

State of Alaska FY2004 Governor's Operating Budget

Department of Natural Resources Resource Development Budget Request Unit Budget Summary

Resource Development Budget Request Unit

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BRU Mission

See specific information at component level.

BRU Services Provided

This BRU contains many disparate functions and each is defined at the component level. See specific information at component level.

BRU Goals and Strategies

See specific information at component level.

Key BRU Issues for FY2003 – 2004

See specific information at component level.

Major BRU Accomplishments in 2002

See specific information at component level.

Key Performance Measures for FY2004

Measure:

Forestry - Level and areas of noncompliance with AS 41.17 (Forest Resources and Practices Act) measured by the annual number of field visits and violations.

Sec 110(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Targets

- 100% Detailed Plans of Operations (DPOs) reviewed timely.
- 100% compliance with FRPA best management practices based on implementation monitoring (Note: data is available for Regions I and II only)
- 100% of forest land meeting reforestation requirements

Progress

On track for review of DPOs – in 2002, DOF received 83 DPOs and 39 DPO renewals, and did timely reviews on all of them. The most recent implementation monitoring data is for 2001 sampling in Region I (coastal Alaska) and Region II (south-central Alaska). Overall compliance with best management practices was 92% in Region I and 93% in Region II. Reforestation compliance is 100% in Region I. The Division has been working with landowners to survey reforestation in Region II and Region III (Northern); analysis on 32,800 acres of surveys is in progress.

Benchmark Comparisons:

Forest Resources and Practices Act (FRPA) continues to be certified for compliance with federal Clean Water Act and Coastal Zone Management requirements.

Background and Strategies:

The FRPA supports the timber and fishing industries by protecting fish habitat and water quality, and providing one-stop shopping to the timber industry for compliance with federal clean water and coastal zone standards. Strategies

include reviewing DPOs timely, increasing the ratio of inspections to DPOs received, training landowners and operators in implementation, updating riparian management standards for interior and southcentral Alaska, expanding implementation monitoring statewide, reviewing and improving procedures for documenting reforestation in Interior Alaska, and if violations occur, working with directives and other enforcement actions to correct any problems.

Measure:

Forestry - Annual volume of state timber sold as compared to the amount offered for sale.

Sec 110(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Targets

- 38.6 MMBF offered (including re-offers and over-the-counter sales). This includes 28.6 MMBF from the operating budget and 10.0 MMBF from CIP sales.
- 33.3 MMBF sold

Progress

DNR offered 38.2 MMBF for sale in FY02, up by 5.6 MMBF over the previous year. We sold 16.8 MMBF, more than twice the volume sold in FY01. However, weak markets continue to limit overall sales in the Fairbanks area, and salvage sales of beetle-killed spruce in northern southeast Alaska and on the Kenai Peninsula.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The DNR timber sale program focuses on supporting Alaskan jobs by making timber available for local processors. Competitive and negotiated sales are offered in sizes and locations needed by local processors throughout the state. In FY03, \$401.1 in funding for the timber sale program shifted from General Fund to timber sale receipts. To increase receipts accordingly, we must sell some timber for export rather than in-state value-added processing this year. We are also requesting FY04 CIP funding for thinning in southern southeast to maintain supply from high-productivity sites.

Where feasible, the department also offers salvage sales of timber damaged by fire, bark beetles, or other pests. Salvage sales are designed to reduce wildfire hazards, accelerate reforestation and defray its cost, and capture economic value before the wood decays. Salvage timber may be used locally or exported. The projected volume of sales is somewhat less than the total volume of timber offered because markets are weak for salvage sales, particularly over-the-counter sales and re-offers. However, DNR wants to keep salvage timber offerings available to achieve the benefits of harvesting and reforestation where possible.

DNR projects that FY04 offerings and sales will be greater than the FY02 actuals. The increase reflects a mix of conditions in the timber market. We plan increased offerings in Southern Southeast Alaska, where demand exceeds supply, offering of a large value-added sale near Tok (AS 38.05.123), and offering of more beetle-kill timber salvage on the Kenai Peninsula. This activity is supported by the change in intent for the Kenai salvage CIP which has facilitated more rapid sales in areas of high wildfire risk. However, the statewide target for FY04 is lower than that for FY03, due to continued weak markets in Interior and Southcentral Alaska.

There is no standard performance level for this target. Sale levels depend on the sustainable harvest level in each area, timber type and condition, and markets. State sales vary by area. For example, in Southern Southeast Alaska, DNR plans to offer the full allowable cut for sale, and demand exceeds supply. In Interior Alaska, state timber offerings exceed current demand. Unsold sales continue to be available over-the-counter.

Measure:

Forestry - The acreage of

- (A) state forest land with active insect infestations or diseases;**
- (B) infested or diseased timber offered for sale on state land; and**
- (C) infested or diseased timber sold on state land.**

Sec 110(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Targets

1,052 acres of infested or diseased timber offered for sale on state land
 849 acres of infested or diseased timber sold on state land

Progress

In FY02, 1,381 acres of beetle-killed or infested timber was offered for sale in the Haines and Kenai areas, but only 188 acres were sold due to weak markets for salvage timber. Even at a sale price of \$1/MBF, many sales have no purchasers. DNR continues to offer salvage timber for sale. Since FY94, in the Kenai area alone, 11,166 acres of infested timber have been offered for sale, and 10,500 acres have been purchased, totaling over 60 million board feet. However, not all of the purchased timber has been harvested, and some unharvested sales have been returned to the state, were re-offered, and were not purchased.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

Where feasible, the department offers salvage sales of infested or diseased timber. Salvage sales are designed to reduce wildfire hazards, accelerate reforestation and defray its cost, and capture economic value before the wood decays. Salvage timber may be used locally or exported. In recent years, markets for timber, especially beetle-killed timber – have been weak and many salvage sales had no bidders. Unsold offerings continue to be available over-the-counter or are re-offered.

There is no target for the acreage of infested or diseased land. The extent of infestations is largely controlled by climate and stand condition. Many infested forests are in parts of the state that have no road access or commercial markets, and are not actively managed.

