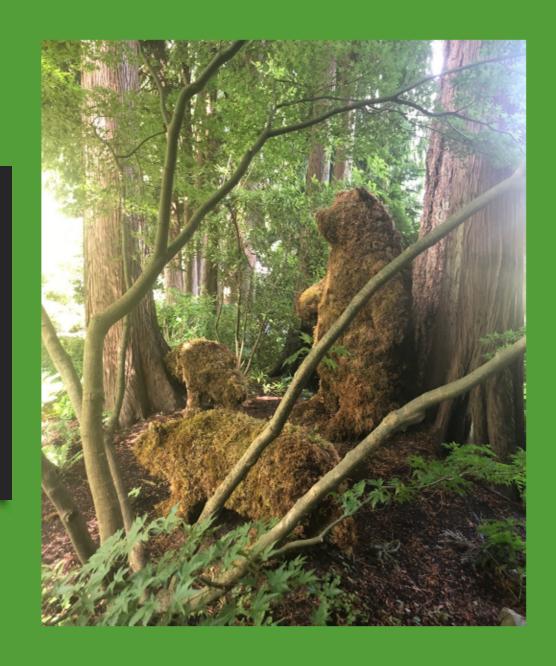
USFS / AMHT Proposed Land Exchange Anticipated Returns by Scenario

Alaska Mental Health Trust January 3, 2019 Anchorage, Alaska







Current Status of Exchange



Financial Picture of Exchange Process



What we need from board today and why



Restatement of TLO Development Challenges



Results of Phase I

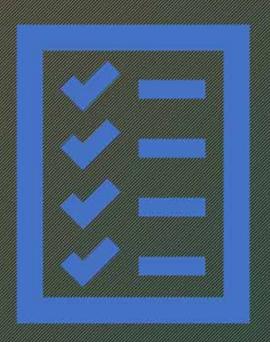


Anticipated forward-looking results of Phase II



Recommendation: Proceed with Exchange

Status Update



- Appraisal Phase I Complete
- Survey Trust lands 90% Complete
- Survey Fed Lands Phase I Complete
- Trespass Issues 70% Resolved
- Phase I Title Review Complete
- USFS Required Reports Complete

Status Update (Continued...)

Still to do...

- Complete Phase II Appraisals (incl. timber cruises)
- Minor boundary adjustments
- Complete trespass/encroachment remediation
- Updates to USFS reports which have expired



Land Exchange Costs



Per the federal legislation, Trust has to pay for all expenses.

- Spent to date: \$3,300,000
- Expected full cost of exchange at completion: \$6,306,000

The Land Exchange has experienced cost and schedule over runs in the following areas:

- A. Surveys of the Federal Lands
- B. Surveys on the existing Trust Lands, marking and posting
- C. Appraisals:
 - Appraisal Costs exceeded originally anticipated budget and timetables.
 - ii. Timber Cruises Costs
- D. Trespass Issues additional costs have generally been in the form of unanticipated subdivision and minor clean-ups of debris
- E. Realized cost savings in some areas and overruns in others

What we need today...



- 1) Make the State Law effective through AMHTA's board of trustees' informed decision to proceed with the Exchange
- 2) Conditions:
 - a) AMHTA board of trustees approves exchange
 - b) Chair certifies to Lt. Governor that all requirements of 22 SLA 17 have occurred





AMHTA Board of Trustees approve the exchange



Why is that our recommendation?

TLO's Analysis is Predicated on the Following...

- Obligated costs of exchange are spent even if exchange not approved.
- Use of existing parcels for producing revenue comes with unique challenges, including local government approvals, market fluctuations, topography, law suits, and other issues. Revenue is not guaranteed, potential revenue projections are assumptions.
- Only the Phase I appraisals are completed Phase II values are unknown, the TLO has made informed estimates. The final appraisal is what rules and determines the land value.
- TLO based its recommendation to board of trustees on low, medium and high scenarios for value comparison. High confidence that dollar-for-dollar exchange will not be less than the lowest assumption.
- Approval recommendations are made comparing USFS value estimates versus Trust value estimates, assumptions of potential future revenues from exchange lands compared against potential revenue from existing lands.
- No net present value calculations are used because we can not truly know how long it will take to realize returns on any of the scenarios.

