Resource Management Committee
Quarterly Meeting
August 2nd, 2018
Thursday, August 2nd, 2018

1. Call to Order (Carlton Smith, Chair)
   - Announcements
   - Approval of Agenda
   - Ethics Disclosure
   - Approval of Minutes
     - 2018-04-19

2. Executive Director Report

3. Consultation(s)
   a. Item A – KI Energy JV Oil & Gas Lease, MHT 9200726

4. Department of Defense Exchange Overview

5. Timber Sale Contract/Management Overview

6. Other

7. Adjourn
ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE MEETING

April 19, 2018
10:30 a.m.

Taken at:
Alaska Mental Health Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508

OFFICIAL MINUTES

Trustees present:
Carlton Smith, Chair
Jerome Selby
Mary Jane Michael
Chris Cooke
Laraine Derr
Paula Easley
Verne’ Boerner

Trust staff present:
Mike Abbott
Steve Williams
Miri Smith-Coolidge
Andy Stemp
Carley Lawrence
Michael Baldwin
Katie Baldwin-Johnson
Valette Keller

Trust Land Office present:
Wyn Menefee
Jusdi Doucet
Craig Driver
Aaron O’Quinn
Sarah Morrison
PROCEEDINGS

CHAIR SMITH calls the Resource Management Committee to order, noting that all members are present. He asks for any announcements. There being no announcements, he moves to the approval of the agenda.

TRUSTEE SELBY makes a motion to approve the agenda.

TRUSTEE DERR seconds

There being no objection, the motion is approved.

CHAIR SMITH asks for any ethics disclosures. There being none, he moves to the minutes of January 4, 2018.

TRUSTEE DERR states that at the beginning of the January 4th meeting it was noted that she was not yet present. She continues that she is present on the list of trustees’ present. In reading through the minutes, she adds that there is nothing that states when she came in. She asks to put a comment, right after the minutes, that she arrived.

CHAIR SMITH notes the change, and asks for a motion.

TRUSTEE DERR makes a motion to approve the minutes, as corrected.

There being no objection, the motion is approved.

EXECUTIVE DIRECTOR REPORT

CHAIR SMITH recognizes Mr. Menefee.

MR. MENEFEE states that TLO staff has been busy with multiple different efforts, and he also welcomes the new trustee. He continues that Jusdi Doucet was hired as the Deputy Director, and she then hired Jeff Green for her former position. He moves to an update that Sealaska has signed on a contractor to begin logging at Icy Cape this year. This means that there will be an increase in the next fiscal year with about $1.9 million harvested. He continues to the four parcels on the Kenai at Daniels Lake that were sold; someone opposed during the decision process, and we still proceeded. They eventually sued, and our brief will be due back in May. He explains that it is a judge’s summary review of the situation, and not a jury trial.

TRUSTEE DERR asks why they sued.

MR. MENEFEE replies that it was a neighbor who does not like the other neighbor. This neighbor was offered to buy the same number of parcels. They declined, and wanted only two of the parcels, which was not in the Trust’s best interest. The other party was willing to buy all four; a better interest and a bonus price. Financially, it was the right move to make. They were displeased because they did not get the parcels they wanted. He moves on and states that the Donlin best-interest decision affirmed and will be signed soon. There was one comment on that,
which focused on the Corps process for wetlands and not the financial side of things.  He adds that Donlin is still working with the Corps to move the project forward.  He moves on to Whittier Street, which is the old Public Safety building in Juneau.  The City and Borough of Juneau did an appraisal on the parcel.  Staff worked with CBJ to have the appraisal done based on two things: Either the amount that could be charged for leasing parking spaces, or the land value with a hypothetical that the building was removed.  He states that staff determined that it was in Trust interest to just tear down the building and lease to the State.  The State is interested in putting parking there.  He adds that the City had expressed an interest in purchasing that.  He continues that the base value is $390,000, and he suggested a competitive bid or going through a negotiated procedure, adding a 25-percent premium for the right to not go through a competitive process.  He states that it looks like the negotiated procedure, paying approximately $488,000, is being favored.  There is an Assembly meeting on the 23rd when it will be presented; and, if approved, the sale will proceed.  He adds that a consultation has been done, so that the procedural steps are done.  He states that there is an appraisal out there that shows a higher value, but that is with the hypothetical of the building being gone.  There has to be this consideration of a building tear-down.  He moves on to U-Med.  Materials were removed on C-2 many years ago, and utilities and such were put in to make it marketable.  That construction project is completed.  He states that there is interest from a local developer in leasing the entire parcel, and it will be going out to a competitive leasing process.  He adds that the consultation is done, as is the best-interest decision.  This is someone that wants to develop it for a medical building facility.  He moves on to the IRS building in Utah, stating that the term on their lease is expiring.  The process of negotiating a ten-year contract for that has begun.  This is one of the LLC commercial real estate properties, and there is a possibility of getting in the range of a gross revenue stream of approximately $20 million over the ten-year period.

