Trust

Alaska Mental Health
Trust Authority

Resource Management Committee Quarterly Meeting

August 5, 2015

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

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE MEETING
DRAFT AGENDA
August 5, 2015
9:30 a.m. – 10:30 a.m.

Teleconference Information
Call in Number: (866) 469-3239
Meeting/Session Number: 807 020 064 #

Call to Order (Chair Larry Norene)
Committee Members (Voting):
- Laraine Derr
- Paula Easley
- Russ Webb (ex-officio)
- Mary Jane Michael
- Carlton Smith
- John McClellan

Announcements
Approval of Agenda
Approval of Minutes

1. Consultation
    1) Negotiated Oil and Gas Lease – Doyon, Limited (Item A)

2. Approval
    1) FY17 Budget Requests (Item 1)

3. Updates

4. Monthly Report Questions

5. Other

6. Adjourn

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE

April 16, 2015

1:30 p.m.

Taken at:

Alaska Mental Health Authority
3745 Community Park Loop, Suite 200
Anchorage, Alaska 99508

OFFICIAL MINUTES

Trustees present:

Larry Norene, Chair
Mary Jane Michael
Paula Easley
John McClellan
Russ Webb

Trust staff present:

Jeff Jessee
Steve Williams
Miri Smith-Coolidge
Kevin Buckland
Marilyn McMillan
Valette Keller
Carrie Predeger
Carley Lawrence
Amanda Lofgren
Natasha Pineda
Mike Baldwin
Luke Lind
Katie Baldwin-Johnson
Kat Roch

TLO staff present:

Marcie Menefee
John Morrison
Leann McGinnis
Craig Driver

Sarah Morrison
Cindi Bettin
Paul Slenkamp
Mike Franger
Karsten Eden

Also participating:

Carlton Smith; Christopher Cook.

PROCEEDINGS

CHAIR NORENE calls the Resource Management Committee meeting to order. He asks for any announcements or changes in the agenda. There being none, he moves on to the minutes of January 27, 2015.

TRUSTEE McCLELLAN makes a motion to approve the minutes of January 27, 2015.

TRUSTEE WEBB seconds.

There being no objection, the motion is approved.

MS. MENEFEE introduces a new TLO employee, Minerals and Energy Section Chief Karsten Eden. She states that he has over 18 years of exploration in mining development experience in Alaska, as well as a number of other countries, and has a Ph.D. and a lot of good insight and energy. She welcomes him.

CHAIR NORENE welcomes Mr. Eden, adding that the Trust is glad to have him.

MS. MENEFEE states that Mike Franger will present.

MR. FRANGER states that this is the proposal to lease approximately 28 acres of Trust land along Flume Creek in the placer mining district for placer mining purposes. He continues that the prospective applicant is an experienced placer miner and has received more than one reclamation award. He states that it is a placer lease, three-year term, extended by production, has a 10 percent net smelter royalty on any production, and the end of the rental is $5,000, which can be credited against production for that year.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends that the Trust Authority board of trustees concur with the negotiated lease of Trust mineral estate on Flume Creek for mining of placer gold, as proposed.

TRUSTEE WEBB seconds.

There being no objection, the motion is approved.

MS. MENEFEE states that Craig Driver will present the next consultation.

MR. DRIVER states that he is asset manager for the TLO. He continues that the FY16 property budgets for the buildings are listed in the packet and include the building management property in Washington; Ogden, Utah; Austin, Texas; and Anchorage, Alaska; as well as other Trust properties in Fairbanks and Anchorage, Alaska. He states that also included is a review of previous years' budgets and forecasting of and anticipating operating expenses and capital budgets. He explains the established system in the Real Estate Management Plan. He states the expenditure budget is included as an exhibit and totals $4,774,400. He adds that TLO's recommendation is to adopt the recommendation before the committee.

A question-and-answer session ensues.

CHAIR NORENE asks Mr. Buckland to explain the need for this consultation in regard to just this aspect of the real estate plan.

MR. BUCKLAND replies that in prior years a comprehensive budget was set out that included a lot of detail and the revenue and the expenditures for the trustees to approve. He states that all the trustees were sent a budget that included the revenue and expenditure side. He continues that the TLO felt that it should be treated confidentially and is not in the public packet. He states that this is the presentation of the budget for the revenues and expenditures, and currently there is no process for the whole board or for the RMC to review the actual operating results on an investment-by-investment basis. He adds that there has not been any detailed presentation to the whole committee as to how the actual operating results line up with what was approved at this time a year ago.

MR. MORRISON draws the Trust's attention to the plan and the stated reporting mechanism in the plan, which is to include the results of these properties in the TLO yearly report. They are included on a property-by-property basis for an asset performance and return as a whole. He continues that they would be happy to show the level of detail the trustees would like to see. He adds that, to date, the plan is being followed.

A short discussion ensues.

TRUSTEE WEBB asks for an explanation of the linkage between the review and approval of the budgets and the audit issue.

MR. BUCKLAND explains that in the Finance Committee packet, on the agenda is a memo recommending that trustees begin to audit this portfolio, which is over $50 million in asset value. The equity is less because of the leverage. He continues that traditionally institutional investors audit their real estate holdings. There has been some discussion with the TLO, and they are of a different opinion on whether this should be audited or the level of audits or the number of audits. He states that if the trustees would like to begin to have an audit of this very material real estate investment balance, then it would seem appropriate that there be some provision going forward for there to be a budget to pay for those audits, or an estimated cost of those audits. He continues that, he believes, it is appropriate to include some provision in FY16 in going forward to finance the cost of those audits. If it is the trustees' desire to not audit those, then it would make sense not to budget any funds for them.

TRUSTEE WEBB asks if the real estate budgets were part of the budget approved back in September.

MR. BUCKLAND replies no.

MR. MORRISON states that part of the plan, in terms of these properties operating on a different cycle than the State budget process, it was agreed that this RMC meeting and the subsequent board meeting are the time frames that these budgets are handled coming into a fiscal year.

CHAIR NORENE asks for Mr. Morrison's opinion on the need for auditing.

MR. MORRISON states that he is not sure the level or type of audit that is being proposed. He explains that the TLO's statutory obligation as asset management is to oversee all the operations of the property and the property managers on a monthly basis.

The discussion continues.

TRUSTEE McCLELLAN comments that there has been a lot of talk about the number of audits and the costs involved. He suggests, as an alternative, to set a budget for audit that is comfortable to the trustees, the TLO and the Trust, and allow the CFO to determine how that budget is spent on the overall audits of the Real Estate Management Program.

CHAIR NORENE states that calling for audits on individual properties does not warrant the expense, at this point.

MR. MORRISON states that overlooked in this discussion is that these properties are wholly owned by the Trust and are under the umbrella of the current audit. He explains in greater detail and states that there is a good implementation of oversight authority and reporting to all interested parties.

MR. BUCKLAND corrects a misstatement on the overall audit. The $600 million portfolio, all the Trust assets as a whole are audited, but these LLCs or the real estate portfolio are not included. He recommends to essentially do the same level of work that the Alaska Permanent Fund Corporation sees fit to do for their real estate portfolio, to have each separate LLC financials audited on an annual basis. They are audited where there is a manager that manages multiple properties that are wholly owned. He continues, to package those and doing one audit, and then have individual statements in the back of the audit that has the balance sheet and income statement for each property. He explains in more detail.

