

MEETING AGENDA

Meeting: Special Full Board of Trustee Meeting
Date: January 3, 2019
Time: 11:00 AM
Location: Trust Authority Building, 3745 Community Park Loop, Anchorage
Teleconference: (844) 740-1264 / Meeting Number: 287 291 220 # / Attendee Number: #
<http://thetrust.webex.com>
Trustees: Mary Jane Michael (Chair), Verné Boerner, Chris Cooke, Laraine Derr, Paula Easley, Jerome Selby, Carlton Smith

Thursday, January 3, 2019

Page No.

11:00 Call to Order (Mary Jane Michael, Chair)
Roll Call
Announcements
Approve Agenda
Ethics Disclosure

11:05 Southeast Land Exchange

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12:00 Adjourn

Future Meeting Dates

Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance

2019 / 2020 / 2021

(Updated – October 26, 2018)

- Program & Planning Committee January 3, 2019 (Thu)
- Resource Mgt Committee January 3, 2019 (Thu)
- Audit & Risk Committee January 3, 2019 (Thu)
- Finance Committee January 3, 2019 (Thu)
- Full Board of Trustee January 30-31, 2019 (Wed, Thu) – JUNEAU

- Program & Planning Committee April 17, 2019 (Wed)
- Resource Mgt Committee April 17, 2019 (Wed)
- Audit & Risk Committee April 17, 2019 (Wed)
- Finance Committee April 17, 2019 (Wed)
- Full Board of Trustee May 8, 2019 (Wed) – TBD

- Program & Planning Committee July 30-31, 2019 (Tue, Wed)
- Resource Mgt Committee August 1, 2019 (Thu)
- Audit & Risk Committee August 1, 2019 (Thu)
- Finance Committee August 1, 2019 (Thu)
- Full Board of Trustee September 4-5, 2019 (Wed, Thu) – Anchorage

- Program & Planning Committee October 16, 2019 (Wed)
- Resource Mgt Committee October 16, 2019 (Wed)
- Audit & Risk Committee October 16, 2019 (Wed)
- Finance Committee October 16, 2019 (Wed)
- Full Board of Trustee November 14, 2019 (Thu) – Anchorage

Future Meeting Dates

Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance 2019 / 2020 / 2021

(Updated – October 26, 2018)

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|--------------------------------|----------------------------|---------------------------------|
| • Program & Planning Committee | January 3, <u>2020</u> | (Fri) |
| • Resource Mgt Committee | January 3, <u>2020</u> | (Fri) |
| • Audit & Risk Committee | January 3, <u>2020</u> | (Fri) |
| • Finance Committee | January 3, <u>2020</u> | (Fri) |
| • Full Board of Trustee | January 29-30, <u>2020</u> | (Wed, Thu) – JUNEAU |
| • Program & Planning Committee | April 22, <u>2020</u> | (Wed) |
| • Resource Mgt Committee | April 22, <u>2020</u> | (Wed) |
| • Audit & Risk Committee | April 22, <u>2020</u> | (Wed) |
| • Finance Committee | April 22, <u>2020</u> | (Wed) |
| • Full Board of Trustee | May 7, <u>2020</u> | (Thu) – TBD |
| • Program & Planning Committee | August 4-5, <u>2020</u> | (Tue, Wed) |
| • Resource Mgt Committee | August 6, <u>2020</u> | (Thu) |
| • Audit & Risk Committee | August 6, <u>2020</u> | (Thu) |
| • Finance Committee | August 6, <u>2020</u> | (Thu) |
| • Full Board of Trustee | September 2-3, <u>2020</u> | (Wed, Thu) – Anchorage
– TAB |
| • Program & Planning Committee | October 21, <u>2020</u> | (Wed) |
| • Resource Mgt Committee | October 21, <u>2020</u> | (Wed) |
| • Audit & Risk Committee | October 21, <u>2020</u> | (Wed) |
| • Finance Committee | October 21, <u>2020</u> | (Wed) |
| • Full Board of Trustee | November 19, <u>2020</u> | (Thu) – Anchorage – TAB |

Future Meeting Dates

Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance 2019 / 2020 / 2021

(Updated – October 26, 2018)

- Program & Planning Committee January 6, 2021 (Wed)
- Resource Mgt Committee January 6, 2021 (Wed)
- Audit & Risk Committee January 6, 2021 (Wed)
- Finance Committee January 6, 2021 (Wed)
- Full Board of Trustee January 27-28, 2021 (Wed, Thu) – JUNEAU

- Program & Planning Committee April 22, 2021 (Thu)
- Resource Mgt Committee April 22, 2021 (Thu)
- Audit & Risk Committee April 22, 2021 (Thu)
- Finance Committee April 22, 2021 (Thu)
- Full Board of Trustee May 12, 2021 (Wed) – TBD

- Program & Planning Committee August 3-4, 2021 (Tue, Wed)
- Resource Mgt Committee August 5, 2021 (Thu)
- Audit & Risk Committee August 5, 2021 (Thu)
- Finance Committee August 5, 2021 (Thu)
- Full Board of Trustee September 1-2, 2021 (Wed, Thu) – Anchorage
– TAB

- Program & Planning Committee October 21, 2021 (Thu)
- Resource Mgt Committee October 21, 2021 (Thu)
- Audit & Risk Committee October 21, 2021 (Thu)
- Finance Committee October 21, 2021 (Thu)
- Full Board of Trustee November 18, 2021 (Thu) – Anchorage – TAB

Future Meeting Dates

Statutory Advisory Boards – 2019

(Updated – December 18, 2018)

Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse

- Executive Committee – monthly via teleconference (First Wednesday of the Month)
- March 4-6, 2019 – Juneau

Governor’s Council on Disabilities and Special Education

- February 5-6, 2019 – Juneau, with Key Campaign Feb. 7-8
- May 6, 7, or 14, 2019 – ZOOM/Webinar/Teleconference
- Oct 2-3, 2019 - Anchorage (pre-meeting for Autism Ad Hoc on Oct 1)

Alaska Commission on Aging

- February 11-13, 2019 (face-to-face)
- May 1, 2019 by video/teleconference <tentative>



To: Mary Jane Michael, Chair
Alaska Mental Health Trust Authority Board of Trustees
Through: Wyn Menefee
From: Paul Slenkamp and Aaron O’Quinn
Date: 1/3/2018
Re: USFS Exchange Approval
Fiscal Year: 2019

Approval

Proposed Board Motions:

Motion 1: *The Alaska Mental Health Trust Authority board of trustees approves the land exchange contemplated by the Alaska Mental Health Land Exchange Act of 2017, as required by 22 SLA 17, Section 6(a)(3).*

Motion 2: *Upon the board approval of the land exchange in Motion 1, and in recognition that the Executive Director of the Trust Land Office has completed the best interest decision required by 22 SLA 17 Section 6(a)(2), the chair of the board of trustees shall certify in writing to the Lieutenant Governor, the revisor of statutes of the State of Alaska, that the conditions described in 22 SLA 17 Section 6(a)(1)-(3) have occurred, and 22 SLA 17, an act of the legislature approving the exchange contemplated by the Alaska Mental Health Land Exchange Act of 2017, shall take effect.*

Background:

Transaction/Resource: Approximately 18,258 acres of Trust lands (the "Disposal Lands") in exchange for approximately 20,528 acres of United States Forest Service ("USFS") land (the "Acquisition Lands"), as contemplated by the congressional Alaska Mental Health Trust Land Exchange Act of 2017 (the "Act"), though the exact acreage to be exchanged will be determined pending the results of an appraisal of both the Disposal Lands and the Acquisition Lands. The Acquisition Lands will be managed consistent with the Trust management principles and are anticipated to be managed largely for timber production. This approval is for the simultaneous disposal of up to 18,258 acres of current Trust lands and the acquisition of up to 20,528 acres of current USFS lands. The exchange also reserves a number of existing research study areas for limited periods of time and establishes certain perpetual conservation easements to the USFS.