CHAIR SMITH asks for a description of the property.

MR. DRIVER states that it is located in Ogden, Utah, and is the IRS business payment processing center for the Western states.  He continues that they are in the process of consolidating some of the other locations from other parts of the U.S.  It has been on a ten-year lease, and was picked up about six years ago.  It is up for renewal.  The lease expires in January.

CHAIR SMITH asks about its size.

MR. DRIVER replies that it is not necessarily expansion potential, but is 100,000 square feet, mixed industrial and office space, predominantly converted to processing or office space.  He states that it is more office than industrial, and the IRS put a bunch of money into it when they first occupied it.  He adds that it works well for them, and he anticipates that it will renew in the coming 60 days.

MR. MENEFEE adds that this is important because it is a good, solid, steady stream of income from a very solid tenant.  He states that Mr. Driver is in the middle of negotiations on that, and is also working on expanding the space that APICC is renting on Cordova Street.  He continues that they are in one portion of the first floor, and are looking at maybe expanding out to the full first floor.  He adds that Mr. Driver is also working on re-leasing several other properties, which will contribute to a gross income stream of about $4.9 million.  He asks for any questions on the real estate.
TRUSTEE MICHAEL asks about the property in Juneau that is being considered to sell. She states that the Subport was talked about and nothing would be sold until the audit was completed. She asks why this property is being considered to sell and not the Subport.

MR. MENEFEE replies that C-1 is a waterfront property and is well-suited for a potential good stream of revenue; but 450 Whittier Street is different in that is has that old building on it. It only has eight parking spaces, which are not enough to do anything with the building unless people find parking elsewhere. Also, the shape of the building has its own limitations for commercial purposes. He states that leasing was the preferred option, but the difference is that it saves a certain amount of cost and effort because the sale is based on the value of the land without the cost of tearing down the building.

MR. ABBOTT explains that the Subport remains a different property with a much wider range of potential uses and opportunities for the Trust to obtain value from. Whittier Street only has a single opportunity for utility. The State wants parking spaces and is willing to pay a good rate. He states that the options were to tear the building down, incur the demolition expense, then begin leasing it to the State for a five- or ten-year term, and take whatever risk; or, to monetize it now in its current condition, absorb no demolition expense, invest the money, and draw revenue from the investments. He continues that the determination made was that as long as we got more than $390,000, that more money would be made monetizing it right away. He adds that CBJ was offered an option to agree to be part of a competitive sale where the floor would be the $390,000 value with the risk of being outbid; or offer a negotiated rate with a 25-percent kicker on top of the $390,000. That was how the $488,000 number was derived. He states that the committee reviewed this last night and approved it unanimously. It will go to the Assembly next week. He explains the U-Med parcel is another parcel that had sales opportunities. Those were declined; and staff moved forward with a lease because it protects the Trust's interests long term.