The discussion continues.

TRUSTEE WEBB states that he understands Mr. Buckland's concerns and it is that the Trust is employing best practices to assure transparency and reducing "system risk"; risk that there may be some sort of failure in one of the properties that will be a huge black eye to both the real estate program and the Trust. He states that the goal is to assure with absolute certainty that the trustees are doing what needs to be done to assure that the assets are protected, the Beneficiaries are protected, and the responsibilities are met. He looks at where there may be potential risk and how to mitigate it. He asks how property managers are solicited.

MR. MORRISON replies that they are selected competitively.

TRUSTEE WEBB asks if they are bonded and insured.

MR. MORRISON nods.

TRUSTEE WEBB states that he is sympathetic to the issue about assuring Trust protection, but would rather take the income and plow it into the programs for the Beneficiaries. He continues that it is a balancing act, but resources that can be used for the programs will not be expended.

MR. MORRISON states that the TLO wants to provide whatever assurance the trustees deem necessary along the lines of what is being described.

MR. SMITH asks about the budget summary and for definitions of some of the terms.

An explanation and discussion ensues.

MR. BUCKLAND circles back to whether the manager was bonded and believes it not to be true. There are two managers managing the real estate portfolio for the Trust; Coldwell Banker and then the Trust Land Office has, under Trustee approval, acquired subsequent assets for investment purposes. He states and clarifies, for the record, that he does not believe that they are required to be bonded. He continues that Craig just found it, and he stands corrected on the bonding. They do require a $500,000 bond for the employees.

MR. MORRISON states that a belief was just stated and went back and forth, and here is some proof on what the TLO has in place.

CHAIR NORENE asks if any of the grantees are audited.

MR. BUCKLAND replies that the requirement for audits for grantees is that if they receive more than $500,000 in state assistance, a single audit is required. So, yes, they are audited. He continues that for those less than $500,000, there is no requirement for an audit.

MR. COOK asks about the audits for Fort Knox.

MR. MORRISON replies that the nature of the lease with Fort Knox is a net profits lease, which means it is kind of a full-service lease. They get the gold and sell it, deduct all of the necessary expenses, and then the Trust gets a percentage of what is left.

A short discussion ensues.

CHAIR NORENE states that what is before the committee is the approval of the expenses of the properties within the real estate plan.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends that the board of trustees concur with the recommendation to approve the incremental building expenditures totaling $4,774,400 budgeted for FY16 to be paid by the property manager from rents and other income collected from the properties.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

CHAIR NORENE, on recommending an audit or not, states that properly should go to the Finance Committee for the decision. He continues that the discussion was worthwhile at this time, but the vote will be deferred to the Finance Committee. He moves on to any updates.

UPDATE

MS. MENEFEE states that Paul Slenkamp will give an update on the land exchange.

MR. SLENKAMP states that he is senior resource manager for the Trust Land Office. He continues that last week there was an opportunity to get the feasibility analysis for the U.S. Forest Service/Alaska Mental Health Trust Land Exchange signed, which has been a long time in the making. He states that there are still considerable challenges ahead, but we have come quite a ways in the last six years. He adds that he will be happy to update some of the newer members and provide whatever detail level of information wanted. He states that the agreement to initiate is still being worked toward. He explains that a federal land exchange takes about 62 long steps; the National Environmental Policy Act being just one of those steps. He states that there is excellent support throughout the Congressional delegations. He continues that the challenge has been getting through some of the Forest Service retirements, and bringing new people up to speed.

CHAIR NORENE asks for any questions.

MR. SMITH asks about the PR profile in Southeast with regard to the proposed exchange.

MR. SLENKAMP replies that he continues to update communities and is very involved in Southeast Conference. He states that he is very active with the Forest Service and several different committees, panels, and has been pretty successful. He continues that there is very good community support. He states that the next challenge is putting together title commitments and addressing encumbrances, which are fairly extensive on this many parcels.

TRUSTEE EASLEY asks how many title issues there are.

MS. MENEFEE replies that there have been over 100 title exceptions identified by the title company.

CHAIR NORENE thanks Mr. Slenkamp. He asks for any other updates. There being none, he asks for any questions on the TLO monthly report.

TRUSTEE McCLELLAN states that several months ago he was asked by the Finance Committee to look into the reason why, on the monthly report from the TLO, the Real Estate Mangement Plan numbers do not jibe with the general performance measurements as put forth under the real estate category. He states that there is a simple explanation that alleviated his concern. The Real Estate Management Plan numbers, which are prepared by TLO, are actually prepared on a true accrual basis. A contract for monthly rent is put down in each month according to what it should be. That revenue is recognized every month. He continues that their adjustments are minimal, where the State makes a large adjustment at the end of the year. Even then, the numbers do not exactly match because they are two different offices making those adjustments and are using different assumptions when they do that. He adds that over the long term, it all comes out even, but the numbers never exactly match.

CHAIR NORENE asks for any other comments. There being none, he entertains a motion to adjourn.

TRUSTEE WEBB <u>makes a motion to adjourn.</u>

TRUSTEE MCCLELLAN <u>seconds.</u>

There being no objection, the motion is approved.

(Resource Management Committee adjourned at 2:34 p.m.)

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE

May 13, 2015

8:30 a.m.

Taken at:

Dena'ina Wellness Center
508 Upland Street
Kenai, Alaska 99611

OFFICIAL MINUTES

Trustees present:
Larry Norene, Chair
Mary Jane Michael
Paula Easley
John McClellan
Russ Webb
Laraine Derr
Carlton Smith

Trust staff present:
Jeff Jessee
Steve Williams
Miri Smith-Coolidge
Nancy Burke
Kevin Buckland
Valette Keller (via speakerphone)
Carrie Predeger (via speakerphone)
Carley Lawrence
Amanda Lofgren (via speakerphone)
Natasha Pineda (via speakerphone)
Mike Baldwin (via speakerphone
Luke Lind
Katie Baldwin-Johnson (via speakerphone)
Kat Roch (via speakerphone)

TLO staff present:
Marcie Menefee (via speakerphone)
John Morrison
Craig Driver
Sarah Morrison

Also participating:
Kathy Craft; Tawny Buck (via speakerphone); Rich Sanders; Melissa Stone.

PROCEEDINGS

CHAIR NORENE begins by reading the procedures for life and safety for the building. He calls the Resource Management Committee meeting of May 13, 2015, to order. He asks for any announcements. There being none, he states that there will be an executive session later in the agenda. He begins with the approvals, and recognizes John Morrison.

MR. MORRISON states that there are two approvals for this special RMC meeting. He continues that the first is an addition to the property budgets, specifically for the PRI properties. He adds that Craig Driver, asset manager, will make that presentation.

