

Trust

Alaska Mental Health
Trust Authority

Resource Management Committee Quarterly Meeting

January 27, 2015

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE

Draft Agenda

January 27, 2015 – 8:30 a.m. – 10:00 a.m.

Teleconference

Call in Number: **(866) 469-3239**

Session Number: **807 319 372 #**

Call to Order (Chair Larry Norene)

Roll Call

Committee Members (Voting):

Laraine Derr

Paula Easley

Russ Webb

John McClellan

Mary Jane Michael

Mike Barton (ex-officio)

Guest Identification

Announcements

Approval of Agenda

Approval of Minutes

1. Consultation

- a) [Kasaan Timber Sale Addition \(Item A\)](#)
- b) [2015 Competitive Land Sale \(Item B\)](#)
- c) [RMS – Mitigation Marketing Addition \(Item C\)](#)
- d) [L Street Negotiated Commercial Lease \(Item D\)](#)

2. Executive Session

3. Approval

- a) [Yosemite Utility Extension Funding \(Item 1\)](#)
- b) [U-Med C2 Utility Extension Funding \(Item 2\)](#)

4. Updates

5. Monthly Report Questions

6. Other

7. Adjourn

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE

October 22, 2014

9:08 a.m.

Taken at:

Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508

OFFICIAL MINUTES

Trustees present:

Larry Norene, Chair
Mike Barton (via telephone)
Laraine Derr
Paula Easley
John McClellan
Russ Webb
Mary Jane Michael (via telephone)

Trust staff present:

Jeff Jessee
Miri Smith-Coolidge
Kevin Buckland
Michael Baldwin
Marilyn McMillan

TLO staff present:

Marcie Menefee
John Morrison
Victor Appolloni
Cindi Bettin
Mike Franger

Others participating:

Mike Martin, Northrim Bank; Mark Edwards, Northrim Bank.

PROCEEDINGS

CHAIR NORENE calls the meeting of the Resource Management Committee to order. He states that there is a quorum. He asks for any announcements. There being none, he asks for approval of the agenda.

TRUSTEE DERR makes a motion to approve the agenda.

There being no objection, the motion is approved.

CHAIR NORENE moves to the minutes of the August 5, 2014, and September 2, 2014, meetings.

TRUSTEE DERR makes a motion to approve the minutes of August 5, 2014.

TRUSTEE BARTON seconds.

There being no objection, the motion is approved.

TRUSTEE DERR makes a motion to approve the minutes of the September 2, 2014 meeting.

TRUSTEE BARTON seconds.

There being no objection, the motion is approved.

CHAIR NORENE states that there are three consultations under the land program, and begins with the Seaduck Subdivision.

MR. APPOLLONI states that the proposed action is to offer seven lots in the Seaduck Subdivision near Petersburg through the TLO's Annual Land Sale program. He continues that the Trust parcel was subdivided into seven half-acre lots. He adds that they are approximately 10 miles south of Petersburg near the Mitkof Highway near Papke's Landing. He states that the TLO also approached the City and Borough of Petersburg to discuss possible negotiated sales of the remaining 3.54 acres to mitigate unauthorized use and management cost. He continued that due to the Petersburg Borough's priorities, the negotiated sale was never completed. He adds that these parcels are in the best market, at this time, to offer in the land sale program. He states that the subdivision plat should be finalized and recorded by the end of this month. He continues that, based on the appraisal, the TLO anticipates the total value of the seven lots to be \$218,000. He adds that the project costs are estimated at \$12,500, which includes appraisals, title reports, marketing, surveying, and platting costs.

TRUSTEE EASLEY asks if there is any population growth in the area.

MR. APPOLLONI replies that their market trend is stable, but they did have a decline in their population in the last year.

TRUSTEE DERR makes a motion that the Resource Management Committee concur with the offering of seven lots in the Seaduck Subdivision near Petersburg through the TLO's Annual Land Sale Program.

TRUSTEE BARTON seconds.

There being no objection, the motion is approved.

CHAIR NORENE moves on to Item B, the Rosalie Coal Lease, and recognizes Mike Franger.

MR. FRANGER states that this is a proposal to negotiate a coal lease for a 160-acre parcel of land to Usibelli Coal Mine. He continues that the parcel is located in the Healy River Valley and is adjacent to an existing coal lease that the Trust also owns. He explains that the leases would be on a standard Trust lease form, and the term would be ten years with an annual rent of \$5 an acre. He states that Usibelli is in the process of obtaining permits to begin mining on the adjacent lease next year. He continues that they anticipate additional demands for coal in state, as well as out of state. He adds that this parcel had previously been leased to UCM, but the lease recently expired. He states that this parcel is thought to contain additional reserves that would be associated with the coal in the area, and the recommendation is to lease this parcel to UCM.

TRUSTEE DERR makes a motion that the Resource Management Committee recommends that the Trust Authority Board of Trustees concur with the negotiated lease of Trust land near Healy for mining of coal with Usibelli.

TRUSTEE BARTON seconds.

There being no objection, the motion is approved.

CHAIR NORENE states that Item C is the Freegold Ventures Lease Expansion, and recognizes Mike Franger.

MR. FRANGER states that this is a proposal to lease additional acreage to Freegold Ventures. He explains that Freegold has been assembling acreage in this area for a number of years and has expended a considerable amount of money exploring in the area. He continues that the most recent resource estimate is approximately 6 million ounces of gold. He states that the rental payment starts at \$10 an acre for the first lease term, and escalates to \$15 and \$20 an acre for the second and third lease terms. He adds that the initial lease term is three years, with the ability to extend the lease for two lease terms. He continues that there are work commitments associated with the lease; \$125 an acre for the first lease term, escalating to \$250 and \$375 an acre for additional lease terms. He states that the recommendation is to consider adding this additional acreage to Freegold.

A short discussion ensues.

TRUSTEE DERR makes a motion that the Resource Management Committee recommend that the Trust Authority Board of Trustees concur with the addition of the requested acreage to the existing lease with Freegold Ventures.

TRUSTEE BARTON seconds.

There being no objection, the motion is approved.

CHAIR NORENE recognizes Trustee Michael on-line, and asks Marcie Menefee for an update.

MS. MENELEE states that the auction for the Buccaneer assets was delayed until late next week. She continues that there will be an additional hearing held by the AOGCC on taking testimony related to the gas allocation and the unitization issues. She states that the sale of the Bodenburg Butte to Greatland Trust closed last week. She adds that sale will help catch up with the principal goals as of September. She gives an update of the Wrangell contamination, stating that the site investigations reveal that there is no contamination in the groundwater, and there is only surface contamination. She states that the Trust licensee has been instructed to develop a clean-up plan. She continues that when that clean-up plan is approved by DEC, the anticipation is that the actual clean-up will take only a few days. She states that the Kasaan sales have been closed out. She asks John Morrison to continue.

MR. MORRISON states that one of the programs recently initiated was the Real Estate Management Plan. He continues that as part of the plan, there has been an opportunity to work with two individuals here today from Northrim Bank on both the financing of the first two properties financed, as well as some speculative work on potential projects. He recognized Michael Martin, the senior vice president, in-house counsel with Northrim bank; and Mark Edwards, a vice president, commercial loan unit manager, and bank economist. He continues that they will give a macro-economic look of the world and Alaska.

MR. MARTIN describes his impression of the Mental Health Trust from both the perspective of a lawyer and a banker. He introduces Mark Edwards.

MR. EDWARDS thanks Mr. Martin and states that one of the toughest things about his job is saying no and knowing when it is the right time to say no. He continues that his interactions with the Trust and management gave him the confidence to invest \$10 million with the Trust Land Office, and they hope to do much more in the future. He gives a brief overview of the economy and continues his presentation. He comments on the interest rates and explains the yield curve which goes from short-term maturities to long-term maturities. He talks about the major paradigm shifts that affect the drag on the economy. He explains the deleveraging of the banking system, which is one of the main reasons that inflation is not being seen. He continues his presentation, explaining as he goes along. He states that the four factors of production are land, labor, capital, and technology, and explains each. He thanks all and states that they continue to want to work with the organization in any way they can.

CHAIR NORENE thanks both for the great presentation.

TRUSTEE EASLEY asks for a copy of the presentation.

MR. EDWARDS replies sure.

CHAIR NORENE asks for any questions on the monthly report or any comments.

TRUSTEE DERR states that, occasionally, presentations from experts is warranted.

TRUSTEE MICHAEL states that it was great.

TRUSTEE DERR makes a motion to adjourn.

CHAIR NORENE adjourns the meeting.

(The Resource Management Committee meeting adjourned at 10:08 a.m.)



2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To: Larry Norene, Chair
Resource Management Committee
From: Paul Slenkamp
Date: 1/27/2015
Re: Kasaan Timber Sale Addition
MHT 9100666
Fiscal Year: 2015

Consultation

Proposed RMC Motion:

"The Resource Management Committee concurs with the Trust Land Office recommendation to dispose of timber through a negotiated sale on Trust Land near Kasaan on Prince of Wales Island."

Background:

Revenue Projections: Principal (up to) \$340,000
Income (up to) \$60,000

Transaction/Resource: Timber Sale

Property Description/Acreage/MH Parcel(s): MHT Parcel C70781 (4577.5 acres) portions of parcel containing merchantable timber.

General Background: The TLO has issued three timber sales on parcel #C70781 since 2000. A portion of the parcel has been recently logged, as a result of a RMC consultation on August 07, 2012 and subsequent competitive offering. After operations started, an additional 400 acres of merchantable timber (primarily young growth) was identified. The TLO proposes to add the additional timber to the existing timber sale contract (MHT 9100666), under similar market terms.

Anticipated Revenues/Benefits: The additional harvest area will generate up to an additional \$400,000 in revenue.

Anticipated Risks/Concerns: There is no anticipated concern over this harvest due to the historical harvests in the adjoining areas and this is primarily a second growth harvest.

Project Costs: Staff time.

Other Considerations: The TLO has harvested timber over the past 19 years from Trust parcels located in areas of SE Alaska. These timber sales have resulted in about \$40,000,000 in revenue,

(\$34 million to the Trust Corpus and \$6 million in income). This area is one of the only areas of significant volume that the TLO has available for harvest. The remaining tracts of Trust timber land available for harvest are adjacent to Petersburg and Ketchikan and are considered politically sensitive.

Due Diligence: TLO staff members visited the project area and conducted the sale layout and timber cruise. On-going sale inspections will be conducted by TLO staff. The return is comparable to other sales of similar nature based on current markets.

Alternatives:

Do Nothing: This alternative assumes that timber values will not be maximized by harvesting at this time. Timber is a commodity; the current markets allow for solid financial returns that have not been available in the past and may or may not be available in the future.

Offer the Timber competitively: The Timber is of a quantity, quality, and location that staff does not believe a competitive offering would bring any additional value.

Alternative Development: Due to their character and location, the parcels do not lend themselves to other development opportunities that would produce a return to the Trust that is comparable to a commercial timber harvest. Commercial harvest of the timber in some cases, facilitate other commercial opportunities on the land.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted November 2013 in consultation with the Trust and provides for the TLO to focus first on resources at the high end of their market values.

Trust Land Office Recommendation: The TLO recommends that it is in the Trust’s best interest to proceed to add additional timber volume to Kasaan Timber sale (MHT 9100666).

Applicable Authority: Alaska Statutes 37.14.009(a), and 11 AAC 99.

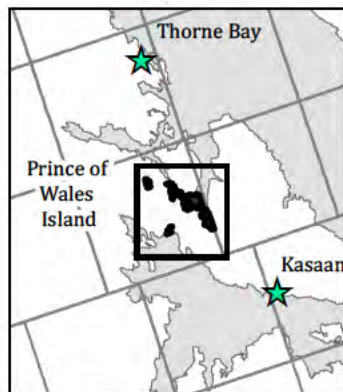
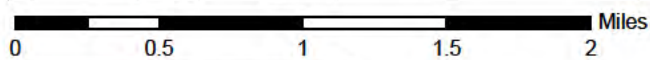
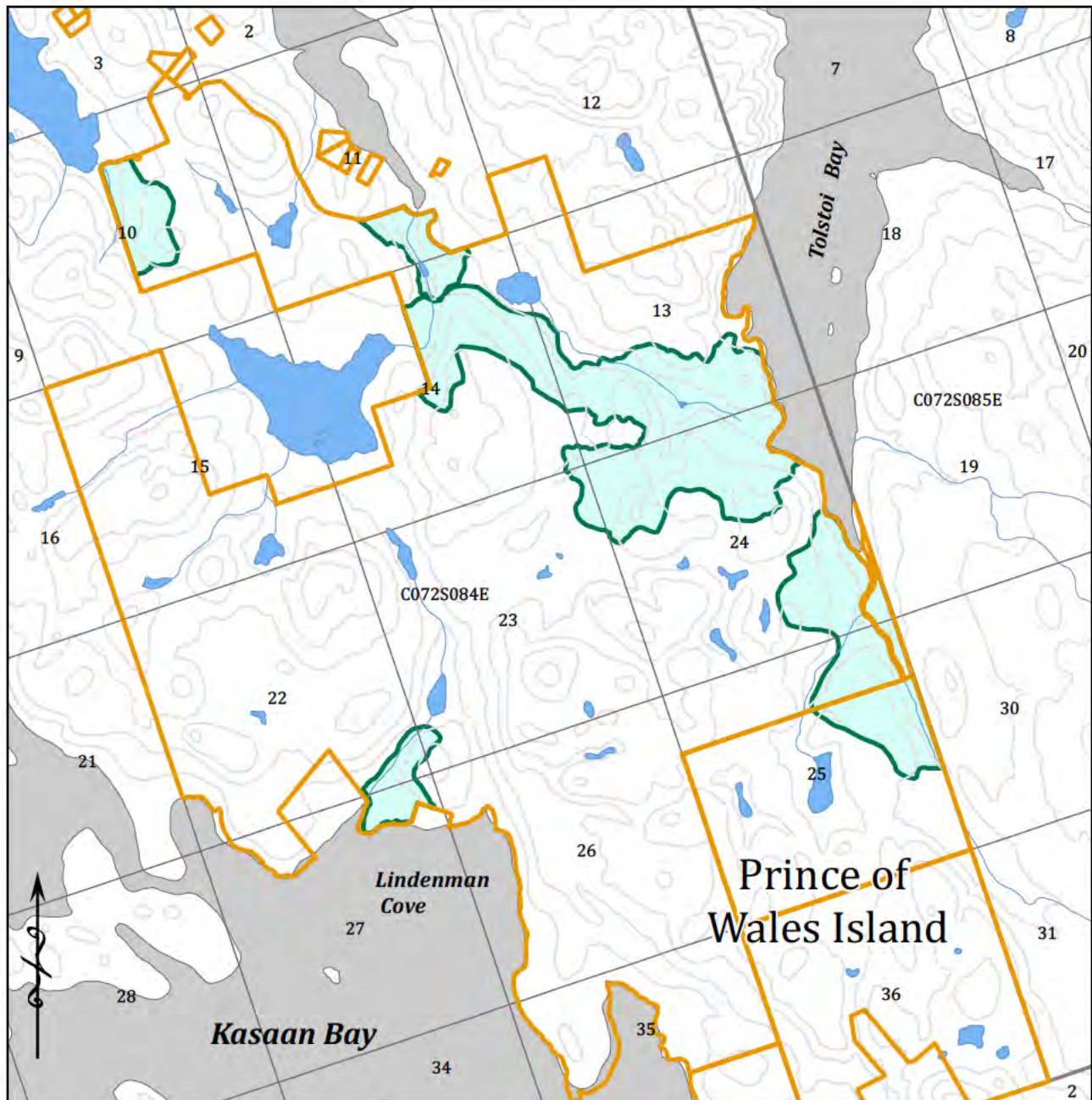
Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Schedule of Actions:

Resource Management Committee:	January 27, 2015
Complete Best Interest Decision:	January 30, 2015
Public Notice:	February 2, 2015

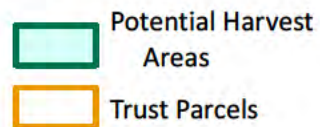
Exhibit(s):

Exhibit 1 - Timber Sale Map



Vicinity Map

Alaska Mental Health Trust
 KASAAN TIMBER SALE ADDITION
 MHT 9100666
 Additional Merchantable Timber
 Not Included in Original Consultation





2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To: Larry Norene, Chair
Resource Management Committee
From: Cindi Bettin
Date: 1/27/2015
Re: 2015 Competitive Land Sale
Project #2015-99
Fiscal Year: 2015

Consultation

Proposed RMC Motion:

"The Resource Management Committee recommends that the Trust Authority board of trustees concur with the competitive offering of approximately 62 subdivision lots and small sized parcels through the TLO's Annual Land Sale Program."

