPR) (Other).

This request would allow OPMP to collect additional SDPR revenue to provide the necessary permitting services for projects coming online in FY2014 and for existing projects. A FY2013 increment of \$2,000.0 of SPDR revenue was granted by the subcommittee for the same purpose. This FY2014 increment will allow OPMP to coordinate additional permitting activities of large development projects. Funding of those projects is reimbursed by the project applicants and operators of large projects. The complexity of permitting requirements for large projects is considerable, and the coordination services provided by the department and funded by the applicants and operators provide significant benefits to the long-term economic health of the state.

3. Gas Pipeline Project Office – Restore Gas Pipeline Project Office Staff and Operations; \$1,290.0 UGF
4. Gas Pipeline Project Office – Restore Gas Pipeline Project Office Contractors and Consultants; \$1,150.0 UGF

These two requests continue the funding for staff and contract consultants for the Gas Pipeline Project Office at the same level as in FY2012 and FY2013. While the work of the Gas Pipeline Project Office is ongoing and intended to continue through the completion of its mandate, these funding levels have generally been funded as one-time items each fiscal year in recognition of the difficulty in predicting the specific amounts of funding

required each year and to provide for annual legislative review of the program. These increments are accepted as one-time items.

5. Administrative Services, Information Resource Management – Land Disposal Income Fund Funding Source Changes; \$555.7 UGF/ (\$555.7) DGF total.

The subcommittee reviewed the current status of the Land Disposal Income Fund and approved four fund change transactions affecting the fund. In total, the fund changes amount to a shift of \$555.7 from DGF to UGF.

Analysis in FY2012 revealed that the fund's sustainability was in jeopardy due in part to use of the fund's capital for purposes unrelated to the fund's intended operation. As part of the FY2013 operating budget review process, the subcommittee evaluated the fund's operation and included intent language in the FY2013 operating budget requiring that the department provide a fund stabilization plan for review during the FY2014 budget process. The department provided the required plan, which was reviewed by the subcommittee. The subcommittee concluded that while some steps have been taken by the department toward fund stabilization, further evaluation and careful monitoring by the legislature should be continued in future budget review cycles.

6. Mining, Land & Water – Navigable and Public Waters Research and Assertion of State's Access Rights; \$350.0 UGF.

This increment will enhance the ability of the department to defend state ownership of lands submerged beneath navigable waters. The State received ownership of these lands at statehood; however, uncertainty persists over which waterways are considered to have been navigable at the time of statehood. This increment will allow the department to continue essential efforts to remove the cloud of title over these lands, thereby ascertaining state ownership and improving Alaskans' access to these waterways.

Increments Denied

1. Oil & Gas – Arbitration of Oil and Gas Royalty Issues; \$300.0 UGF.

This increment, coupled with \$500.0 UGF in base budget funding and a FY2014 capital request for \$500.0 in UGF, would have provided additional funding support for the department's efforts to proactively pursue the State's best interests in royalty negotiation and arbitration proceedings.

The subcommittee determined that these efforts provide a high level of value to the State and merit additional funding support. However, the subcommittee determined that the current funding structure for the department's efforts in this area was insufficiently flexible given the unpredictable and sensitive nature of royalty valuation arbitration. The subcommittee concluded that the proper means of providing this flexibility is through an open-ended language appropriation. Accordingly, the subcommittee denies this numbers-section increment request in favor of the proposed language-section appropriation.

As the language-section appropriation would provide sufficient funding for all of the department's royalty arbitration efforts, the base budget funding and FY2014 capital request are rendered redundant and unnecessary. The subcommittee therefore decrements the program's base budget funding (see below) and recommends denial of the capital budget request.

2. Oil & Gas - Alaska Gasline Inducement Act Commercial Monitor and Advisor; \$600.0 UGF.

This increment request would provide \$600.0 UGF in funding for expert commercial contractor support to ensure the compliance of commercial term changes with the AGIA license. The amount requested reflects a continuation of the funding level for this purpose since FY2012.