MR. MENEFEE adds that the key is that taking the principal from a sale, investing it in APFC, getting the 4.25 off of that, was compared against what could be received leasewise.

TRUSTEE DERR asks if the $488,00 will go to the Permanent Fund.

MR. ABBOTT replies that it will be up to the Trustees.

TRUSTEE DERR asks if it will go into the TADA.

MR. ABBOT replies that it will come to TADA like all other principal.

A short discussion ensues clarifying the location of the property and explaining the opportunity, as well as clarifying the lease of the U-Med property.

CHAIR SMITH asks Mr. Menedee to continue.

MR. MENEFEE moves on to the Village of Tyonek. They have put in a nomination to list 59,000 acres of Trust land on the National Historic Register as a Traditional Cultural Historic District. They started out with a Traditional Cultural Landscape, and have moved it to an
Historic District, before the Alaska Historical Committee. He states that he gave a letter to the Historical Commission objecting to that listing. The main reason for the objection is that doing this would make it more challenging to develop property. He adds that he has nothing against the preservation of cultural artifacts and its purposes. When something gets listed on the National Historic Register, two things happen: If a development project is done and requires any federal permit, there is a 106 process, which is having to inventory all the historic and cultural resources there. Then it has to be mitigated. Once it gets listed on the Historic Register, the mitigations jump up, making it harder and costlier. If coal resources are trying to be developed, there is the Surface Mine Coal Reclamation Act that has specific verbiage that says if they are listed on the Historic Register, coal may not be mined unless approved by the Federal Government and the DNR Commissioner. A federal overreach was created that allows the Federal Government to make a call on whether we can mine coal off of our land. He continues that the way that the federal law works is that, even though we object, they can still move forward with this if the majority of the landowners are in favor of it. He explains that the four majority landowners that own about 90 percent of the property object. There are about 100 people that have the tiny parcels there, and they all are for it. They are in the Village of Tyonek and that means that the majority of the landowners are not objecting; and acres do not matter. He states that he is working on trying to make sure that the Trust still has the right to develop their own lands. He continues that the Lieutenant Governor was very favorable to the Trust listing this, even though he was informed that this could really hurt development.

TRUSTEE COOKE asks if such action would constitute a taking of Trust land for which we would get compensation.

MR. MENEFEE replies that would not be automatic and gives an example.

TRUSTEE SELBY asks, if it were to be listed, is this something that the Trust could request the State of Alaska to do an exchange and give this parcel back to the State for some other parcel selected by the Trust.

MR. MENEFEE explains, per the settlement, it may be a bit more challenging. There is this issue about having property that was given that has zero value because of other restrictions and stuff. It was not given with those restrictions; those came later. He continues that if it came with those restrictions that the answer would be yes; but because the restrictions came after the Trust got it, he does not know if that can be done per the settlement.

MR. ABBOTT explains that the State could voluntarily agree to exchange those lands for other lands that the Trust may prefer but would not be obligated to do so. It would depend on who is running DNR at any given time. He adds that DNR does not have the same mission as the Trust has to maximize value. Their mission is similar.

TRUSTEE SELBY asks if, down the road, a request may be made to the Legislature to make the exchange.