Background:

Revenue Projections: Principal (up to) \$1.2 million
Income (up to) \$16,000 (FY15)

Transaction/Resource: The proposed action is to offer approximately 62 subdivision lots and small sized parcels through the TLO's Land Sale Program in various locations throughout Alaska. If not sold in the 2015 Land Sale, the parcels may be re-offered in future TLO land sales.

Parcels in the 2015 Land Sale will be offered through a sealed bid auction and awarded to the highest qualified bidder or be offered through an over-the-counter sale. Purchasers may elect to pay for the parcel in full or finance through a TLO sale contract.

Property Description/Acreage/MH Parcel(s): The parcel list includes Trust properties located in or near the following communities:

Southcentral Region

Little Tutka Bay
Moose Pass
Nikiski
Palmer

Northern Region

Delta Junction
Ester
Fairbanks
Olness
Salcha

Southeast Region

Edna Bay
Juneau
Ketchikan
Meyers Chuck
Petersburg
Wrangell

It is important to note that certain parcels may be added or deleted from the list as a result of the public notice process, title reviews, or parcel inspections. Minor adjustments to the list of this nature will not require further Trust Authority consultation.

General Background: The TLO has been selling parcels through the Annual Land Sale program since 1998 on behalf of the Trust. The parcels offered in these sales are mostly from pre-existing subdivisions designed and platted by the Department of Natural Resources in the 1970's and 1980's, subdivisions recently developed by the TLO, or parcels under 10 acres in size.

Anticipated Revenues/Benefits: The total estimated land value of the parcels to be offered in the 2015 sale is \$2.5 million. Based on land sale data since 2010, the TLO anticipates receiving \$1.2 million in total bid offers in the 2015 Land Sale. This data also indicates the bid opening will generate \$300,000 in down payments and parcels paid in full (Principal) and \$16,000 in fees (Income). It is estimated that \$900,000 will be financed under sale contracts. The interest from these contracts is earned as Income revenue and the remaining balance is applied to Principal.

Anticipated Risks/Concerns: There are no significant risks or concerns associated with the project. This assessment is based on the TLO's experience from previous sales. Minor risks include defaults on parcel sales by buyers. These risks will be mitigated through a land sale contract which includes contemporary language to limit risks to the Trust, ensure performance by the buyer, and allow for termination in the event of default.

Project Costs: Project costs are estimated at approximately \$125,000 (from TLO operating budget) with the primary costs being procuring appraisals, title reports, parcel inspections, and marketing. Eighty-five percent of these costs will be incurred in FY15 and fifteen percent in FY16.

Other Considerations: The four lots in the South Fairbanks Subdivision have a commercial value and are zoned GU-1 (General Use-1) by the Fairbanks North Star Borough. To better market these properties to the commercial audience, the TLO will be listing the properties through a real estate broker and sold through an over-the-counter sale.

Due Diligence: TLO staff, contract appraiser or surveyor has or will have inspected the parcels prior to sale. Minimum parcel bids will be established via standard appraisals or other appropriate valuation methods. All parcels will have a title report completed prior to issuing a sale contract or quitclaim deed. Contract documents were reviewed by the Attorney General's office; no separate independent review was required.

Alternatives: The primary alternative is to hold the parcels for sale in the future. This alternative would delay receipt of revenues from sales and income from interest payments and could result in additional costs and risks to the Trust without significant increases in value.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted November 2013 in consultation with the Trust and provides for the TLO to maximize return at prudent levels of risk, prevent liabilities, and convert nonperforming assets into performing assets. Past experience has demonstrated that it is unlikely that these parcels will appreciate at a rate that would justify holding them for a later sale. It is also not cost effective for the TLO to hold these parcels and incur the associated management costs and liabilities.

Trust Land Office Recommendation: The TLO recommends that it is in the Trust’s best interest to offer approximately 62 existing subdivision lots and small sized parcels through the TLO’s Land Sale Program in various locations throughout Alaska. If not sold in the first sale, the parcels may be re-offered in future land sales.

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.

Schedule of Actions:

Resource Management Committee:	January 27, 2015
Trust Authority:	January 28, 2015
Complete Best Interest Decision:	February 2, 2015
Public Notice:	February 2, 2015

Exhibit(s):

Exhibit 1 - Parcel List

Exhibit 2 - General Location Maps

2015 Competitive Land Sale Parcel List

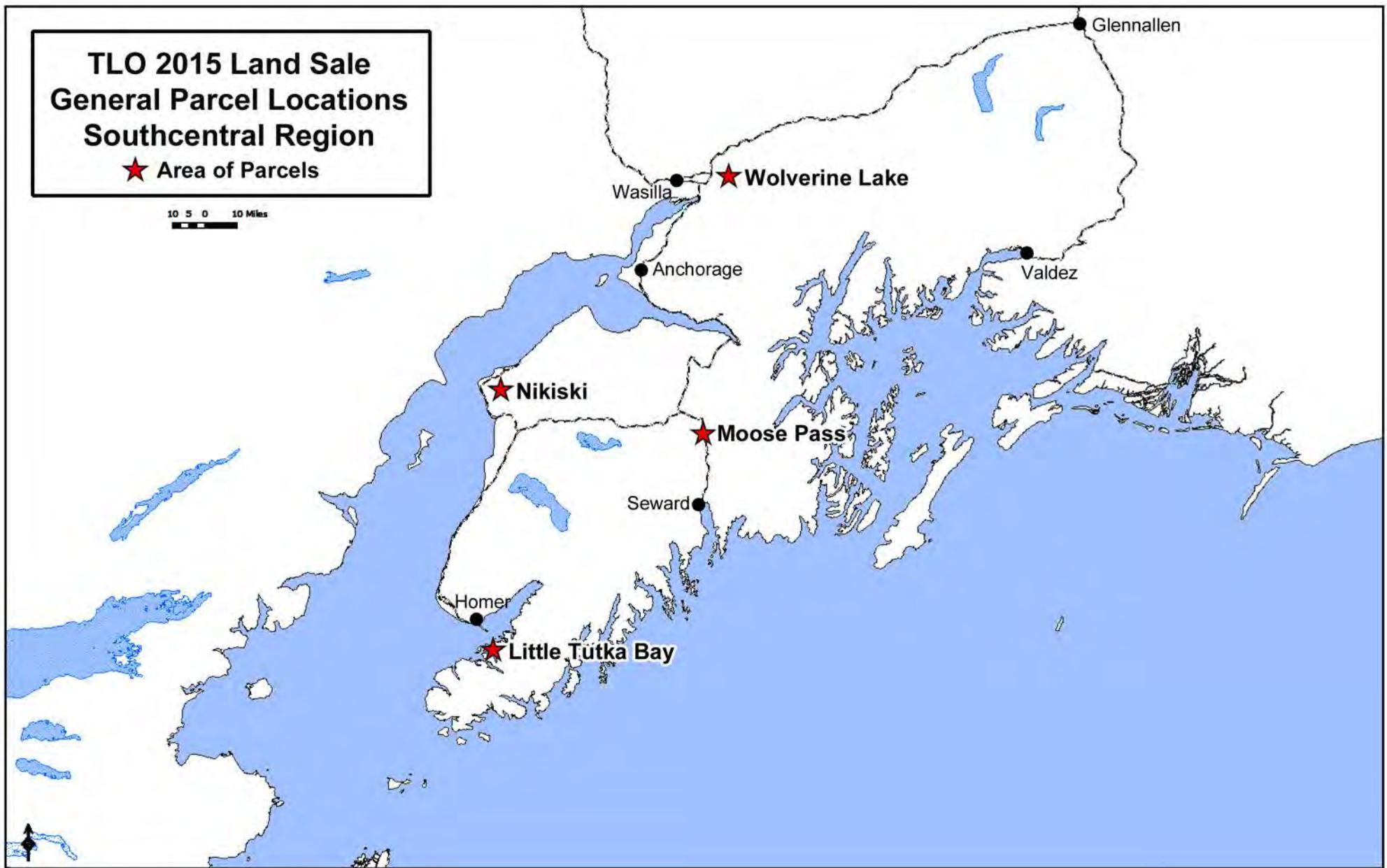
MH Parcel Number	General Location	Community/Subdivision	Legal Description	Survey	Lot	Block	Acres
Southeast Region							
CRM-2547	Meyers Chuck	Meyers Chuck Subdivision	C071S086E05	ASLS 85-93	43C		0.728
CRM-2548	Meyers Chuck	Meyers Chuck Subdivision	C071S086E05	ASLS 85-93	43D		0.814
CRM-2531	Meyers Chuck	Meyers Chuck Subdivision	C071S086E05	ASLS 85-93	40A		1.250
CRM-2535	Meyers Chuck	Meyers Chuck Subdivision	C071S086E05	ASLS 85-93	40E		0.916
C20812	Edna Bay	Edna Bay Subdivision	C068S076E23	ASLS 81-116	2	12	4.492
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	1		0.50
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	2		0.50
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	3		0.50
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	4		0.50
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	5		0.53
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	6		0.50
CRM-2319	Petersburg	Seaduck Subdivision	C060S079E14	TLS 2014-02	7		0.50
C20772	Wrangell	Olive Cove Subdivision	C065S085E31	ASLS 81-233	10	1	4.701
C20796	Wrangell	Thoms Place Subdivision	C066S086E05	ASLS 81-234	8	Unit 3	4.377
C81133	Wrangell	Thoms Place Subdivision	C066S086E05	ASLS 81-234	10	Unit 3	3.046
C20735	Wrangell	Wrangell Island East Subdivision	C062S084E28	ASLS 83-8	5	1	1.222
C20736	Wrangell	Wrangell Island East Subdivision	C062S084E28	ASLS 83-8	6	1	0.999
C81114	Wrangell	Wrangell Island East Subdivision	C063S084E12,13	ASLS 83-8	1	5	4.145
C20751	Wrangell	Wrangell Island East Subdivision	C063S084E13,24	ASLS 83-8	7	7	2.894
C20748	Wrangell	Wrangell Island East Subdivision	C063S084E13,14	ASLS 83-8	4	6	2.881
C20761	Wrangell	Wrangell Island West Subdivision	C064S084E17	ASLS 83-7	1	5	4.999
CRM-2421	Wrangell	Shoemaker Bay	C063S084E17	USS 3403	14		0.550
CRM-2530	Wrangell	Unnamed Island	C064S084E06	USS 3709	6		4.730
C20955	Ketchikan	Bull Island	C073S092E31	ASLS 84-39	5	4	3.038
C20948	Ketchikan	Bull Island	C073S092E31	ASLS 84-39	5	2	1.215
C81184	Ketchikan	Bull Island	C073S092E31	ASLS 84-39	6	2	1.130
C81185	Ketchikan	Bull Island	C073S092E31	ASLS 84-39	8	2	1.422
CRM-2305	Petersburg	Falls Creek Subdivison	C060S079E11	TLS 2002-02	24		1.980
C20487	Juneau	Lena Pt.	C040S065E19	USS 3809	Portion of Lot 6		8.840
CRM-2284-02	Petersburg	Papke's Landing Rd and Mitkof Hwy	C060S079E11	Metes and Bounds	Portion of Sec. 11 East ½		20.000