Revenue Challenges on Existing Lands

Use of existing parcels for producing revenue comes with unique challenges:

- local government approvals of timber sale/land sales
- real estate market fluctuations
- topography
- law suits to stop timber harvest
- additional surveys are required on large parcels prior to any conveyance or breakdown actions

Revenue not guaranteed

Ketchikan

Wrangell

Petersburg

Sitka

Meyers Chuck No Name Bay

Existing Development Challenges

Potential Revenues from Existing Trust Parcels

- Potential Land Revenue with Current Public Policy: \$2M
- Potential Timber Revenue if Trust harvested all Timber on Current Lands: \$10.9M
 - a) Primarily from Petersburg, Ketchikan, and Juneau
 - b) Carbon credit program would produce less revenue
- 3. Combined Potential Revenue: \$12.9M
- 4. Minus Expense of Exchange to date: \$5M
- 5. Minus Expense to create revenue: \$0.5M
- 6. Total Potential Net revenue: \$7.4M

This is an optimistic scenario

Potential Revenue from Federal Lands Received in Exchange



Based on the full 20,580 acres

- All of the Naukati, Hollis & Shelter Cove Parcels;
- Timber harvest is going to typically be the highest and best use;
- Timber market remains viable.



\$38,300,000 over 20 years

- Less \$6.3M in Exchange Costs

\$32,000,000 Net Revenue (P/I)

This is the best-case scenario

The TLO has low confidence that the Trust will receive the full 20,580 Acres

Appraisal of Phase 1

Trust Land

K1 Signal Mtn (1,848 acres) - \$1,570,800

+ K2 Minerva Mtn (670 acres) - \$502,500

Total (2,518 acres): \$2,073,300

USFS Land

Naukati Phase I (2,422.64 acres) - \$3,408,700

Discrepancy of \$1,335,400 of value weighted to the federal side.

This will be balanced in Phase II.

Appraisal of Phase I

The appraisal of the Phase I parcels

- Non-Federal (Trust Lands) appraised for a lower value than anticipated (K-1 & K-2 parcels)
- Federal Lands (Naukati Phase I 2,425 acres) appraised at a higher value (due to timber) than anticipated
- The TLO was successful in reducing appraisal of federal lands from \$5.3 million to \$3.4 million and will continue to scrutinize and challenge appraisal findings that do not reflect fair market value.

Projection of Appraised Values for Phase II

Extrapolating values for the Phase II portion of the exchange from the Phase I appraisal values are difficult. It has become clear that the primary driver of federal lands values is timber.

The Trusts greatest timber value is from Petersburg (P-1A) and Ketchikan (K-3). Also land values in Sitka and Wrangell should be significant.

Greatest Federal timber values are West Naukati and Hollis.

The Federal lands are anticipated to be valued only for timber harvest with minimal cutover value.

The TLO has developed value projections for 3 (high, medium, and low) scenarios.

Today's focus will be on the low end scenario, the TLO expects the actual exchange to exceed this scenario.

TLO Phase II Low Scenario



- High confidence that valuation will be this or greater - the greater Trust values the more of the Federal lands we will receive (exchange mechanism of balance)
- The Trust will receive at minimum the Naukati Parcels (10,880 acres)
- The TLO has a timber sale in place for the old growth timber on the Naukati parcels for \$15.4 million in revenue
- Additional Young Growth Timber sales on the Naukati parcels will provide a minimum of \$5 million revenue
- Total expected timber revenue from Naukati \$20.4 million



Even if parcel values of Trust lands are much below expectation, what would happen if we only received just the Naukati Parcels?

Potential Revenue from Naukati: \$20.4M

Less Cost of Exchange: \$6.3M

Potential Net Revenue: \$14.1M

Optimistic Return from Current

Trust Lands: \$7.4M

Net Return to the Trust over

Current Lands: \$6.7M

TLO Phase II Low Scenario (Continued...)



Recommend approval of the exchange



Even assuming very low parcel and timber values, the exchange is still more financially advantageous than stopping the exchange process and developing our existing trust parcels.



Final outcome of land balances will depend completely on the outcome of an acceptable appraisal.

Summary and Recommendation