



Trust  
Land Office

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July 1, 2013 – June 30, 2014

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## MESSAGE FROM EXECUTIVE DIRECTOR

The Trust Land Office (TLO) is committed to supporting the mission of the Alaska Mental Health Trust (Trust). Our role is to protect and enhance the natural resources while generating revenue for the Trust and its beneficiaries through development of those same resources. This last fiscal year, we produced over \$11 million through the programs we manage on Trust land. Over the last 20 years, the TLO has generated over \$165 million from this same management.

Recently, we have moved into an era of more complex business transactions with greater challenges. This has required a higher level of expertise, more upfront costs, and longer lead times to bring resource projects forward. With direction from the board of trustees, TLO staff have risen to the challenge, incorporating new ideas, being more creative, and exploring new ways of working “beyond the box.” The evidence of this success is the continued stable revenue the TLO generated this last fiscal year.

Land sales continue to be our most popular program with Alaskans. To meet the demand, TLO has focused on subdividing larger Trust parcels into smaller lots – suitable for residential and recreational use. Other highlights include a growing oil and gas lease program, work on an interagency panel to market Alaska forest resources, and our expanding commercial real estate acquisitions.

Managing the Trust’s statewide resources is a challenge and a privilege. A new program, Marketing Wetlands for Mitigation, will expand the asset classes in the Trust’s portfolio and turn non-revenue generating assets into income-producing properties for generations to come.

Sincerely,



Marcie Menefee

## RESOURCE HIGHLIGHTS

### LANDS

#### Land Management and Development

Since FY98, the Land Sale Program has generated \$23,342,700 in Principal and Income revenue for the Trust from the sale of 692 parcels. Financing through the TLO has been utilized by 67 percent of the customers.

In FY14, the Land Sale Program sold 26 parcels for a total of \$1,027,500 - 15 percent above minimum bid

value. This includes all seven parcels in the Two Fish Lake subdivision - a new TLO developed project.

The Great Land Trust agreed to purchase a 40-acre parcel known as the "Butte" in Palmer for \$187,500. The Butte has a popular recreational trail used by local

residents as well as tourists. This parcel is encircled by private landowners and the Matanuska-Susitna Borough (Mat-Su Borough). Access to the steep parcel

is by foot on the Mat-Su Borough's trail system. Future development is limited by access, zoning, and intensive public use.

A perpetual easement for a road to Shelter Cove on Revillagiedo Island was granted to the Alaska Department of Transportation.

This brought in \$127,900 in Principal revenue. This road will provide access to over 5,000 acres of Trust lands supporting potential developments in real estate, timber, or mining.

The Mat-Su Borough purchased a perpetual easement for the Alaska



*Top of the Butte in the Mat-Su Borough*

Railroad Expansion Project located at Point MacKenzie. The sale price for the easement is \$198,600. This expansion will provide improved rail transportation between Interior Alaska and the shipping facilities at Port MacKenzie.

The Raven's Trail easement agreement with the Forest Service was executed in August 2013. The trail is now wheelchair-accessible. Considered the most popular trail in Petersburg, the agreement has brought a great deal of positive attention to the Trust.



*Raven's Trail in Petersburg*

## **Stewardship**

An application submitted by the City of Homer (the City) led the TLO to discover that the City believed it owned Trust land on the Homer Spit. Title research was completed and verified the Trust's position as the rightful landowner. The City had erroneously authorized leases and subdivisions on the subject property for decades. A settlement between the City and the TLO is ongoing.

A 2007 site that was contaminated as a result of a plane crash spilling 3,000 gallons of heating oil on Trust land near Nenana was closed in March 2014. The Department of Environmental Conservation (DEC) has verified that no contamination exists above cleanup standards.



*Communications tower on Trust land*





*Water testing for environmental baseline*

## MINERALS AND ENERGY

A competitive oil and gas lease offering in the fall of 2013 resulted in two agreements yielding a total of \$365,000 of bonus bids. Rental revenue for these two Cook Inlet leases will total \$122,300 a year.

Placer mining continues to provide the Trust with modest annual royalty revenues. These types of agreements allow for smaller operators to participate in the mining industry and provide the Trust an excellent return on efforts.

The TLO negotiated four oil and gas leases that resulted in a total of \$490,000 in bonus bids. These leases will generate nearly \$230,000 in annual Income revenue. Two of the leases are located near Point MacKenzie and two are situated north of Big Lake near Horseshoe Lake.

A competitive mineral lease offering in the Haines area resulted in an agreement to lease 99,000 acres of Trust land. The annual rental for this lease will be \$25,000. The contract was signed in FY15.