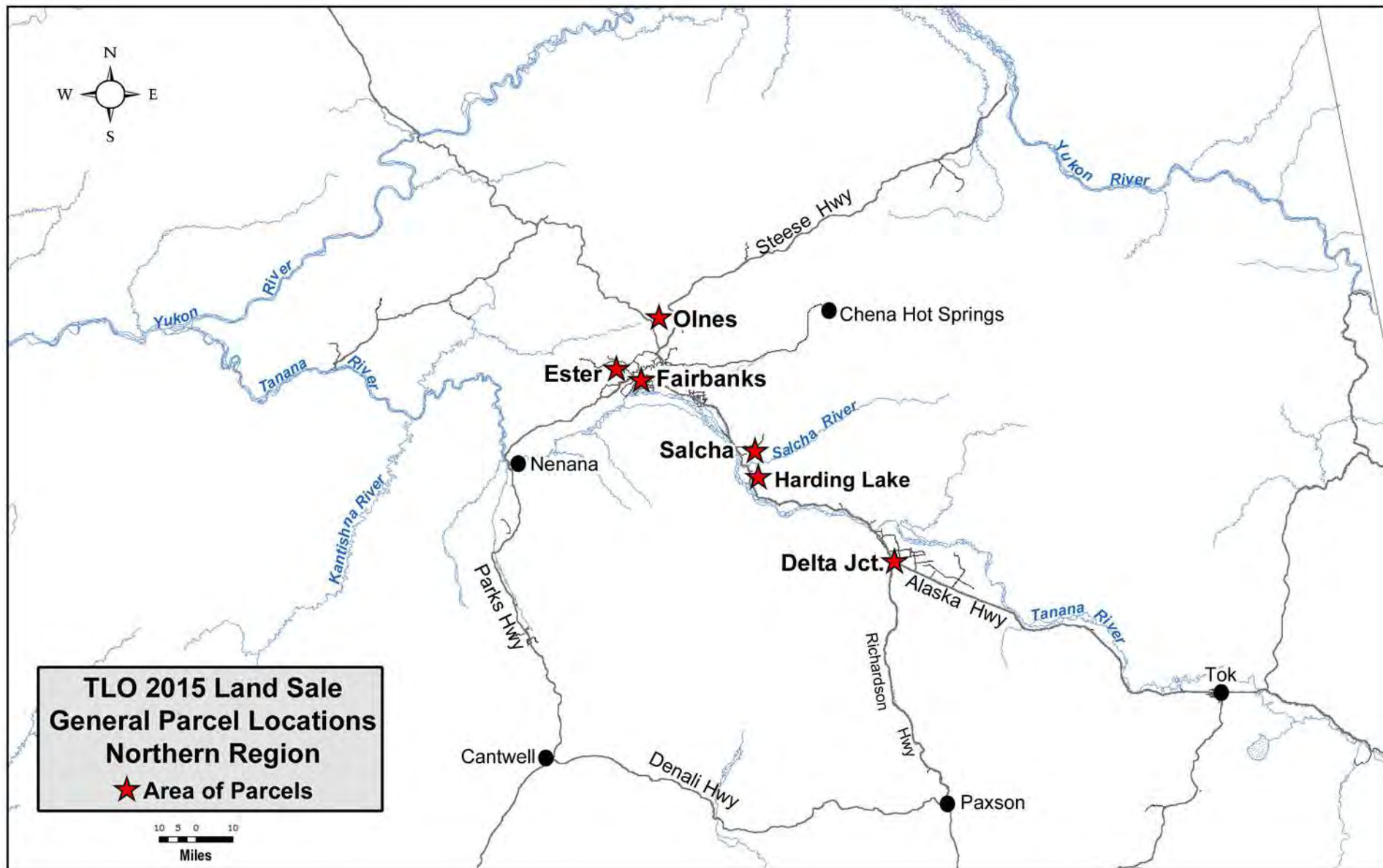
2015 Competitive Land Sale Parcel List

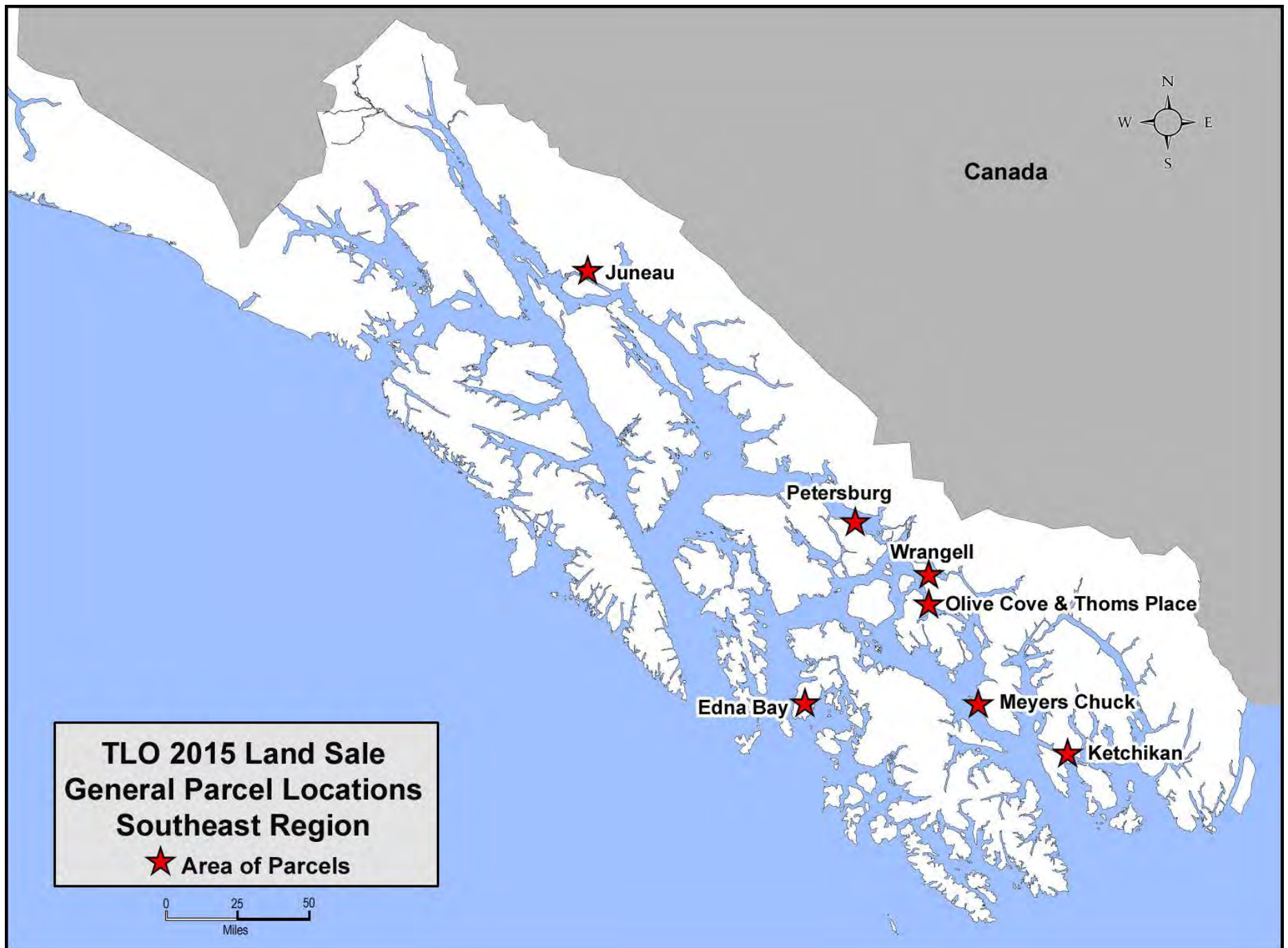
MH Parcel Number	General Location	Community/Subdivision	Legal Description	Survey	Lot	Block	Acres
Northern Region							
F80914	Delta Junction	Greely Subdivision	F010S011E30	ASLS 79-164	2	1	4.990
F20636	Delta Junction	West Addition Delta Jct. Townsite	F010S010E23	EPF 230021	and 16	10	1.288
F20646 F20647	Delta Junction	Richardson Hwy	F010S010E23	USS 3292	Lots 55 and 56	Tract C	0.940
F20648 F20649	Delta Junction	Richardson Hwy	F010S010E23	USS 3292	57A	Tract C	0.930
FM-7009	Salcha	Little Harding Lake Subdivision	F006S004E11	TLS 2013-04	Tract D		1.842
FM-7009	Salcha	Little Harding Lake Subdivision	F006S004E11	TLS 2013-04	Tract E		1.842
FM-7009	Salcha	Little Harding Lake Subdivision	F006S004E11	TLS 2013-04	Tract I		1.842
FM-7009	Salcha	Little Harding Lake Subdivision	F006S004E11	TLS 2013-04	Tract K		1.842
FM-0695	Salcha	Salcha River	F005S004E23	USRS	8		5.070
FM-0696	Salcha	Salcha River	F005S004E23	USRS	9		5.060
FM-0981	Ester	Aspenwood Subdivision	F001S003W23	ASLS 84-20	7	7	3.407
FM-0989	Ester	Aspenwood Subdivision	F001S003W26	ASLS 84-20	Tract D	8	2.424
F80419	Olness	Olness East Subdivision	F003N001W24	ASLS 80-178	5	4	4.951
F20390	Olness	Olness East Subdivision	F003N001E19	ASLS 80-178	15	3	5.000
F20393	Olness	Olness East Subdivision	F003N001W24	ASLS 80-178	29	3	4.965
F1002	Fairbanks	South Fairbanks Subdivision	F001S001W22	TLS 2005-03	2		1.230
F1002	Fairbanks	South Fairbanks Subdivision	F001S001W22	TLS 2005-03	3		1.176
F1002	Fairbanks	South Fairbanks Subdivision	F001S001W22	TLS 2005-03	4		0.934
F1002	Fairbanks	South Fairbanks Subdivision	F001S001W22	TLS 2005-03	5		0.967
Southcentral Region							
S20093	Moose Pass	Trail Lake Group Homesites	S004N001W01	USS 2528	30		4.820
S20092	Moose Pass	Trail Lake Group Homesites	S005N001W36 S004N001W01	USS 2528	16		4.150
S20091	Moose Pass	Trail Lake Group Homesites	S004N001W01	USS 2528	15		4.290
S20094	Moose Pass	Trail Lake Group Homesites	S004N001W01	USS 2528	31		4.350
S20095	Moose Pass	Trail Lake Group Homesites	S004N001W01	USS 2528	32		4.720
SM-0384	Little Tutka Bay	South Kachemak Alaska Subdivision	S008S013W22	EPF 69-3	25	2	2.300
SM-5025	Little Tutka Bay	South Kachemak Alaska Subdivision	S008S013W21	EPF 69-3	Tract A		1.230

2015 Competitive Land Sale Parcel List

MH Parcel Number	General Location	Community/Subdivision	Legal Description	Survey	Lot	Block	Acres
Southcentral Region							
SM-1197	Nikiski	Island Lake Subdivision	S007N012W13	TLS 2012-01	2		1.784
SM-1197	Nikiski	Island Lake Subdivision	S007N012W13	TLS 2012-01	3		1.783
SM-0082	Palmer	Wolverine Lake	S018N003E07	USRS	17		2.750
SM-0083	Palmer	Wolverine Lake	S018N003E07	USRS	18		3.510







To: Larry Norene, Chair
Resource Management Committee
From: Cindi Bettin
Date: 1/27/2015
Re: RMS – Mitigation Marketing Addition
Fiscal Year: 2015

Consultation

Proposed RMC Motion:

“The Resource Management Committee recommends that the Trust Authority board of trustees concur with the 2015 update of the adopted Resource Management Strategy, the long-term asset management strategy for managing Trust land assets consistent with TLO regulations under 11 AAC 99.020, 11 AAC 99.090(c).”

Background:

Transaction/Resource: In consultation with the Mental Health Trust board of trustees, the TLO adopted the Resource Management Strategy (RMS) in November 2013 that fulfills the long-term asset management strategy obligation under regulations 11 AAC 99.020 and 11 AAC 99.090(c). The TLO proposes to add a section on Mitigation Marketing, a new asset classification poised to take advantage of the dynamic mitigation economic opportunities in Alaska. This mitigation marketing plan is a management guideline only and does not specifically authorize expenditures for mitigation marketing projects. Requests for capital expenditures will be made by the TLO on a case-by-case basis to the board of trustees.

General Background: Federal law obligates any resource development project to avoid or minimize damages to wetlands. Under Section 404 of the Clean Water Act, the project developer is required to offset or ‘mitigate’ the functional loss of wetlands due to unavoidable development impacts. Compensatory mitigation is the US Corps of Engineers (COE) preferred method of satisfying development impacts. Other forms of compensatory mitigation other than wetlands exist but the focus is on the most mature of the mitigation industry, wetland compensatory mitigation.

Anticipated Benefits: The benefit of establishing the new asset classification takes advantage of potential revenues from the mitigation industry. The mitigation industry in the US is a multi-billion dollar industry. It is not uncommon in Alaska to see credit sales generate \$500,000 to over \$1 million from mitigation banks placed on nominally valued wetlands.

Mitigation banks could also encourage new resource developments on Trust land because the Trust has other resources on the same lands such as minerals, oil and gas, timber, real estate and land. The purchasing of mitigation credits during a resource project’s permitting phase will reduce the time and expense of the project. Cash flow is accelerated by this permitting efficiency that allows operations and production to begin sooner.

Anticipated Risks/Concerns: Successful mitigation marketing must address and monitor specific mitigation banking risk factors relating to:

1. Site selection and demand. The COE requires mitigation bank site(s) to be located within the same watershed as a project development that will create unavoidable impacts. A risk in the mitigation industry is selecting a bank site without a known project development. Site selection is predicated on the synergy between the project's unavoidable impacts and the bank site. This risk can be alleviated by first choosing a known Trust resource project in the early stages of the permitting process and is ripe for a mitigation solution. The risk is further diminished by coordinating the Trust resource development bank by targeting an area with multiple private or government development projects.
2. Stewardship. The COE requires long term protections in the form of a conservation easement on the bank site and financial securities to provide for long term stewardship. This functions similarly to TLO's current stewardship role which is to maintain the trust land base. TLO uses inspections and control of unauthorized access to prevent damage to the surface. The Trust funds its stewardship obligations in the TLO operational budget. Any further stewardship obligations outside of the TLO operational budget would require approval.
3. Capital investment. A large capital investment for expenses is required to set-up a mitigation bank. Working with the project developer and phasing the bank development process or working with a partner who will fund the large capital outlay would mitigate the risk.

Other Considerations: The TLO will consider and evaluate opportunities for mitigation marketing on a case by case basis. Mitigation marketing projects require the standard administrative process of consultation with the board of trustees prior to public notice.

Trust Land Office Recommendation: Concur with the proposed draft update of the 2014 Resource Management Strategy attached to this consultation.

Applicable Authority: The proposal is consistent with the "Resource Management Strategy for Trust Land" (RMS), which was adopted November 2013, and regulations under 11 AAC 99.020, 11 AAC 99.090(c).

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

Schedule of Actions:

Resource Management Committee:	January 27, 2015
Trust Authority:	January 28, 2015
Complete Best Interest Decision:	January 30, 2015
Public Notice:	February 3, 2015

Exhibit(s):

Draft Mitigation Marketing Plan

Mitigation Marketing

Introduction

Establishment of new asset classification – Mitigation Marketing
Wetland bank concentration
Facilitate Trust resource development projects

Mitigation Marketing

Markets
Valuation
Pricing structure

Mitigation Marketing Strategies

A Trust bank
Partnering

Risks

Site Selection
Capital Investment
Demand

Summary of Mitigation Marketing

Goals and Objectives

Appendix A: Federal Initiatives

Glossary, Abbreviations, and Acronyms

References

Introduction

Mitigation has become a resource industry in its own right and is marketed in Alaska through various trust land organizations and other entities. Mental Health Trust land has the capacity to support both resource development and mitigation, at times concurrently on the same parcel. The policies and strategies within this plan will help guide the TLO and the Trustees as they develop and manage mitigation opportunities on Trust land. This mitigation marketing plan is a management guideline only and does not specifically authorize expenditures for mitigation marketing projects. Requests for capital expenditures related to specific resource development projects will be made by the TLO on a case-by-case basis to the board of trustees. A new asset classification has been created, Mitigation Marketing, to take advantage of the dynamic economic opportunities of mitigation marketing in Alaska.

Wetlands mitigation banking holds the greatest potential for The Trust in mitigation marketing as it falls within the most established and lowest risk of mitigation markets. It also is the preferred mitigation by the Corps of Engineers (COE) – the regulatory agency with oversight of compensatory mitigation projects. On average, 35% of the Trust fee estate is considered wetlands. The value of wetlands when appraised as standard real estate is very low in comparison to mitigation value. Contributing a small and select portion of The Trust’s wetlands into a mitigation bank can monetize low-value wetlands into higher value properties that could also support revenue generating Trust resource development projects.

Federal law requires any development project in the US that creates unavoidable impacts to wetlands be offset or “mitigated.” Planning for and approving this mitigation occurs during the project’s permitting process. This essentially requires the project developer to replace the function of the wetlands lost from the development’s proposed impacts. Studies have found that using bank credits to mitigate impacts significantly reduces the time and expense of permitting a project (Birnie, 2013). This efficiency increases the opportunity for the project to begin operations or production sooner and increases cash flow earlier. In so doing, Trust mitigation bank opportunities not only support generation of Trust revenue from resource industries (mining, energy, land, real estate and forestry) but also create a new revenue source by selling bank credits to project developers on and off Trust land. The increased production time directly impacts the bottom-line of a resource development project and is a direct result of having the mitigation already in place during the permitting process for a resource project.

Mitigation Marketing

Markets

In 1989, President George H.W. Bush established the national policy of “no net loss of wetlands.” This set the groundwork to require that each newly impacted wetland be replaced with a wetland of the same size with similar functions and values. In 2008, the EPA and COE instituted a new mitigation rule (the “2008 Mitigation Rule”); this national policy of no-net loss was clarified into a law that relied heavily on a market-based approach to mitigation. A project

developer has three options to satisfy its unavoidable wetland impact obligations under the 2008 Mitigation Rule, which are listed in descending order of regulatory preference:

1. Purchase wetland credits from a mitigation bank created by a third party's successful restoration or preservation and protection of wetlands. The preferred regulatory option is a wetland mitigation bank because it performs mitigation prior to development impacts.
2. Purchase credits from an in-lieu fee program that can only be sponsored by certain non-profit entities or the government. The in-lieu fee entity promises to restore or preserve wetlands within a certain timeframe determined by the COE.
3. Perform an offsetting mitigation project themselves.

An important concept is the synergistic relationship between a mitigation bank and resource development. There is no market demand for mitigation banking without development impacts; development impacts do not occur without mitigation (within the same watershed and with equivalent habitat). The Trust is in a unique position because it owns large surface acreage most often in the existing watershed of Trust projects. This inventory of comparable wetlands and the foreknowledge of future projects provide The Trust a competitive advantage with the formation of a mitigation bank.

There are other types of mitigation marketing in addition to wetlands -- including conservation banks based on the Endangered or Threatened Species Act, and credit exchanges for carbon, water quality, and biodiversity. These other mitigation markets are still in their formative stages; the TLO will monitor emerging mitigation markets for future economic potential, if any.

Valuation

The current highest and best use of many wetland parcels is mitigation banking. Studies of federal wetland permitting across the US demonstrate that when mitigation bank credits are used to offset impacts, permitting time is cut in half.¹ This time and cost savings is the direct result of having the mitigation already in place prior to the COE approval process.

Mitigation banking also increases the appraised value of the lands within the bank because they are no longer appraised as low-value, non-developable wetlands under the national appraisal standards, Uniform Standards of Professional Appraisal Practice or USPAP. Undeveloped wetlands are typically appraised by the sales comparison approach under USPAP. Few wetlands are sold for higher than appraised value unless they are used to form a mitigation bank. A bank valuation is determined by what financial market participants are willing to pay to acquire the business based on investment and the intrinsic value of the anticipated understanding of the bank's economic potential.

Pricing Structure

¹ Ibid.

The COE does not determine bank credit pricing. The marketplace determines the credit price based on supply and demand. However, it is difficult to predict credit pricing and bank profitability because of the competitive nature of the market. Typically, only the transaction participants know credit values unless it is disclosed in the public record.

The location of a mitigation bank is a key component in determining the credit value. High-density urban properties carry the highest credit price value because the raw land value is also higher. The average price of non-tidal credits nationwide is \$74,535.² In Alaska, the cost per credit for remote wetlands was \$5,500³ on the low end in 2013, and the reported highest cost was \$140,000 per credit in the Municipality of Anchorage. Generally, one acre of wetland within a bank generates one bank credit. The COE, in turn, determines how many bank credits one acre of wetland impact will require as mitigation; historically, this ratio can range from 1.5 per 1 acre of wetland impact to as much 3 credits per 1 acre of wetland impact. Thus, for remote wetlands in Alaska, the price cited above may need a multiple of three to offset a single acre of impact, increasing the cost to \$16,500 per acre of impact.

Mitigation Marketing Strategies

The strategy of the TLO in developing a mitigation marketing management plan is to form banks that support and facilitate development projects on Trust land. A mitigation bank is considered a method of resource development. Revenue generated from a wetland mitigation bank can be significant. Consider that in 2008, the total payments by developers in the US for wetland mitigation were \$1.3 - \$2.2 billion.⁴ While credit sales from a bank provide direct Trust revenue, secondary Trust revenue should also occur as the bank facilitates Trust resource projects from streamlined and cost effective permitting.