Property Description/Acreage/MH Parcel(s): Properties to be exchanged are to be based on a value-for-value appraisal and are outlined on attached maps referenced in The Act. The Act refers to 7 parcels of "federal" land (Exhibit A "federal" land maps No. 7 through 9, inclusive) comprising of approximately **20,580 acres (the Acquisition Lands)**. The Act refers to Trust lands as "non-federal"

land comprised of approximately **18,258 acres (the Disposal Lands)** in 74 parcels (Exhibit B “non-federal” land maps No. 1 through 6 and No. 10).

General Background: The TLO and the AMHT have been engaged with the U.S. Forest Service since 2005 to reduce conflicts with Southeast communities from timber harvest while providing timber resources to the southeast Alaska timber industry to ensure that AMHT timber resources are monetized consistent with the AMHTA’s fiduciary duty to beneficiaries. The Alaska Mental Health Trust Land Exchange Act of 2017 and its complimentary State of Alaska legislation, 22 SLA 17, was the culmination of years of collaboration between the USFS, the timber industry, environmental and conservation organizations, southeast Communities, State of Alaska, and other concerned stakeholders. The resulting laws instruct the USFS to exchange approximately 20,580 acres of federal land in a value for value exchange (by appraisal) for approximately 18,258 acres of AMHT lands. The final acreage will be determined by equalization set forth within the legislation and parcel adjustment through a predetermined sequence. There may be a cash equalization, if necessary, and only when it is determined to be prudent.

In 2013 the board of trustees appropriated \$3 million to execute a land exchange with the U.S. Forest Service. The Trustees increased the allocation an additional \$3.3 million in 2017 and further discussion of current spending and projections are discussed in greater detail below. The Trust is obligated to pay for the cost of completing the exchange per the legislation. The TLO has positioned the land exchange to preserve or increase the value of its timber assets. This exchange will also preserve the existing timber industry in southeast Alaska. In short, the TLO is maintaining existing infrastructure and markets and thereby strengthening viable customers who will purchase trust timber assets in the foreseeable future. The consultation stated, “making this funding available will allow the TLO to take advantage of the congressional support and potential alignment of the national forest plans toward addressing ‘Sustainable Forestry in Southeast Alaska’ with this important initiative.”

It has been recognized since 2007 that for a successful land exchange to occur, a direct link to the preservation of the existing timber industry in southeast Alaska was critical. A signing ceremony for the State legislation was held in Ketchikan on August 10, 2017, attended by Senator Murkowski, Governor Walker, State Senator Stedman and Representative Ortiz. “This is an opportunity to help the Alaska Mental Health Trust as they seek to provide for the most vulnerable in our state,” Alaska Senator Lisa Murkowski said. “Because of this exchange, we have protected viewshed, we have allowed for support for our timber industry because of the exchange and again, provided a valuable resource to the Alaska Mental Health Trust”.

Senate Bill (SB) 88 (enacted as 22 SLA 17) requires certain conditions before it becomes effective: first, that the federal bill must be passed; second, that the Executive Director of the TLO finds the exchange to be in the best interest of the Trust; and third, that the board of trustees approve the exchange with certification of these three requirements in writing from the chair of the board of trustees to the Lt. Governor (the proposed certification attached hereto as Exhibit C).

The purpose of this approval is to confirm that the TLO’s best interest decision was reached, and to complete the final step of board approval and certification.

The date indicated in the legislation by which the first phase of the Exchange was to have taken place was May 5, 2018. As discussed above, the Exchange was to take place based on an appraisal process. The TLO received the results of the final appraisal for the Phase I parcels as of December 5, 2018. Additionally, all other reviews and field work related to Phase I have been completed. These completed reviews and field work include: surveys, environmental site assessments, posting and blazing, title review, wetlands reports, endangered species reports, and timber cruises.

Phase I Appraisal Results

Federal Lands		
Naukati Phase I	2,423 acres	\$3,480,700
Non-Federal Lands		
K1 Signal Mountain	1,848 acres	\$1,570,800
K2 Minerva Mountain	670 acres	\$502,500
Total	2,518 acres	\$2,073,300

Under the law, no equalization of Phase I lands is necessary – the values of Phase I lands will be combined with the values Phase II lands to calculate the dollar-for-dollar exchange.

Phase II Anticipated Appraisal Results

Based on the results of the appraisal of Phase I, known timber inventory data on Phase II, the appraisers’ valuation of non-timber and cutover timber lands in Phase I, the TLO has estimated the value of Phase II Federal and non-Federal lands for the purpose of informing the AMHTA board of trustees as to the potential outcome of the dollar-for-dollar exchange.

This estimate generally represents a scenario in which the TLO has valued its own lands at the lowest reasonable value with a reasonably high value ascribed to USFS lands based on known timber inventory. In this scenario the TLO will convey all non-Federal lands to the USFS in exchange for only the USFS lands at Naukati. The TLO has high confidence that the contract appraisers will not value non-Federal lands lower than this estimate and a relatively high confidence that the appraisers will not value the Federal lands higher than these estimates.

The TLO considers the complex calculations and factoring in a number of variables to be confidential and proprietary business information and will be withholding the release of actual dollar amounts derived from these estimates. The figures will also be withheld so as not to adversely influence the Phase II appraisal. All appraisal work must conform to the Uniform Standards for Professional Appraisal Practice (USPAP) and the Uniform Appraisal Standards for Federal Land Acquisition. The TLO has demonstrated in the Phase I Appraisal process that it can successfully defend appraisal figures which do not appear to meet fair market value and will continue to scrutinize forthcoming appraisal work product.

Federal Lands	
Naukati Phase II	8,418 acres
Hollis	1,538 acres
Shelter Cove	8,224 acres
Total	18,180 acres
Non-Federal Lands	
Ketchikan	4,081 acres
Sitka	419 acres
No Name Bay	3,374 acres
Juneau	2,689 acres
Wrangell	1,071 acres
Meyers Chuck	169 acres
Petersburg	3,871 acres
Total	15,674 acres

A discussion of the anticipated revenue and other benefits resulting from this transaction immediately follows. That discussion concludes that the revenue generated, and land management efficiencies realized by consolidating the Trusts difficult-to-develop southeast Alaska parcels, even in exchange for only the Naukati parcels, represent a better proposition for the Trust than holding its original parcels and attempting to develop them.

Anticipated Revenues/Benefits: The Exchange will result in better alignment of land ownership patterns with the missions of the USFS and AMHT. Specifically, the TLO will be better positioned to maximize revenue production from timber assets by acquiring lands in less populated and more easily harvestable locations.

Analysis and discussion of the anticipated revenues and benefits of the exchange are best framed by first explaining what the revenue and benefit potential is from the status quo – the Trust’s existing landholdings and revenue streams. Under optimum conditions, with little public opposition or regulatory risk timber harvest and land development on those lands slated for exchange would generate a potential revenue of \$12.9MM. However, approximately \$5MM of already committed exchange expenses would be expended and an additional \$0.5MM would need to be expended to create those revenue streams. The result is approximately \$7.4MM in net revenue to the Trust. This is an optimistic scenario.

If the TLO were to receive only Naukati lands, at current market prices the estimated net return from the harvest of the old growth timber on those lands will amount to approximately \$15.4MM in revenue through FY23, as the result of an initial timber sale contract that has been issued by the TLO contingent upon conveyance. An additional \$5MM in young growth timber sales will increase revenue to \$20.4M. Subtracting the \$6.3MM cost of the exchange results in \$14.1MM net revenue to the Trust. This exceeds the optimistic scenario of a \$7.4MM from existing Trust Lands by \$6.7MM.