The projected acreage of timber sold is somewhat less than the total acreage offered because markets are weak for salvage sales, particularly over-the-counter sales and re-offers. However, DNR wants to keep salvage timber offerings available to achieve the benefits of harvesting and reforestation where possible. In FY03, the intent of an existing timber salvage CIP for the Kenai area was changed to target salvage to reduce fire hazards and defray reforestation costs that are a barrier for some sales. In response to this change, the Division is planning to offer 11 million board feet of salvage timber on the Kenai Peninsula in FY03, and 10 million board feet in FY04, with an emphasis on areas with high risk of wildfire in the wildland-urban interface. Additional salvage sales will be offered in the Northern Southeast and Copper River areas.

There is no standard for the amount of infested or diseased timber offered or sold. Amounts offered and sold depend on the extent, location, and type of infestations and the market demand for the infested timber. Markets for infested timber are weak, reflecting both generally weak markets for Alaskan timber, especially in Interior and Southcentral Alaska, and reduced value of infested timber.

Measure:

Forestry - The annual volume of state timber offered for in-state companies and converted to value-added products.

Sec 110(b)(4) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Target:

20.1 MMBF offered for in-state companies and converted value-added products.

Progress:

From FY97 through FY02, DNR sold over 300 timber sales to more than 140 different in-state purchasers to be processed wholly or partially in-state. These sales totaled over 97 MMBF of timber (see tables).

Table 1. Number of timber sales sold for value-added processing and number of purchasers by region, FY 97 - FY 02

| Region | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 | Total | # different |
|--------|-------|-------|-------|-------|-------|-------|-------|-------------|
|--------|-------|-------|-------|-------|-------|-------|-------|-------------|

| | | | | | | | # sales | purchasers |
|-----------------|----|----|----|----|----|----|---------|------------|
| Coastal Region | 22 | 34 | 17 | 27 | 25 | 26 | 151 | 73 |
| Northern Region | 28 | 17 | 15 | 33 | 31 | 28 | 152 | 72 |
| Total | 50 | 51 | 32 | 60 | 56 | 54 | 303 | 145 |

Note: Some purchasers bought timber from more than one area, therefore the statewide total for the number of different purchasers is less than the sum of the areas.

Table 2. Volume of timber sold in value-added sales by region (million board feet), FY 97 – FY 02

| Region | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 | Total Volume (MMBF) |
|-----------------|-------|-------|-------|-------|-------|-------|---------------------|
| Coastal Region | 5.2 | 10.5 | 7.6 | 14.1 | 2.8 | 12.3 | 52.6 |
| Northern Region | 14.5 | 6.6 | 6.9 | 6.6 | 5.9 | 4.2 | 44.7 |
| Total | 19.8 | 17.1 | 14.5 | 20.7 | 8.7 | 16.5 | 97.3 |

Benchmark Comparisons:

There is no standard for this measure.

Background and Strategies:

The DNR timber sale program focuses on supporting Alaskan jobs by making timber available for local processors. Competitive and negotiated sales are offered in sizes and locations needed by local processors throughout the state. In Southern Southeast Alaska and parts of the Interior, all offerings were sold. In other areas, more timber was offered than was sold. Unsold timber remains available over-the-counter or is re-offered.

Some state timber is exported. Salvaged wood in spruce bark beetle areas will mostly go to export chip markets. A portion of the timber in Southern Southeast value-added sales is pulp or utility wood with no local market. The pulp and utility wood may be exported, while the higher-grade wood is processed in-state. The proportion of wood from Southern Southeast sales that will go to export will increase in FY 03, because the Division must increase revenues to cover an increase in timber sale receipt funding.

Measure:

Forestry - The number of fires that result from human actions, whether as a function of population growth or other causes.

Sec 110(b)(5) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Target

Reduce human caused fires in the state's protection area.

Progress

In fire season 2002, 320 of the 399 fires were human-caused. This is an increase of the number of human caused fires from fire season 2001 where there were 279 human caused fires. The increased numbers in 2002 resulted from an extended fire season due to extreme dry conditions in May and August.

In March of 2003, 31 human caused fires have already been reported due to high winds and lack of snow in the Mat Su Valley and the Kenai Peninsula.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

Humans cause approximately 80-85 percent of the wildland fires occurring each season in the Division's protection area. Strategies include maintaining an aggressive wildland fire prevention program and continued support of the defensible space and FIREWISE concepts in an effort to reduce the overall percentage of human-caused fires.

Measure:

Forestry - The percentage of fires in full and critical protection categories that are held to less than 10 acres.

Sec 110(b)(6) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Target:

Contain 90% of fires in full and critical protection categories at 10 acres or less.

Progress:

First quarter FY03 on track. In fire season 2001, 271 of 277 fires (99%) of fires in full and critical protection were kept to 10 acres or less. In fire season 2000, 236 of 241 fires (98%) reached the target.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The Division of Forestry responds to an average of 423 wildland fires annually in its protection area. The most cost-effective response requires adequate preparedness and coordination with the Division's numerous cooperators. The occurrence of wildland/urban interface fires will continue to increase as the population moves to the wooded areas of the state, climatic changes result in longer fire seasons, and serious insect/disease infestations add to the hazardous fuels problem.

Strategies include providing immediate, aggressive initial attack in coordination with cooperating local government, structure fire departments and federal agencies. This strategy includes creating and maintaining cooperative agreements to enhance initial attack response effectiveness. Additional strategies include media coverage of fires to expand public awareness of the impact of human caused fires, support of fire prevention activities, and increased public education on how to create survivable space around private property.

Measure:

Oil & Gas - Compliance with the areawide leasing plan and exploration licensing.

Sec 111(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The division is 100% in compliance with this measure.

Since 1979, when the modern oil and gas leasing program began, the division has averaged 2.7 lease sales per fiscal year. In the Five-Year Oil and Gas Leasing Program to be released in January 2003, the division has scheduled four lease sales per fiscal year through FY 07. In addition, the division has issued two exploration licenses and has two license applications in progress.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The division conducted four lease sales during FY 02. Four lease sales are scheduled for FY 03 and two exploration

license applications are in progress.