A Trust Bank

The TLO evaluated a variety of options for participation in the mitigation bank process. Various structures such as equity partnerships or Trust ownership of a bank were considered. The advantage of a Trust-owned bank is that all of the economic benefit would be disbursed to The Trust. The disadvantage is that creating a Trust bank would require not only sizeable capital outlay for expenses related to the scientific analysis, legal work, permitting, restoration/preservation actions, but also operational expertise and expense for running the day-to-day activities of the bank.

The COE also requires that mitigation must function over the long term and that the bank has legal protections in place over the bank's wetlands; typically, a conservation easement is the legal document used. The COE also requires the bank owner to maintain a long term stewardship account to finance the long term management of the bank wetlands. The account

² Ecosystem Marketplace.

³ Conservation Fund, The.

⁴ Ecosystem Marketplace.

must identify the range of duties, activities, and enforcement of the easement conditions. Long term stewardship management is already performed by TLO but under the bank scenario, specific monies will need to be secured in a separate account to meet stewardship obligations.

Partnering

Partnerships may be employed to develop a wetland mitigation bank. The Trust's partner would assume the responsibility of developing and operating the bank. The advantage to The Trust of partnering is that a third party would take on much of the upfront capital requirements and associated risk. Working with an experienced partner would also shorten the time needed for COE approval. The downside is that a portion of the economic benefit will go to the partner; however, this may be offset by the comparatively greater economics that an experienced partner may generate for the bank.

The plan does not advocate or specify a preference for a Trust-owned bank versus a partnership. The TLO will consider and evaluate opportunities for mitigation marketing on a case-by-case basis before a project is brought to the board of trustees.

Risks

The TLO has well-defined processes in place through statutes and regulations for the management of non-cash assets. The *Resource Management Strategy*⁵ set forth portfolio management strategies to enable the TLO to implement the goals set forth by the board of trustees to manage the non-cash assets of The Trust. These management strategies include: creating economic diversity; ensuring integrity of investments in accordance with state and regulatory law; leveraging investments; managing risk by working with partners; and reporting financial outcomes to The Trust. Mitigation Marketing will follow the investment guidelines adopted by the board of trustees and if procurement is required, follow the State of Alaska procurement statutes and regulations to control risk. Each potential mitigation transaction under Mitigation Marketing will be evaluated and follow the long-term asset management strategy principles under 11 AAC 99.090(c). The TLO will also follow the administrative process for consultation⁶ with the board of trustees prior to public notice. Important risk management factors to consider for The Trust relative to the wetland mitigation market are discussed below.

Site Selection

Site selection is a critical component for the success of a bank. The bank site must be within the same watershed that the impacts from the development project occur (this is called the bank's "service area"). If the Trust bank service area is located outside of the development impacts, the COE would look at other mitigation providers to fulfill the permittee's mitigation obligation inside the service area and The Trust would lose that potential revenue. The risk of selecting the wrong bank site is reduced when the creation of a bank for The Trust occurs within the mid- to end-stages of the Trust's project permitting process.

⁵ TLO, *Resource Management Strategy*.

⁶ 11 AAC 99.030(d).

Another potential risk in site selection is that the site may yield a new resource discovery or a technology may develop that could create greater economic value than mitigation banking. The bank structure is flexible enough to allow deliberative changes to the bank site. In extreme cases, the COE allows subsurface use of land encumbered with a conservation easement for development. However, to the extent the proposed development may degrade surface wetlands, the bank would likely be required to find a similar parcel to offset the mitigation. This concept is known as “mitigating the mitigation.”

Capital Investment

Formation of a Trust bank without a partner will require large capital investment for expenses related to the science, field work, mapping, legal work, permitting, restoration requirements, and operational infrastructure for the bank. A bank is required to complete its mitigation prior to receiving credits to sell. “This large initial investment, combined with delayed cash flows, exposes bank entrepreneurs to a longer payback period...” (Hook and Shadle, 2013). The risk could be abated by:

- working closely with the project developer on Trust lands and phasing the creation of the bank development process; however, while this would reduce capital costs and their associated risk, certain upfront capital costs (namely, funding bank permitting and development) would still be a risk for The Trust.
- working with a partner who will fund the large capital outlay under negotiated terms.

Demand

Wetland mitigation banks have a synergetic relationship between development impacts and a market for the mitigation credits. A bank’s inventory must not outweigh the demand of the market for a specific type of wetland or the bank will not generate optimal returns. For very large-scale projects, a bank may be developed to specifically focus on that project’s credit needs; this is often referred to as a “single-user bank.” While this kind of high-volume, well-identified demand can be attractive, there is still risk from this approach if the single-user project does not proceed. The risk could be lessened by targeting an area with multiple project demands in the same watershed to increase the market for credit sales.

Federal policies affect demand by increasing or decreasing regulations that mandate the mitigation obligation. Rule changes could alter the market environment such as the availability of credits, the bank’s service area, and unequal application of the 2008 Mitigation Rule. While the regulatory environment is dynamic and the processes are continually refined through adjustments to policy and agency procedures, the trend is that federal regulators are more consistently enforcing the requirements of the 2008 Mitigation Rule for project developers. A Trust bank will effectively assist the project developer to meet the federal no-net loss permitting obligations.

Summary of Mitigation Marketing

Federal and state regulatory permitting law mandates that project developments that impact wetlands must mitigate unavoidable impacts. Project developers on Trust land are required to comply with those regulations and the developers must pay the mitigation costs to satisfy the regulatory obligation. Developers who pay for mitigation credits generally obtain their permits in a shorter timeframe than those developers who try to restore the site on their own because the mitigation has been performed prior to impacts. Mitigation requirements have increased since the no-net loss policy of President George H.W. Bush regardless of Executive Branch control. Appendix A contains a list of federal policies affecting permitting and the mitigation industry (The Nature Conservancy, 2014). It is intended to show federal emphasis for environmentally sound project developments in support of standards on permitting for human and environmental safety.

Although 35% of The Trust's portfolio is considered wetlands, only a small segment of those parcels will be selected for mitigation marketing. The relationship between watershed location and development impacts is a key component of the success of mitigation marketing.

The highest and best use for a small group of Trust wetlands is for use in mitigation marketing. Entry into mitigation marketing will be treated as its own asset classification. The advantage of creating this new asset classification is to provide performance indicators that will measure the results of this new resource and generate additional revenues from its development. Mitigation marketing will leverage revenues received from mitigation obligations plus revenues from the traditional resource developments in land, mining, energy, timber, and real estate sectors that its mitigation facilitates. The Trust will now not only be able to market the resource but also provide a solution for efficiency of federal permitting obligations.

Goals and Objectives

The Mitigation Marketing Plan will encourage a diversity of revenue-producing uses over time that will benefit The Trust and its beneficiaries.⁷

Goal 1: Create and profit from the sale of credits to offset unavoidable impacts from resource developments.

Objective 1: Identify future projects which may have mitigation needs in the coming decade.

Objective 2: Select potential parcel(s) with equivalent wetlands that may have potential to offset those resource development project impacts through known databases.

⁷ TLO, *Resource Management Strategy*.

Objective 3: Evaluate and assess pro forma analysis to determine suitability of bank ownership structure through a partnership or sole-ownership by The Trust.

Objective 4: Complete the COE documentation process to form either a Trust bank or partnership to create a mitigation bank.

Goal 2: Decrease permitting time through the use of a wetland mitigation bank.

Objective: Market and communicate with the COE, State of Alaska, and potential project developers about the value of using Trust land for resource developments with the added benefit of a Trust bank to mitigate impacts and reduce permitting time.

Goal 3: Generate revenues from a bank.

Objective 1: Complete the COE process to establish a bank.

Objective 2: Sell and market credits for increased revenues from undeveloped wetlands.

Appendix A: Federal Initiatives

The following is based on a presentation at the 2014 National Mitigation and Ecosystem Banking Conference which described the federal focus on sustainable natural resource development (The Nature Conservancy, 2014) with subsequent events added.

White House

- Office of Management and Budget Report, *Implementation Plan for the Presidential Memorandum on Modernizing Infrastructure Permitting*, May 2014. This report is responsive to the May 2013 Presidential Memorandum and provides explicit support for market-based approaches to mitigation, including mitigation banks.
- Infrastructure Permitting Improvement Center (Center). *Building a 21st Century Infrastructure: Modernizing Infrastructure Permitting* dated May 2014. The Administration established the Center to provide interagency implementation of permitting reforms and streamline review processes.
- *Grow America Act* enacted May 2014. A four-year \$302 billion transportation plan to modernize the nation's roads, bridges, and public transportation systems under the authority of the Department of Transportation (DOT). DOT will streamline an environmental review and permitting process for its projects when conducting an EIS under the National Environmental Policy Act (NEPA).
- Presidential Memorandum, *Modernizing Federal Infrastructure Review and Permitting Regulations, Policies, and Procedures*, May 2013. Addressed to all heads of executive departments and agencies, the memorandum stresses "utilizing landscape and watershed-level mitigation practices" to streamline review processes to "reduce aggregate timelines for major infrastructure projects by half."
- Executive Order 13604, *Improving Performance of Federal Permitting and Review of Infrastructure Projects* (Order) dated March 2012. The purpose of the Order is to streamline the permitting process in order to facilitate increasing the Nation's economy by infrastructure development through environmentally sound principles. The Order promotes collaboration among agencies, transparency, and a consistent and predictable path for both project sponsors and communities.
- Presidential Memorandum, *Speeding Infrastructure Development through More Efficient and Effective Permitting and Environmental Review* dated August 2011. Expediting permitting process by determination of three high-priority infrastructure projects identified by agencies and establishment of set timelines permitting review and processing.

DOI

- Secretary Jewell press release of *Landscape-Scale Mitigation Strategy to Encourage Dual Objectives of Smart Development and Conservation* dated April 2014. An agency shift from crisis permitting management to more efficient and effective project management planning.
- *A Strategy for Improving the Mitigation Policies and Practices of the Department of Interior*, The Energy and Climate Change Task Force dated April 2014. A

recommendation to adopt guiding principles to account for impacts to resource values through landscape-scale mitigation. A 10-phase science-based approach.

- Secretarial Order No. 3330, *Improving Mitigation Policies and Practices of the Department of the Interior* enacted October 2013. Policy improvements based on Executive Order No. 13064. DOI plans to adopt science-based processes that will ensure effectiveness of mitigation activities in the wake of development impacts and climate change. A collaborative Task Force was established to review all mitigation aspects from land and water, permitting, environmental review, and various acts such as NEPA, Fish and Wildlife Coordination Act, the Endangered Species Act, and the National Historic Preservation Act.

USFWS

- Pending: Update of 1981 Mitigation Policy. This policy covers more than endangered and threatened species, but give guidance to how the USFWS comments on applications to the COE for development projects affecting wetlands. The updated policy is widely expected to support the 2008 Mitigation Rule and to be consistent with the DOI mitigation strategy paper cited above.
- Pending: Update of 2003 Conservation Banking Policy, *Incentives for Stewardship* dated August 2012. Conservation banks are on permanently protected lands that are managed for species that are endangered, threatened, candidates for listing, or are otherwise species-at-risk. Federal guidelines were enacted to promote conservation banks for mitigation of adverse impacts to species. As of the date of this paper, there are no conservation banks in Alaska.
- Draft policy *Voluntary Prelisting Conservation Actions* announced July 2014 in the Federal Register which would credit voluntary conservation actions taken for species prior to their listing under the Endangered Species Act.

BLM

- Interim Policy Draft Regional Mitigation Policy, January 2014. The draft manual will provide policy, procedures, and instructions for mitigation opportunities on BLM-managed lands.

EPA

- Proposed rule *Definition of "Waters of the United States" Under the Clean Water Act*. The proposed rule noticed in Federal Register April 2014 and in public comment until October 2014. While not a development initiative, this rule will impact how Permittees satisfy requirements for jurisdictional wetlands determinations which could impact amount of wetlands and riparian areas requiring compensatory mitigation in the future.

Glossary, Abbreviations, and Acronyms

Word	Acronym	Definition
Bank sponsor		Any individual or entity that develops and bears responsibility for wetlands/conservation to be used in the ecosystem credit trading market.
Clean Water Act	CWA	The primary federal law governing water pollution. The purpose is to restore and maintain the chemical, physical, and biological integrity of the nation's waters. Mitigation is required under section 404 of the CWA for the disturbance or destruction of wetland or stream habitat.
Compensatory mitigation		The restoration, creation, enhancement, and/or preservation of aquatic resources for the purpose of offsetting unavoidable impacts which remain after all appropriate and practicable avoidance and minimization has been achieved.
Credit price		The price per credit is a private transaction between the bank sponsor and the buyer.
Credits		A mitigation credit is equal to the ecological value gained by the successful creation of one acre of wetlands. Based on approval by regulatory agencies, permittees can purchase credits from mitigation bank to meet their requirements for compensatory mitigation.
Endangered Species Act	ESA	Public law to protect critically imperiled species from extinction.
Environmental Protection Agency	EPA	Federal agency whose mission is to protect human and environmental health through its enforcement of rules and standards that protect the environment and control pollution.
Federal Compensatory Mitigation Rule 2008	2008 Mitigation Rule	EPA and COE rule to clarify protection under the CWA for streams and wetlands that form the nation's water resources.
In-Lieu Fee	ILF	A public agency or non-profit organization that sells credits for disturbances to the environment similar to a mitigation bank. One distinction is that credits are sold before the ILF compensatory mitigation has been implemented.
Mitigation marketing		Trading where wetlands are developed to create marketable wetland credits (acres and function). Credits are sold to others as compensation for unavoidable wetland impacts.
Mitigation bank	Bank	Mitigation banks are the institutional form for the application of third party provision of compensatory mitigation implemented in advance of impacts.
Mitigation bank site	Bank Site	A site or suite of sites, where aquatic or conservation resources are restored, created, enhanced or preserved for the purpose of providing compensatory mitigation for impacts.
Mitigation bank instrument	MBI	Primary COE permit document that describes in detail the physical and legal characteristics of the bank, the proposed mitigation design, the net ecological benefit that will be realized from the implementation of the proposed design, the total number of mitigation credits generated at the bank, and the schedule for releasing credits.
Non-Governmental Organization	NGO	Any non-profit, voluntary citizens' group which is organized on a local, national, or international level. To qualify to implement an in-lieu-fee program, the NGO must serve a conservation purpose.

Offset(s)		An amount that diminishes or balances the effect of a contrary one. In compensatory mitigation, the debit is the disturbance and the credit is the avoidance, restoration, enhancement or preservation.
Permittee(s)		Applicant seeking a permit issued by the COE for use of dredged, fill material or disturbances into waters of the U.S.
Perpetuity		A future limitation, whether executory or by way of remainder, and of either real or personal property, which is not to vest until after the expiration of or will not necessarily vest within the period fixed and prescribed by law for the creation of future estates and interests, and which is not destructible by the persons for the time being entitled to the property subject to the future limitation, except with the concurrence of the individual interested under that limitation (The Law Dictionary, 2014).
Project Developer		Clarification for the purposes of this document, the project developer is the Permittee or applicant of the COE seeking authority to disturb wetlands under certain conditions.
Prospectus		The first formal documentation phase of the mitigation bank process. The Prospectus is to provide an overview of the proposed mitigation bank with sufficient detail to support public and the initial interagency review team (IRT) review and comment.
Service Area		The geographic area in which mitigation credits from the bank may be used to offset impacts to wetlands or habitats.
Stewardship		Lands placed in a wetland/conservation condition and protected in perpetuity with appropriate real estate arrangements such as conservation easements, transfer of title to Federal or State resource agency or a non-profit conservation organization.
US Army Corps of Engineers	COE	A U.S. federal agency under the Department of Defense and a major Army command made up of approximately 36,500 military personnel, making it one of the world's largest public engineering, designs, and construction management agencies. COE is involved in a wide range of public works, hydropower, flood protection, and environmental regulation and ecosystem restoration.
US Fish and Wildlife Service	USFWS	Federal government agency within the U.S. Department of the Interior (DOI) dedicated to the management of fish, wildlife, and natural habitats.

References

Birnie, Kathryn (2013, May). State of the Market: National Market Analysis and Overview. National Mitigation and Conservation Banking Conference, Denver, CO.

Chadwick, G. B., & Chadwick, M. (2014, May). *Financing ecological and environmental mitigation banking*. Presentation session at the 2014 National Mitigation and Ecosystem Banking Conference, Denver, CO.