The subcommittee determined, upon review of this increment request, that while the amount requested is not inappropriate, the contractor services are retained on an as-needed rather than an ongoing basis. This has at times resulted in significant portions of these funds going unspent while simultaneously being unavailable for other purposes. The subcommittee therefore concluded that the best funding mechanism for this program was a language-section appropriation providing the funding when and in the amount needed, up to the amount requested in this increment.

3. Mining, Land & Water - Restore Guide Concession Area Program Development; \$125.0 UGF.
4. Mining, Land & Water - Guide Concession Area Program Implementation; \$450.0 UGF.

These increments would have allowed the Division of Mining, Land and Water to implement a program offering big game guides the ability to competitively apply for authorization to run their businesses on state land. The goal is to limit the number of guides in any particular area so as to manage resources in a sustainable manner. The program would eventually be self-sustaining through program receipts, but requires

general funds during development. Development of this program will be completed in FY2013.

The subcommittee finds that a well-devised guide concession program could provide for improvements in the management of Alaska's game resources to the benefit of all user groups. However, the intent of the subcommittee during the FY2013 budget review process was for the parameters of the developed program to be reviewed by the legislative branch to evaluate the program prior to its implementation. The subcommittee included language in the budget stating that the increment is accepted for the purposes of planning and development of the program only, and that authorization by the Legislature is required prior to any funds being spent on program implementation.

The subcommittee's intent during the prior year was that implementation of the program was to be initiated through legislation in order that proper legislative review could be conducted. Funding for the implementation of the program would be provided through the fiscal note for the legislation, rather than through the operating budget process. Accordingly, the subcommittee determined that the operating budget funding for the implementation of the program should be removed.

Adjustments to Base Budget Funding

1. Oil & Gas - Arbitration of Oil and Gas Royalty Issues; \$(500.0) UGF.

As previously discussed, the subcommittee concluded that the appropriate funding mechanism for the department's royalty arbitration efforts is an appropriation in the language section. Accordingly, the numbers-section base budget funding is decremented.

2. Mining, Land & Water - Guide Concession Area Development; \$(120.0) UGF.

As previously discussed, the subcommittee's intent during the prior year was that implementation of a guide concession area program was to be initiated through legislation in order that proper legislative review could be conducted. Funding for the implementation of the program would be provided through the fiscal note for the legislation, rather than through the operating budget process. Accordingly, the base budget funding for the implementation of the program is decremented.

3. Agriculture – Continue Farm to School Program Funding (Effective FY11 and Lapses 6/30/14); \$(181.0) UGF.

It is the intent of the subcommittee to restrain and reduce general fund expenditures wherever possible.

AMENDMENT ACTION:

The Governor’s budget amendments submitted by February 15, 2013 included no amendments pertaining to the budget of the Department of Natural Resources.

LANGUAGE SECTION RECOMMENDATIONS:

The subcommittee recommends the following changes to the language section:

1. Oil & Gas – Arbitration of Oil and Gas Royalty Issues

As previously discussed, the subcommittee recommends a language-section appropriation of general funds for the department’s oil and gas royalty arbitration program. The appropriation should provide the amount necessary to represent the state’s best interests in royalty arbitrations.

2. Oil & Gas – Alaska Gasline Inducement Act Commercial Monitor and Advisor

As previously discussed, the subcommittee recommends a language-section appropriation of general funds for the expert contractor services necessary to ensure the compliance of commercial term changes with the AGIA license in an amount not to exceed \$600.0 UGF.

ATTACHED REPORTS:

The House Finance Budget Subcommittee for the Department of Natural Resources adopts the attached reports:

Subcommittee generated reports

Budget Action Worksheet

Legislative Finance Division Reports - House Structure

1. Agency Totals - FY2014 Operating Budget
2. Appropriation/ Allocation Summary (All Funds)
3. Appropriation/ Allocation Summary (GF)
4. Transaction Comparison between ADJ Base and H Subcomm
5. Transaction Comparison between GovAmd and H Subcomm
6. Wordage Report - FY2014 Operating Budget



Representative Mia Costello, Chair

House Finance Budget Subcommittee for the Department of Natural Resources

February 27, 2013