Measure:

Oil & Gas - The amount of available state acreage offered for oil and gas leasing or for exploration that is:

- (A) licensed for exploration;**
- (B) leased for oil and gas development;**
- (C) leased for shallow natural gas development.**

Sec 111(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The division is 100% in compliance with this measure.

One hundred percent of available state acreage in Cook Inlet, Beaufort Sea, and the North Slope was offered for leasing in FY02. During FY02 the division:

1) held four lease sales (Beaufort Sea, North Slope, North Slope Foothills, and Cook Inlet), and leased over 1.6 million acres, compared to 1.7 million acres in FY01; and

2) issued 65 shallow natural gas leases in the interior, west of Big Delta, covering 452,185 acres, which compares to 23,040 acres in FY01.

3) All available state land is open for exploration licensing:

During the first half of FY03 the division issued an exploration license for the Nenana basin covering 482,942 acres. None was licensed in FY02 and 318,756 acres were licensed in FY01

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

All available state land is made available through our leasing or licensing programs. During FY02, the division utilized a privately owned website (IndigoPool.com) to advertise its lease sales.

Measure:

Oil & Gas - The non-tax revenue received for total state production of oil and gas.

Sec 111(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY02, the division collected \$858.8 million in revenues, down from \$1.1 billion in FY01, largely due to the declining price of oil.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The department's strategies include aggressive monitoring of oil and gas markets, thorough auditing, and periodic reopening of settlement agreements, as well as entering new settlement agreements where advantageous to the state, all for the purpose of maximizing royalty revenues. The division concluded two ANS royalty settlement agreement "reopeners" in which the royalty value for most of the oil production on the North Slope was renegotiated. A third reopener with a major North Slope producer is still underway.

The annual revenues received are continually updated on our website.

<http://www.dog.dnr.state.ak.us/oil/>

Measure:

Oil & Gas - The number of resident and nonresident private sector jobs in the oil and gas industry in the state.
Sec 111(b)(4) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

According to the State Department of Labor, the statistics on employment in Alaska for oil and gas extraction have decreased. Below are annual averages since 1998:

| | |
|-------------------|-------|
| 2002 (Jan – June) | 8,800 |
| 2001 | 9,700 |
| 2000 | 8,700 |
| 1999 | 7,900 |
| 1998 | 8,300 |

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

These figures are available at this site:

http://www.labor.state.ak.us/research/emp_ue/ak95prs.htm

Measure:

Oil & Gas - The number of new and assigned oil and gas rights, plans, and units.
Sec 111(b)(5) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The division does not control the number of applications filed by industry. In FY01, the division administered 32 unit agreements containing 50 participating areas. In FY02, the division administered 36 units and 55 participating areas. In FY02, the division processed 912 oil and gas lease assignment requests. The division is on track to process this year's assignments.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

Delays in issuing leases result in losses of rental revenues to the state, delays in exploration and development projects, and possibly cancellation of exploration programs. Prompt assignment approvals are important for royalty accounting and lease administration. Prompt approvals of unit applications are important in assuring the maximum responsible exploration and development of oil and gas resources, as well as maximizing royalty revenue collection.

In FY01, the division received an increment to clear the backlog in assignments and unit actions. There is no longer a backlog in assignments or units, though demands placed on staff remain high and many staff members are still working overtime to keep the workload current.

The Division of Oil and Gas strategies are to:

- 1) Award new leases oil and gas leases three to four months after a lease sale or a shallow gas application is filed;
- 2) Promptly adjudicate lease assignments;
- 3) Keep up with the increasing numbers of unit-related applications;
- 4) Approve only those assignments of interest and unit-related actions that are in the state's best interest; and
- 5) Maximize revenue to the state.

Measure:

Oil & Gas - The total amount of oil and gas acreage:

(A) under lease or license;

(B) within oil and gas units;

(C) within participating areas and/or non-unitized producing acreage.

Sec 111(b)(6) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

There are 5,562,159 acres under lease -- 5,086,934 acres covered by conventional oil and gas lease and 475,225 acres covered by shallow natural gas leases. There are 801,698 acres included in two exploration licenses. There are 1,117,255 leased acres committed to 36 oil and gas units. There are 597,491 acres included in one or more of the 55 participating areas and 28,534 acres of leased land that is productive but not included in a unit and participating area.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The division conducts an aggressive oil and gas leasing program. Exploration and development on leased lands and unitization activity related with that activity is the natural progression following lease sales. The amount of acreage in units and in participating areas and the year-to-year changes in those amounts are indirect indicators of the level of exploration and development activity on state lands.

Measure:

Claims, Permits & Leases - The number of leases and permits issued for public and private use of state land.

Sec 112(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The Division operates 31 separate programs, most of which involve a permit, lease, or other authorization. The Division reports specific performance measures for each program on a separate report too large to include here. Detailed spreadsheets on these measures are available upon request from DNR Admin Services Manager (Nico Bus 465-2406).

Benchmark Comparisons:

No specific benchmarks are provided as each of the many different types of permits and leases are unique.

Background and Strategies:

The strategy is to provide more revenue to the state than it cost this program to operate. Put another way, the Division more than pays itself. Its operations provide a return to the general fund and deposit money into the permanent fund. (Revenues included in this calculation do not include those that occur through another department or division: i.e., taxes of any sort, oil and gas royalties, timber stumpage fees, etc.)

Measure:

Claims, Permits & Leases - The number of private-sector jobs in mining compared to the prior fiscal year.
Sec 112(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The most recent year for which data is available is calendar year 2001. At that time mine employment was 2,882 private sector mining jobs. This information is taken from "Alaska's Mineral Industry 2001: A Summary" Division of Geological and Geophysical Surveys, March 2002.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The Division's role in creating private-sector mining jobs is to provide secure land tenure for the industry, and to maintain a high quality permitting system that is efficient for the industry, protects public resources and appropriately involves the public in decisions that affects them. One of the Division's successes was permitting and defending the permit for the True North Gold Mine near Fairbanks. That was the only significant hard-rock mine authorized in the United States last year.