MR. DRIVER states that this is for approval for FY15 expenditures for three programmatic buildings: one in Anchorage operated by Assets, Inc.; another is in Fairbanks, occupied by Family Centered Services; and the third is in Fairbanks, planned for program-related purposes, currently vacant. He continues that the expenditures show a credit for the estimated year-end FY16 cash in two of the property accounts with a net amount needed of $144,200, which will be required at the beginning of FY16. He adds that it is the TLO's opinion that it is necessary to protect assets and meet the program needs sponsored by the Trust and recommends approval.

TRUSTEE DERR asks the reason for the different amount.

MR. DRIVER replies that it is a new fiscal year amount. He states that the different approval is because these are all programmatic-related buildings, as opposed to the investment-related.

TRUSTEE DERR asks if there was an approval for maintenance on these facilities.

MR. MORRISON replies that when these facilities were acquired there were projections, and a certain amount of money across the board was requested. Through the course of the year, substantially less was needed, and we only requested that amount. He states that, looking back on the motions made, they were not specific enough in terms of the business need for the money, and the money lapsed. He explains this more fully.

CHAIR NORENE asks about the prospects for the buildings.

MR. JESSEE replies that they are trying to keep one of them free because Senator Kelly is still expressing an interest in trying to put together a treatment program for pregnant women who are alcoholics. He adds that there are no immediate plans for the second building; and the third, Fahrenkamp, is currently occupied, but they are planning to move.

MR. DRIVER states that December 31, 2016, is the end of their lease.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends that the Alaska Mental Health Trust board of trustees approve an increase to the appropriation 15960-2016 from the facility maintenance account, AKSAS fund 34048, in the amount of $149,700.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends that the Alaska Mental Health Trust board of trustees instruct the CFO to transfer up to $114,200 to the third-party property manager, as requested by the TLO, for management of the facilities.

TRUSTEE MICHAEL seconds.

MR. BUCKLAND states, for clarification, out of the $305,000 that was previously approved to be taken from the facility maintenance account, $305,000 was moved to the checking account. He continues that, essentially, that cash has already been put out there. The facility maintenance account balance is right at about $105,000, and the trustees previously approved moving out that residual balance.

There being no objection, the motion is approved.

CHAIR NORENE states that the next item on the agenda is the Texas building acquisition. He asks if there are sensitive negotiation issues that need to be discussed in executive session.

MR. MORRISON replies that there may be questions that would be better answered in executive session.

CHAIR NORENE proposes moving into executive session at this time.

TRUSTEE WEBB makes a motion to move into executive session.

TRUSTEE McCLELLAN seconds.

There being no objection, the motion is approved.

(Executive session from 8:49 a.m. until 9:45 a.m.)

CHAIR NORENE calls the meeting back on record.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends the Alaska Mental Health Trust board of trustees authorize the Trust Land Office to form and fund a single-purpose entity owned in full by the Trust for the purpose of acquiring, owning and operating Texas building acquisition project No. 2015-109.

TRUSTEE EASLEY seconds.

There being no objection, the motion is approved.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends the Alaska Mental Health Trust board of trustees approve funding a newly formed LLC with principal from the Trust Authority Development Account, fund code 34045, to acquire Texas building acquisition project No. 2015-109 up to $7,075,000. This fund will include purchase price net of loan assumed and entity formation expenses, legal review, closing and due-diligence costs as necessary to complete the transaction, as presented.

TRUSTEE SMITH seconds.

There being no objection, the motion is approved.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends the Alaska Mental Health board of trustees authorize the TLO to complete the financing of Texas building acquisition project No. 2015-109.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends the Alaska Mental Health Trust board of trustees approve an increase to appropriation 15960-2016 from the facility maintenance account, AKSAS fund 34048, in the amount of $1,218,750.

TRUSTEE DERR seconds.

There being no objection, the motion is approved.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends the Alaska Mental Health Trust board of trustees delegate to the executive director of the TLO the authority to determine if it is necessary to modify or cancel this transaction.

TRUSTEE MICHAEL seconds.

MR. JESSEE states that his comment is to this last motion. He continues that all that it authorizes the executive director to do is to determine that a modification or cancellation is necessary. It does not authorize the executive director to do anything other than to modify or to cancel. He states that if the intent is to authorize the executive director to actually take action, it needs to be clear that is intended. He continues that the second issue is if the intent is to allow the executive director to modify or cancel, the modification term is without limits. Conceivably, the executive director can do anything he wanted to do without coming back to the board, including change the sale price, terms, et cetera.

MR. MORRISON states that the intention is to allow the executive director to modify or cancel the transaction if it is necessary. He feels that motion No. 2 sufficiently limits the ability to pay anymore for the transaction and, if possible, would like to pay less without further approval.

A discussion ensues.

TRUSTEE WEBB offers a friendly amendment.

TRUSTEE WEBB makes a motion to amend the motion to read: The Resource Management Committee recommends the Alaska Mental Health Trust board of trustees delegate to the executive director of the TLO the authority to modify this transaction, the Texas building acquisition project No. 2015-109, up to the authorized amount of $7,075,000, or to cancel the transaction.

TRUSTEE EASLEY objects because the executive director of the TLO already has the authority to make the decision and to do it in a timely manner. The motion is not necessary.

CHAIR NORENE notes the objection.

With one objection, the motion is approved.

CHAIR NORENE states that the next item is that the current executive director has turned in a letter stating her retirement date, and he recommends John Morrison as acting director.

TRUSTEE SMITH makes a motion that the Resource Management Committee should recommend to the board of trustees naming John Morrison as acting director.

TRUSTEE MICHAEL seconds.

TRUSTEE McCLELLAN clarifies that the Full board of trustees needs to vote on this.

There being no objection, the motion is approved.

CHAIR NORENE asks for anything further to come before the Resource Management Committee. There being none, he asks for a motion to adjourn.

TRUSTEE McCLELLAN makes a motion to adjourn.

TRUSTEE WEBB seconds.

There being no objection, the meeting is adjourned.

(Resource Management Committee adjourned at 10:00 a.m.)

2600 Cordova Street, Suite 100
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

Trust Land Office

To: Larry Norene, Chair
Resource Management Committee
From: Mike Franger
Date: 8/4/2015
Re: Negotiated O&G Lease - Doyon, Limited – MHT 9300097
Item A
Fiscal Year: 2016

Consultation

Proposed RMC Motion:

"The Resource Management Committee recommends that the Trust Authority board of trustees concur with the negotiated lease of Trust land near Nenana with Doyon, Limited for the exploration and development of oil and gas resources."

Background:

Revenue Projections:	**Principal**	**(Unknown)**
	Income	**(From $28,404 to $47,340 Per Year)**

Transaction/Resource: Negotiated lease of land for oil and gas exploration and development with Doyon, Limited. The primary term of the lease will be ten years. The proposed transaction is serialized as MHT 9300097.

Property Description/Acreage/MH Parcel(s): Various trust parcels within all or portions of sections 4-9, 17-21, and 28-32 of Township South, Range 8 West, Fairbanks Meridian, Alaska consisting of 9,468 acres, more or less.

