

**DEPARTMENT OF NATURAL RESOURCES  
FY15 - Increment/ Decrement Status**

**Governor's Budget Items Approved with Modifications**

Item #	Appropriation/ Allocation	Description	Gov Request	Amount Approved	CC Book Comment	GF Dec?	LFD Notes/Questions	Agency Comments
1	Oil and Gas/ Oil and Gas	Restore Arbitration of Oil & Gas Royalty Issues	\$650.0 UGF	\$500.0 UGF	<p>Significant funding has been appropriated for oil and gas royalty arbitration in recent years. This funding allows the Division of Oil and Gas to contract with the Department of Law for legal counsel necessary for royalty audit disputes and to provide any necessary economic analysis to support the state's position.</p> <p>As requested by the Governor, the legislature appropriated this funding in the FY15 base budget. However, the legislature reduced the amount requested from \$650.0 to \$500.0 because, based on year-to-date actual FY14 expenditures, it appeared that significantly less was needed than was requested. Based on these projections, the legislature also removed funding from FY14.</p>	\$100.0 UGF	<p>Where did actuals end up for FY14? How is FY15 projecting out?</p> <p><b>Recommendation:</b> At current spending rates, only \$400.0 will be needed. \$100.0 can be removed.</p>	<p>The FY2014 appropriation came as a language appropriation. The FY2014 actual and encumbered expenditures for AR 37989, CC 10405032, total \$285,444. The FY2015 appropriation was received as part of our base budget. The current (as of 12/4/2014) FY2015 actual and encumbered expenditures for the increment are tracked under AR 37403, CC 10400136 which total \$170,139. Projected expenditures for the remainder of FY2015 may include costs related to the following:</p> <p>The most prominent initiatives in the coming months that might require funding from this allocation are reopeners under Royalty Settlement Agreements and evaluation and structuring of royalty in kind versus royalty in value mechanisms.</p> <p>On an annual basis DNR reviews the Royalty Settlement Agreements (RSAs) with ConocoPhillips, BP and ExxonMobil. Each one of these RSAs contains provisions to reopen the RSAs and amend specific components of royalty valuation methodology. These reopeners can be triggered by either the DNR or the producers, and their occurrence are inherently hard to predict. Depending on the scope of each reopener and potential disagreement between the parties, such reopeners can ultimately trigger arbitration or litigation procedures. These can be extremely costly for the DNR, as they require outside legal counsel, various consultants, travel and other expenses. We currently have two such reopeners that we are discussing with ConocoPhillips. It is unclear if we will achieve a negotiated agreement or will need to initiate arbitration procedures.</p> <p>DNR is continuously evaluating the benefits of collecting the State's royalties in kind or in value. We are currently considering various options with existing RIK contract in place and the scope for concluding new RIK contracts going forward. Extension of the existing contract and conclusion of new RIK contracts will require careful evaluation, and potentially can involve utilizing outside consultants to evaluate cost and benefits of taking royalty oil and gas in kind versus in value, hiring legal counsel to assist with various contractual arrangements, and other associated expenses.</p> <p>Underlying all of these activities is the need for reliable market information, analytical tools and adequately trained personnel. DNR needs to procure subscriptions to various information resources and economic valuation tools that will help the Department to effectively evaluate its options and negotiate with the producers. It is also important to ensure that the personnel involved in these projects are adequately trained to evaluate the choices available to the DNR and to negotiate best possible outcomes for the State.</p>
2	Parks & Outdoor Recreation/ Parks Management & Access	Partially Fund Existing and Vacant Parks Field Operation Staff	Total: \$417.5 \$150.0 UGF \$267.5 DGF	Total: \$382.0 \$114.5 UGF \$267.5 DGF	<p>The legislature approved a portion of the Governor's \$417.5 request in Parks Management and Access.</p> <p><b>--The legislature approved \$382.0 (\$114.5 UGF and \$267.5 DGF)</b> to fill most of the existing vacant positions. The Division of Parks &amp; Outdoor Recreation implemented a hiring freeze during FY13 and seven permanent full-time and fourteen temporary positions were held vacant. This resulted in a rise in public complaints about overflowing trash cans, filthy restrooms and general parks deterioration. The \$382.0 would allow DNR to fill most of the vacant positions and manage them within a 3% vacancy factor (approximately equivalent to holding three to four full-time equivalents open).</p> <p><b>--The legislature denied the \$35.5 UGF</b> request for two seasonal positions to maintain the new facilities at the South Denali Visitor Center (Phase 1), expected to open in May of 2015.</p>		<p>Is park fee revenue projected to be sufficient? Have the vacant positions been filled?</p>	<p>The division collected \$3.0 million in fee revenue in FY2014.</p> <p>Park fee revenue is projected to be sufficient to reach the total of \$3.3 million the division is authorized to spend but there may be no carryover from FY2015 to FY2016 as there has been the past 6 years. Receipts through October, 2014 are \$45.0 less than those collected through October of 2013. However, fee increases for overnight camping, annual day use and boat launch decals and daily boat launching will go into effect January 1, 2015 and are expected to generate additional revenue of \$182.0. In addition fees for public use cabins which went into effect in May, 2014, generated \$35.0 more through October of this year as compared to October of 2013. An increase in commercial use permit fees will also go into effect January 1, 2015 but we do not have enough data to determine a projected net increase for that revenue type.</p> <p>Most of the division's vacant positions have been filled or are currently in recruitment.</p>