We hope that the recent upturn in gold price will increase employment. In addition, we expect that permits will be issued for the Pogo Mine beginning this spring, and so that 2003 and 2004 will have a significant increase in employment.

Measure:

Land Sales & Municipal Entitlements - The number of acres of land conveyed to municipalities compared to total municipal entitlement.
Sec 112(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY 01, DNR transferred 16,677 acres to 10 municipalities. In FY 02, DNR transferred 14,418 acres to municipalities. Last year the legislature funded an increment to the municipal entitlement program so that DNR could substantially eliminate its municipal entitlement backlog within a decade. In FY 03, the Division is beginning the process to accelerate conveyance. Accelerated conveyances will begin in FY 04 and probably reach a high level by FY 05 to accomplish the 10-year performance goal. That is, there is a delay from the time work begins until a high level of conveyance can be accomplished. Much of the work begun in FY 03 and 04 will result in a high level of conveyances in FY 05.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

This program transfers state land to municipalities for development, disposal, revenue generation and public purposes. Tasks include: determine acreage of entitlements under AS 29.65, approve municipal selections, issue deeds to

municipalities, and identify and classify land for municipal ownership.

Having a secure land base is an important economic development tool for municipalities, and not knowing the eventual land ownership patterns can frustrate development generally. At the historic rate of conveyance, DNR would not complete conveyance on the 560,000-acre backlog for almost 50 years. For that reason, the 2002 legislature funded an increment from the Land Disposal Income fund to increase the rate of conveyances to try to substantially eliminate the backlog within a decade. The six boroughs with the major entitlements backlog are Aleutians East, Lake and Peninsula, Denali, Northwest Arctic, North Slope, and Yakutat.

Measure:

Land Sales & Municipal Entitlements - The percentage change in the number of acres of land sold and the revenue generated from land sales and leases.

Sec 112(b)(4) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY 02, the Division offered 2,410 subdivision lots (re-offers of parcels previously surveyed), and 297 remote recreation cabin sites. In addition, 170 subdivision lots remained available for purchase "over-the-counter" from previous years. In total FY 02 was approximately a 1000% increase from FY 01 (294 parcels offered in FY01, 2710 parcels offered in FY02). In FY 03, the Division expects to offer a similar amount again: approximately 2,400 subdivision lots and 255 remote recreation cabin sites. In addition, surveyed parcels that remained unsold from FY 02 will remain available for purchase "over-the-counter" at DNR.

Six hundred and twenty-seven parcels were sold in FY 02 (including the remote staking parcels that went to lease (the first step toward sale). This is the highest number of parcels sold since the large land disposals (funded by a much larger budget) in the early 1980s. These parcels represent 4,723 acres. At the end of FY 02, there remained approximately 23,000 acres for sale over-the-counter.

In FY 02, the disposals generated \$3.06 million in revenue. This is a significant increase from previous years. We expect annual revenues to increase in the next few years.

Benchmark Comparisons:

During the legislative discussion that surrounded passage of SB 183 in 2000, the Division was expected to offer its inventory of almost 5,000 pre-surveyed parcels for sale and to offer 250 remote recreation cabin parcels in each year. The Division is proud to have met those performance measures.

Background and Strategies:

This program makes land available for private ownership. Tasks include: Offer new land for sale; identify and classify additional lands for private ownership; and administer land sale contracts for lands previously offered. In FY 03, the Division expects to generate \$3.4 million from land sales, which is more than pays for the program and will provide a return to Alaskans.

Measure:

Water Development - The number of water right files processed as compared to the number of water rights applied for.

Sec 112(b)(5) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY 02, the Division processed 168 water rights and received 97 applications. This was the first year in many years when the division processed more water rights than it received! In addition, the division processed 116 temporary water use permits.

For many years, the Division was unable to process all of the water right applications it received. The backlog of applications grew continuously. However, HB 185 passed by the 2001 legislature, provided additional funding for the program and a fee methodology to raise those funds. As a result, the Division was expected to process a typical new water right within 60 days and the typical new temporary water use permit within 20 days. The program is currently achieving that performance measure and will be working hard to continue it through FY 03. Within 5 years, the Division expects to eliminate of the backlog except for instream flow applications.

Benchmark Comparisons:

In the legislative discussion that surrounded HB 185, the Division was expected to process a typical new water right within 60 days and the typical new temporary water use permit within 20 days. The program is currently achieving that performance measure and will be working hard to continue it through FY 03. Within 5 years, the Division hopes to eliminate of the backlog except for instream flow applications.

Background and Strategies:

To meet the performance goals described above, the Division will, in FY03, use the funding supplied by the 2001 legislature, to regulations to allow it to raise the fees to gather the revenue envisioned by the legislation.

Measure:

Water Development - The percentage change in the number of periodic dam safety inspections.

Sec 112(b)(6) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY 01, the Division completed 7 periodic safety inspections. It completed 11 in FY 02, and expects to complete 12 in FY 03. These numbers represent a 57% increase from FY 01 to FY 02, and a 9% increase to FY 03. However, the increase does not necessarily represent an increase in efficiency. Periodic safety inspections are scheduled by statute. Thus, seven dams had their periodic safety inspection come due in FY 01, eleven in FY 02, and one more in FY 03.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

Authorizations and inspections are the basic tools to insure that dams under state jurisdiction remain safe and protect downstream life and property.

Measure:

Claims, Permits & Leases - The number and change in the number of active placer, lode, and coal mines permitted and the number of mining locations staked and processed.

Sec 112(b)(7) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Placer mines: During the 2000 calendar year, 346 were permitted; 2001 calendar year, 301 were permitted (a 13% decrease); in 2002 calendar year, 291 were permitted (3% decrease).