General Background: Doyon, Limited (Doyon) has been an active explorer in the Nenana basin since 2004, and has built infrastructure and conducted seismic and drilling operations in the area during that timeframe. Doyon has leased the current area of interest from the Trust in the past, and has conducted both seismic and drilling operations on the tract before that lease expired. Recently acquired seismic information has again generated interest in this tract. In addition to its own land, Doyon also holds several state oil and gas leases in the vicinity.

Anticipated Revenues/Benefits: Revenue to the Trust includes an annual rental fee starting at $3/acre/year and escalating to $5/acre/year after the sixth lease year. Rental is a credit against the royalty due on production for that lease year. Any production that occurs will be subject to a 12.5 percent royalty.

Anticipated Risks/Concerns: No unusual risks or concerns associated with the proposal are anticipated. Risks typically associated with this type of activity are regulated by various state agencies and will also be governed by terms in the TLO oil and gas lease.

Project Costs: There are no unusual costs anticipated with the issuance and administration of the proposed lease.

Other Considerations: Doyon has been actively exploring this area for years, has accumulated substantial information about the oil and gas resources in the area, and has constructed necessary infrastructure to allow for continued exploration. The negotiated basis for the proposed transaction is justified because Doyon plans to continue drilling and acquiring seismic data on and adjacent to the proposed lease tract in the near term, and is in control of the adjacent acreage in the area.

Due Diligence: The leasing process and the lease terms are comparable to commercial terms for similar leases. TLO staff is familiar with the proposed lease area, having leased land here in the past.

Alternatives: (1) Offer the parcel competitively, which is not warranted given the applicant's experience and land position in the area; (2) do not offer the land for oil and gas development.

Consistency with the Resource Management Strategy: The proposal is consistent with the "Resource Management Strategy for Trust Land" (RMS), which was adopted January 2015 in consultation with the Trust and provides for the TLO to focus first on land or resources at the high end of market values ("best markets"). Doyon has been exploring this area for a number of years, primarily for natural gas, and, if successful, anticipates a ready market for the gas in the Fairbanks area. This demand constitutes an increased opportunity for the development of Trust oil and gas resources in this area, and therefore supports a "best markets" scenario for this resource. Further, the proposed action is a step toward generating potentially significant revenues from Trust resources in this area, consistent with a key Trust land management principle of encouraging a diversity of revenue generating uses of Trust land.

Trust Land Office Recommendation: Lease the described acreage on a negotiated basis to Doyon, as proposed.

Applicable Authority: Alaska Statutes 37.14.009(a) and 38.05.801; and 11 AAC 99.

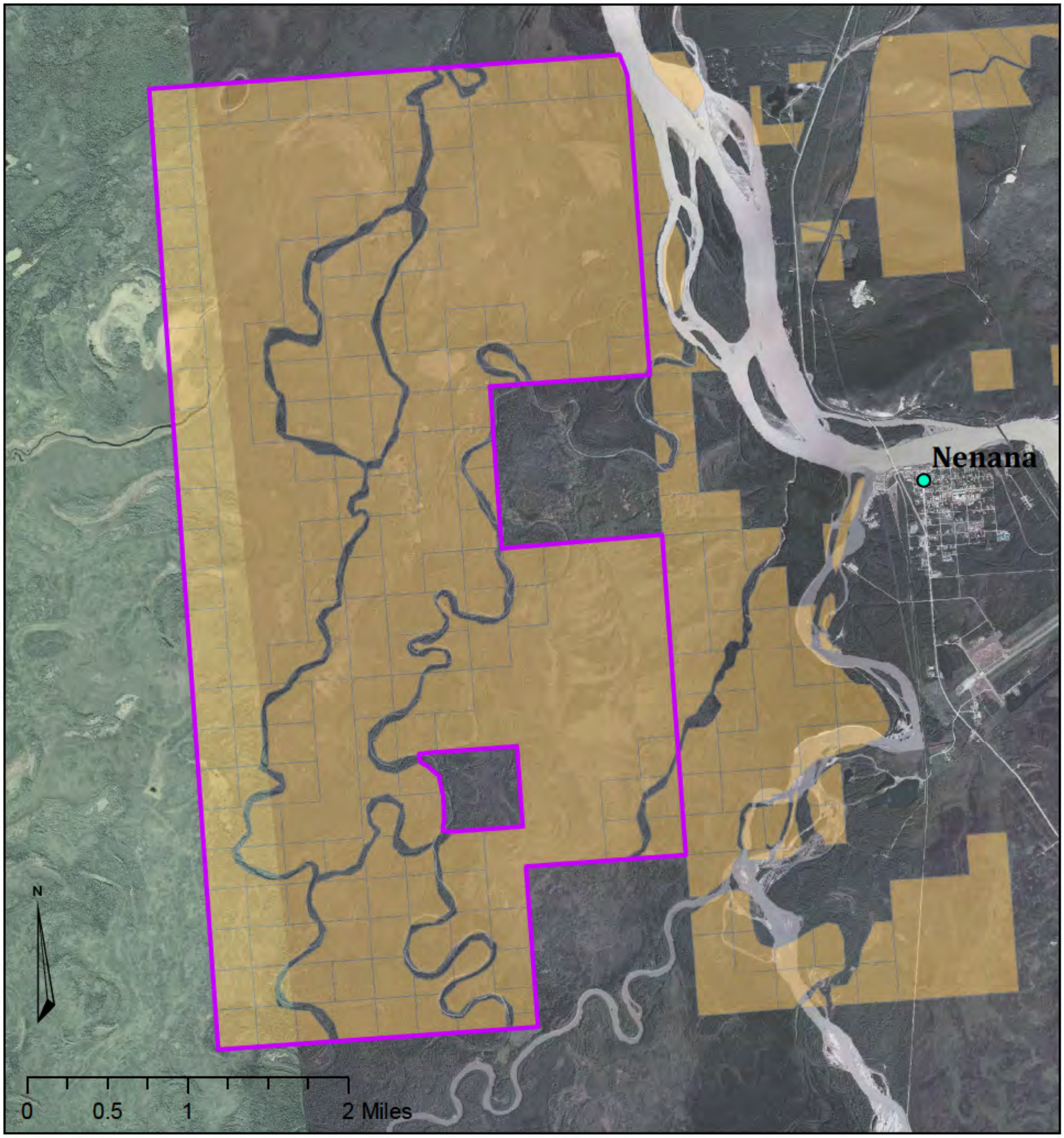
Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Schedule of Actions:

Resource Management Committee Consultation:	August 4, 2015
Full Board Consultation:	August 25, 2015
Complete Best Interest Decision:	August 27, 2015
Public Notice:	August 28, 2015

Exhibit(s):

Exhibit 1 – location map



Doyon Limited Oil & Gas Lease
MHT 9300097

MHT 9300097 Lease Boundary

Mental Health Trust Land

2600 Cordova Street, Suite 100
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To:	Larry Norene, Chair Resource Management Committee
From:	Sarah Morrison
Date:	8/4/2015
Re:	FY17 Operating Budget
Fiscal Year:	2016

Approval

Proposed RMC Motion:

"The Resource Management Committee recommends that the Trust Authority board of trustees approve the Trust Land Operating Budget for FY17 in the amount of $4,397,500."