Moreover, upon completion of the Exchange it is anticipated that the Trust will enter additional timber sale contracts for other exchange lands with similar returns on a per acre basis over time. The general revenue projection for timber harvest from exchange lands over the next twenty years far exceeds the \$20.4MM presented in this scenario. The appraisal process is necessarily complicated – involving many variables and considerations.

The TLO's conclusions are that the values of its own parcels will be of a value significant enough to provide the Trust with a significant increase in Trust parcel valuations.

Ultimately, were the Trust to receive only Naukati in exchange for all of the lands presented for exchange, the Trust would be in a better financial position than maintaining the status quo.

Anticipated Risks/Concerns: In general, the biggest risk to this project has been that the appraisal process will result in a significant deficit of acreage that the Trust will receive from the USFS. The completion of the Phase I appraisal alleviates some of that risk.

Moreover, by comparing the markets, likely land uses, and quality of timber on the remaining exchange lands the TLO believes it has made conservative assumptions about values and high confidence that the Trust will receive the entirety of Naukati as a result and should receive a significant portion of the identified 20,580 of federal lands.

Many of the risks associated with the previous administrative exchange are eliminated through the legislative exchange. For instance, the administrative exchange would result in a lengthy NEPA EIS process allowing for significant public commentary and exposes the USFS decision to exchange land to judicial review. By receiving a legislative mandate, both the USFS' discretion to complete the exchange and the ability of third-party entities to easily challenge the exchange are eliminated.

Given recent trade disputes between the United States and foreign buyers, notably China, there is a risk, especially in the near term, that foreign markets for young growth could decrease demand. However, timber markets have been cyclical, and the Trust is able to weather the potential downturns and resume harvest at a later date.

Project Costs: The land exchange is on schedule to meet its budget of six million three hundred thousand dollars (\$6.3MM).

Due Diligence:

- A. Site Inspection.** As part of the Exchange process, the USFS has deployed a number of agency personnel to conduct Environmental Site Assessments (ESAs) on both acquisition and disposal lands. The ESA consist of a superficial site inspection and note any and all potential environmental concerns that may arise. Affirmative results for environmental contamination may be grounds to exclude both Acquisition and Disposal Lands from the exchange. TLO personnel have inspected all exchange lands to a certain degree. ESAs for Phase I lands have revealed no issues other than minor residential encroachments – the same is anticipated for Phase II, however site visits by the USFS have not been completed. By the time Phase II is

completed, the USFS will have completed all the necessary studies required by the federal and state law.

- B. Valuation.** The legislation enabling the Exchange called for the establishment of mutually-agreed to appraisal instructions. These instructions were jointly crafted by both the Trust and the USFS and include requirements that the appraisers adhere to USPAP and other commercially acceptable forms of appraisal, including industry-standard timber cruising, where appropriate to value a portion of Acquisition or Disposal Land.

At the point in time of this decision, appraisals will not be completed for all the parcels. However, values have been provided for Phase I parcels. TLO staff have used the appraisals of Phase I lands to extrapolate values on Phase II lands and admit this is an imprecise endeavor. There are strong indications that the valuation of the acquired land parcels in the exchange will provide valuable timber assets well in excess of the probable valuation of monetizing the existing Trust Disposal Land assets.

- C. Terms and Conditions Review.** The TLO staff, Department of Law, and Trust board of trustees have reviewed the proposed land exchange on several occasions. The board has also approved funding on two occasions.

Alternatives:

- A. Do Nothing:** This alternative assumes that the Trust's current holdings can be monetized through alternatives other than timber harvest. This has proven to be difficult to produce revenues from these lands due to community opposition. There would be little opportunity to harvest timber from existing Trust lands. The communities of southeast Alaska have supported the exchange and believe the Trust will follow through with the process to complete the exchange.
- B. Alternate Development:** Due to the character and location, the various parcels do not lend themselves to cost-effective development opportunities that would produce a return to the Trust comparable to a commercial timber harvest. Alternative revenue potential, such as carbon credits, have been evaluated and do not compare to the reoccurring potential income that could be produced with commercial timber harvest. The TLO and Trust have experienced significant pressure from the public and communities to proceed with the exchange. The revenues are expected to exceed the cost of the exchange with just the initial harvest of the lands to be acquired under Phase I. The projected future revenues from all parcels will significantly exceed the cost of the exchange.
- C. Proposed Alternative:** This alternative will provide the Trust with significant revenue upon completion. The land exchange will provide significant restructuring of the Trust timber asset base and assist in diversifying the Trust asset portfolio. The new lands are expected to be managed primarily as timber lands with expected long-term revenues from sustainable yield.

Consistency with the Resource Management Strategy: The proposed action is consistent with the Trust Land Office Resource Management Strategy (RMS) adopted March 2016. The Forest Management section of the RMS specifically identifies the land exchange and discusses how expanding the timber base of the Trust will allow for a sustainable timber program which will aid in the diversification of the Trust portfolio. The land exchange will provide the AMHT with a large consolidated base of timber lands which will allow operations to be consolidated, reduce management costs, and increase revenue to the Trust. Future management of these lands for timber production and harvest will provide long term renewable revenues.

Trust Land Office Recommendation: The TLO recommends the board of trustees approve the motions as presented. The Exchange is an opportunity for the trustees to protect and grow the corpus of the Trust.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, and 11 AAC 99 (key statutes and regulations applicable to Trust land management and disposal), 22 Session Laws of Alaska 2017; The Alaska Mental Health Trust Land Exchange Act of 2017, Pub. L. No. 115-31, 131 Stat. 502.

Trust Authority Approval: The motion presented in this briefing document fulfills the approval requirements that are applicable to the transaction.

Exhibit(s): **Exhibit A:** Federal Land Maps No. 7 through 9
 Exhibit B: Non-Federal Land Maps No. 1 through 6, and No. 10
 Exhibit C: Letter to Lt. Governor Meyer, dated January 3, 2019