MR. ABBOTT replies that the Trust owns a lot of lands where the primary value is coal and it does not look like that coal is going to generate a lot of revenue. He adds that there could be a lot of those opportunities going forward.
MR. MENEFEE states that one of the things that is being considered is whether the congressional delegation should be involved in this. The simple challenge is if the Governor’s office is not going to fight for not getting this listed, does the Trust want to have this pursued with the congressional delegation to try and keep it from being listed. He continues that this leads into the Chickaloon issue. He states that the trustees have received a letter that Chickaloon Village is not pleased with the fact that they were denied twice to go out and do inventories of cultural sites on land. He continues that in this letter they stated that cultural sites are being damaged because of ATV use, which is the reason for the inventories. He adds that it was clearly stated in the application that they wanted to do an inventory that would lead to putting it on the National Historic Register. The terms used were protecting the watershed and the landscape as the reason, not protecting cultural lands. He states that he has provided a draft response which he intends to send out to the trustees tomorrow. He continues that the letter covers the Trust trying to protect against devaluation of the Trust properties. He also includes that the application states that the inventory is urgent because numerous development of projects threaten the landscape and their watershed. They also said that this project will provide Chickaloon Native Village with an inventory of cultural resources. The tribe can utilize and prioritize future surveying and investigations, including the valuation of the properties that may be eligible for listing on a tribal register or the National Register of Historic Places. He repeats that this is coal area, and if it gets listed it will hurt the Trust’s potential to develop for coal. He adds that this is nothing about whether the Trust values cultural resources, because we will follow the Alaska Historic Preservation Act. He states that he intends to deny this again, and wants to see if there was any adverse read to where he is going on this.

TRUSTEE COOKE asks if it would not be better to present in the letter that this would be depriving the Trust of a large amount of value of its land, and would be a step toward the taking of the property without compensation.

MR. MENEFEE replies that this has been discussed with the Attorney General’s office, along the same lines, having the chance to detrimentally hurt the Trust and devalue the property. He states that is what the focus is on right now. He moves on to Haines and states that there will be an open-house meeting on April 26th with the University, State Forestry, U.S. Forest Service, and the Trust participating. The University has proposed a timber sale in Haines, in the Chilkat Valley. He explains that there has been opposition to it, and the Trust has entered into a statement of intent to participate together for the benefit of each of the agencies for their own missions. There are some aspects of crossing and waiving some fees because it benefits the Trust.

CHAIR SMITH asks Mr. Menefee to share the difference of the sale in terms of the land ownership. The Trust ownership is very small.

MR. MENEFEE replies that the University has 13,000 acres, which is the majority of their landownership and is a big deal for them. They have to capitalize their money, assets, because they are not making money and have to support the University. They are going forward with that. He states that the University and the State Forestry are the main players. He adds that for the U.S. Forest Service it is about job development, which they have a grant for. He continues that the Trust has very small timber operations there where a local operator goes in and harvests
the timber. He adds that they would like to keep a sustainable timber operation going there, which is what this is all about. He states that there is timber down on the Chilkat Peninsula, which is controversial, and we are not proposing a timber sale there at this time. He continues that the open house will be about the type of response received from the community. He asks for any questions on Haines. There being none, he states that Ms. Doucet will be going to Juneau to present to the Statewide Land Trust Conference and talk about the types of deals that can be done with trusts. He moves to Ketchikan and states that there is an issue with Miller Construction. There is a group that was building the Shelter Cove Road that has defaulted with DOT. They have an easement going through there, and DOT is working on trying to get them off. Miller Construction is fighting it. He states that the Trust part is that we gave them permission to use part of the property to stage equipment at the transfer facility. He continues that they have quit paying and are in default. The Trust is trying to get them off the land, which has a little bit of contamination. He moves on to some positive things and begins with land sales. He states that the new over-the-counter sale site has been created. This is where parcels have already been offered in a competitive sale, maybe more than once, that have not sold. At any point in time, a person can get on with a credit card and just buy the parcel. There have been five sales at 130 percent of the value. He continues that there has also been some advertising to get interest in the land sales, and we have been working at the sportsmen's shows. There was also a sale due to a promotion that came over Facebook. He adds that we will evaluate how effective all of the advertising has been for the fall land sale. He states that in Ketchikan there is some work on a few subdivisions. The City has been interested in doing an exchange for a certain parcel out by the boat harbor, and work has been going on with the community to see what can be done to make the lands productive. He moved to Birchwood, a subdivision up by Fairbanks. North Star Housing Corporation has land that is right next to the military base and next to Fairbanks. Their lease is going to be expiring, and they want to get the land over to Trust ownership and pay for a lease there. The military is not willing to do a long-term lease with them. They want to do an exchange with the military.