Background:

Exhibit(s):
Exhibit 1 - FY17 Trust Land Office Budget Proposal

TRUST LAND OFFICE OPERATING BUDGET

FY17 Proposal

Expenditures	FY15 YTD 7-17-2015	FY16 Mgmt Plan	FY17 Proposal	16-17 %age
71000 Personal Services	2,408,426	2,705,100	2,783,800	2.91%
72000 Travel	87,882	143,700	143,000	-0.49%
73000 Services	1,058,638	1,417,100	1,414,700	-0.17%
74000 Supplies	53,106	56,000	56,000	0.00%
75000 Capital Outlay		-	-	0.00%
Total	**3,608,052**	**4,321,900**	**4,397,500**	1.75%

Revenue	FY15 YTD 6-30-15	FY16 Mgmt Plan	FY17 Proposal	16-17 %age
Principal	6,748,317	5,612,000	5,857,000	4.37%
Income	6,133,201	4,129,500	4,290,100	3.89%
Total	**12,881,518**	**9,741,500**	**10,147,100**	4.16%

FY17 TRUSTEE REQUEST:

$4,397,500

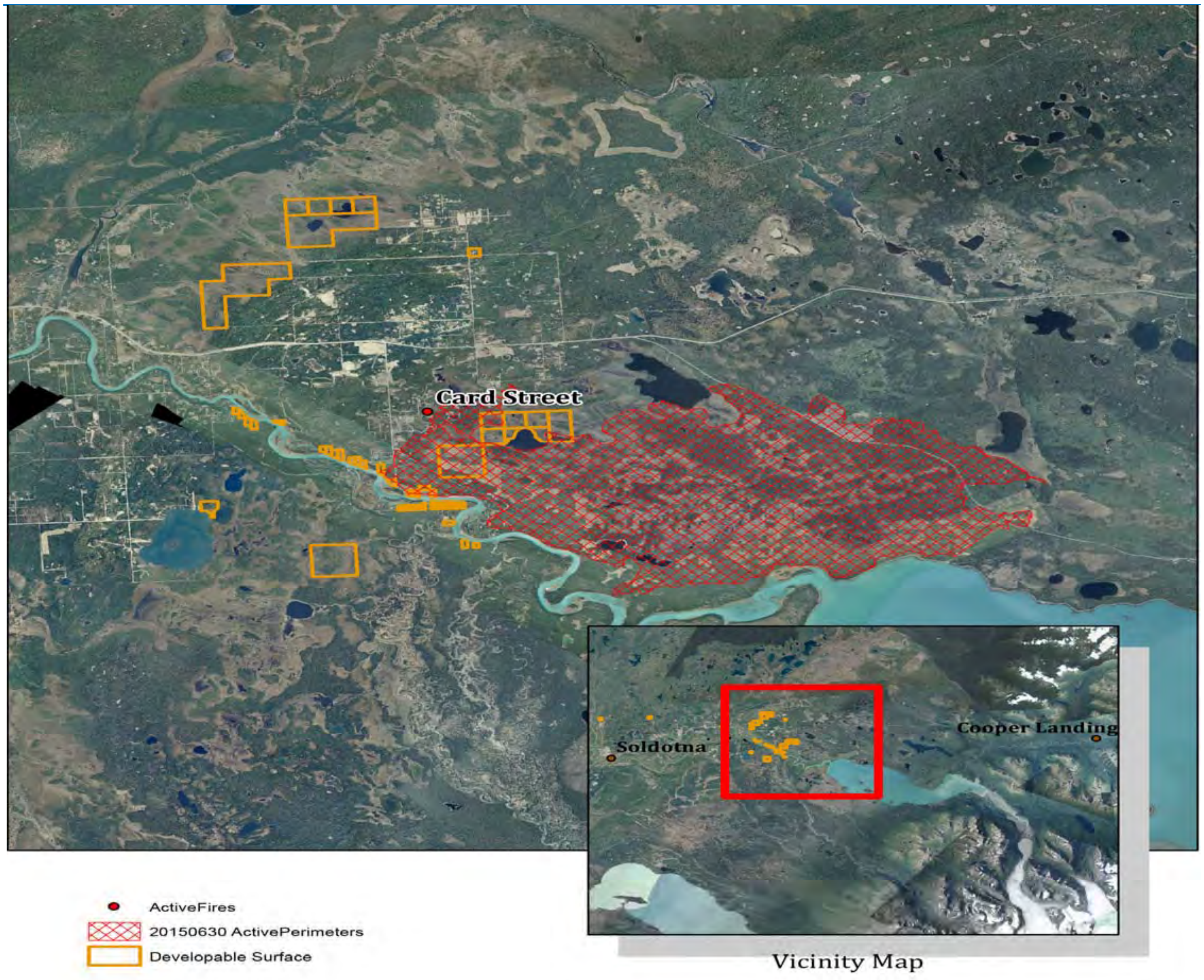
Personal Services*	
FY17 Merit Increase	54,900
FY17 Net Benefit Increase**	23,800
FY17 COLA	-
Total Increase	78,700

*Request is rounded.

**Benefit increases caused by merit and COLA were slightly offset by decreases in the budgeted salaries for several PCNs.

TLO Activities through June 30, 2015

100% of the Fiscal Year



Card Street Fire near Sterling burned 438 acres of Trust land

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

Highlights

- The TLO has reached 137% of the overall FY15 revenue goals (Principal 124%, Income 156%).

- Trust land appears to have been impacted by various wildfires throughout the state. The Card Street (Sterling area) and Sockeye (Willow area) fires burned 438 and 407 acres of Trust land, respectively. The Deep Creek fire at Lake Minchumina, caused by lightening, has burned approximately 2,742 acres of Trust land. The damage appears to be limited to areas of undeveloped land comprised mostly of muskeg, black spruce, willow, and birch. Inspections of the area will begin once the area is deemed safe by fire officials.

- The Agreement to Initiate (ATI) for the Trust Land Exchange (Exchange) has been signed. This marks the beginning of the formal exchange process. The next steps include appraisals, surveys, resource reporting, and National Environmental Policy Act (NEPA) procedures. Assuming the NEPA process can be accomplished in one year, the Exchange could be complete in three years.

- The 2015 Fall Land Sale will go live August 1st. Bids will be accepted from August 10th through October 2nd. Sale parcels will be advertised on multiple national websites.

- A combined field inspection for land and timber was conducted in Delta Junction and Fairbanks. The TLO is evaluating the market for timber on parcels of interest for potential subdivisions. Timber sale contracts may contain road construction requirements that could be incorporated into future subdivisions which would reduce site development costs to the Trust.

- Site inspections were completed for Rosalie Coal Mine in Healy, Ft. Knox, and a placer mining operation at Fairbanks Creek.

- The initial review of available information on heavy metal sands at Icy Bay has been completed. Additional sampling will be performed during a site visit in July.

- A sublease was approved for placer mining within an existing upland mining lease near Cleary Summit with Fairbanks Gold Mining Inc.

- The Promontory Point buildings in Austin, TX were financed and $10,000,000 of Principal was returned to the TADA.