Exhibit A: Federal Land Map No. 7

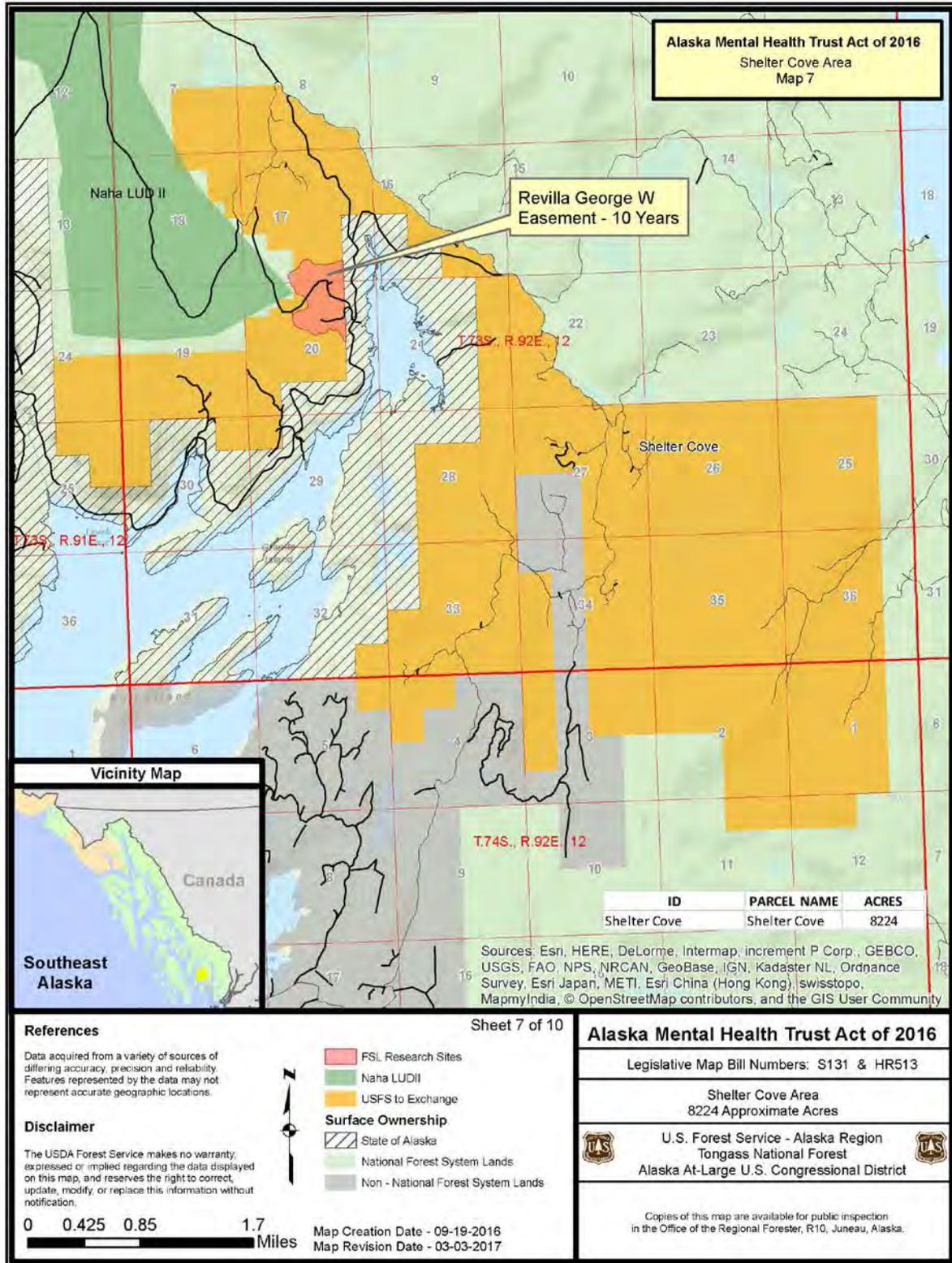


Exhibit A: Federal Land Map No. 8

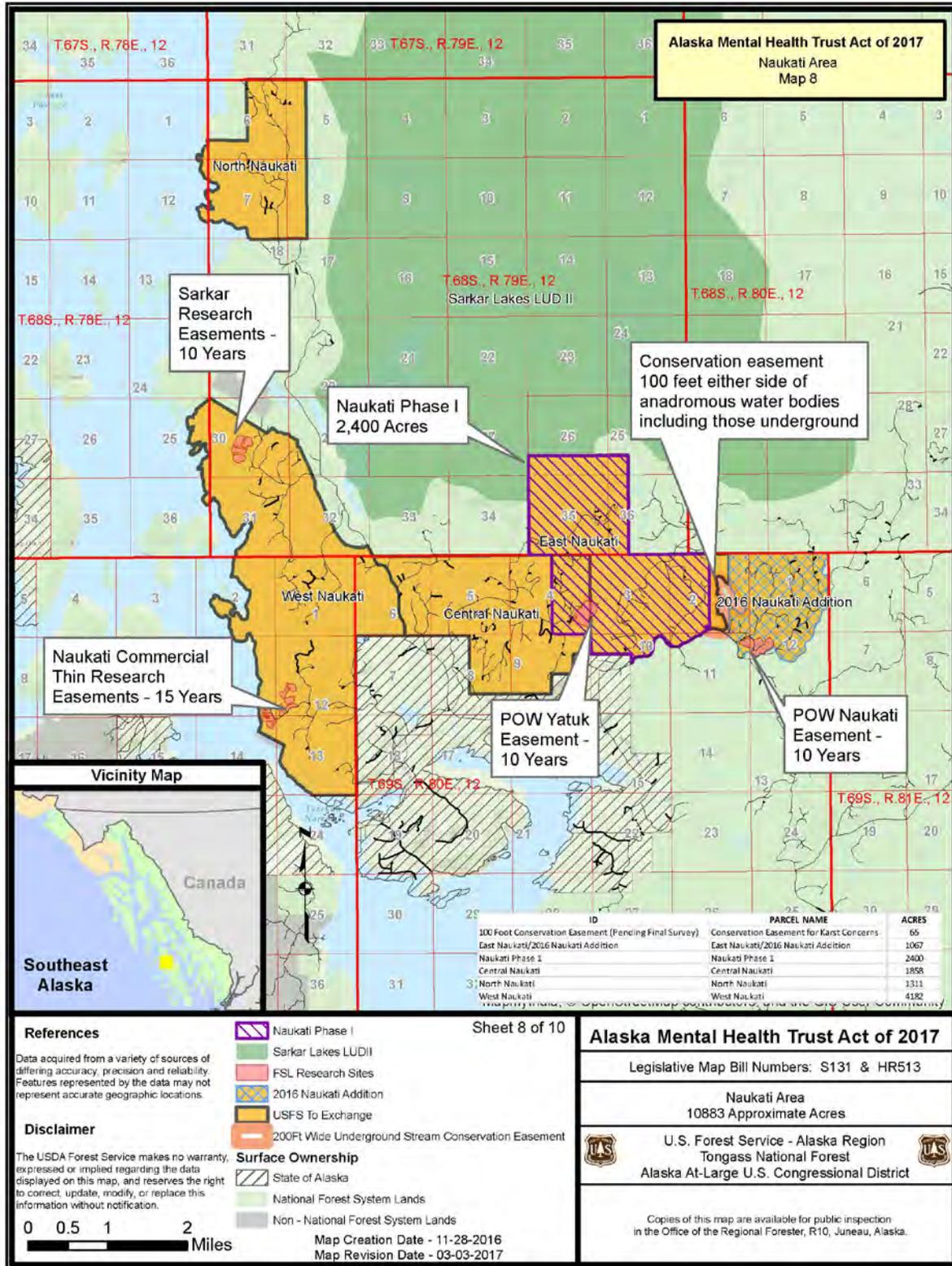


Exhibit A: Federal Land Map No. 9