In FY00, there were 3 large (lode) mines operating in the state: Greens Creek, Red Dog, and Fort Knox. In FY01, the Illinois Creek Gold Mine resumed operation, and the division approved permits for the True North Gold Mine, a satellite mine to Fort Knox. True North began operation in FY02, and in FY02 the Division permitted an expansion to True North, and successfully defended its decision to permit the mine through a court challenge. In FY03, the Division expects to finish permitting for the Pogo Mine Project.

In FY02, the Usibelli complex had three operating coal mines. There was no change from previous years. Earlier this year (in FY 03), the Division approved permits for the new Rosalie Coal Mine near Healy.

The number of new mining claims no longer accurately reflects the amount of staking activity. Since the legislature's 2000 amendments to Alaska's mining law became August 2000, miners have had the ability to stake either 40-acre or 160-acre claims. For that reason, the *number* of claims no longer accurately reflects the amount of new staking activity. New claim *acreage* is a better indicator. Acreage staked is not yet available for FY02. The information is being compiled and should be available by the start of the legislative

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

With respect to placer mines, the state expects to gain placer mines as federal mines convert to state ownership to escape increasingly complex and difficult federal rules. The Division's role in expediting that process is to maintain its current workable permitting system and to expedite the conveyance (from federal to state). With respect to large lode mines, the department is the lead for state agencies in permitting. The department is currently coordinating state permitting efforts for the Pogo Gold Project.

Measure:

Geological Development - The total value of Alaska's mineral industry.

Sec 113(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Maintaining the total value of Alaska's mineral industry at greater than \$1.0 billion dollars is an important target for Alaska. This target is expected to rise as newly discovered deposits move from initial development to full production. It is significant that in spite of four very difficult years for the worldwide mining industry, the value of Alaska's mineral industry has remained above the target. In Calendar year 2001, the annual value of Alaska's mineral industry was \$1.02 billion.

Statistics for this measure are compiled on a calendar year basis and will not be complete for 2002 prior to April 15, 2003 when companies file their final income tax reports. Preliminary figures will be compiled from questionnaires and public sources by early January. Anecdotal information as of October 11, 2002 indicates that this measure again will be met in FY2002.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The relative strength of the Alaska mining industry is the result of a working partnership involving the Administration, State Legislature, and the private sector. Many programs in DNR compliment one another to support active exploration for and development of Alaska's mineral resources. DGGs contributes to this effort by generating the fundamental geophysical and geologic data needed to effectively explore highly prospective tracts of mineral terrain. We have also shortened cycle times for getting new geologic and geophysical information into the public domain. Through cooperative programs with federal agencies we are moving massive amounts of geologic data onto the Internet where it is more readily available to catalyze Alaska mineral resource ventures. Good geologic and geophysical data combined with a welcoming business environment have been effective inducements for major capitol investment in Alaska's mineral industry. DGGs intends to continue to seek ways of effectively producing the geologic information needed to maintain this investment in Alaska.

Measure:

Geological Development - The total state revenue generated by Alaska's mineral industry.

Sec 113(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

During 2001, Alaska's mineral industry generated \$7.0 MM in direct revenues for the state of Alaska. In addition to these state revenues, the industry generated \$9.8 MM in payments to Alaska municipalities.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The state revenue generating capacity of the mining industry is not as great as that of the state's oil industry. However, each mine developed creates scores to hundreds of quality jobs. Because mine sites are widely disbursed throughout rural Alaska, the industry is creating employment opportunities near local villages in several regions of the state. Prime examples are the Red Dog mine in northwestern Alaska and the Pogo mine development north of Delta Junction in Interior Alaska. The social and economic benefit of nearby cash-based employment and a major industry capable of generating a local tax base to support education and government services is a desirable contribution from the industry in lieu of larger state revenues.

Measure:**Geological Development - The number of acres of ground under private-sector exploration.**

Sec 113(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In Calendar year 2002, 2,806,020 acres of ground were being held in active state and federal mining claims and state prospecting sites. In calendar year 2001, 2,828,280 acres of ground were being held in active state and federal mining claims and state prospecting sites. In calendar year 2000, 3,301,880 acres of ground were being held in active state and federal mining claims and state prospecting sites. In all three years Mineral exploration was also occurring on an additional unknown number of acres not recorded under any form of land tenure system.

This slight decrease for 2002 reflects both world economic conditions and the lack of new airborne geophysical surveys on large state land tracts in 2001.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

The strength of the mining industry in Alaska has resulted from the complementary actions of the Administration, State Legislature, and the private sector. Annual funding of airborne geophysical/geological mineral inventories of prospective mineral tracts, in combination with Alaska's mine development tax incentive and outreach from the Governor's office, has been a significant catalyzing factor. There are many remaining high mineral potential tracts throughout rural Alaska that offer the opportunity for successful mineral exploration, mine development and employment opportunity if the fundamental geological and geophysical data needed to guide exploration are generated and made available.

The success of Alaska's program, however, invoked a strong reaction by our Canadian neighbors. About 70 percent of Alaska's mineral exploration capital comes from Canada. In order to recapture the investment capital flowing to Alaska from Canada, some Canadian provinces instituted multimillion dollar airborne geophysical surveys of their lands and the national government of Canada instituted a "flow through" income tax credit for funds invested in Canadian mineral exploration. These actions combined with the 60-65 percent monetary exchange rate for Canadian dollars vs. United States dollars have been effective in keeping Canadian investment money at home during a time of general reduced venture capital in the world's mining industry.

Quality geologic information remains a key factor in lowering exploration risk and catalyzing investment. It is important for Alaska to meet the challenge posed by competing states and provinces. DGGs plans to continue concentrating its mineral appraisal resources on highly prospective areas to generate the data needed to support Alaska's industry. Early in FY03 state-sponsored airborne geophysical surveys were conducted in the historic Council mining district on the Seward Peninsula.