TRUSTEE MICHAEL states that there is a need to look at the housing. There are a lot of housing developments in Fairbanks that have water and other issues. We do not want to inherit a lot of deteriorated buildings 20 years from now. Housing in Fairbanks is really important, but there is a need to look at the housing stock on that property and see what the lifespan is.

MR. MENEFEE states that housing has been looked at. These buildings are well-built with foot-thick walls. Some of the outsides of the buildings have just been renovated. He adds that they will continue to be diligent in all of that. He continues on to Icy Cape. The camp will be re-set up April 25th; and the first barge arrives May 5th. Operations start on May 27th; and materials will begin processing. Drilling starts June 15th; and they expect to be out there until August 12th. There are about 24 people in the camp. He states that his last update is Constantine, which is the mineral project in Haines. The plan of operations for drilling was approved this year and they will continue to do exploration drilling. He describes and explains the economic model forecasting tool that was developed. It is an extensive, glorified spreadsheet, and is an analysis tool which will be very critical and show all the ramifications of all of those different scenarios.

CHAIR SMITH asks if Mr. Menefee could share about the acreage adjacent to the Constantine project.
MR. MENEFEE replies that it is a large tract, but he does not have the exact numbers. He states that within that tract of mineral property some of it will be on the subsurface; some of it will be fee simple. The exploration done by Constantine has discovered minerals in multiple locations. He adds that it is a very promising project with good potential to being in revenues in the future. He asks for any further questions.

CHAIR SMITH goes back to commercial real estate and asks if the trustees can see a summary of the portfolio as a refresher on what the portfolio looks like.

MR. MENEFEE agrees to do that.

TRUSTEE BOERNER comments on the update and supports having a better understanding and assessment of the possibility of reducing revenue and the harm that does to beneficiaries. She states that it has been clinically proven that historical trauma does impact our peoples and generations, not just American Indians and Alaska Native, but we are learning that it also impacts other groups and populations. She also talks about the watershed and how it impacts subsistence issues, which is a critical part of our livelihoods, tied to the culture and tied to the land. She continues that these are aspects that she would like to have some sort of element in consideration, and asks if there is some way to partner with them to get through the issues, what they are trying to achieve, what their goal is with their applications. She adds that this is something that is worthy of putting in up-front work.

MR. MENEFEE asks that his drafted letter be looked at, and if there are comments that would potentially modify the letter, he is happy to hear them. He states that his intent was to mail it tomorrow, but he will wait and spend time on some comments from the trustees.

TRUSTEE BOERNER states that she does not have full information and is concerned about the way the communication is going with the caveats. She feels that they need to be assured that it is not just a revenue issue and that the values are also being considered.

MR. MENEFEE states that the next item on the agenda is a report on the U.S. Forest Service land exchange. He asks Aaron O’Quinn to continue.

MR. O’QUINN states that the Trust owns land all over Southeast Alaska, and we have a history of developing it for timber. Some of the land that was never developed was problematic because they are located in urban areas near Ketchikan and Sitka and different places that have very valuable view-sheds for tourism and quality of life. There has been a lot of opposition to timber harvests in those areas. He continues that initially the Trust entered into negotiations with the Forest Service to exchange land through an administrative process, which was taking too long. The timber industry was quickly leaving Alaska. He states that the Alaska congressional delegation passed legislation that afforded the Forest Service to exchange about 20,000 acres from each party. He continues that lands that the Forest Service owns in Shelter Cove, in Naukati and Hollis on Prince of Wales Island will be consolidated. The lands that the Trust owns in Ketchikan, Petersburg, Wrangell, Sitka, Juneau, and No Name Bay will be exchanged. He adds that this will result in a much more consolidated land holding and will be done on a dollar-for-dollar exchange. He states that the appraisal process is underway where the value of Forest Service land and the Trust land is being determined. He explains that this Phase I is set to
be completed by May 5, 2018, but we are still waiting on the appraisal and then the companion State legislation required that the Board of Trustees approve the land exchange. He proposes a special board meeting the first week of May to bring that proposal forward. There will be no money exchanged in the first phase. The second phase is the bigger portion of that. A best-interest decision by the executive director has been brought forward to the public. It has reached the end of its comment period, and no adverse comments were received. He states that some mitigation activities on the parcel were conducted, and we have an agreed-to price, and now are working on closing instructions that are dependent on the appraisal. He continues that a timber sale contract was signed for the sale of timber on Naukati. He adds that there are a number of surveying contractors out in the field subdividing and surveying the lands that are being conveyed for the second phase. There is about $6.2 million that has been approved by the trustees in a series of appropriations dating back to 2013. We are on budget and do not expect to spend much more than that. He asks for any questions.