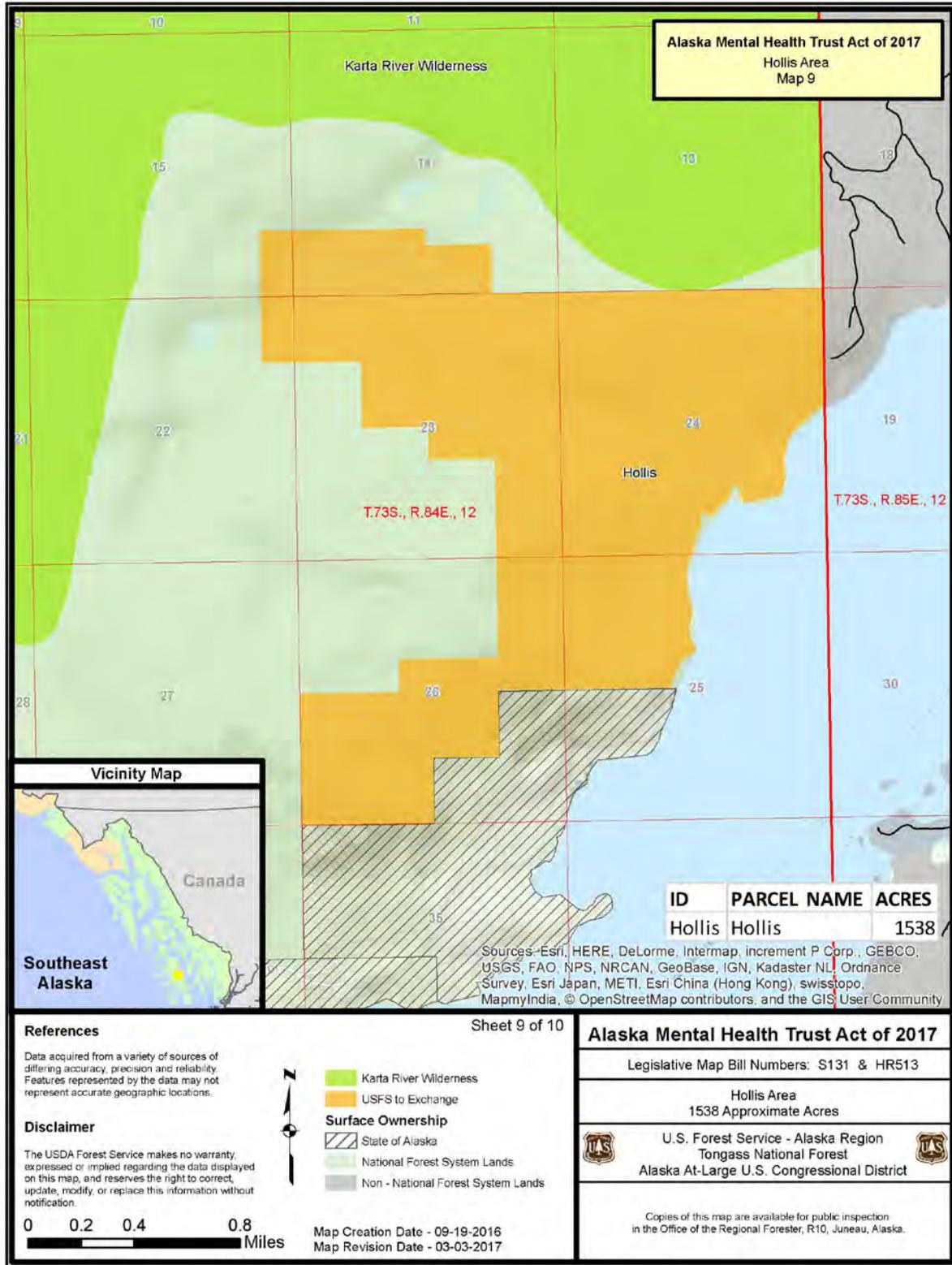


Exhibit B: Non-Federal Land Maps No. 1

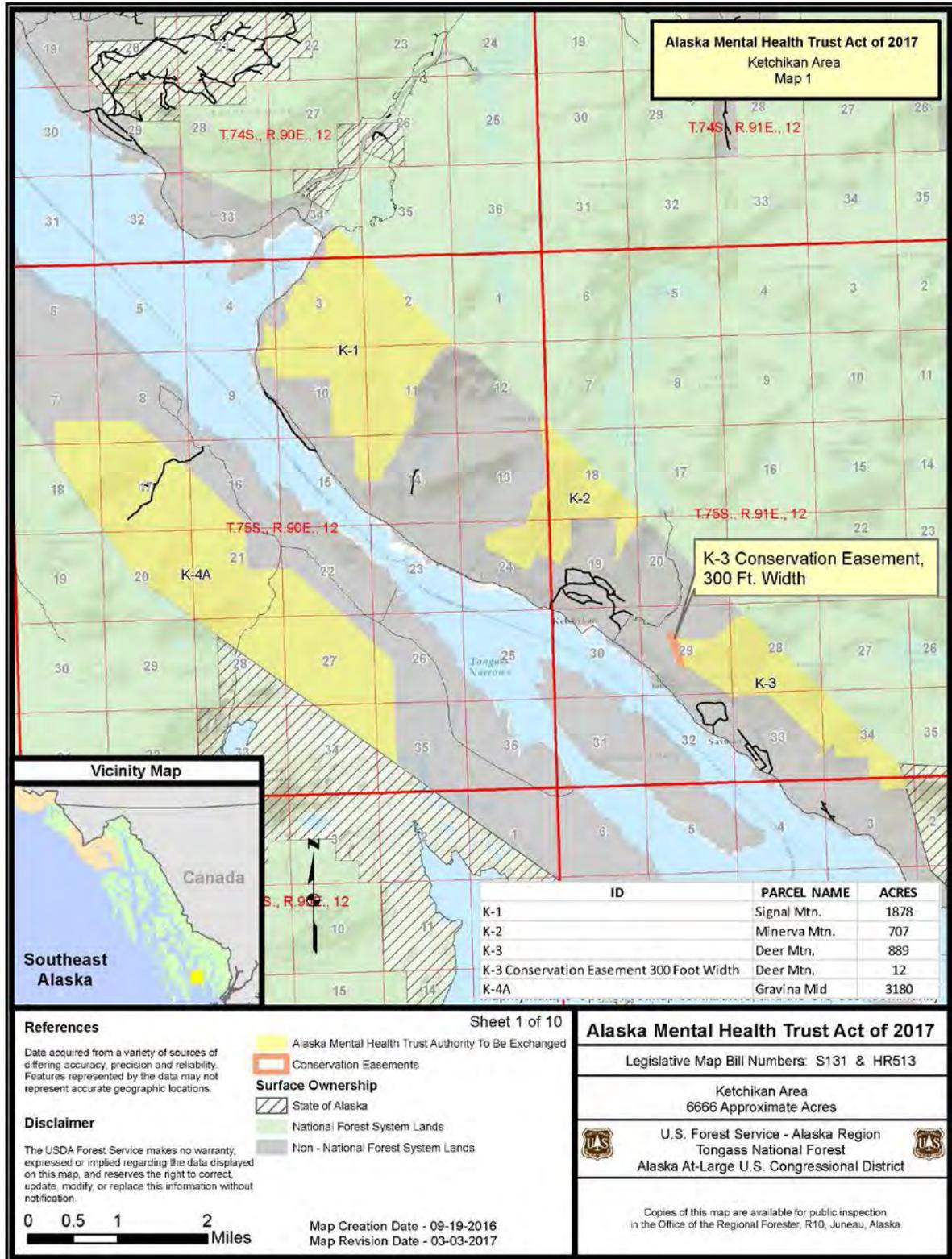
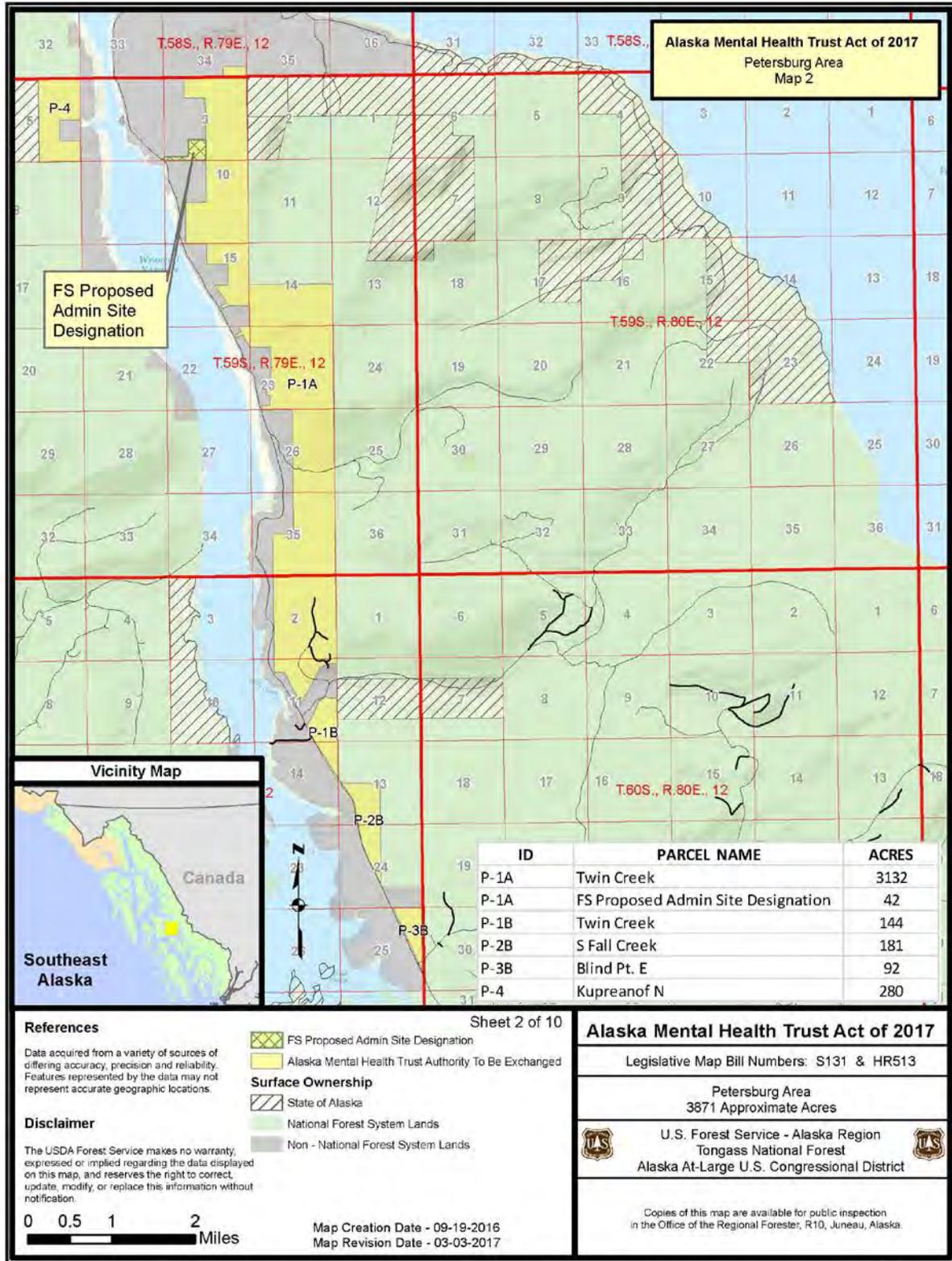