June Revenue Notes

- Year-to-Date revenue as of June 30, 2015:

  - Principal: $6,748,317
  - Income: $6,133,201
  - Total: $12,881,518

- Revenue amounts for the month of June are not final year-end reporting for the fiscal year. Final fiscal year reporting is available after the reappropriation period ends on August 31th.

- Oil and Gas Income revenue is greater than anticipated due to several unanticipated events:
  - Liquidated damages payments from Buccaneer for $1,000 per day which ceased as of February 28th
  - Cook Inlet Energy paid a $300,000 lease extension fee.
  - The Kenai Loop allocation agreement entitled the TLO to roughly $720,000 of unbudgeted Income revenue.
  - Apache and Aurora paid a $250,000 fee per the termination requirements of their jointly held lease.

- Oil and Gas Principal revenue is ahead of estimates due to the settlement of the allocation agreement for Kenai Loop. Royalty payments have resumed and nearly $1.2 million of royalties held in escrow, pending the settlement, have been transferred to Principal revenue.

- Land Principal revenue is ahead of budget for the year. There were several negotiated sales from the prior fiscal year that were not completed until FY15. Additionally, an unexpected contract payoff of nearly $200,000 was received.

General Performance Measurements
As of June 30, 2015

1. Revenue Analysis:

Principal

	FY14 YTD	FY15 YTD	FY15 YTD Goal	(Under)/Over	FY15 Annual Goal	% of FY15 Annual Goal
Coal	-	-	-	-	-	-
Oil & Gas	1,332,989	2,046,147	1,848,000	198,147	1,848,000	111%
Minerals	3,311,883	2,107,446	2,000,000	107,446	2,000,000	105%
Materials	78,037	95,904	12,000	83,904	12,000	799%
Timber	571,123	709,742	382,500	327,242	382,500	186%
Land	1,170,988	1,789,078	1,200,000	589,078	1,200,000	149%
REMP	-	-	-	-	-	-
Real Estate	-	-	-	-	-	-
Total	$ 6,465,020	$ 6,748,317	$ 5,442,500	$ 1,305,817	$ 5,442,500	124%

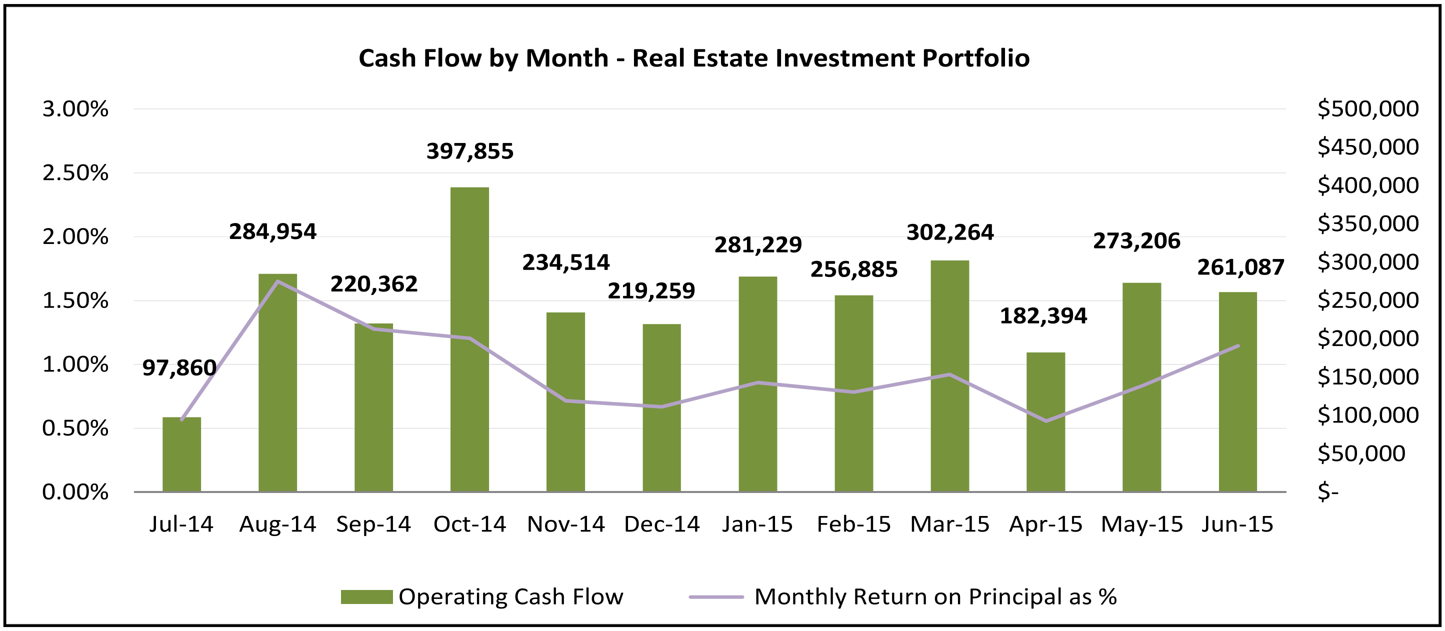
Income

	FY14 YTD	FY15 YTD	FY15 YTD Goal	(Under)/Over	FY15 Annual Goal	% of FY15 Annual Goal
Coal	244,953	209,953	151,200	58,753	151,200	139%
Oil & Gas	1,707,931	1,966,592	575,000	1,391,592	575,000	342%
Minerals	952,975	918,536	523,000	395,536	523,000	176%
Materials	-	-	-	-	-	-
Timber	100,786	125,249	67,500	57,749	67,500	186%
Land	1,563,466	914,003	845,000	69,003	845,000	108%
REMP	NA	1,076,102	1,000,000	76,102	1,000,000	108%
Real Estate	1,318,814	922,766	781,183	141,583	781,183	118%
Total	$ 5,888,925	$ 6,133,201	$ 3,942,883	$ 2,190,318	$ 3,942,883	156%

Total

	FY14 YTD	FY15 YTD	FY15 YTD Goal	(Under)/Over	FY15 Annual Goal	% of FY15 Annual Goal
Coal	244,953	209,953	151,200	58,753	151,200	139%
Oil & Gas	3,040,920	4,012,739	2,423,000	1,589,739	2,423,000	166%
Minerals	4,264,858	3,025,982	2,523,000	502,982	2,523,000	120%
Materials	78,037	95,904	12,000	83,904	12,000	799%
Timber	671,909	834,991	450,000	384,991	450,000	186%
Land	2,734,454	2,703,082	2,045,000	658,082	2,045,000	132%
REMP	NA	1,076,102	1,000,000	76,102	1,000,000	108%
Real Estate	1,318,814	922,766	781,183	141,583	781,183	118%
Total	$ 12,353,945	$ 12,881,518	$ 9,385,383	$ 3,496,135	$ 9,385,383	137%