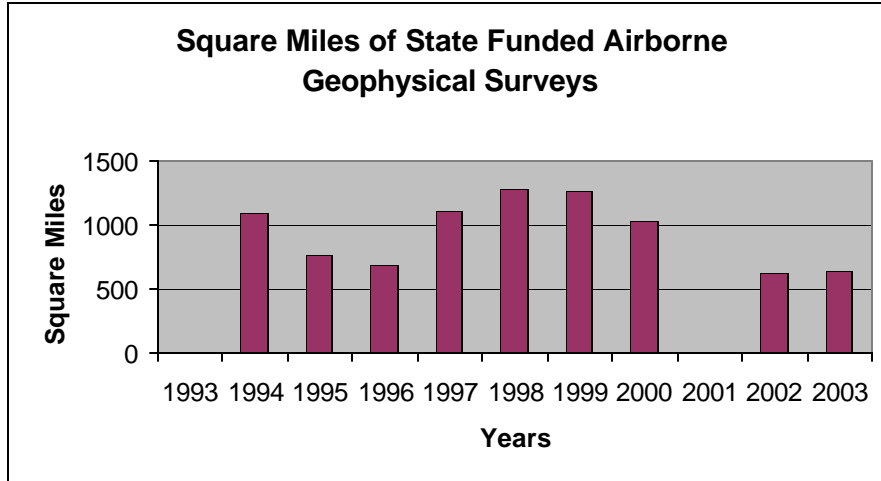
Measure:**Geological Development - The number of the square miles included in completed geophysical/geological mineral surveys of at least 1,000 square miles of Alaska land.**

Sec 113(b)(4) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The 1000 square mile is a challenging target given the staff size and funding available to DGGs. In FY2002, DGGs completed 671 square miles of state sponsored airborne geophysical surveys and 848 square miles of geological ground-truth mapping. About 248 square miles of the ground truth geologic mapping was within the Fortymile mining district airborne geophysical survey tract, and 600 square miles of geologic ground truth mapping was completed in the foothills oil and gas province on the north flank of the Brooks Range.

Because of an approximately 40 percent increase in the cost of airborne geophysical contracts, DGGS will be able to secure only 630 square miles of new airborne geophysical data on state land in 2002 (FY03).



Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

DGGS intends to maintain this performance measure unchanged for FY2004. The number of square miles of airborne geophysical surveys on state lands that can be completed in one year is a function of state CIP appropriations. A tract of 1000 square miles is in good balance with historic funding, public expectations, and a level of commitment that is effective in catalyzing investment in Alaska's mineral industry. Costs of conducting both airborne geophysical surveys and ground-truth geologic surveys have escalated sharply in the last 18 months, in large part because of increased helicopter contract costs. Consequently, \$500 K CIP appropriations in FY03 secured only 630 square miles of airborne geophysical data.

We are pursued complementary federal funding and cooperative agreements with federal agencies in an attempt to acquire resources needed to increase the square miles of geologic ground-truth mapping in geophysical survey tracts completed in FY03. Because these were federal funds, the surveys were largely restricted to Federal and some Native corporation lands. Because of the predominant federal ownership of the land in these federally financed surveys, however, we do not believe that the data generated will have as much positive effect on exploration investment as would a similar survey conducted over state lands where tenure is more certain.

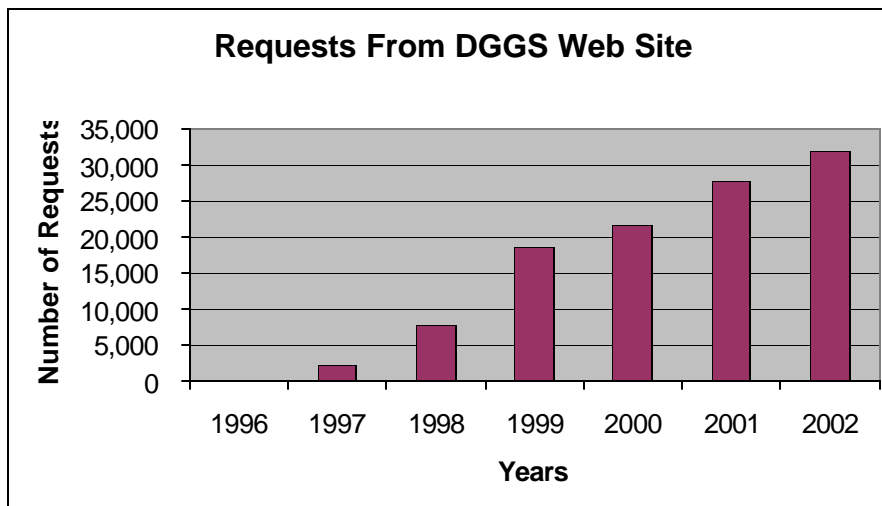
Measure:

Geological Development - The number of users requesting information on the geology of Alaska from the Division of Geological and Geophysical Surveys web site.

Sec 113(b)(5) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The DGGS Web site came on line during FY96. Since that time usage has risen steadily. There is an increasing demand from the users of Alaska geologic data for more DGGS data on the Internet. We expect that demand will continue to rise but we do not know what level to set as a benchmark. As an initial estimate, in mid-FY00 we forecast 20,000 Internet contacts for FY01. By the end of FY01 we had 27,731 users who sought information on the DGGS Web site. In FY02 we had 31,952 contacts on the Web site.

**Benchmark Comparisons:**

There is no benchmark for this measure.

Background and Strategies:

The main object of the DGGS Web site is to supply geologic information collected by DGGS to the public at large, including industry, government agencies, and private citizens, as quickly and completely as is feasible. Currently one can locate, read, and download all of DGGS's maps and reports over the Internet. DGGS is now in the process of constructing a geologic database management system that will allow the public to access a wider range of fundamental data files that can be downloaded for in depth analysis. We expect that when this database management system is complete, the Web site will become a primary avenue for securing Alaska geologic resource and engineering geologic data. It is our intent that the cost of this data will be nominal or free to the public. We will continue to provide paper-based products to those that request them, but we believe that the Internet access to DGGS geologic information will have a significant positive impact in reaching Alaskans, and others, that can never be matched by conventional paper maps and reports.