Exhibit B: Non-Federal Land Maps No. 2



Data used in creation of this map are on file with the Supervisor's Office, Tongass National Forest, Ketchikan, AK. TFS\NFS\Tongass\Program\5400L\andownership\GIS\G04K\MentalHealthTrustAct\2015\MentalHealth\Petersburg_LegislativeMap_PDR (8.5x11).esd

Exhibit B: Non-Federal Land Maps No. 3

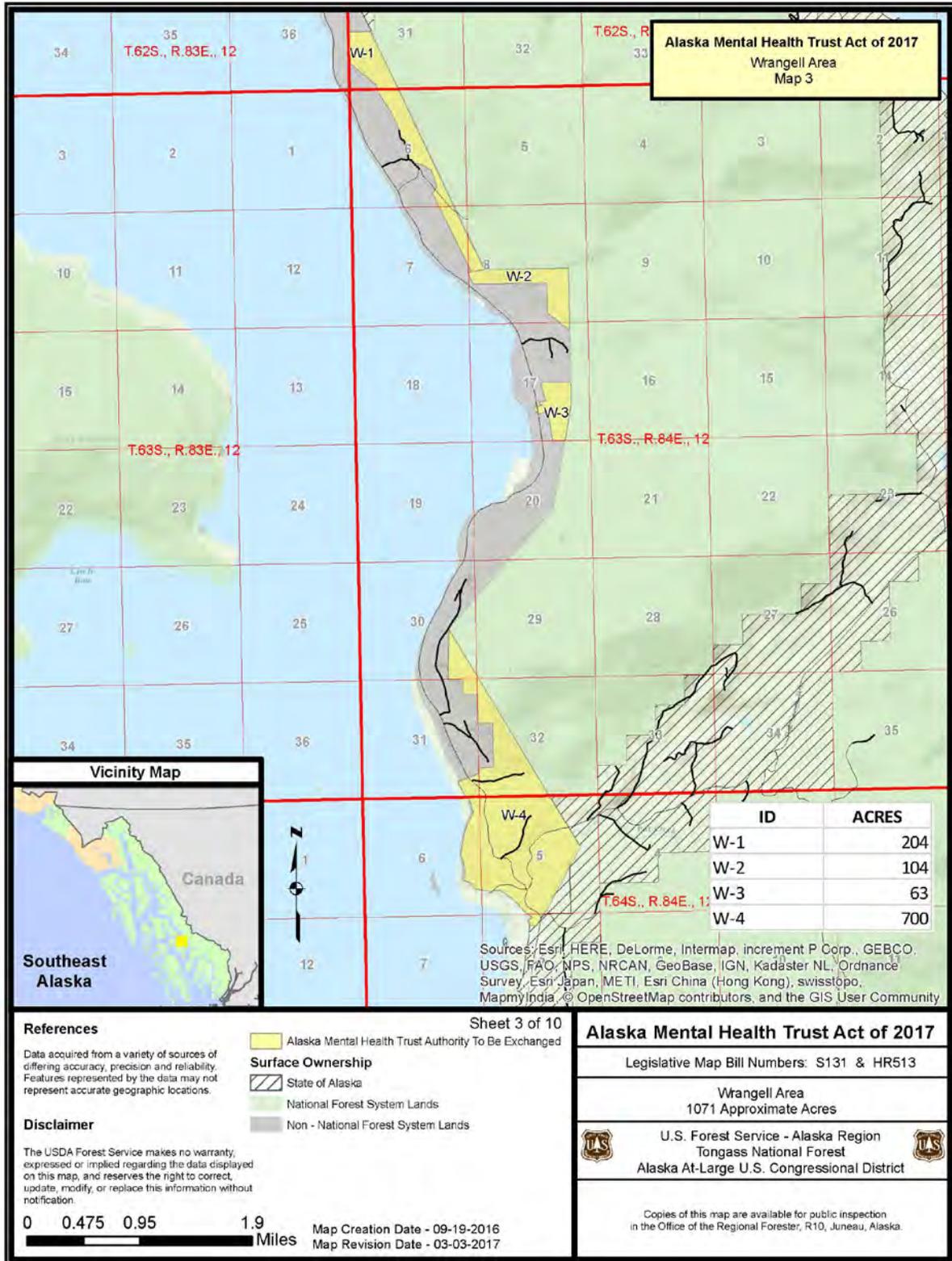


Exhibit B: Non-Federal Land Maps No. 4

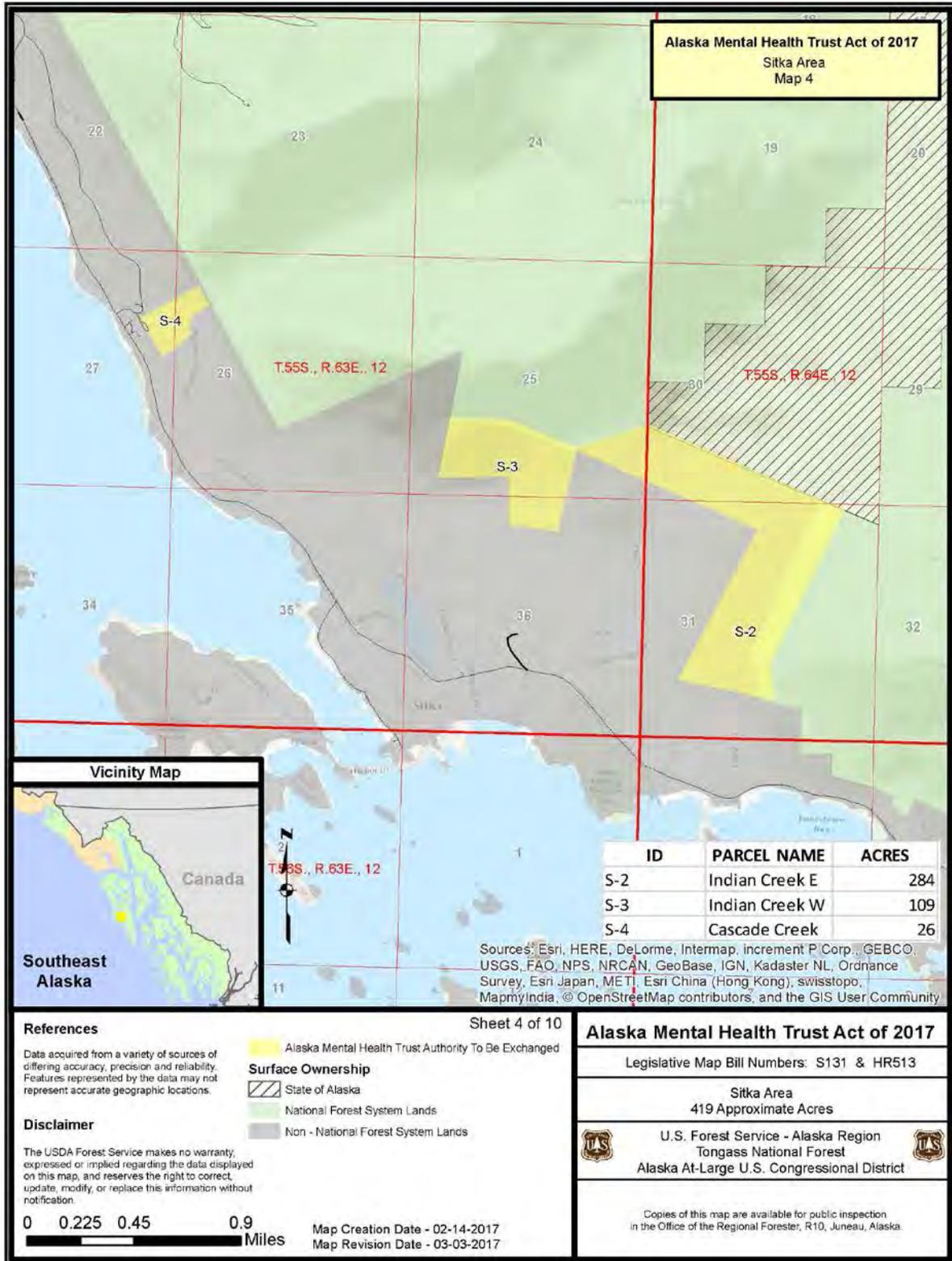


Exhibit B: Non-Federal Land Maps No. 5

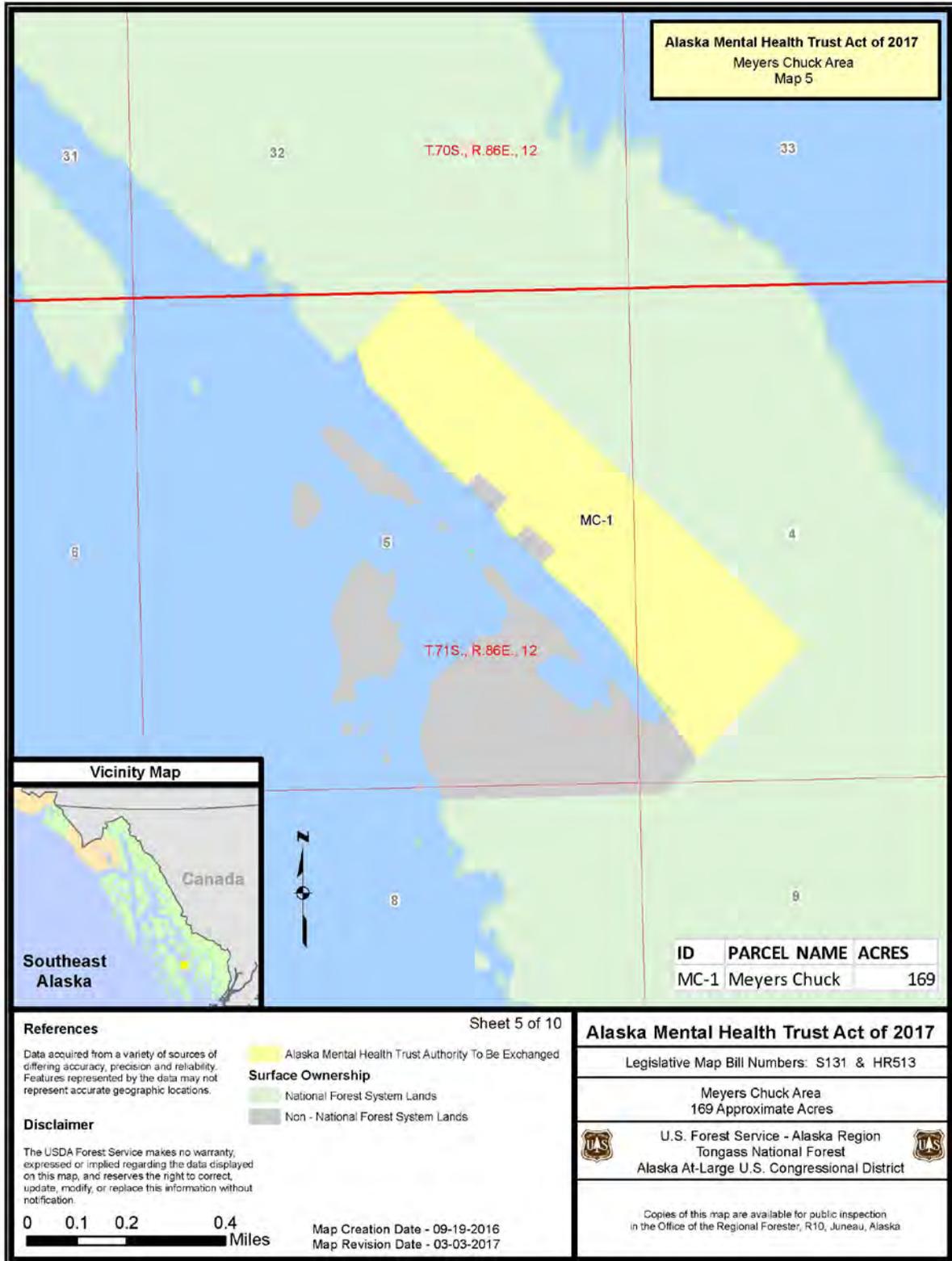


Exhibit B: Non-Federal Land Maps No. 6

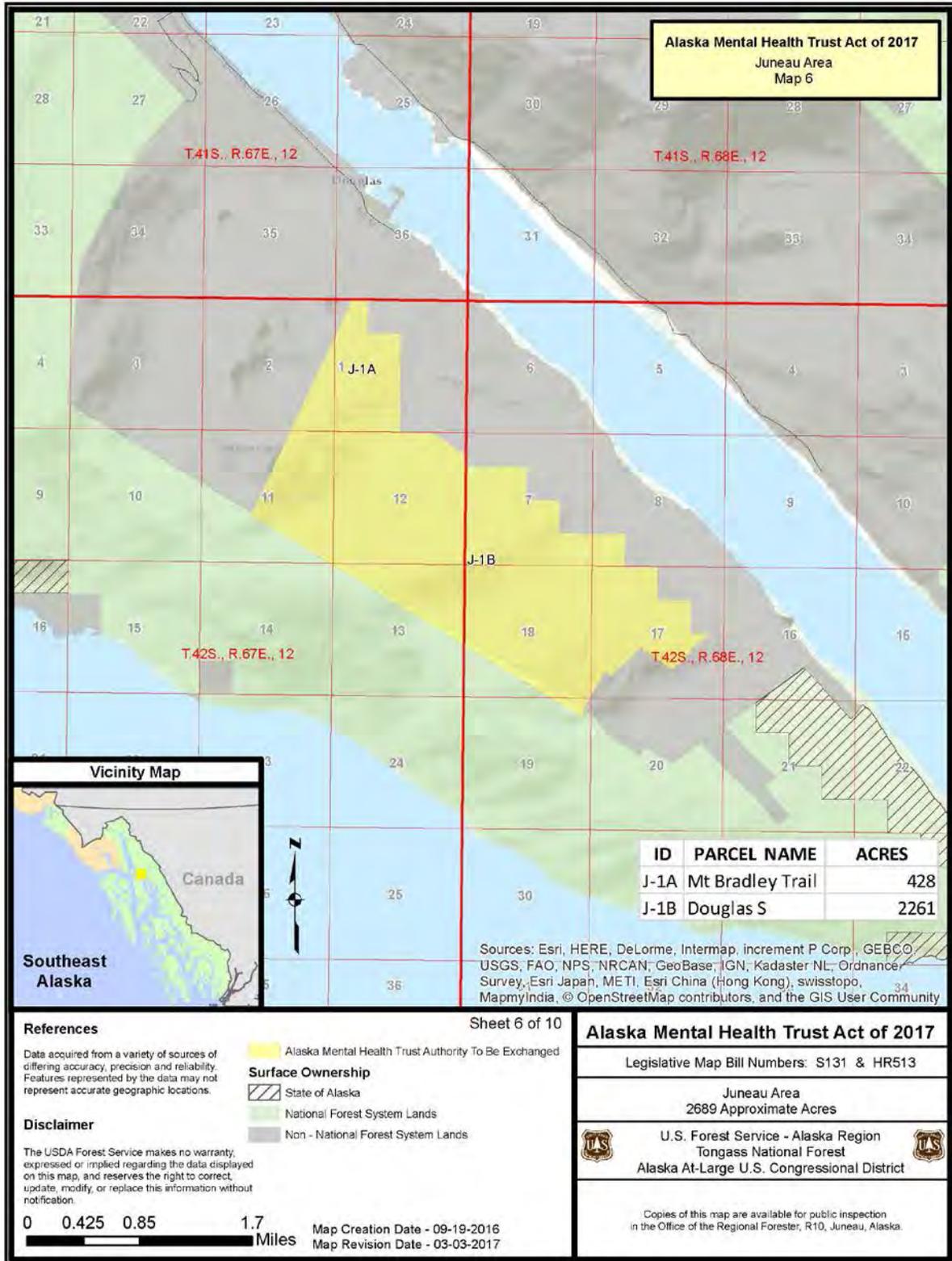


Exhibit B: Non-Federal Land Maps No. 10

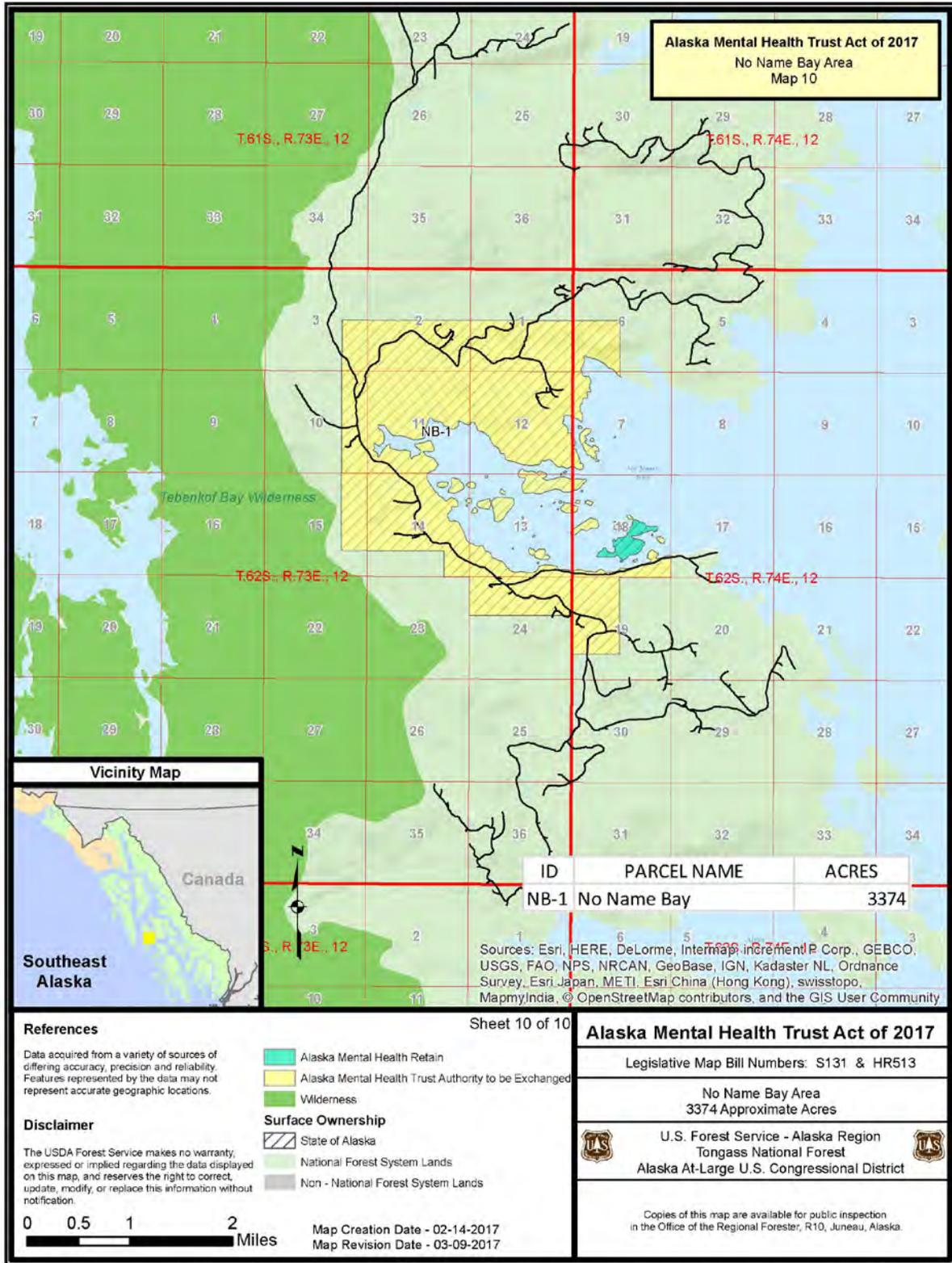


Exhibit C: Letter to Lt. Governor Meyer, dated January 3, 2019



3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

