

**Alaska Mental Health Trust Authority  
Trust Land Office**

**BEST INTEREST DECISION  
Haines Block Competitive Lease Offering**

File No.2014-57

In accordance with AS 38.05.801 and the implementing regulations governing Alaska Mental Health Trust land management (11 AAC 99), Trust land shall be managed consistently with the responsibilities accepted by the state under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 [1956]). This means that management shall be conducted solely in the best interest of the Alaska Mental Health Trust and its beneficiaries.

In determining the best interest of the Trust and its beneficiaries, and in determining consistency between state law and the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 [1956]), the Executive Director of the Alaska Mental Health Trust Land Office (“TLO”) shall, at a minimum, consider the following interactive Trust management principles in accordance with 11 AAC 99.020:

- Maximization of long-term revenue from Trust land;
- Protection of the corpus;
- Protection and enhancement of the long-term productivity of Trust land;
- Encouragement of a diversity of revenue-producing uses of Trust land; and
- Management of Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries.

**I. Proposed Use of Trust Land.** Conduct a competitive lease offering for approximately 99,257 acres of Trust Land in the Juneau Mining District 30 miles northwest of Haines and referred to as the Haines Block (Attachment A).

**II. Applicant/File #:** A competitive lease offering is being proposed by the Trust Land Office (File No. 2014-57).

**III. Subject Property**

- A. **Legal Description/Maps.** The subject parcels contain approximately 99,257 acres located in: the Skagway B-3, B-4, C-3, and C-4 quadrangles, Alaska, as displayed on the attached map identified as Attachment A and made a part of this decision.
- B. **Settlement Parcels.** C70451, C81209, C81210.
- C. **Site Characteristics/Primary Resource Values.** The topography of the property consists of elevations ranging from approximately 700 feet to 7,434 feet. Annual precipitation averages approximately 60 inches. The area is drained by the Kelsall, Klehini, and Tirsku Rivers. Slopes vary from gentle to

very steep and glaciers and permanent snow fields occupy the high country. Tree line is at elevations of 2,500 to 3,000 feet and outcrop is good between treeline and the ice and snow fields. The proposed lease area can be considered within the regional Tintina Gold Belt and underlain by bedrock of the Paleozoic to Mesozoic Alexander Terrane metamorphic rocks that have been intruded by Cretaceous to Tertiary granite, granodiorite, and diorite stocks and plugs. The intrusives have commonly produced zones of hornfels and contact metamorphism in the country rock. Placer gold has been produced from a number of streams including Porcupine, McKinley, Cahoon Cottonwood, Nugget, Glacier, and Big Boulder Creeks. Most exploration programs in the 1970s, 1980s, 1990s, and modern era have focused on the area of the Palmer (Mt. Henry Clay) polymetallic (Cu, Pb, Zn, Au, Ag) volcanogenic massive sulfides leaving much of the surrounding area underexplored. Based on publicly available information, there are no known physical or ecological features associated with the Block that would prevent planned mineral exploration activities or subsequent development and production activities, if any. The primary resource values are mineral and recreational in nature. There are no anadromous fish streams cataloged on the proposed lease Block. Anadromous fish are cataloged in the main stems of the Klehini and Tirsku Rivers and some small tributaries in the lower country.