Real Estate Management Plan Monthly Report



Portfolio Performance by Month

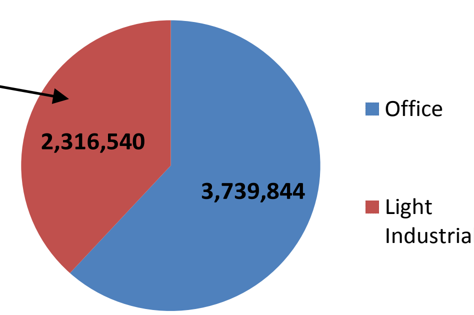
Month	Trust Principal Investment	Operating Cash Flow	Monthly Return on Principal as %	12 Month Trailing Return
Jul-14	17,248,744	97,860 [1]	0.57%	9.37%
Aug-14	17,248,744	284,954 [1]	1.65%	10.44%
Sep-14	17,248,744	220,362	1.28%	10.98%
Oct-14	33,048,844	397,855 [2]	1.20% [2]	11.41%
Nov-14	32,805,383	234,515 [3]	0.71%	11.68%
Dec-15	32,805,383	219,259 [4]	0.67%	10.92%
Jan-15	32,805,383	281,229 [4]	0.86%	11.35%
Feb-15	32,805,383	256,885	0.78%	11.85%
Mar-15	32,805,383	302,264	0.92%	11.47%
Apr-15	32,805,383	182,394 [5]	0.56%	11.50%
May-15	32,805,383	273,206	0.83%	10.93%
Jun-15	22,805,383 [6]	261,087	1.14%	11.18%
	12-Month Average	$ 250,989		
	12-Month Total	$3,011,869		
	Inception to Date	$6,056,384		

1) 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.
2) 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).
3) Cash flow is lower in November due to the annual property tax payment for the IRS Building (~$70,000).
4) A portion of December rents ($50,000) were paid in January. December cash flow was lower and January cash flow was higher.
5) Cash flow is lower in April due to a $92,000 real estate tax payment for 1111 Israel Road.
6) Trust Principal investment is lower in June due to the financing of the Promontory Point buildings.

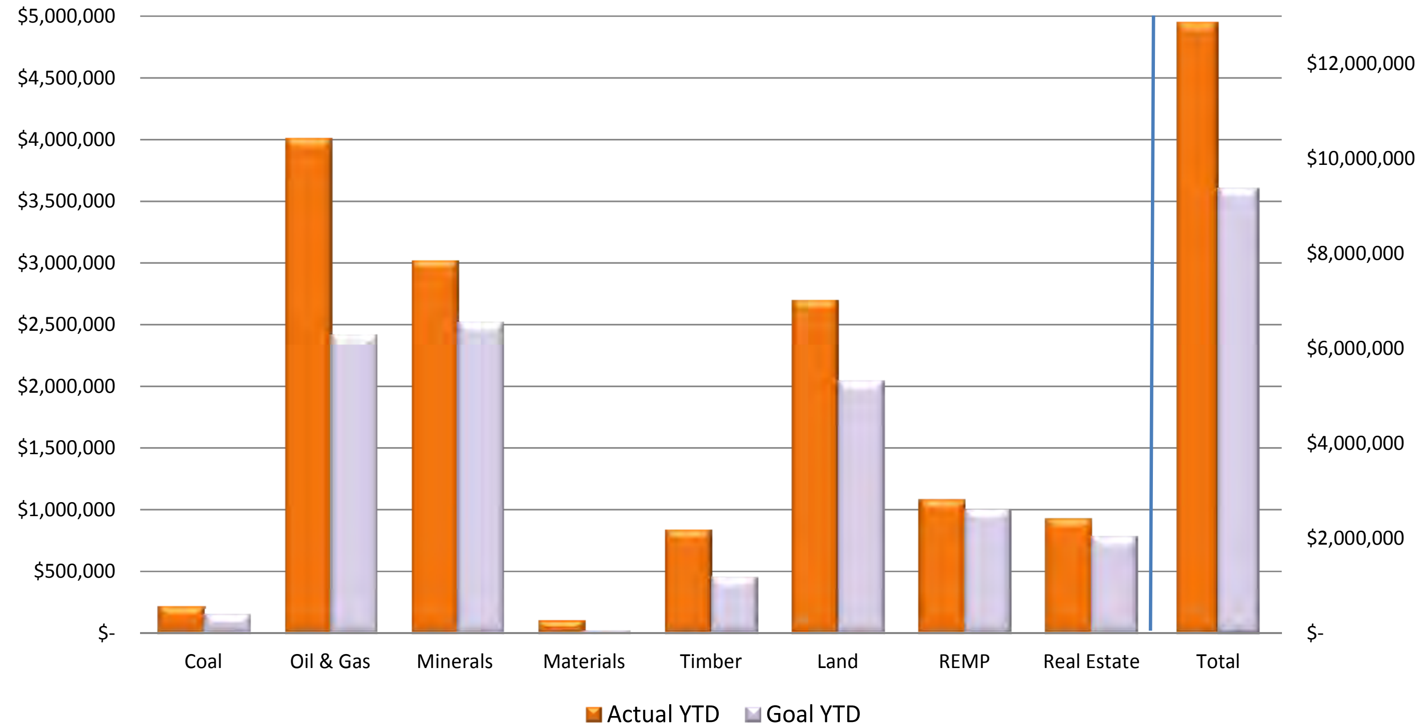
Portfolio Value

Asset Basis	53,181,850	
Asset Appreciation/(Depreciation)	321,736	
Current Asset Value	53,503,587	
Equity	24,526,976	45.84%
Debt	28,976,611	54.16%