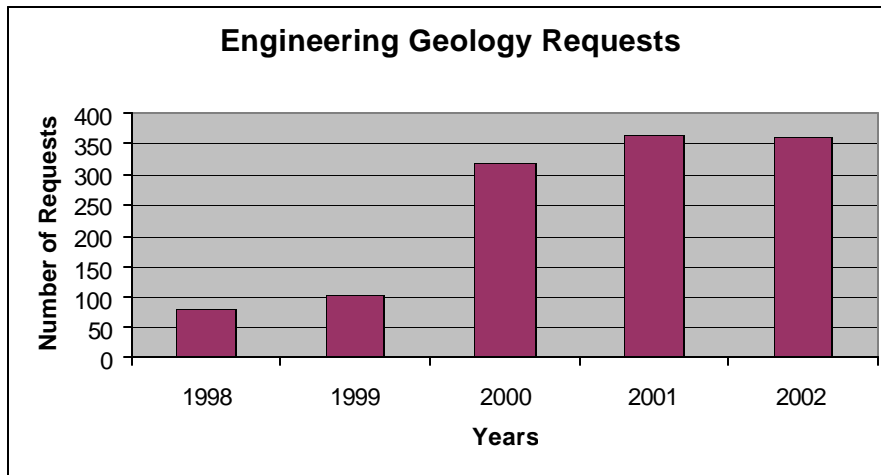
Measure:

Geological Development - The number of responses made by the division to requests for information or assistance relating to engineering geology or hazards in the state.

Sec 113(b)(6) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Even before DGGS began keeping records of these responses in FY96, it was clear that there was a high demand for this service, which consistently required on the order of 70-80 responses per year. This demand has been increasing and in mid FY00 we estimated that the number of requests would continue to exceed 100 per year. By the end of FY01 the actual recorded responses were 365 and that number was approximately reached again in FY2002 with a total of 360.

**Benchmark Comparisons:**

There is no benchmark for this measure.

Background and Strategies:

A significant component of the workload in DGGs' Engineering Geology section now entails providing timely responses to requests for information and technical assistance on hazards like earthquakes, landslides, and permafrost. Additionally, DGGs responds to queries regarding engineering characteristics of geologic materials with regard to aggregate resources and foundation conditions. During FY01, DGGs experienced a marked increase in requests to review land use permit requests for their adequacy in addressing engineering geology and geologic hazard issues. That increased workload has remained constant throughout FY02 and apparently represents a new consistent workload not previously budgeted for.

These requests come from other DNR divisions, other state agencies like Transportation & Public Facilities, Emergency Services, and Community & Economic Development, private geotechnical consultants, local governments, schools, and individuals. Nearly all requests require research to locate the area of concern, assess the potential significance of local geology on the desired activity, and, if necessary, compile applicable geologic maps and other literature, and formulate a reasoned response.

Rather than viewing these requests as troublesome diversions from our scheduled project work, DGGs sees them as an indication of an awareness of the need for better planning and design information and as an opportunity to mitigate the impacts of natural geologic hazards and help reduce long-term costs of responding to and recovering from events that can be anticipated and designed for. DGGs intends to improve awareness of the needs for engineering-geologic information and will continue to respond to these requests as quickly as we can while at the same time not sacrificing our commitments to scheduled project work.

Measure:

Land Sales & Municipal Entitlements - The number of acres of land acquired toward the Statehood Entitlement.

Alaska's Target & Progress:

In FY02, the state received 252,451 acres toward its statehood entitlement from BLM. This acreage was primarily to acquire portions of the Colville River, North Slope Foothills for oil and gas exploration and portions of the Denali Block for its mineral values. For FY03, DNR expects to receive approximately 250,000 acres that represents the remaining acres requested in the same areas. In FY04, the gain in entitlement acreage is anticipated to drop to approximately 5,000 acres. This smaller amount represents the trend for DNR to request individual parcels that are needed for a specific economic development activity, rather than the larger areas for more speculative resource value purposes that were conveyed in the past. With the exception of FY02 and FY03, we are now getting more parcels, but less acreage.

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

In FY04, receipt of entitlement land will require DNR to review approximately 400 BLM decisions to ensure that clear title is established with appropriate easements and dedications to protect public access. Many of the BLM decisions, approximately 10-20%, will be challenged or changed through negotiations to ensure that the state receives clear title and appropriate access.

Measure:

EFF Non-emergency - Use of emergency firefighter personnel for non-emergency hazard fuel reduction and habitat improvement projects where funding is available

Alaska's Target & Progress:

The target is to provide Alaskan jobs through use of emergency firefighter personnel for non-emergency hazard fuel reduction and habitat improvement projects where funding is available.

EFF crews from the Mat/Su, Fairbanks and Kenai areas, and the Tazlina Hotshot crew, were utilized during FY02 by municipal and federal agencies. There is interest by the Municipality of Anchorage and the Kenai Peninsula Borough in using them again in FY04.

Benchmark Comparisons:

No benchmark comparisons because no other states use emergency firefighters for non-emergency projects.

Background and Strategies:

Wildland fire and wildland/urban interface risks can be mitigated through projects that utilize federal, municipal, or other funding while concurrently providing employment and experience to Type II EFF crews. Forestry has used a strategy of providing employment to emergency firefighters for non-emergency hazard fuel reduction and habitat improvement projects on the Kenai Peninsula and the Municipality of Anchorage.

Use of trained and experienced village EFF crews and individual EFF for hazard fuel reduction, prescribed fire and other resource management projects supports the Governor's goal of increasing employment opportunities for Alaskans. It also improves wildlife habitat and reduces potential wildland fire threats to the citizens of Alaska, structures and other high value resources.

Utilizing EFF crews and individual EFF for non-emergency hazard fuel reduction and other prescribed fire projects provides opportunities for crews to work together, enhancing their skills for wildland fire assignments and provides needed revenue into the rural communities of Alaska.