- D. Historical and Existing Uses of the Property.** The Block is located approximately 50 miles northwest of Haines and north and south of the Haines Highway. The Block contains parcels located in the high country between the Kelsall and Klehini Rivers and the Klehini and Tirsku Rivers in the Skagway B-3, B4, C3, C-4 Quadrangles. The parcels that constitute the Block were selected for the Trust because of the mineral values. The area has a long but intermittent history of placer mining operations beginning at the turn of the last century – especially in the Porcupine Creek drainage. Surface uses include outdoor recreation and hunting.
- E. Adjacent Land Uses and Trends.** Mineral exploration continues to be active in the surrounding area and it is anticipated that a significant portion of the adjacent lands in the vicinity of the lands covered by this decision will be the focus of some type of mineral leasing, exploration or production effort in the future. Recreation, primarily outdoor recreation, hunting, and heli-skiing will continue to be land uses.
- F. Existing Plans Affecting the Area.** The Northern Southeast Area Plan and the Haines Borough Comprehensive Land Use Plan affect the acres of the Subject Lands that are mineral estate only (most of the Trust's holdings in this area are split estate acreage and mineral only). The primary surface use designation in the Northern Southeast Area Plan is General Use, with mineral development recognized as an existing occurrence. The area is recognized in the Haines Plan as having mineral potential, and there are numerous references in the plan to the historic and on-going mineral exploration and mining activity that has taken place in the Porcupine Area. Mineral development is noted in both state and local government land use plans that

are applicable to the area. The proposed use is consistent with the designated uses in the Plans.

- G. **Apparent Highest and Best Use.** This Trust land was selected for its minerals potential. Of the 99,257 acres comprising the Haines Block, 95,774 acres are subsurface estate only; thus the only value to The Trust is through mineral exploration, development, and production.

**IV. Proposal Background.** The TLO proposes to conduct a competitive lease offering which covers the potential precious and base metals in the Block. Published works by the U.S. Geological Survey, U.S. Bureau of Mines and the State of Alaska DGGs indicate that the area has potential to host placer gold, lode intrusion related gold, contact metasomatic deposits, and volcanogenic massive sulfides. The State of Alaska estimates gold production from this portion of the Juneau Mining District at 82,489 ounces of placer gold and no ounces of lode gold. The Palmer Project is located on federal mining claims on the west-central portion of the Block. Constantine Metal Resources, Ltd estimates the minable resources of the Palmer Project to be 4.75 million tonnes grading 1.84% Cu, 4.57% Zn, 0.15% Pb, 0.28 gpt Au, and 29.1 gpt Ag. There is thus considerable potential for discovery of additional massive sulfides and the lode source of placer gold on The Trust's mineral holdings.

**V. Key Terms and Conditions.** Standard lease terms and conditions for lode and placer mining would apply.

- A. **Lease Term:** The Initial Term of the lease is for three years with an option to renew the term for two, three year extensions. Thereafter, the lease may only be maintained by continuous production. Placer rights are retained.
- B. **Bonus Bids:** If needed, bonus bids will be based on a \$0.25 per acre minimum bid.
- C. **Annual Rental:** Annual rentals begin at \$25,000 per year for the first lease term and increases to \$40,000 per year in the second lease term and \$55,000 per year in the third lease term. At the end of the first two lease terms, 25,000 acres are required to be dropped from the lease.
- D. **Production Royalty:** A 3.5% royalty will apply to base metal and silver production; a price dependent sliding scale from %1 to 4.5% will be used for gold.
- E. **Work Commitment:** The Lessee work commitment starts at \$75,000 for year one and escalates at \$25,000 per year.
- F. **Data:** The TLO will receive copies of all data and information obtained as a result of the lease operations.
- G. **Allowable Deductions.** Lessee will offset rental payments by production royalties due the Trust in the year those payments are due.
- H. **Environmental Laws and Considerations.** Lessee will be required to enter into an upland mining lease with the TLO, with the lease requiring full compliance with all applicable environmental laws.

**VI. Asset Management Considerations.** The proposal is consistent with the "Resource Management Strategy" (RMS), which was developed in 2013 in consultation with the Trust Authority and provides for the TLO to "focus first on land or resources at the high end of their market values ("best markets")." Given the currently increasing values of base and precious metals, the mineral resources affected by this decision are "best market" resources that should be offered now rather than later. Additionally, as noted above, the action is a required step towards generating potentially significant revenues from Trust mineral resources, consistent with a key trust land management principle of encouraging a diversity of revenue generating uses of Trust land.