Conservation Fund, The (2013). *Alaska in-lieu fee compensatory mitigation program instrument*. Retrieved from http://www.poa.usace.army.mil/Portals/34/docs/regulatory/The%20Conservation%20Fund_In-lieu%20Fee%20Final%20Instrument_May%202013.pdf

Cragg, M., Polek, C., & Polasky, S. (2011). Valuing properties with wetland potential. *Appraisal Journal*, 79(2), 126-141. Retrieved from <http://www.freepatentsonline.com/article/Appraisal-Journal/257675194.html>

Davis, A. I. (2006). *State Trust Lands: The ecosystem services report* (Product Code WP07AD1). Retrieved from Lincoln Institute of Land Policy website: [http://www.lincolninst.edu/pubs/dl/1182_Davis Final RSAL.pdf](http://www.lincolninst.edu/pubs/dl/1182_Davis%20Final%20RSAL.pdf)

Ecosystem Marketplace, A Forest Trends Initiative (2014). *U. S. wetland banking*. Retrieved from http://www.ecosystemmarketplace.com/pages/dynamic/web.page.php?page_id=7068§ion=home

Environmental Protection Agency. (2003). *Federal guidance on the use of the TEA-21 preference for mitigation banking to fulfill mitigation requirements under Section 404 of the Clean Water Act*. Retrieved from <http://water.epa.gov/lawsregs/guidance/wetlands/upload/TEA-21Guidance.pdf>

Environmental Protection Agency. (2014). *Mitigation banking factsheet: Compensating for impacts to wetlands and streams*. Retrieved from <http://water.epa.gov/lawsregs/guidance/wetlands/mitbanking.cfm>

Hall, J. V., Frayer, W. E., & Wilen, B. O. (1994). *Status of Alaska wetlands*. Retrieved from the U. S. Fish and Wildlife Service website <http://www.fws.gov/wetlands/Documents/Status-of-Alaska-Wetlands.pdf>

Hook, P. W. & Shadle, S.T. (2013). *Navigating wetland mitigation markets: A study of risks facing entrepreneurs and regulators*. Retrieved from Ecosystem Marketplace website http://www.ecosystemmarketplace.com/pages/dynamic/resources.library.page.php?page_id=10162§ion=library&eod=1

Law Dictionary, The. In *The Law Dictionary Featuring Black's Law Dictionary Free Online Legal Dictionary* (2nd ed.). Retrieved from <http://thelawdictionary.org/>

Madsen, B., Carroll, N., Kandy, D., & Bennett G. (2011). *2011 Update: State of biodiversity markets – offset and compensation programs worldwide*. Retrieved from http://www.forest-trends.org/publication_details.php?publicationID=2848

Nature Conservancy, The. (2014). *NGO perspectives on compensatory mitigation*. Paper presented at the National Mitigation and Ecosystem Banking Conference, Denver, CO.

Normanly, B. T. & Vacca, S. (2007, November/December). A primer on mitigation banking: Process and potential revenue. *Forest Landowner*, 43-46. Retrieved from www.ecologicalsolutions.net/pdfs/APrimeronMitigationBanking_v2.pdf

Trust Land Office. (2013). *Resource Management Strategy*. Retrieved from <http://mhtrustland.org/index.php/2014-january-resource-management-strategy/>

United State Army Corps of Engineers (2014, May). *Wetlands and 404 permitting compliance with mitigation requirements*. Presentation session at the 2014 National Mitigation and Ecosystem Banking Conference, Denver, CO.

United States Army Corps of Engineers, Institute for Water Resources. (2011). *IWR white paper: Implementing financial assurance for mitigation project success*. Retrieved from National Mitigation Banking Association website <http://www.mitigationbanking.org/pdfs/2011-financialassurance.pdf>

To: Larry Norene, Chair
Resource Management Committee
From: Craig Driver
Date: 1/27/2015
Re: L Street Negotiated Commercial Lease - Project #2014-100
Fiscal Year: 2015

Consultation

Proposed RMC Motion:

"The Resource Management Committee recommends that the Trust Authority board of trustees concur with the negotiation and execution by TLO of a ground lease of parcels S82631 and S1005, or portions thereof, at terms to be negotiated by TLO staff, and the subsequent execution by TLO of the documents necessary to facilitate the transaction and development."

Background:

Revenue Projections: Principal \$0
Income \$210,000/year (FY15)

Transaction/Resource: The proposed transaction is a negotiated ground lease with a national-credit tenant to develop a project on five (5) contiguous parcels located in downtown Anchorage, Alaska. TLO anticipates issuing an initial license for the operator to enter the property, conduct feasibility studies, garner project approvals as necessary, and design/permit construction of the project. It is likely that the initial license will contain an option to execute the proposed ground lease upon the operator's satisfaction of its due diligence and/or permitting of construction plans. TLO will negotiate in good-faith to obtain the best terms and conditions for the proposed ground lease and associated license.

Property Description/Acreage/MH Parcel(s): Trust parcels S82631 and S1005 consist of five (5) separate, legal city lots as shown on Exhibit A having the following legal description:

Lots 1A, 2A, 3A, 5A, and 6A, Block 85, Original Townsite, according to the L Street Slide Re-plat #67-30 filed April 24, 1967 in the Anchorage Recording Office, Third Judicial District, Anchorage, Alaska.

Lot / Dimensions / Size

1A	/	76' x 142'	/	10,743 SF
2A	/	51' x 144'	/	7,238 SF
3A	/	51' x 145'	/	7,298 SF
5A	/	76' x 146'	/	11,106 SF
6A	/	51' x 148'	/	7,447 SF

Total = 43,822 SF

The parcels are located on the perimeter of the current downtown business and tourist district. Zoning is B-2C, Central Business District. The parcels had originally been developed as single-family and multi-family residential structures that have been removed and the entire assemblage has been graded level. Lots 3A and 5A are subject to a revocable land use license agreement with a subsidiary of Diamond Parking. That license can be terminated in the event the transaction proposed herein is successfully negotiated.

General Background: Trust parcel S82631 was received by Quitclaim deed from the Municipality of Anchorage on November 19, 1996 and contains Lots 3A, 5A and 6A. The Trust subsequently purchased Trust parcel S1005 on September 13, 2002, which consists of parcels 1A and 2A, to enhance the development and revenue potential of the original three parcels. The structures were demolished and the parcels readied for development by October, 2013. The parcels have been marketed for close to two years as developable for commercial purposes and the preferred transaction communicated as a long-term ground lease. Various uses have been discussed by several parties ranging from retail space, hotels, office space and high-end apartments. Where proposals were offered, each was evaluated for risk, potential revenue, proposed use, and the financial strength of the party bringing forth the proposal.

The proposed Lessee made inquiries in spring of 2014, did initial due diligence on the site over the subsequent months, and then returned to TLO with a written Letter of Intent to Lease around September 23, 2014. TLO staff has since negotiated many of the proposed business terms to gain conceptual approval, drafted and provided a proposed lease document, and discussed project considerations with the proposed Lessee's development team.

Anticipated Revenues/Benefits: At the writing of this document the following lease terms and conditions are anticipated, subject to change with final negotiations that would lead to an executed lease document. The initial lease term proposed is ten (10) years with four (4) options to renew the lease for periods of five (5) years each, for a total possible term of 30 years. Base Rent is proposed at \$17,500 per month/\$210,000 per year, based upon a seven percent (7%) return rate applied to the market value per an appraisal dated November 7, 2013. Adjustments to the land value, resulting in an adjustment to the Base Rent calculation, are proposed at five (5) year intervals. The total Base Rent as currently proposed totals approximately \$2,205,000, subject to a potential increase at the end of year five (5) of the initial term. Should the lease be extended under the options proposed total rental income over the life of the lease would increase to a minimum number of \$8,101,000.

In addition to Base Rent, a percentage rent component is anticipated. This provision requires further negotiation and clarification, however, it is likely that percentage rent (rent in addition to Base Rent that is calculated as a percentage of sales revenue from operations) in the range of one to three percent (1-3%) of sales will be agreed to within the final lease document. Products or goods sold at low margins are typically excluded from this type of rent structure and will need further clarification in a final lease document, but this lease provision will most likely provide significant rental income over the life of the lease. To calculate the potential rental income will require further inputs on projected sales and a final definition of the sales included in the rent calculation.

Anticipated Risks/Concerns: Anticipated risks include the seismic classification of the parcel and how burdensome construction requirements might impact project costs for a potential lessee. This consideration will be present with any proposed use of the parcel and will be exacerbated with alternative uses requiring multi-story construction.

Community opposition to the use is an anticipated concern, even though the property is zoned for commercial uses and this use would most likely pass approval of any required municipal review. It is likely that given the site's proximity to nearby residential uses any proposed commercial use will meet some level of community opposition. That opposition is usually dealt with through community outreach prior to proposing the project publicly, then using feedback from the community to implement design and operational considerations that can alleviate some of the concerns raised. It is very hard to propose any type of commercial use in established neighborhoods that doesn't meet some level of neighborhood opposition.

Project Costs: Costs to complete this project include legal fees and consultant reports anticipated to cost approximately \$15,000-\$20,000. Additional negotiation, legal review and document preparation make up the majority of these costs. Consultant reports to be provided prior to construction of the project make up the remainder of the costs. These costs are proposed to be paid out of TLO's existing budget and additional funds are not being requested specifically for this project.

Other Considerations: The most important aspects of this proposal are the underlying credit-worthiness of the proposed Lessee and the flexibility the Trust will have to develop the property for an alternative use once the lease term expires.

Market value of commercial investment property is almost always tied to the rental income potential of a given property and the likelihood of procuring a credit-worthy tenant that will pay their rent on time over the life of the lease. In this case the Lessee will have one of the best credit ratings available.

Upon expiration of this proposed lease, the Trust will have the option to maintain using the property as constructed, or decide to have the Lessee demolish the improvements clearing the way for development of alternative uses on the site. TLO staff anticipates the property market surrounding the parcels will be much different by the end of the lease and alternative uses will be in more demand at that time.

Due Diligence: As stated under Project Costs above, additional legal review to finalize the transaction documents and consultant reports will be required to facilitate this transaction and review the potential risks associated with it.

Alternatives: The alternatives to this proposal are:

- Waiting for the market to mature over the course of time to support alternative, multi-story uses of the site. Over time demand should increase and risk be reduced for alternative uses of the property. While much can happen to influence commercial property markets over short periods of time, long-term trends generally dictate the development of a site.
- Sell the property outright. This would result in the Trust having to acquire a replacement property that provided similar or greater potential returns.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted November 2013 in consultation with The Trust and provides for enhanced revenue from the parcel while retaining long-term ownership, increased value and development options upon expiration of the lease term.

Trust Land Office Recommendation: Proceed with the negotiation and execution of a ground lease for the site as proposed.

Applicable Authority: AS 37.14.009 (a), AS 38.05.801, and 11 AAC 99.

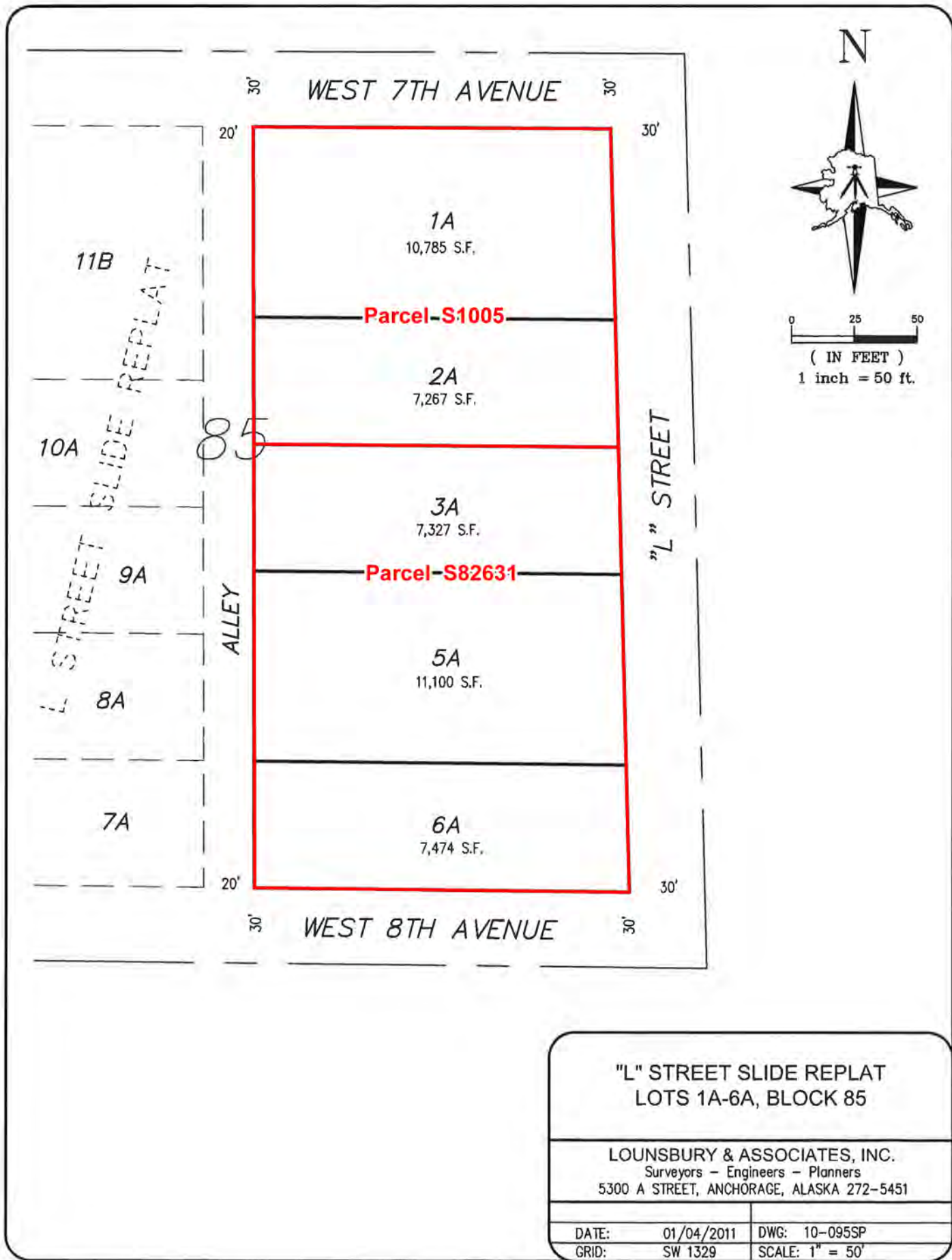
Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Schedule of Actions:

Resource Management Committee:	January 27, 2015
Trust Authority:	January 28, 2015
Complete Best Interest Decision:	March 1, 2015
Public Notice:	March 2, 2015
Execution of Documents:	April 15, 2015

Exhibit(s):

Exhibit 1 - Parcel Map



To: Larry Norene, Chair
Resource Management Committee
From: Bryan Yackel
Date: 1/27/2015
Re: Yosemite Utility Extension - Project #2014-83
Fiscal Year: 2015

Approval

Proposed RMC Motion:

"The Resource Management Committee recommends that the Alaska Mental Health Trust board of trustees approve the expenditure of principal funds for sewer and water infrastructure improvements to and for a portion of the parcel known as Yosemite in the amount of \$900,000 from the TADA (AKSAS fund 34045)."

Background:

Transaction/Resource: Principal Fund expenditure for a Trust Parcel improvement project to include design and construction of sanitary sewer and water main line utility extensions.

Property Description/Acreage/MH Parcel(s): A portion of Parcel SM-1623, (approximately 55 acres) located at the northwest and northeast corners of the intersection of Eagle River Loop Road and Yosemite Drive, Eagle River, Alaska. The parcel is legally described as a portion of the N2NE4, Section 23, Range 4 West, Township 14 North, Seward Meridian (see Exhibit 1 - Areas A, B, and C).

General Background: In calendar year 2016 the Municipality of Anchorage (MOA) will undergo a major road improvement project to Yosemite Drive. The project will upgrade Yosemite Drive to a "collector" street. Features of the upgrade will include widening the roadway, establishing adjacent paved pathways and/or sidewalks, and installing street lighting, curb and gutter. The TLO intends to capitalize on the timing of this project by extending water and sanitary sewer utilities to the Yosemite parcels concurrently with the road improvement (see Exhibit 2).

The proposed utility extensions will provide sanitary sewer and water service to the Yosemite Drive properties. These utilities are necessary to support future development of these parcels. Immediately adjacent to the east side of Yosemite Drive and zoned as R-1, Area "A", is a 27 acre tract that includes relatively flat land that has undergone concept planning for residential development. Located immediately to the southeast there is an additional 20 acres, Area "B", which is immediately adjacent to the north side of Eagle River Loop Road, and is zoned PLI-SL. This area occupies the site of a former landfill that is not currently suitable for construction due to its steep topography and concern for

compromising the capped-and-closed former landfill. This area is, however, a good candidate for continued use as a fill site for neighboring projects producing clean soils.