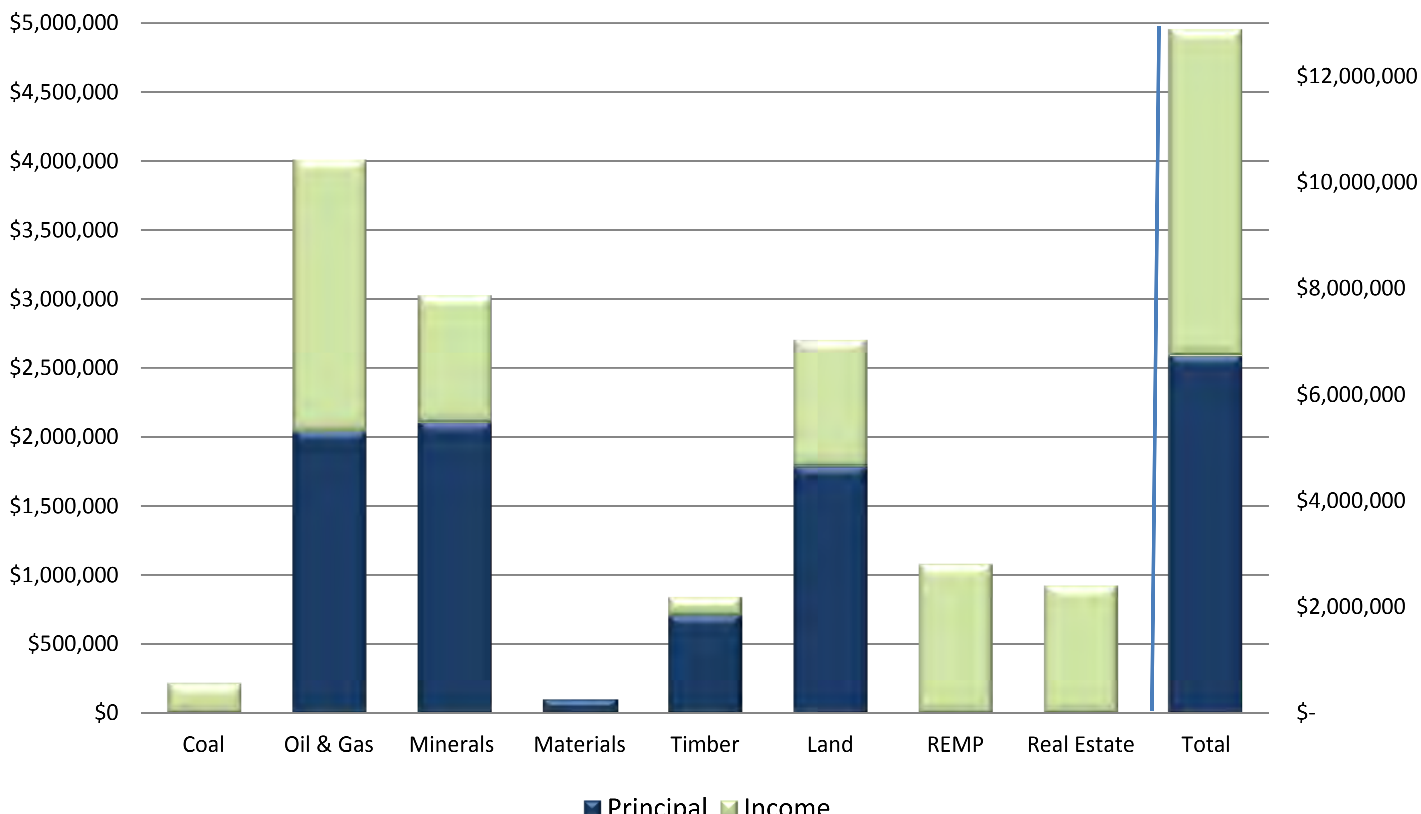
Cash Flow by Property Type Inception to Date



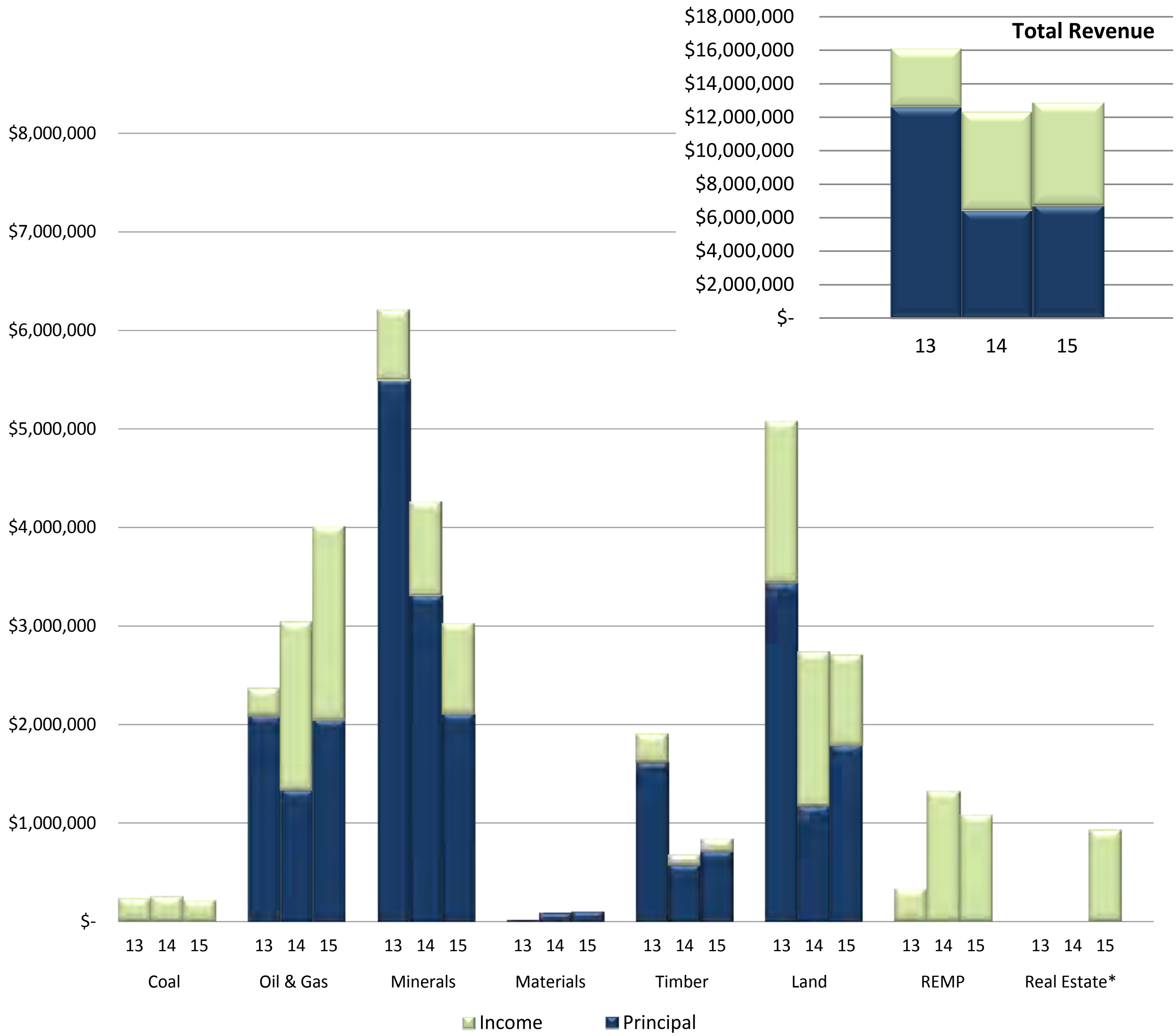
FY15 YTD Revenue vs. FY15 Revenue Goal
As of June 30, 2015



FY15 YTD Revenue - Principal and Income
As of June 30, 2015



Revenue as of June 2015
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 June 30, 2015

2. Operating Budget:

AR 37169	Original Appropriation	Line Item Transfer	Current Appropriation	Expended	Balance	% Expended
Personnel	2,664,400	(155,000)	2,509,400	2,408,426	100,974	96%
Travel	123,200	2,500	125,700	87,864	37,836	70%
Services	1,229,300	27,500	1,256,800	786,753	470,047	63%
Commodities	54,500	125,000	179,500	43,848	135,652	24%
Capital Outlay	-	-	-	-	-	NA
Total	$ 4,071,400	**-**	$ 4,071,400	$ 3,326,891	$ 744,509	82%

3. Capital Funds

	Budget	% Complete	Encumbered	Expended	Unobligated Balance	% Expended
Trust Land Exchange FY14-15	2,250,000	25%	143,315	36,341	2,070,344	2%
C2 Utility Extension	600,000	25%	52,490	16,907	530,603	3%
Yosemite Utility Extension	900,000	2%	37,261	-	862,739	0%
Total	$ 3,750,000		$ 233,066	$ 53,248	$ 3,463,686	1%