**VIII. Risk Management Considerations**

- A. **Performance Risks.** Performance risks will be minimized through aggressive enforcement of the terms and conditions of the mineral lease, including, but not limited to those provisions that address royalty payments, work commitments, development plan approval and diligent resource development over time.
- B. **Environmental Risks.** The exploration, development, and mining activities performed under the lease will be done within the parameters of local, state and federal environmental protection laws that generally apply to private lands. Lease stipulations require compliance with CERCLA, RCRA, as well as state reclamation requirements. The Lessee will be adequately bonded and insured.
- C. **Public Concerns.** Historically, significant concern has been expressed about the impact of the leasing activities on public resources, such as fish and wildlife resources. Environmental laws and regulations have been promulgated over time to address these concerns. As noted above, the TLO lease will require full compliance with those laws and regulations and, additionally, may contain some operating stipulations that exceed the requirements of those laws and regulations. Further, there are no known concerns that suggest that the proposed transaction is inconsistent with Trust principles.

**VII. Due Diligence**

- A. **Site Inspection:** TLO personnel are familiar with the area proposed to be offered for lease and visited the Block most recently in August 2013.
- B. **Valuation:** The subject lands will be leased pursuant to the terms and conditions of the existing Trust Upland Mining Lease -- a standard form substantially the same as has been used in previous TLO mineral lease transactions, and includes the terms and conditions outlined above.
- C. **Terms and Conditions Review:** The TLO contracted with a private law firm and other public and private land managers for the purposes of developing terms and a lease form that best serves the interest of the Trust.

## **IX. Alternatives**

- A.** Do not lease the land at this time.
- B.** Do not lease the land and discourage further development of mineral resources on Trust land in this area.

**X. TLO Recommendations.** Proceed with the competitive lease offering as proposed. This lease is in keeping with the Trust's Asset Management Strategy since interest exists in this area for the exploration and development of land with mineral potential.

**XI. Applicable Authority.** Alaska Statutes 37.14.0099(a) and 38.05.801, and 11 AAC 99 (key statutes and regulations applicable to Trust Land management and disposal).

**XII. Inconsistency Determination.** As the proposed competitive mineral lease offering is specifically authorized under 11 AAC 99, any relevant provision of law applicable to other state lands is inapplicable to this action if it is inconsistent with Trust responsibilities accepted by the state under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)) as clarified by AS 38.05.801 and Alaska Mental Health Trust land regulations (11 AAC 99). 11 AAC 99 includes determinations that certain state statutes applicable to other state land do not apply to trust land unless determined by the executive director, on a case-by-case basis, to be consistent with 11 AAC 99.020. The state statutes deemed inconsistent with trust management principles and inapplicable to trust land by these regulations have not been applied to this decision or this action, including, but not limited to, AS 38.04 (Policy for Use and Classification of State Land Surface), AS 38.05.035 (Powers and duties of the director), AS 38.05.300 (Classification of land), AS 38.05.945 (Notice), AS 38.05.946 (Hearings), and 11 AAC 02 (Appeals).

In addition to those provisions of law deemed inconsistent by 11 AAC 99, the following relevant provisions of law are deemed inconsistent with Trust management principles and will not apply to this action:

AS 27.30.010 - .070, Exploration Incentive Credits, and associated regulations. This statute was developed in order to attract the mineral industry to state and private land and provide general benefits statewide. Trust lands are managed solely for the benefit of the mental health beneficiaries. Exploration credits for mineral exploration may apply to Trust Land rents and royalties if this provision is negotiated in consultation with the Trust Authority under 11 AAC 99.100(d). Terms and conditions applicable to this transaction do not provide for application of exploration credits to Trust Land rents and royalties. Therefore, to the extent that AS 27.30.010 - .070 requires otherwise is inconsistent and not applicable to Trust lands. Further, numerous provisions of law require levels of performance that are less than those required by terms and conditions negotiated in consultation with the Trust Authority under 11 AAC 99.100(d). To allow application of those provisions of law would result in a transaction that does not comply with trust management principles provided for in 11 AAC 99.020. Therefore, provisions of law applicable to other state lands that are inconsistent with the terms of this proposed transaction are hereby deemed inconsistent with 11 AAC 99.020 and do not apply to this