The tract to the west of Yosemite Drive, Area “C”, includes approximately 8 acres of mostly cleared land with good soils. Prior planning efforts have identified this parcel as a good candidate to support a modest commercial development, or perhaps multi-family residential development of some form.

This MOA project will be designed by Lounsbury & Associates, Inc., which is also the Engineer of Record for the MOA road improvement project, provides the Trust with a synergy of design. The approving authority for the design is the Anchorage Water and Wastewater Utility (AWWU). Construction is tentatively scheduled for spring/summer of 2016.

Anticipated Revenues/Benefits: Completing the water and sanitary sewer utility extensions concurrently with the MOA road improvement project will result in shared project efficiencies ultimately resulting in considerable cost savings to the Trust. In addition to the cost savings, disruption to area residents is further mitigated in comparison to a scenario whereby these utilities are installed at some point in the future after completion of the road improvement project. Installing these utilities at a later date would require demolition, repair and replacement of the roadway and/or adjacent pathways. This might also entail working in close proximity to existing underground utilities, which decreases efficiency and adds to project cost and uncertainty.

Anticipated Risks/Concerns: A key concern is the risk of spending Trust funds without an immediate return on investment. Large residential developments often include absorption periods in excess of five years, resulting in a holding period without revenue offsetting the expenditure. This is standard in residential lot development whereby all available lots in a subdivision of this size are not typically sold in the year of subdivision development; rather they are developed in planned stages.

Project Costs: The estimated not-to-exceed total project cost for the installation of these utilities is \$900,000 (see Exhibit 3).

Other Considerations: Completing a residential subdivision development at Yosemite east will likely require vacating a section line easement (SLE) running along the north property line of the parcel. The TLO has been in contact with neighboring property owners in an attempt to gain consent and support for the vacation. In the event the SLE cannot be vacated, the TLO may opt to abandon the construction phase of the utility extensions.

Due Diligence: The due diligence effort for this project is ongoing. With calendar year 2015 scheduled for design only, additional efforts will be made by the TLO to vet this project. Due diligence efforts identifying negative indicators or inconsistencies in the intended highest and best use may result in the suspension of the construction phases of this project.

Alternatives: Two alternatives to completing this project include doing nothing, or deferring the work to a later date. In the absence of critical utilities, prospective users are confronted with additional risk

that may prevent a sale or lease of the property, or a diminished return on investment through the realization of a lower land value and sales price. Deferring the work to a later date might have a similar consequence whereby the lack of utility service and uncertainty in delivering these services would make the Yosemite Drive tracts less desirable and/or a more risky option than other “development ready” parcels. The latter alternative creates additional concern related to the anticipated construction cost escalations and level of disruption to area traffic stemming from working within the extents of a new road.

Consistency with the Resource Management Strategy: The proposal is consistent with the long term “Resource Management Strategy for Trust Land” (RMS) which was adopted November 21, 2013 in consultation with the Trust. Completing these utility extensions will be a value enhancing feature of these Yosemite Drive parcels that serves to support the highest and best use of this site.

Trust Land Office Recommendation: The TLO recommends approving use of Principal Funds for the design and construction of sanitary sewer and water main line utility extensions at Yosemite Drive.

Applicable Authority: Alaska Statutes 37.14.009, 37.14.031, 38.04.055, 38.05.801 and 11 AAC 99.

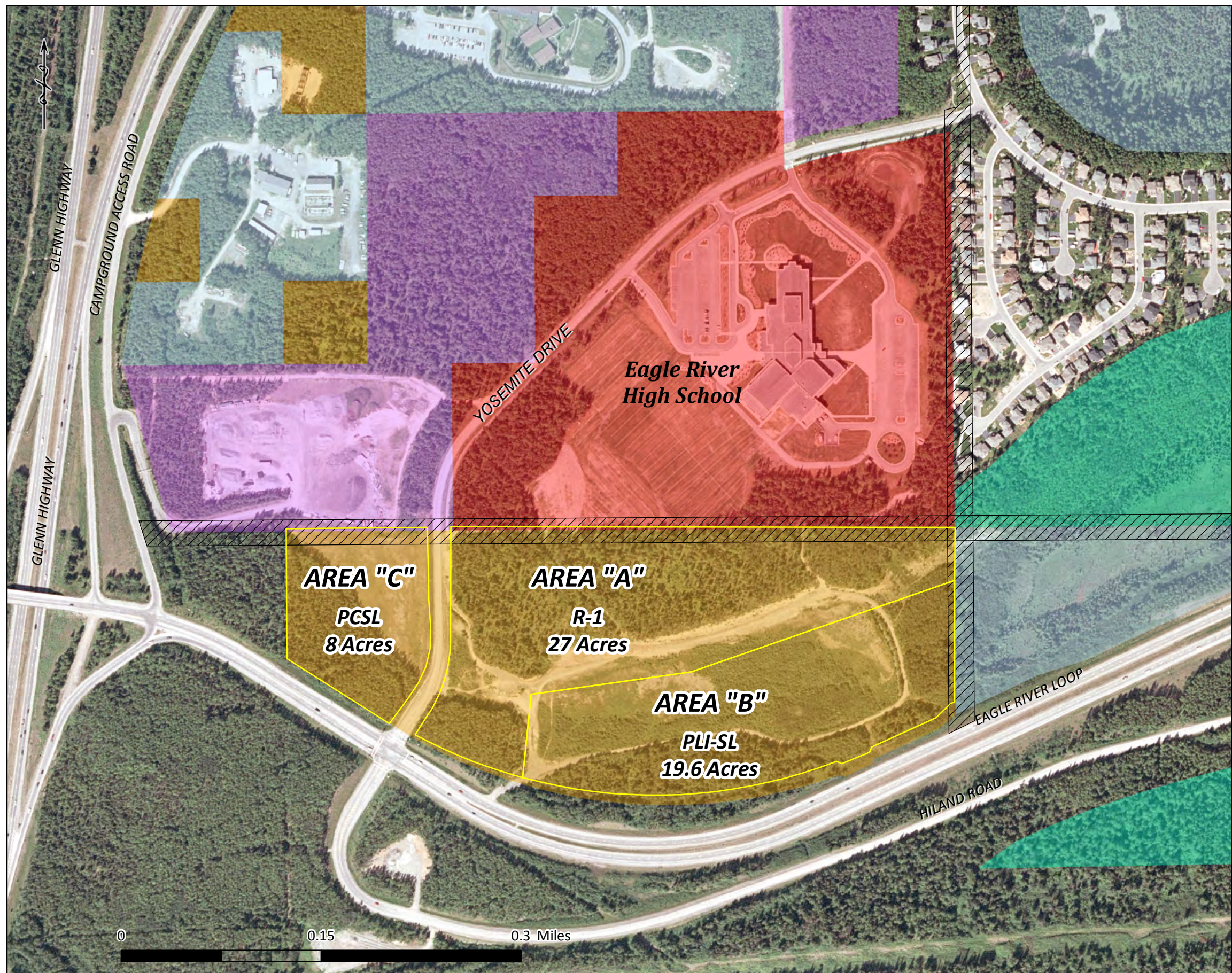
Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Schedule of Actions:

Resource Management Committee:	January 27, 2015
Finance Committee:	January 27, 2015
Trust Authority Board:	January 28, 2015

Exhibit(s):

Exhibit 1 - Location Map
Exhibit 2 – Conceptual Sewer and Water Layout Drawing
Exhibit 3 – Not-To-Exceed Estimated Project Costs



Land Ownership Around Eagle River High School

Legend

Land Ownership

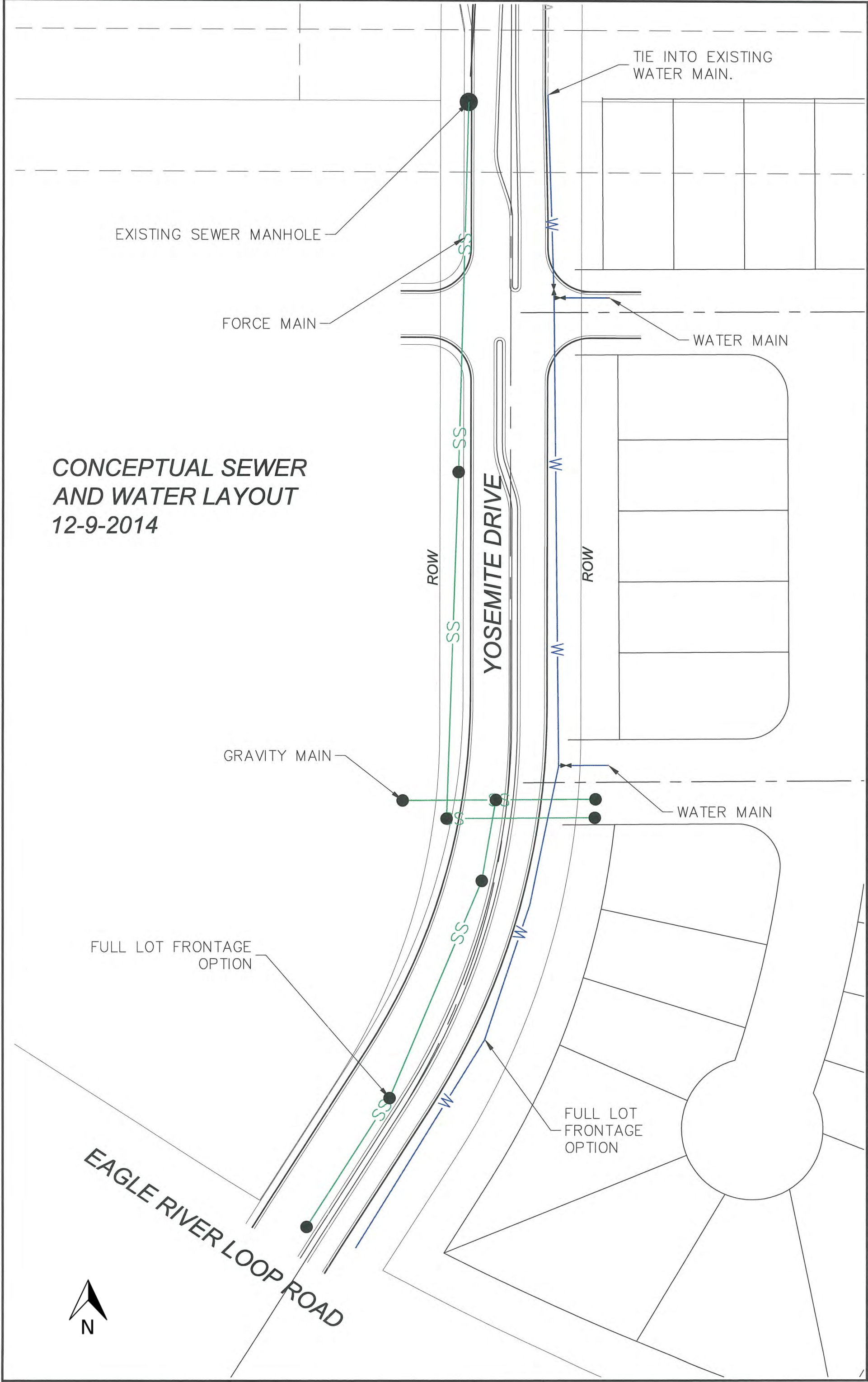
- Eklutna Inc.
- Heritage Land Bank
- Heritage Land Bank - School District
- MHTLO
- State of Alaska
- Section Line Easement

Imagery- Municipality of Anchorage 2006

Land ownership was determined using State Dept. of Natural Resources Land Records (DNR) and Tax Parcel information from the Municipality of Anchorage and the anchoragelive.com website.

Acreage for Trust Parcel is approximate.

Date Printed: December 30, 2014



**CONCEPTUAL SEWER
AND WATER LAYOUT
12-9-2014**

Yosemite Drive Water and Sanitary Sewer Utility Extensions - Not-To-Exceed Total Project Costs

Activity Description	Estimated Cost
Engineering Planning, Survey, Design and Services During Construction	\$74,000
** Water Line Construction (~500'-525')	\$203,715
** Sanitary Sewer Line Construction (~750'-775')	\$260,123
** Water Line Construction - ADD FULL FRONTAGE (~375') *	\$128,079
** Sanitary Sewer Line Construction - ADD FULL FRONTAGE (~335') *	\$142,863
Municipality of Anchorage PM&E Construction Administration & Management	\$25,200
MOA and AWWU Project Fees	\$20,160
Project Contingency (@ ~5%)	\$45,861

Not-To-Exceed Total Project Costs: \$900,000

** Cost Elements subject to competitive contractor pricing through RFP solicitation

* The TLO is currently working with AWWU in an effort to have "Full Frontage" requirements waived



2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To: Larry Norene, Chair
Resource Management Committee
From: Bryan Yackel
Date: 1/27/2015
Re: C2 Utility Extension – Project #2014-84
Fiscal Year: 2015

Approval

Proposed RMC Motion:

“The Resource Management Committee recommends that the Alaska Mental Health Trust board of trustees approve the expenditure of principal funds for sewer and water infrastructure improvements to and for the parcel known as C-2 in the amount of \$600,000 from the TADA (AKSAS fund 34045).”

Background:

Transaction/Resource: Principal Fund expenditure for a Trust Parcel improvement project to include design and construction of sanitary sewer and water main line utility extensions. This is a continuation of the development of Tract C-2 in the University Medical (U-Med) District, which is currently lacking these critical utilities.

Property Description/Acreage/MH Parcel(s): Parcel SM-1526-01, Tract C-2, Providence Chester Creek Subdivision, Anchorage, Alaska including approximately 4.5 acres (see Exhibit 1 – Location Map).

General Background: The Trust acquired title to Tract C-2 in May of 2009 (ref. QCD 8000106) from the Department of Natural Resources (DNR). At that time, Tract C-2 included 5.537 acres, and is now approximately 4.5 acres resultant to the 40th Avenue settlement with Municipality of Anchorage in which 1.2 acres was placed under a perpetual Public Use Easement Agreement with compensation of \$619,490.00 (ref. MHT 9200408).

In FY13, Tract C-2 underwent an extensive grading project whereby approximately 70,000 cubic yards of material was cut and removed from the site. Work completed in 2012 and improved the grades of the site for the prospect of development. Completing the installation of the water and sanitary sewer utilities will be an additional enhancement to site value, and move it closer to being “development ready”.

The project will be designed by TLO’s Central Region Term Contractor DOWL HKM. The approving authority for the design is the Anchorage Water and Wastewater Utility (AWWU). Construction is tentatively scheduled for spring/summer of 2015.

Anticipated Revenues/Benefits: The zoning of the property is Residential Office (R-0), and the utilities to be installed are crucial to support further development. This is a necessary step toward recognizing this site's near term potential for revenue generation.

Anticipated Risks/Concerns: A key concern is the risk of spending Trust funds to prepare prospective land without an immediate identified use or user at the time of expenditures. There is potential that this tract of land will not be absorbed in the year that the development is completed, resulting in a holding time period without revenue generation offsetting the expenditure.

Project Costs: The estimated not-to-exceed total project cost for the installation of these utilities is \$600,000 (see Exhibit 3).

Other Considerations: The installation of the sanitary sewer main line extension will require the granting two small perpetual Public Use Easements (approximately 20' x 30') on MHT's Tract 2B-1 and Tract C-2 (see Exhibit 2). A separate Best Interest Decision and public notice process will be completed for these easements.

Due Diligence: Cost estimates for multiple alignments were considered for the installation of the sanitary sewer line. The alignment with the lowest perceived cost has been selected for the continuation of design. Due to the short length of the water line only a single alignment is practical, which is the shortest available alignment between the points of origination and termination.

Alternatives: Two alternatives to completing this project include doing nothing, or deferring the work to a later date. In the absence of critical utilities, prospective buyers are confronted with additional risk that may prevent a sale or lease of the property, or a diminished return on investment through the realization of a lower land value and sales price. Deferring the work to a later date might have a similar consequence whereby the lack of utility service and uncertainty in delivering these services could make Tract C-2 less desirable and/or a more risky option than other "development ready" parcels.

Consistency with the Resource Management Strategy: The proposal is consistent with the long term "Resource Management Strategy for Trust Land" (RMS) which was adopted November 21, 2013 in consultation with The Trust. Completing these utility extensions will be a value enhancing feature of Tract C-2 that serves to support the highest and best use of this site.

Trust Land Office Recommendation: The TLO recommends approving use of Principal Funds for the design and construction of sanitary sewer and water main line utility extensions at Tract C-2.