The TLO has been more aggressively marketing the mineral potential of Trust land. Staff participated in the annual Mineral Exploration Roundup in Vancouver, British Columbia, with over 6,000 attendants. TLO staff also participated in the annual Prospectors and Developers Association of Canada conference in Toronto, Ontario. This is the largest gathering of mineral explorers in North America and it brings developers from all over the world. By participating in this conference, the TLO was able to expose over 30,000 attendees to the mineral potential of Trust land. This exposure is expected to improve the field of competition for Trust leases and increase revenue over time.



*Gold nuggets from a Northern Region placer mine*

Buccaneer's gas production from two wells on Trust land in the Kenai Loop gas field has been at the center of an

allocation dispute being handled by the Alaska Oil and Gas Commission (AOGCC) between the Trust and adjacent landowners. All parties agree that these wells are draining gas from adjacent lease areas, but the percentages have not been finalized. As part of the dispute proceedings, the AOGCC ordered

Buccaneer to create an escrow account for revenues from the wells in question to be held until an allocation agreement is signed by all parties. Royalty payments to the Trust ceased following this order and Buccaneer has been in bankruptcy since May 31, 2014.

## FORESTRY

The TLO awarded the Icy Bay Timber Sale in a competitive offering. This sale is likely to generate approximately \$10,000,000 over the life of the sale. Harvest operations are expected to begin in FY17. As part of the contract, the operator will immediately assume responsibility of area maintenance, greatly reducing the Trust's liability.

The Kasaan Timber Sale has generated just over \$1,000,000 of revenue over the last two fiscal years. Current market conditions have slowed the harvest of this sale. If market conditions for young growth timber improve, there could be an estimated six million board feet of saleable timber remaining.

The Wrangell Institute Timber Sale is complete. This sale generated \$575,000 of revenue.

Current young growth timber sales continue at Icy Bay and Kasaan. Salability of young growth timber is driven by fluctuating conditions in the China market. Alaska has an advantage in this market due to its proximity, but some of this advantage is offset by higher costs for operations, supply uncertainty and a dwindling infrastructure. As a



*Second growth timber in Gustavus*

member of the Alaska Forest Management Cooperative, the TLO is working to develop strategies to maintain the Alaska market position by reducing risk and maintaining access. This group consists of the TLO; the Division of Mining, Land, and Water; the Division of Forestry; and the University of Alaska.





Falls Creek Subdivision, Petersburg, Alaska



## REAL ESTATE DEVELOPMENT

Real Estate Development agreements generated \$457,400 of Income revenue in FY14.

The U-Med district continues to be a high value area for the Trust. A medical office building on a Trust parcel located at the gateway to the U-Med district on Lake Otis is undergoing major renovations and expansion. The parcel is under a long-term ground lease that generated \$156,900 in Income revenue in FY14.



*Construction of office building on Trust land in U-Med district*

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Tract D-2, another parcel under a long term lease in U-Med, is under construction. An office building that will house a financial institution and a medical imaging center will be ready in winter of FY15.

## REAL ESTATE INVESTMENT

Beginning in FY12, the Alaska Mental Health Trust began a long-term strategy to mitigate risk in the Trust's holdings through geographical and property type diversification. Over the past several years, acquisitions of stabilized, commercial income properties have been made in Alaska, Utah, and Washington. The Trust continues to acquire commercial assets that fit its investment strategy by seeking quality, well-positioned properties with stable,

credit-worthy tenants located in growing markets throughout the United States.

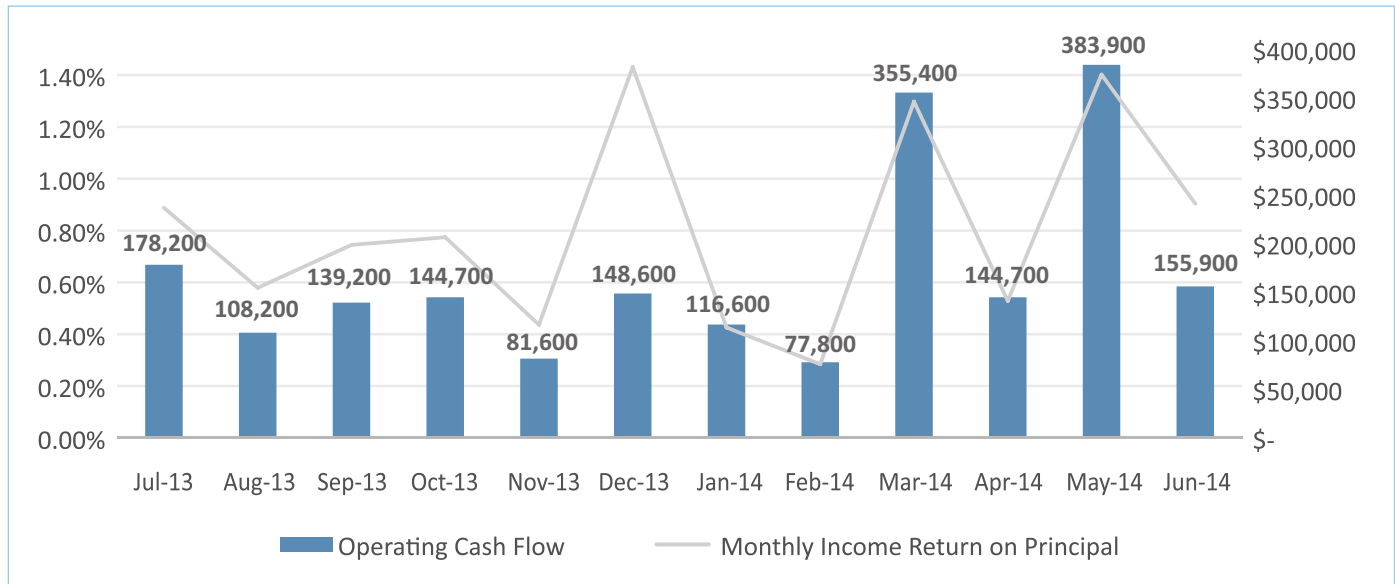
Real estate investment generated \$1,318,800 of Income revenue in FY14.