MR. ABBOTT clarifies points in the tentative plan and states frustration on not being able to be more precise on the timing. He reiterates having the May 5, 2018, deadline for the approval and execution of Phase I.

MR. MENEFEE moves on to the real estate facility budgets. He states that every April an approval comes forward stating expenditures needed to operate the real estate facilities. The Trust owns multiple buildings or the LLCs that own the buildings, and we have an obligation to maintain those in a way that preserves and enhances their values. They are principal assets, and we want to continue to maximize the revenue of these assets. This requires expenditures for operating expenses, capital improvements and debt service. He continues that staff will try to transition more into a real estate facility budget that is portfolio-based versus individual-based. He adds that there will be more details, but the idea is to give the trustees more clarity and a further outlook at multiple years, not just one year at a time. He states that a lot of the building expenses are paid from the rents, and trustees approve that the rents can be used for these expenses.

MR. STEMP strongly supports and encourages the Land Office and the executive director in this kind of long-term forecast and planning exercise. He states that it is important in looking at the future of the Trust to look towards some of the decision-making that can be projected and see both the present and future needs of these different properties. This will avoid surprises later down the road. He adds that it will also help with budgeting.

TRUSTEE COOKE asks if this process would include information for the trustees about which properties are being productive, which are breaking even, which may involve expense and liabilities that outweigh the revenue so that the portfolio can be assessed and decisions about what should be kept or improved.

MR. MENEFEE replies that that is a reasonable request and states that it is not to hide what is being done, but rather to make it efficient and more predictable. He continues that this topic is also on the Finance Committee agenda, and there may be further discussion there.

CHAIR SMITH asks Mr. Menefee to continue his report.
MR. MENEFEE reviews the consultation process. For clarification, the TLO is the contractor to the Trust, and as such, needs to bring their actions to the board. Consultation is defined in regulation as “giving the Trust Authority or its designee timely notice of general terms and conditions of a proposed action, opportunity for a discussion of the issues related to the consideration of a proposed action, and an opportunity to obtain relevant information, and opportunity to furnish comments and advice.” The TLO is mandated to come to the board to discuss the items before taking actions on disposal or something so that the board can give feedback. It is different from an approval. He clarifies that an approval is coming and asking for permission to do something. He explains all in greater detail.

TRUSTEE SELBY makes a motion that the Resource Management Committee recommend that the Alaska Mental Health Trust Authority Board of Trustees concurs with the Trust Land Office recommendation for the executive director to negotiate fair-market leases in all or part for the 2600 Cordova Street building, including commercially reasonable terms, conditions, and inducements for similar space in the Midtown Anchorage office market.

TRUSTEE DERR seconds.

MR. DRIVER states that he is the asset manager at the Trust Land Office and handles the commercial real estate properties, including development of parcels and some of the investment properties included there. 2600 Cordova houses the Trust Land Office as one of the tenants, and also houses other tenants, including a dental office, a real estate office, and a couple of CPA offices. He continues that, in the past, individual leases were brought to the board through the chair in an acknowledgement. The proposal is a slight modification of that and is really just procedural or administrative more than substantive. He asks that the motion be approved as written.