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**Legislative Additions and Deletions**

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3	Parks & Outdoor Recreation/ Parks Management & Access	Replace UGF with Increased User Fees	(\$250.0) UGF \$250.0 GF/Prgm (DGF)	Agency testimony during subcommittee brought attention to the fact that DNR Parks' user fees were significantly lower than National levels and significantly below statutorily authorized limits. Given the general parks deterioration and the desire to control the general fund budget, unrestricted general funds were replaced with GF/Program Receipts with the intent that park fees be increased.		Has DNR been able to collect user fees in a sufficient amount to offset this UGF reduction?	See note above
4	Agency Unallocated Reduction/ Agency Unallocated Reduction	Unallocated Travel Reduction	(\$90.0) UGF	The legislature removed a total of \$2,634.1 of UGF (1004) as an "unallocated travel reduction" from various departments' travel line. The Department of Natural Resources' share of this UGF reduction is \$90.0.		How has the travel reduction impacted DNR operations?	DNR is an agency with significant expenditures occurring in the spring and summer season. Less than halfway through the fiscal year it is difficult to determine the full impact of the travel reduction, however some specific examples of reductions to travel include: 1. All divisions are evaluating opportunities to do more teleconferencing for meetings and attending some training sessions via computer-based services when practical. 2. The Division of Oil & Gas reduced their participation in the annual National Association of Petroleum Explorationists (NAPE) Conference. The division has traditionally sent 4-5 staff to both the NAPE Summer and NAPE Winter Conferences each year, to market Alaska's oil and gas leasing, exploration and development opportunities. This has been reduced to attendance at only one NAPE Conference per year. 3. The Division of Agriculture will not send an attendee to the annual Western National Plant Conference, which serves as a platform to inform industry professionals about Alaska conditions and allows attendees to become familiar with national and international issues as they relate to current and future challenges in seed inspection and seed science. 4. The Division of Agriculture will not send an attendee to the annual North American Direct Farm Marketing Conference, which reduces staff education and knowledge on marketing techniques, agro-tourism, and advertising strategies.

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**Fiscal Notes**

Item #	Bill #	Title	Amount/ Fund Source	CC Book Comment	GF Dec?	LFD Notes/Questions	Agency Comments
5	HB 140 (Chapter 87, SLA 2014)	Regulations: Notice, Review, Comment	\$112.0 UGF	<u>Administration &amp; Support Services/Commissioner's Office</u> HB 140 changes the Administrative Procedures Act pertaining to adoption, amendment, or repeal of a state regulation. In particular, Section 3 requires DNR to provide the estimated annual cost to private persons, other state agencies, and municipalities to comply with the proposed change in regulation. DNR anticipates needing to hire economists or other financial professionals to assist in the cost estimates relating to private persons and municipalities.	\$50.0 UGF	How has this bill affected DNR operations? Has there been a need to contract for the cost estimates?  <b>Recommendation:</b> Since no funds have been expended at this point, \$50.0 could be removed and still leave funds for future regulations packages.	This bill has affected operations in three ways:  1) We are now anticipating preparing public cost-impact estimates of regulations before public notice using in-house expertise and retained experts, economists, and consultants as necessary. 2) We are anticipating internal staff time will be focused on responding to public questions during the public notice comment period, which the statute directs us to do. 3) We are maintaining flexibility in our process, realizing that these two items may present practical implementation issues that we haven't foreseen  However, DNR has not promulgated ANY regulations since the statute came into affect, and has consequently not used any of these funds. There are several significant regulations packages that may be publicized this fiscal year, and these funds will be used, in some amount, to support these regulations.
6	SB 138 (Chapter 14, SLA 2014)	Gas Pipeline; AGDC; Oil and Gas Production Tax	\$8,986.7 UGF	<u>Administration &amp; Support Services/North Slope Gas Commercialization</u> SB 138 establishes the framework for state participation in a large natural gas project by giving DNR the authority to enter into commercial agreements related to a North Slope gas project. Details of estimated expenditures can be seen in the DNR fiscal note to the bill.		Given the complexity of this issue, I assume a detailed report on the progress will be provided to the legislature. Can a snapshot of expenditures and projections be provided here?	The FY2015 budget outlook for the North Slope Gas Commercialization Project (NSG) is tracking the initial FY2015 budget of \$8,986.7 very closely. To achieve the State of Alaska's (SOA) North Slope Gas Commercialization Project objectives, \$50.0 has been transferred from personal services to contractual to bring critical consultants and contractors onto the Project Team. Overall, the NSG FY2015 budget expenditures are forecast to match the initial budget allocation and a request for supplemental funds is not anticipated.  Expenditures to date through December 4, 2014 total \$3,347.2.
				<b>Legislative Fiscal Analyst Comment:</b> SB 138 also established a fund that AGDC is to use to purchase services from state agencies. The fund was established to facilitate tracking and monitoring of all state expenditures on gasline development. DNR is the only agency that received general funds for gasline activities.			