Since inception, real estate investment assets have generated \$3,044,500 of cash flow. At the close of FY14, the Trust's real estate investment assets totaled 200,285 SF, with an estimated market value of \$37,659,250, and total FY14 cash flow of approximately \$2,034,800.

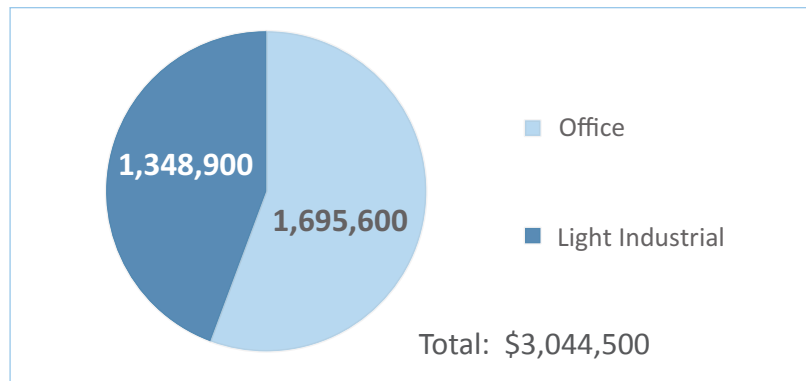
Notable investment milestones in FY14 include purchasing a 52,510 SF office building in Tumwater, Washington, and financing transactions totaling \$20 million.

The following pages summarize FY14 accomplishments and individual property detail and performance.

### Cash Flow by Month - Real Estate Investment Portfolio



### Cash Flow by Property Type - Inception to Date



### Portfolio Value as of June 30, 2014

Asset Basis	\$ 37,174,700	
Asset Appreciation/(Depreciation)	\$ 484,600	
Realized Gains/(Losses)	-	
Current Asset Value	\$ 37,659,300	
Equity	\$ 18,087,100	48.03%
Debt	\$ 19,572,200	51.97%

### 2600 Cordova Street Anchorage, Alaska

- A well located, two-story, 29,546 square foot, multi-tenant office building in Anchorage, Alaska's Midtown district.
- Tenants include the TLO, Alaska Travel Industry Association, Anchorage Dental Arts, The Hill Chiropractic Clinic, Groh Eggers, and Coldwell Banker Commercial Real Estate.
- Close proximity to area shopping, restaurants, and services, as well as the many major corporate tenant campuses throughout the area.

Acquisition Date	July 1, 2011
Buildings & Land	\$5,104,700
Appreciation	\$195,300
Estimated Market Value	\$5,300,000
FY14 Net Operating Income	\$430,900
Debt	0%
FY14 Cash Flow	\$445,100
Cash on Cash Return	8.97%
Number of Tenants	10



### 2618 Commercial Drive Anchorage, Alaska

- Net leased, 15,210 square foot industrial building including four service bays, assembly shop, office and showroom space; occupied by national credit tenant, Cummins Northwest.
- A well-maintained and attractive property that includes yard and secured storage and high-visibility signage in a well-traveled corridor.