MR. MENEFEE states that, in this situation, this building is not an LLC building; it is Trust land. He continues that when a commercial lease is done, there are time constraints and such to make the deal happen before they go to some other place. This procedural step allows taking care of the procedure up front.

TRUSTEE COOKE asks if having an LLC for the building has been considered, or is that something that should be thought about to do.

MR. MENEFEE replies that it has been considered, and a lot of work went into getting ready for that. He explains that an LLC removes some of the liability to the Trust. He states that the issue is that this building was purchased without an LLC, and the Trust is in the chain of title. An LLC will not get the Trust out of that. The opportunity was missed, for whatever reasons, at the time.

TRUSTEE COOKE asks if there is a mortgage on the building.

MR. DRIVER replies that it is owned outright.

TRUSTEE COOKE asks about the vacancy rate.
MR. DRIVER replies that it is quite vacant, and is a case study of diversifying in the different geographical locations around the country. Because of the economy in Alaska, this building is the worst performing in the portfolio.

TRUSTEE COOKE asks that if it is the worst, then why keep it.

MR. MENEFEE replies that Mr. Driver is working on expanding one of the lease tenants. The more tenants, the better it performs. He states that the Trust Land Office is in there and does not pay rent. The other tenants are operating the building by their rentals. There is a benefit in the fact that the TLO is in that building.

CHAIR SMITH states that there is a motion and it has been seconded. He asks for any objections.

*There being no objection, the motion is approved.*

CHAIR SMITH asks for any other items to come before the committee.

TRUSTEE MICHAEL states that she would like an update on the PRI.

MR. O’QUINN replies that they have been talking with a building owner who is interested in selling or possibly even donating a building to house the Consumer Web and CHOICES. He states that the issue is where the money would come from if it has to be purchased. He continues that the Finance Committee will be discussing sourcing that funding.

TRUSTEE EASLEY comments that the Resource Development Council sent a letter to Patrick Kelly at UAA expressing the Council’s support for the ten-year timber sale in Haines, and acknowledging the fact that it will bring $90 million of private investment to that area, which has traditionally been a very high unemployment area. She states that RDC should be thanked by the Trust.

CHAIR SMITH states that there has been a bit of effort put into that educational piece that is called Mining 101. He encourages any trustees to take advantage of that as an orientation to mining.

MR. MENEFEE states that they are doing the Mining 101 again in two stages: next Thursday morning, and then the following Thursday morning. This takes us through mine development and explains the properties.

TRUSTEE SELBY commends Mr. Menefee and the entire Trust Land Office for a number of achievements and work that was done here. At the same time, very substantial and significant work has been done on the audit. The TLO staff has done an excellent job of balancing all of the demands on time and still accomplishing a great deal of work.

MR. MENEFEE thanks Trustee Selby for that, stating that he will relay it to staff.

CHAIR SMITH asks for a motion to adjourn.
TRUSTEE SELBY makes a motion to adjourn the meeting.

TRUSTEE MICHAEL seconds.

There being no objection, the meeting is adjourned.

(Resource Management Committee meeting concluded at 12:05 p.m.)
To: Carlton Smith, Chair  
Resource Management Committee  
From: Mike Franger  
Date: 8/2/2018  
Re: KI Energy JV Oil and Gas Lease, MHT 9200726  
Fiscal Year: 2019

Proposed RMC Motion:

“The Resource Management Committee recommends that the Alaska Mental Health Trust Authority board of trustees concur with the negotiated lease of Tract 29 for exploration and development of Trust natural gas resources, as proposed.”

Background:

Revenue Projections:  
Principal $0  
Income $62,640 in annual rental

Transaction/Resource: Negotiated oil and gas lease for Tract 29 for the purpose of exploration and potential development and production of the Trust’s conventional and/or non-conventional (coal bed methane) natural gas resources to KI Energy JV.