Applicable Authority: Alaska Statutes 37.14.009, 37.14.031, 38.04.055, 38.05.801 and 11 AAC 99.

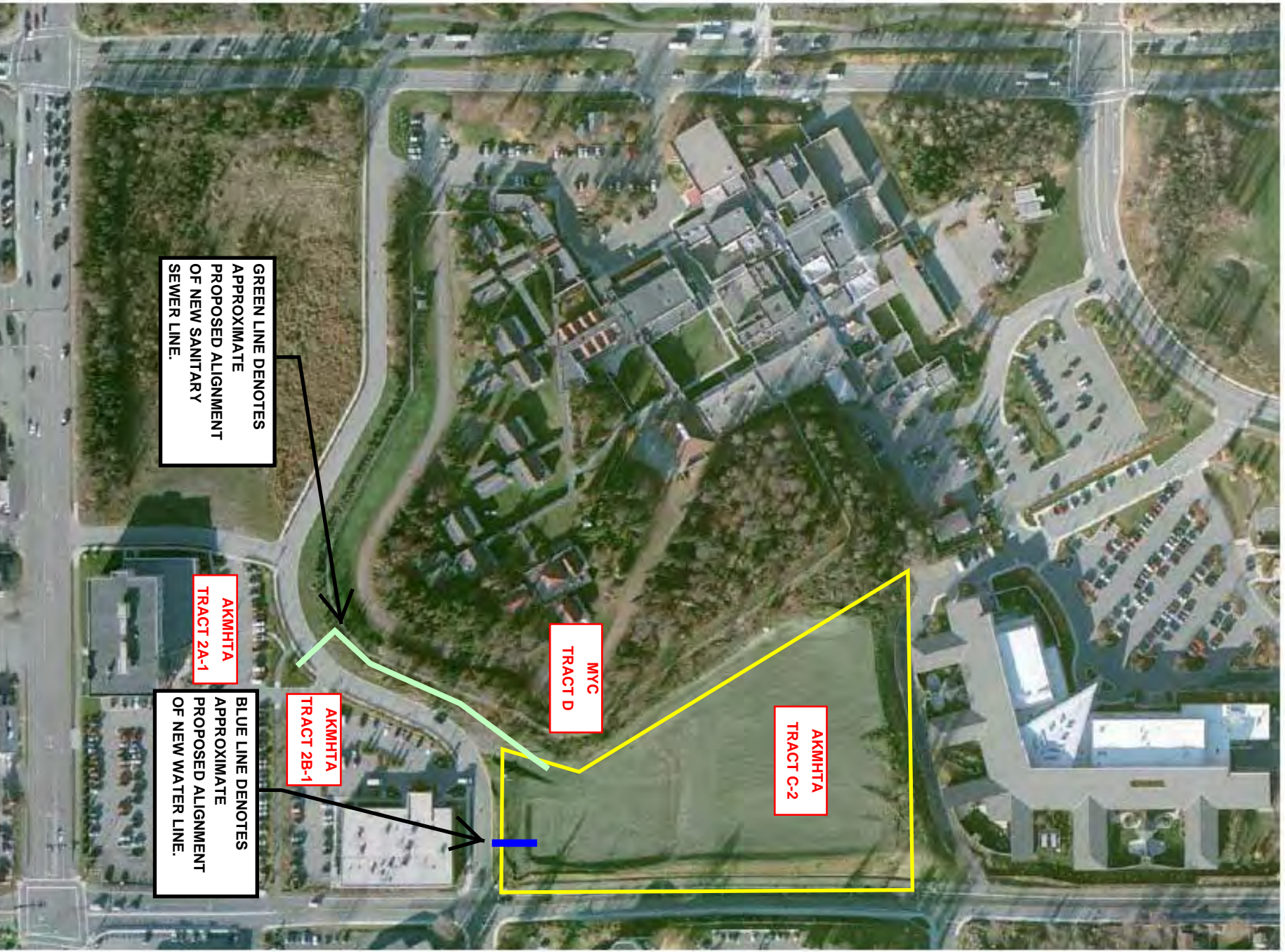
Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Schedule of Actions:

Resource Management Committee:	January 27, 2015
Finance Committee:	January 27, 2015
Trust Authority Board:	January 28, 2015

Exhibit(s):

Exhibit 1 - Location Map with Proposed Water and Sanitary Sewer Utility Alignments
Exhibit 2 - 35% Sanitary Sewer Plan and Profile Drawing
Exhibit 3 - Estimated Not-To-Exceed Total Project Cost



GREEN LINE DENOTES
APPROXIMATE
PROPOSED ALIGNMENT
OF NEW SANITARY
SEWER LINE.

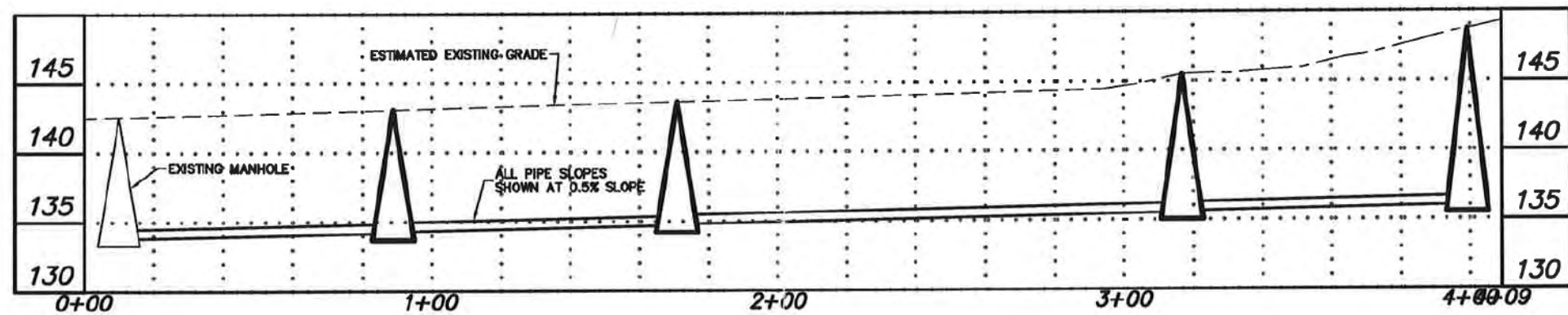
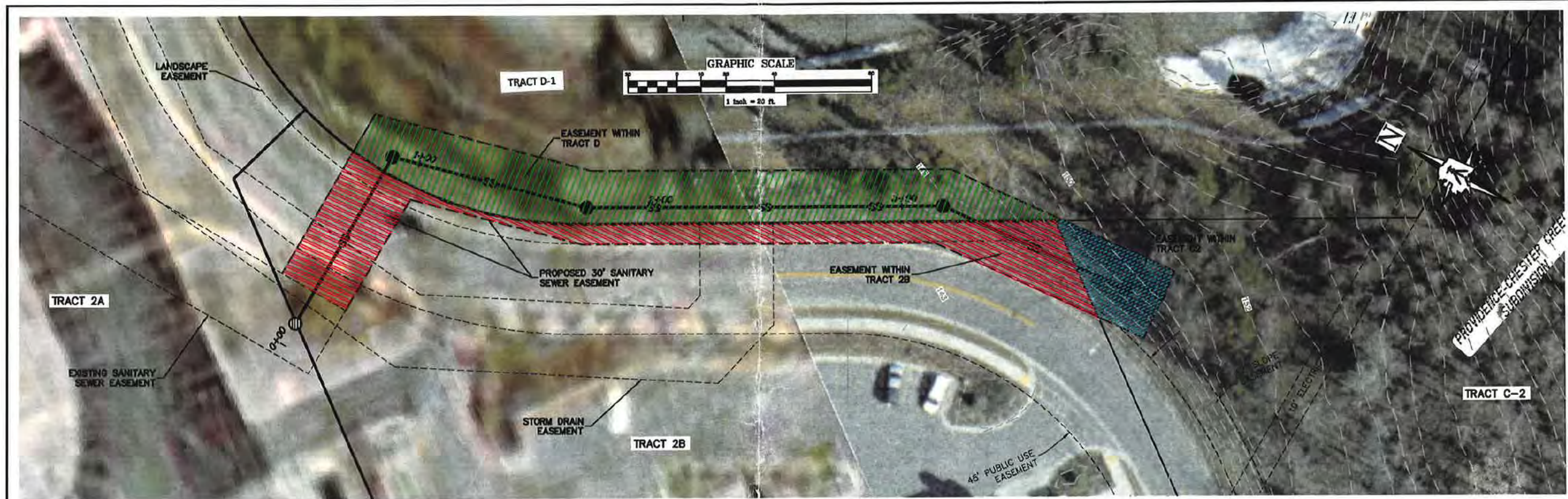
AKMHTA
TRACT 2A-1


BLUE LINE DENOTES
APPROXIMATE
PROPOSED ALIGNMENT
OF NEW WATER LINE.

AKMHTA
TRACT 2B-1

MYC
TRACT D

AKMHTA
TRACT C-2



					TRUST LAND OFFICE				
					LAUREL STREET SEWER MAIN EXTENSION				
					PROPOSED SEWER ALIGNMENT				
					SCALE: 1/4" = 1' = 20'		DATE: 08/01/2011	ORD: 08/724	SHEET 1 of 1
							ACCT. NO. 10-008		
REV	DATE	DESCRIPTION	BY						
REVISIONS									

C-2 Water and Sanitary Sewer Utility Extensions - Not-To-Exceed Total Project Costs

Activity Description	Estimated Cost
Engineering Planning, Survey, Design and Services During Construction	\$52,438
**Water Line Construction (~60'-70')	\$54,826
**Water Line related demolition, repair and replace	\$23,549
**Sanitary Sewer Line Construction (~400'-450'):	\$317,088
**Sanitary Sewer Line related demolition, repair and replace	\$91,837
Construction Administration & Management:	\$13,200
MOA and AWWU Project Fees:	\$18,850
Project Contingency (@ ~5%)	\$28,212

Not-To-Exceed Total Project Costs: \$600,000

** Cost Elements subject to competitive contractor pricing through RFP solicitation

TLO Activities through December 31, 2014

50% of the Fiscal Year



Sitka spruce from the Control Lake Timber Sale

*Protecting and enhancing the value of Alaska Mental Health Trust Lands
while maximizing revenues from those lands over time*

Highlights

- The TLO has reached 44% of the overall FY15 revenue goals (Principal 24%, Income 72%).
- The 2014 Winter Land Sale began and sealed bids will be accepted through March 20. The 27 lots offered have a total minimum bid value of \$929, 200. The Seaduck Subdivision (Petersburg) has provoked a good deal of local interest and is included in the sale.
- The public notice process for the Freegold Ventures lease expansion has been completed.
- Harvesting for the Control Lake Timber Sale is nearly complete. Over \$100,000 of revenue has been generated by this sale to date.
- The US Forest Service has postponed the review of the Feasibility Analysis for the Trust Land Exchange until mid-February due to the passage of legislation regarding Sealaska lands.
- The public notice process for Usibelli Coal Mine for a coal lease near Healy has been completed.

December Revenue Notes

- Year-to-Date revenue as of December 31, 2014:
 - Principal: \$1,326,277
 - Income: \$2,827,966
 - Total: \$4,154,243
- Fiscal year to date Oil and Gas Principal revenue goals have not been met. The well operator for Kenai Loop entered bankruptcy May 31, 2014; subsequently, royalty payments were placed in an escrow account and not distributed to TLO. Additionally, some of the gas production from this field is being derived from adjacent state and private property. A portion of the payments received prior to bankruptcy is being held in a state escrow account pending a final settlement agreement.
- Oil and Gas Income revenue is greater than anticipated due to monthly liquidated damages payments from Buccaneer and a \$300,000 lease extension fee from Cook Inlet Energy.
- The state revenue system is on a modified accrual basis and each year some revenue is deferred from the prior year to the current year. Oil and Gas, Real Estate, Coal, and Land Income revenues are affected and as a result those revenues are higher than budgeted in the first quarter of the fiscal year.
- Timber revenue is lagging, but is starting to rebound due to an increasing number of payments for the Control Lake Timber Sale.
- Harvesting for the Kasaan Timber Sale is on hold due to low market prices in China and will resume once prices recover.

General Performance Measurements As of December 31, 2014

1. Revenue Analysis:

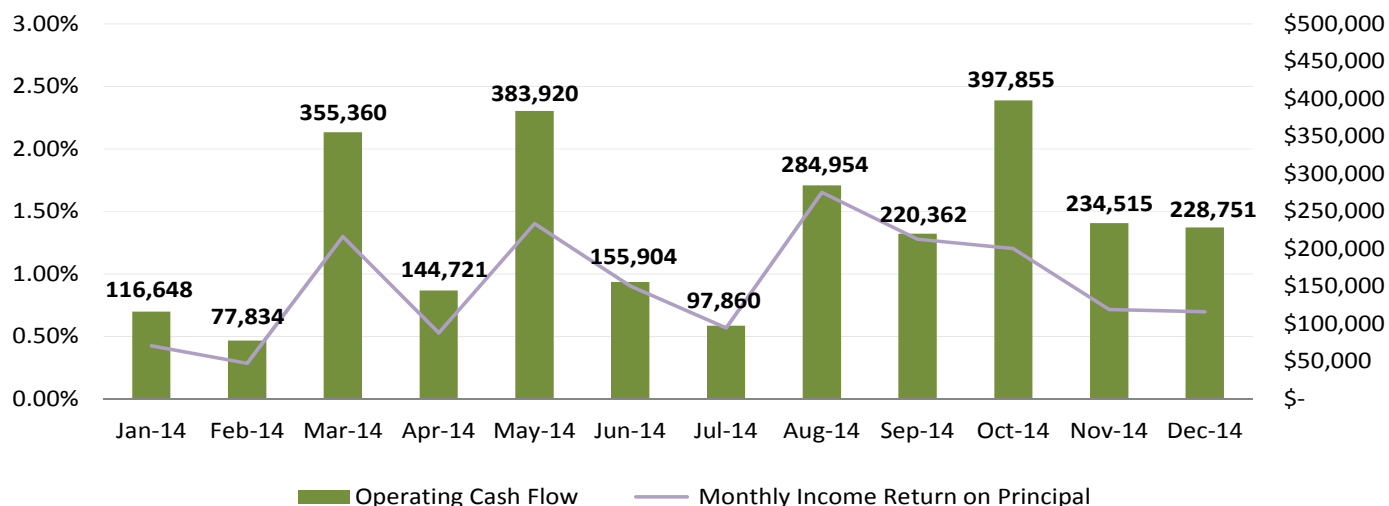
Principal						
	FY14 YTD	FY15 YTD	FY15 YTD Goal	(Under)/Over	FY15 Annual Goal	% of FY15 Annual Goal
Coal	-	-	-	-	-	-
Oil & Gas	1,044,326	46,506	924,000	(877,494)	1,848,000	3%
Minerals	34,043	160,797	-	160,797	2,000,000	8%
Materials	(8,115)	26,741	7,000	19,741	12,000	223%
Timber	171,057	87,410	297,500	(210,090)	382,500	23%
Land	621,524	1,004,823	427,647	577,176	1,200,000	84%
REMP	-	-	-	-	-	-
Real Estate	-	-	-	-	-	-
Total	\$ 1,862,835	\$ 1,326,277	\$ 1,656,147	\$ (329,870)	\$ 5,442,500	24%

Income						
	FY14 YTD	FY15 YTD	FY15 YTD Goal	(Under)/Over	FY15 Annual Goal	% of FY15 Annual Goal
Coal	114,715	103,718	98,000	5,718	151,200	69%
Oil & Gas	600,499	747,579	195,233	552,346	575,000	130%
Minerals	570,781	586,635	493,300	93,335	523,000	112%
Materials	-	-	-	-	-	-
Timber	30,187	15,425	52,500	(37,075)	67,500	23%
Land	665,266	532,527	467,670	64,857	845,000	63%
REMP	542,314	358,000	500,000	(142,000)	1,000,000	36%
Real Estate	NA	484,082	390,591	93,491	781,183	62%
Total	\$ 2,523,762	\$ 2,827,966	\$ 2,197,294	\$ 630,672	\$ 3,942,883	72%