Acquisition Date	April 6, 2012
Buildings & Land	\$2,307,800
Appreciation	\$112,200
Estimated Market Value	\$2,420,000
FY14 Net Operating Income	\$181,300
Debt	54.80%
FY14 Cash Flow	\$150,500
Cash on Cash Return	14.03%
Number of Tenants	1





### 1973 North Rulon White Boulevard Ogden, Utah

- 103,000 square foot, light industrial building leased by U.S. General Services Administration.
- Occupied by the IRS and utilized as a mail processing center for business tax returns from the Western U.S.
- Property includes 13.14 acres, large parking area with 555 spaces; expansion capability for both building and parking; separate and secure storage building; and secured perimeter fencing with guard controlled ingress/egress.

Acquisition Date	May 14, 2013
Buildings & Land	\$12,922,400
Appreciation	\$316,800
Estimated Market Value	\$13,239,300
FY14 Net Operating Income	\$1,094,000
Debt	62.28%
FY14 Cash Flow	\$921,800
Cash on Cash Return	14.54%
Number of Tenants	1



### 1111 Israel Road SW Tumwater, Washington

- A 52,510 square foot, office building leased by the State of Washington.
- Occupied by the Washington State Parks & Recreation Commission and State Environmental Hearings Office.
- 2.36 acres, adequate parking; LEED Gold certification; easy access to I-5; constructed in 2008.

Acquisition Date	January 7, 2014
Purchase Price	\$16,839,700
Depreciation	(\$139,748)
Estimated Market Value	\$16,700,000
FY14 Net Operating Income	\$531,700
Debt	59.88%
FY14 Cash Flow	\$526,300
Cash on Cash Return	7.19%
Number of Tenants	2



## REVENUES

PRINCIPAL	ACTUAL	(UNDER)/OVER	ANNUAL GOAL	% of GOAL
Coal	-	-	-	-
Oil & Gas	1,350,569	(653,431)	2,004,000	67%
Minerals	3,316,883	2,716,883	600,000	553%
Materials	80,637	68,637	12,000	672%
Timber	571,123	166,123	408,000	141%
Land	1,141,267	(364,733)	1,506,000	76%
Real Estate	-	-	-	-
TOTAL	\$ 6,460,479	\$ 1,933,479	\$ 4,530,000	143%

INCOME	ACTUAL	(UNDER)/OVER	ANNUAL GOAL	% of GOAL
Coal	177,491	137,491	40,000	444%
Oil & Gas	1,526,743	1,178,743	348,000	439%
Minerals	571,835	51,835	520,000	110%
Materials	-	-	-	-
Timber	100,786	28,786	72,000	140%
Land	1,033,225	(228,975)	1,262,200	82%
Real Estate	1,318,814	1,058,814	260,000	507%
TOTAL	\$ 4,728,894	\$ 2,226,694	\$ 2,502,200	189%

TOTAL	ACTUAL	(UNDER)/OVER	ANNUAL GOAL	% of GOAL
Coal	177,491	137,491	40,000	444%
Oil & Gas	2,877,312	525,312	2,352,000	122%
Minerals	3,888,718	2,768,718	1,120,000	347%
Materials	80,637	68,637	12,000	672%
Timber	671,909	194,909	480,000	141%
Land	2,174,492	(593,708)	2,768,200	79%
Real Estate	1,318,814	1,058,814	260,000	507%
TOTAL	\$ 11,189,372	\$ 4,160,173	\$ 5,935,000	272%

## ON THE HORIZON

The TLO has actively engaged in researching the development of a wetlands mitigation banking program. The Trust has resource development rights to both surface and subsurface estates. These development rights, in combination with a wetlands mitigation banking program, would improve the Trust's market position by creating a broader spectrum of development opportunities that encourage revenue-generating activity on Trust land.

Negotiations with utility companies are ongoing and it is anticipated that several new master utility easement agreements will be completed in FY15, which will add to long-term, annual Income revenue.

The feasibility analysis for the Trust Land Exchange will be completed in the near future. This will enable the Forest Service to sign the Agreement to Initiate (ATI). Steps following the execution of the ATI include: National Environmental Protection Act requirements, timber cruises, and the formal appraisal process.

LINC Energy is exercising its option to convert an exploration license near Tyonek to a lease.

The Municipality of Anchorage (MOA) will be reconstructing Yosemite Drive from Hiland Road to the high school where the Trust owns two large parcels. The TLO plans to incorporate the construction of water and sewer infrastructure for these parcels coincident with this MOA project, yielding tremendous savings to the Trust. The Yosemite parcels are in a prime location with easy access into Anchorage. The TLO plans to develop approximately 90 high-value residential lots as well as an area for potential commercial development.

Ongoing discussions are occurring with interested parties concerning leasing various commercial properties. FY15 will see ongoing improvements to high value parcels and associated leasing activity.

Staff is actively seeking new opportunities for real estate investment and FY15 will likely see additional acquisitions bringing new and diversified income revenue to the Trust.



*Timber, Trust land at Little Harding Lake, and Trust parcel on Yosemite Drive*



# Trust

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