Resource Development
BRU Financial Summary by Component

All dollars in thousands

| | FY2002 Actuals | | | | FY2003 Authorized | | | | FY2004 Governor | | | |
|--|----------------|---------------|-------------|-------------|-------------------|---------------|-------------|-------------|-----------------|---------------|-------------|-------------|
| | General Funds | Federal Funds | Other Funds | Total Funds | General Funds | Federal Funds | Other Funds | Total Funds | General Funds | Federal Funds | Other Funds | Total Funds |
| <u>Formula Expenditures</u> | | | | | | | | | | | | |
| None. | | | | | | | | | | | | |
| <u>Non-Formula Expenditures</u> | | | | | | | | | | | | |
| Oil & Gas Development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4,012.0 | 142.5 | 2,232.1 | 6,386.6 |
| Claims, Permits, & Leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5,220.5 | 743.1 | 1,654.5 | 7,618.1 |
| Land Sales & Municipal Entitlem. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 56.2 | 2,958.9 | 3,015.1 |
| Title Acquisition & Defense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,050.7 | 0.0 | 114.4 | 1,165.1 |
| Water Development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 851.7 | 39.8 | 537.7 | 1,429.2 |
| RS 2477 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 115.0 | 0.0 | 0.0 | 115.0 |
| Assertions & Litigatio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 380.9 | 0.0 | 100.5 | 481.4 |
| Director's Office/Mining, Land & Forest Management & Develop | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6,584.0 | 1,189.0 | 1,764.3 | 9,537.3 |
| EFF Non-Emergency Projects | 0.0 | 0.0 | 259.2 | 259.2 | 0.0 | 0.0 | 250.0 | 250.0 | 0.0 | 0.0 | 250.0 | 250.0 |
| Geological Development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2,078.0 | 1,211.9 | 1,028.7 | 4,318.6 |
| Development - Special Projects | 12.1 | 0.0 | 430.4 | 442.5 | 309.5 | 0.0 | 1,716.1 | 2,025.6 | 0.0 | 376.8 | 2,094.9 | 2,471.7 |
| Pipeline | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 410.9 | 41.0 | 3,307.5 | 3,759.4 |

| | FY2002 Actuals | | | | FY2003 Authorized | | | | FY2004 Governor | | | |
|---|----------------|---------------|----------------|----------------|-------------------|---------------|----------------|----------------|-----------------|----------------|-----------------|-----------------|
| | General Funds | Federal Funds | Other Funds | Total Funds | General Funds | Federal Funds | Other Funds | Total Funds | General Funds | Federal Funds | Other Funds | Total Funds |
| Coordinator Mental Health Lands Admin | 0.0 | 0.0 | 914.1 | 914.1 | 0.0 | 0.0 | 983.2 | 983.2 | 0.0 | 0.0 | 1,108.6 | 1,108.6 |
| Gas Pipeline Office | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Totals | 12.1 | 0.0 | 1,603.7 | 1,615.8 | 309.5 | 0.0 | 2,949.3 | 3,258.8 | 20,703.7 | 3,800.3 | 17,152.1 | 41,656.1 |

Resource Development

Proposed Changes in Levels of Service for FY2004

Several components from the following BRU's are consolidated into this Resource Development BRU for FY04.

The following BRU's are deleted:

- Forestry Management & Development
- Oil & Gas Development
- Minerals, Land & Water Development
- Statehood Defense

See specific information on service level changes at the component level.

Resource Development

Summary of BRU Budget Changes by Component

From FY2003 Authorized to FY2004 Governor

All dollars in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| FY2003 Authorized | 309.5 | 0.0 | 2,949.3 | 3,258.8 |
| Adjustments which will continue current level of service: | | | | |
| -Oil & Gas Development | 11.8 | 0.8 | 16.1 | 28.7 |
| -Claims, Permits, & Leases | 0.1 | 6.8 | 118.3 | 125.2 |
| -Land Sales & Municipal Entitlem. | 0.0 | 0.4 | -91.9 | -91.5 |
| -Title Acquisition & Defense | 0.0 | 0.0 | 0.3 | 0.3 |
| -Water Development | -100.0 | 0.1 | 102.0 | 2.1 |
| -Director's Office/Mining, Land & | 0.9 | 0.0 | 0.7 | 1.6 |
| -Forest Management & Develop | 0.8 | 7.8 | 16.5 | 25.1 |
| -Geological Development | 29.8 | -255.1 | 264.2 | 38.9 |
| -Development - Special Projects | -309.5 | 1.8 | -519.7 | -827.4 |
| -Pipeline Coordinator | 0.7 | 0.5 | 16.5 | 17.7 |
| -Mental Health Lands Admin | 0.0 | 0.0 | 8.6 | 8.6 |
| -Gas Pipeline Office | -10.0 | 0.0 | 0.0 | -10.0 |
| Proposed budget decreases: | | | | |
| -Title Acquisition & Defense | 0.0 | 0.0 | -10.2 | -10.2 |
| -Geological Development | 0.0 | -44.9 | 0.0 | -44.9 |
| -Development - Special Projects | 0.0 | 0.0 | -81.0 | -81.0 |
| -Pipeline Coordinator | 0.0 | 0.0 | -147.4 | -147.4 |
| -Gas Pipeline Office | 0.0 | 0.0 | -2,242.5 | -2,242.5 |
| Proposed budget increases: | | | | |
| -Oil & Gas Development | 314.7 | 0.0 | 340.0 | 654.7 |
| -Claims, Permits, & Leases | 0.0 | 0.0 | 67.3 | 67.3 |
| -Land Sales & Municipal Entitlem. | 0.0 | 0.0 | 59.6 | 59.6 |
| -Title Acquisition & Defense | 0.0 | 0.0 | 77.3 | 77.3 |
| -Water Development | 0.0 | 0.0 | 35.0 | 35.0 |
| -Geological Development | 0.0 | 0.0 | 300.0 | 300.0 |

| | | | | |
|-----------------------------------|-----------------|----------------|-----------------|-----------------|
| Proposed budget increases: | | | | |
| -Development - Special Projects | 0.0 | 375.0 | 979.5 | 1,354.5 |
| -Mental Health Lands Admin | 0.0 | 0.0 | 116.8 | 116.8 |
| FY2004 Governor | 20,703.7 | 3,800.3 | 17,152.1 | 41,656.1 |