Property Description/Acreage/MH Parcel(s): Tract 29 consists of multiple Trust parcels totaling 6,264 acres and is north of Horseshoe Lake in the Susitna Valley. It is in Township 17 North, Range 4 West, Seward Meridian.

General Background: The Northern Dancer No. 1 well was drilled on Tract 29 in 2006 by a previous lessee. The well was cased but never tested for commercial hydrocarbons. The potential exists for commercial production of both conventional and unconventional (coal bed methane or CBM) natural gas from this well and tract. This tract is in close proximity to a facility that is planned to be constructed by KI Energy JV to provide liquid natural gas (LNG) for various commercial markets in Cook Inlet and the Interior. KI Energy JV intends to test this well to determine if it could be a source of gas for its LNG facility.

Anticipated Revenues/Benefits: A lease issued for this tract will have a primary term of 10 years and an annual rental fee of $10/acre with an escalation clause increasing the rental rate in the eighth year if the lease is not being diligently developed. Commercial production of gas will be subject to a 15 percent royalty. In addition, the lessee will be required to post a performance bond within 30 days of
lease issuance to ensure that this well is properly plugged and abandoned according to the regulations of the Alaska Oil and Gas Conservation Commission.

Anticipated Risks/Concerns: No unusual risks are anticipated if this tract is developed for its conventional gas resources. Some concerns may arise if the unconventional (CBM) resources are developed. However, production of CBM is an established process in North American and other parts of the world, but this resource has not been developed in Alaska. Previous attempts to develop CBM in Alaska occurred in the early 2000’s and were basically unsuccessful. The activity raised significant questions and opposition from various groups and the public, but much of the opposition at the time was due to the leasing process conducted by the Department of Natural Resources, the proximity of proposed leases to developed areas, and publicity associated with adverse impacts caused by unscrupulous operators developing the resource in the Lower 48. Questions may arise again during the leasing and permitting process regarding the nature of the proposed development. However, the tract proposed for lease is not located in a residential area, and the applicant has stated that they have engaged consultants experienced in the latest techniques to develop CBM in a safe and environmentally sound manner.

Project Costs: No unusual costs are expected to be incurred for this proposal beyond typical field inspections and lease administration.

Other Considerations: If the CBM resource is developed on this tract, the benefit of developing this natural gas resource is that utility can be made of the Trust’s significant deep coal resources in the Cook Inlet area that would otherwise be stranded since they are not economic to mine. Also, utility will be made of an existing well, and it will either be tested and proven to be commercially viable or it will be plugged and abandoned according to applicable regulations.

Due Diligence: TLO personnel have met with the applicant and discussed available information on their proposal as well as the lease terms and the leasing process. Personnel are also very familiar with the lease tract.

Alternatives: (1) Do not make the tract available for the proposed purpose. (2) Offer the tract on a competitive basis. We have had this available since June of 2015 without other credible interest being expressed on this tract.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted January 2016 in consultation with the Trust and provides for the TLO to focus on land or resources that are in demand and at the high end of market values (best markets). Given the current value of natural gas in the Cook Inlet area and the potential markets for natural gas, the prospective lands affected by this decision are in a “best market” situation and should be offered now. Additionally, the proposed action is a step toward generating potentially significant revenue form the Trust’s natural gas resources, consistent with a key Trust land management principle of encouraging a diversity of revenue generating uses of Trust land and resources.
**Trust Land Office Recommendation**: Lease the tract to KI Energy JV as proposed.

**Applicable Authority**: Alaska Statutes 37.14.009(a) and 38.05.801, and 11 AAC 99 (key statutes and regulations applicable to Trust land management and disposal).

**Trust Authority Consultation**: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

**Exhibit(s)**: Exhibit 1 - Map of proposed lease area
KI Energy JV
Oil and Gas Lease Tract 29

Oil & Gas Lease Tract
AMHT Land Interest
(Includes all types of interest, Land, Mineral, Oil & Gas, Coal, etc.)