transaction. These provisions and their associated regulations include, but are not limited, to the following: AS 38.05.210, 215, 225, 230, 235, 240 (Annual Labor); AS 38.05.255, 265, 270, 275, -(Surface Use of Land and Water); AS 38.05.135, 137, 140, 145 (Leasing of Mineral Land); and AS 38.05.285 (Multiple Use).

**XIII. Trust Authority Consultation.** The Resource Management Committee was consulted on October 10, 2013. The Committee recommended the proposed transaction be forwarded to the Trust Authority Board of Trustees. The Board of Trustees was consulted on November 21, 2013 and concurred with the proposed lease offering, subject to the outcome of the notice process.

**XIV. Best Interest Decision:** Given the above and the information contained in the complete record, the Executive Director finds that the proposed transaction is in the best interest of the Trust, subject to the terms and conditions addressed in this decision. The decision is based upon the consideration of the five Trust management principles set out in 11 AAC 99.020 and is in full compliance with 11 AAC 99. This decision does not preclude the TLO from determining that an alternative proposal will serve the best interest of the Trust. A future determination of that nature will require a best interest decision specific to the proposal

**XV. Opportunity for Public Comment:** Notice of this best interest decision will take place as provided by 11 AAC 99.050. Persons who believe that the decision should be altered because it is not in the best interest of the Trust or its beneficiaries, or because the decision is inconsistent with Trust management principles set out in 11 AAC 99.020 or any other provision of 11 AAC 99, must provide written comments to the TLO during the notice period. Following the comment deadline, the Executive Director will consider timely written comments that question the decision on the basis of the best interest of the Alaska Mental Health Trust and its beneficiaries or inconsistency with 11 AAC 99. The Executive Director will then, in his or her discretion, modify the decision in whole or in part in response to such comments or other pertinent information, or affirm the best interest decision without changes. The best interest decision as modified or affirmed will become the final agency action, subject to reconsideration procedures under 11 AAC 99.060. Additional notice will be provided for a substantially modified decision. If no comments are received by the end of the notice period, this best interest decision will be affirmed and the proposed action taken. (See public notice for specific dates.)

**XVI. Reconsideration.** To be eligible to file for reconsideration of this best interest decision, or to file a subsequent appeal to the Superior Court, a person must submit written comments during the notice period.

Persons who submit timely written comments will be provided with a copy of the final written decision, and will be eligible to request reconsideration within 20 calendar days after publication of the notice or receipt of the decision, whichever is earlier under 11 AAC 99.060(b). The Executive Director shall order or deny reconsideration within 20 calendar days after receiving the request for reconsideration. If the Executive Director

takes no action during the 20-day period following the request, the request is considered denied. Denial of a request for reconsideration is the final administrative decision for purposes of appeal to the superior court under AS 44.62.560.

**XVII. Available Documents.** Background documents and information cited herein is on file and available for review at the Trust Land Office, located at 2600 Cordova Street, Suite 100, Anchorage, Alaska 99503. Phone (907) 269-8658. Email: [mhtlo@alaska.gov](mailto:mhtlo@alaska.gov).

The disposal action proposed by this decision will occur no less than 30 days after the first publication date of this decision, and after the conclusion of the Trust Land Office administrative process. For specific dates or further information about the disposal, interested parties should contact the Trust Land Office at the above address, or visit the TLO website at: [www.mhtrustland.org](http://www.mhtrustland.org).

**Approved:**

  
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Marcie Menefee  
Executive Director, Trust Land Office

1-8-2014  
Date