Total						
	FY14 YTD	FY15 YTD	FY15 YTD Goal	(Under)/Over	FY15 Annual Goal	% of FY15 Annual Goal
Coal	114,715	103,718	98,000	5,718	151,200	69%
Oil & Gas	1,644,825	794,085	1,119,233	(325,148)	2,423,000	33%
Minerals	604,824	747,432	493,300	254,132	2,523,000	30%
Materials	(8,115)	26,741	7,000	19,741	12,000	223%
Timber	201,244	102,835	350,000	(247,165)	450,000	23%
Land	1,286,790	1,537,350	895,317	642,033	2,045,000	75%
REMP	542,314	358,000	500,000	(142,000)	1,000,000	36%
Real Estate	NA	484,082	390,591	93,491	781,183	62%
Total	\$ 4,386,597	\$ 4,154,243	\$ 3,853,441	\$ 300,802	\$ 9,385,383	44%

Real Estate Management Plan Monthly Report

Cash Flow by Month - Real Estate Investment Portfolio

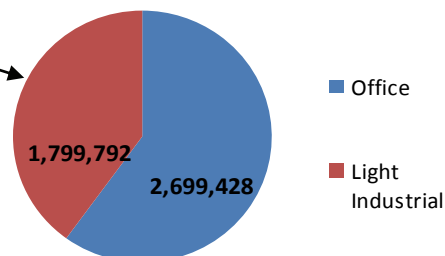


Portfolio Performance by Month

Month	Trust Principal Investment	Operating Cash Flow	Monthly Income Return on Principal
Jan-14	27,382,518	116,648	0.43% ¹
Feb-14	27,382,518	77,834	0.28% ¹
Mar-14	27,382,518	355,360 ¹	1.30%
Apr-14	27,382,518	144,721 ²	0.53%
May-14	27,382,518	383,920 ³	1.40%
Jun-14	17,248,744 ⁴	155,904	0.90%
Jul-14	17,248,744	97,860 ⁵	0.57%
Aug-14	17,248,744	284,954 ⁵	1.65%
Sep-14	17,248,744	220,362	1.28%
Oct-14	33,048,844	397,855 ⁶	1.20% ⁶
Nov-14	32,805,383	234,515 ⁷	0.71%
Dec-15	32,805,383	228,751 ⁸	0.70%
12-Month Average \$ 224,890			
12-Month Total \$ 2,698,685			
Inception to Date \$ 4,508,812			

- 1) The return on Principal is lower in January and February due to the acquisition of the Parks Building. January rent was incorrectly paid to the seller. Rent for February and March were received in March.
- 2) April cash flow is lower due to property tax payment for Parks Building. The building was not financed until May.
- 3) The cash flow is higher in May due to the completion of the tenant refresh and the release of funds from escrow.
- 4) Trust Principal investment is lower in June due to the financing of the Parks Building for \$10,000,000.
- 5) Cash flow in July is lower due to rent not being paid at Parks Building. This issue has been resolved and July rent was received in August.
- 6) The return on Principal and cash flow has been restated for October. Financial statements were revised to reflect pre-paid rents collected at closing (\$277,645) and property taxes were paid for the Parks Building (~\$90,000).
- 7) Cash flow is lower in November due to the annual property tax payment for the IRS Building (~\$70,000).
- 8) A portion of December rents (\$50,000) were paid in January. December cash flow will be lower and January cash flow will be higher.

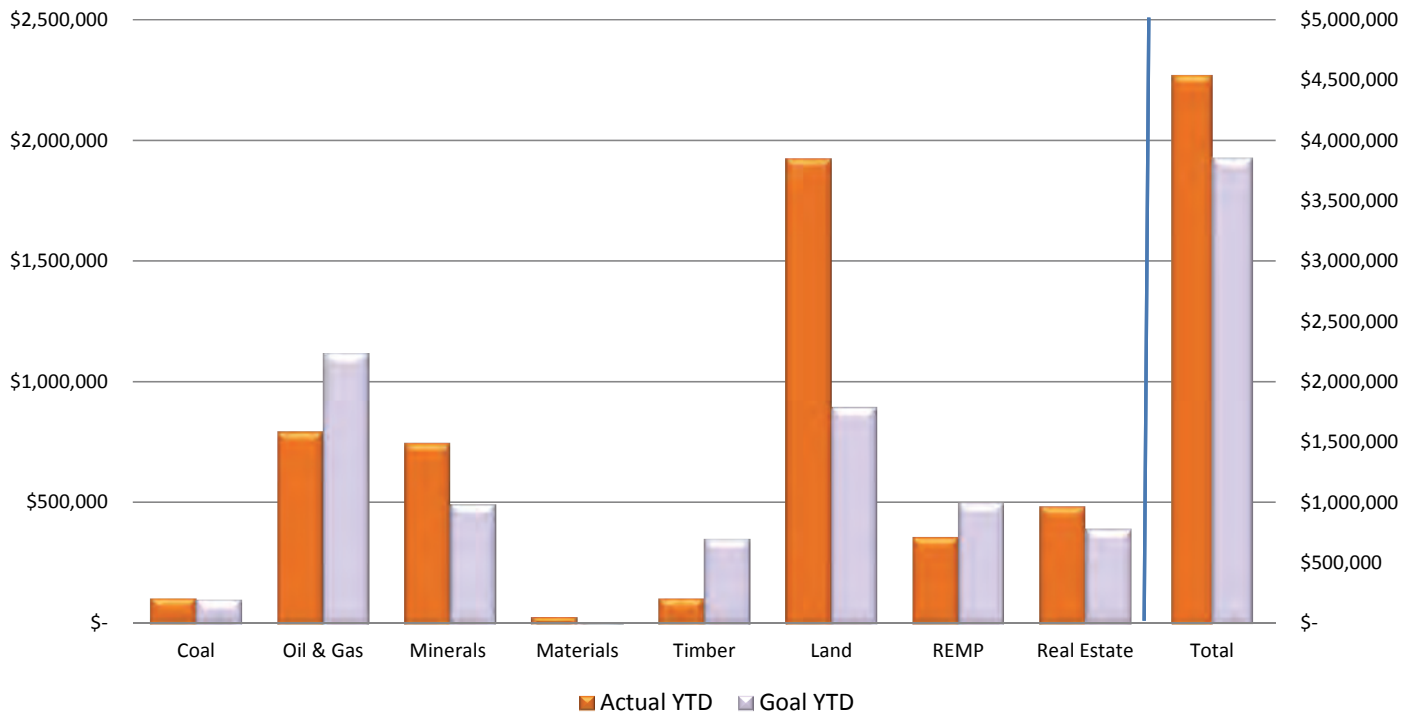
Cash Flow by Property Type Inception to Date



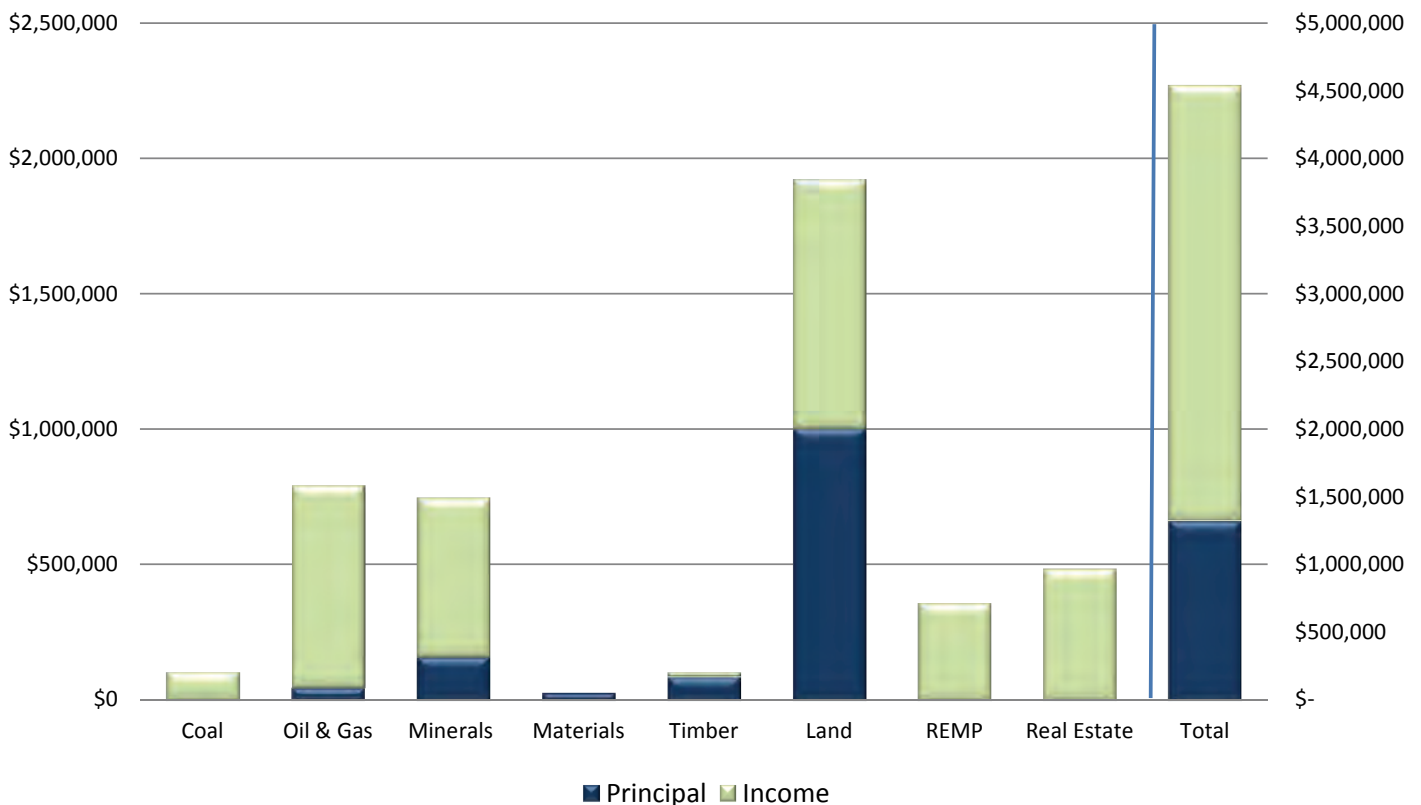
Portfolio Value

Asset Basis	52,774,518
Asset Appreciation/(Depreciation)	484,595
Current Asset Value	53,259,113
Equity	34,062,556 63.96%
Debt	19,196,557 36.04%

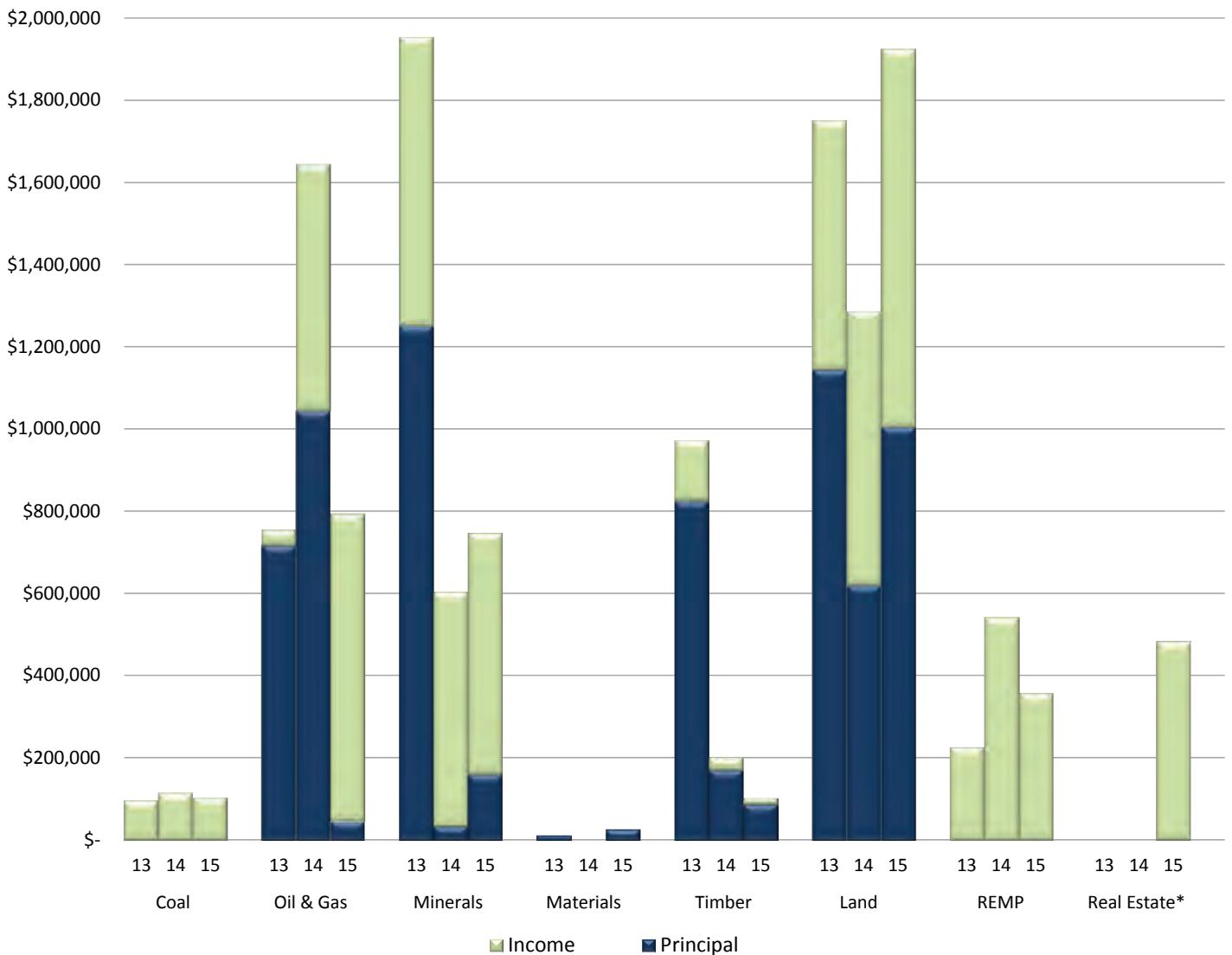
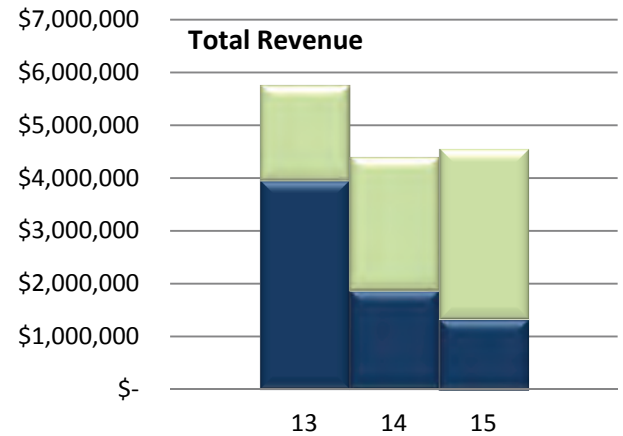
FY15 YTD Revenue vs. FY15 Revenue Goal As of December 31, 2014



FY15 YTD Revenue - Principal and Income As of December 31, 2014



Revenue as of December 2014 Fiscal Year to Date – Principal and Income FY2013 - FY2015



*Real Estate was not tracked separately in FY13 and FY14. Real Estate revenue was included with Land.

General Performance Measurements As of December 31, 2014

2. Operating Budget:

AR 37169	Original Appropriation	Line Item Transfer	Current Appropriation	Expended	Balance	% Expended
Personnel	2,664,400	(45,000)	2,619,400	978,735	1,640,665	37%
Travel	123,200	-	123,200	35,133	88,067	29%
Services	1,229,300	45,000	1,274,300	337,559	936,741	26%
Commodities	54,500		54,500	6,813	47,687	13%
Capital Outlay	-	-	-	-	-	NA
Total	\$ 4,071,400	-	\$ 4,071,400	\$ 1,358,239	\$ 2,713,161	33%

3. Capital Funds - Change of Intent

	Budget	% Complete	Encumbered	Expended	Unobligated Balance	% Expended
Yosemite Drive Pre-Development	187,493	95%	1,326	85,857	100,310	46%
Tract C-2 Water & Sewer Engineering	58,203	25%	-	7,061	51,142	12%
Total	\$ 245,696		\$ 1,326	\$ 92,918	\$ 151,452	38%

4. Capital Funds - Other

	Budget	% Complete	Encumbered	Expended	Unobligated Balance	% Expended
Trust Land Exchange FY14-15	2,250,000	25%	95,318	19,560	2,135,122	1%
Harding Lake Subdivision	74,750	100%	-	74,750	-	100%
Tract C-2 Pre-Development*	1,950,000	100%	17,107	1,745,296	187,597	90%
Total	\$ 4,274,750		\$ 112,425	\$ 1,839,606	\$ 2,322,719	43%

*Project is complete. Closeout pending administrative items.