Lt. Governor Kevin G. Meyer
Office of the Governor
PO Box 110015
Juneau, AK 99811-0015

January 3, 2019

Dear Lt. Governor Meyer, revisor of statutes:

I, Mary Jane Michael, chair of the board of trustees of the Alaska Mental Health Trust Authority, pursuant to Chapter 22 of the Session Laws of Alaska, 2017 (the "State Exchange Act"), do hereby certify that the following conditions of Section 6(a) of the State Exchange Act have occurred, rendering the same effective:

1. The Alaska Mental Health Trust Land Exchange Act of 2017 was passed by the 115th United States Congress and was enacted into law through Public Law No: 115-31, the Consolidated Appropriations Act of 2017 on May 5, 2017 (the "Federal Exchange Act");
2. The Executive Director of the Trust Land Office, Wyn Menefee, the public officer in the Alaska Department of Natural Resources who is responsible for the management of the land assets of the Alaska Mental Health Trust Authority, determined that the exchange authorized by the State Exchange Act is in the bests interest of the trust established under the Mental Health Enabling Act of 1956, P.L. 84-830 on February 20, 2018;
3. The Alaska Mental Health Trust Authority board of trustees approved the exchange authorized by the State Exchange Act on January 3, 2018.

As such, the State Exchange Act shall take effect on January 4, 2018, the day following certification to the revisor of statues, and the Trust Land Office shall proceed to exchange the lands described in both the State Exchange Act and the Federal Exchange act pursuant to the terms of the same.

Sincerely,

Mary Jane Michael
Chair, Alaska Mental Health Trust Authority, board of trustees