ALASKA MENTAL HEALTH TRUST AUTHORITY

RESOURCE MANAGEMENT COMMITTEE MEETING

August 2, 2018
3:15 p.m.

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

OFFICIAL MINUTES

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

Trust staff present:
Mike Abbott
Steve Williams
Miri Smith-Coolidge
Kelda Barstad
Andy Stemp
Luke Lind
Michael Baldwin
Carrie Predeger
Katie Baldwin-Johnson
Jimael Johnson
Valette Keller
Travis Welch
Autumn Vea

Trust Land Office present:
Wyn Menefee
Jusdi Doucet
Sarah Morrison
Bruce Buzby
Paul Slenkamp
Mike Franger
Becky Chandler
Katie Vachns
Jeff Green
Daniel Reynolds

Also participating: Kathy Craft; Brenda Moore; Pat Sidmore, Adam Rutherford; Denise Daniello; Patrick Reinhart; Allison Kulas; Kristin Vandagriff.

PROCEEDINGS

CHAIR SMITH states that the agenda is before all, and asks for any additions or corrections.

TRUSTEE DERR makes a motion to approve the agenda.

TRUSTEE BOERNER seconds

There being no objection, the motion is approved.

CHAIR SMITH asks for any ethics disclosures. There being none, he moves to the minutes of April 19, 2018.

TRUSTEE DERR makes a motion to approve the minutes of April 19, 2018.

TRUSTEE COOKE seconds.

There being no objection, the motion is approved.

TRUSTEE COOKE states that he has a question about something that is in the minutes. He adds that it is a request for information. He continues that it was mentioned at the last meeting about the lease renewal negotiations for the IRS. That lease was up for renewal this year. He asks for an update, or if it is part of the executive director’s report.

MR. MENEFEE replies that he will include it.

EXECUTIVE DIRECTOR REPORT

MR. MENEFEE states that they have been working with DOT on trying to finish the Fairbanks Department of Military and Veterans Affairs cemetery site. He continues that several meetings were held with the commissioners of DNR and DOT to resolve an issue about the mineral estate which was not included in the original sale, because the Veteran’s Administration is saying they had to have a few samples in order to grant money for the cemetery. He states that the price has been agreed to, and it is a matter of issuing a new best-decision for the mineral estate. That should be out this week. He moves to the Urban Lands Institute exercise for the Juneau Subport which was just approved by the Commissioner on the procurement contract. He adds that should be ready to go out by the end of the week. That is still planned for September in Juneau. He states that negotiations with the IRS lease have gone back and forth, and a final and best offer was put in. Everything appears to be on track for them to accept that, as soon as they get the paperwork done. He adds that more details will be available as soon as the contract is in hand. He moves to the Fahrenkamp parking lot, and states that the construction will start next week on building that. He states that work on the Department of Defense land exchange is being done, and a lease has been drafted which is being reviewed. He continues that Greg Jones was hired to
assist in the evaluation of that commercial transaction with Fischer Properties in Fairbanks. He adds that all has to be finished in the negotiations before starting to look at legislation to move forward and Congress to approve an exchange there. He moves to the U.S. Forest Services land exchange. He states that there have been some issues about the appraisal, which was received very late in the game. He continues that a mistake was found in the appraisal which went back, was corrected, and the federal appraisal reissued. Staff is now intensely reviewing that appraisal. He adds, that will not be brought forward because of the need to make sure that all are in agreement with the Forest Service. He explains the trespass issue and has met with the Forest Service to resolve some of the issues. There may have been a house built across the edge. He adds that it is not just Trust lands, the Forest Service also has developments that need to be figured out. He moves on to Icy Cape, which he visited for the first time. He states that it was a very worthwhile visit to see the timber operations, mining exploration operations. Things are going very well out there. He continues that the drilling for the year has been completed. The drill rig will be going out on the barge. A lot of samples have been processed and will also be shipped out. He explains that the mining project is getting wrapped up. The Icy Cape timber project is still ongoing, and the first ship is coming out soon to pick up timber. He adds that they are working with the Department of Law because someone was trespassing on Icy Cape; doing commercial hunting without authorization and were illegally hunting. He continues that, in this case, it will be very good to get a good prosecution on that because it get the word out to not trespass on Trust land without authorization. He adds that there are oral arguments set for October 23 and 25 regarding the lawsuit about No Name Bay. It takes a long time to go through the process. He states that Constantine and Haines will be visited next week, and they are still advocating for the Trust to buy out the federal claims there. He adds that this is his first time to actually go out and look at the drill sites. Mike Franger will also be going down to look at the permitting. There is a placer mining operation, Buckeye, in North Fairbanks going active and at Fort Knox, the expansion, called Gilmore Prospect, added extra land. This will extend the life of the mine and extend the amount of income received. He continues that staff met with the auditor and received a prelook before the final balances. He moves to advertising and notes that the Alaska magazine that is seen on planes has a couple of ads and there has been a lot of interest and inquiries about the land. He adds that the land sale bids will go active in September and will close in October; that is when the bids are opened. He continues that newly added will be notifications to the public about the leasing potential of Trust lands. This will make people more aware of leasing, which may bring in more income. He notes that some of the parcels are good for recreational leasing or recreational business leasing, for example. Davis Wright Tremaine has been chosen for the long-term contract for legal services, who has been worked with in the past. He states that the AOGCC, Oil and Gas Conservation Commission, has given a notice of violation about the gas well in Willow, about plugging and abandoning it. There was a meeting, and they were told that there were several reasons for not doing that. One was that we were trying to actively lease that. There will be a consultation that will be discussed shortly. He asks for any questions.

TRUSTEE DERR asks if there is anything more about the Village of Tyonek and the historical designation.

MR. MENEFEE replies that the State Historic Preservation Officer sent a recommendation back to the keeper of the historic register that the nomination does not meet criteria. There were problems under certain conditions, and she said she could not sign because she did not agree with it. She actually said that it should be reduced in size, which had been recommended with
the Corps and the Trust. He adds that it is being turned back over to the State to work with the applicants and see if it can be brought back into shape to make it worthwhile to do. Judy Bittner, head of SHPO, will work with the applicant and see if a new application can be done that solves the concerns. It will then be dealt with.

TRUSTEE EASLEY asks if the trustees will have an opportunity to respond on the designation when it comes back through Ms. Bittner.

MR. MENEFEE replies that, if there is a new consideration, it will have to go through the Historical Commission again and we will be able to provide comments. Then, the Alaska Historical Commission will make a recommendation again.

TRUSTEE COOKE comments that Icy Cape and the drilling has wrapped up, and then asks if the results of last year’s drilling has been received.

MR. MENEFEE replies that those results will be available later this fall. He explains that that will be brought forth in a confidential executive session. He concludes his report.

CHAIR SMITH states that next is the consultation, and begins with the motion.

CHAIR SMITH makes a motion that the Resource Management Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees concur with the negotiated lease of Tract 29 for exploration and development of Trust natural gas resources, as proposed.

TRUSTEE MICHAEL seconds.

MR. MENEFEE asks Mike Franger to go through the consultation.

MR. FRANGER states that this is a proposal to negotiate a lease with an entity called KI Energy JV for oil and gas lease Tract 29 which consists of a little over 6200 acres of land in the Susitna Valley north of Horseshoe Lake. He continues that the potential benefits to the Trust would be the annual rentals of $10 per acre. The primary lease term is ten years. He adds that after the eighth year of the lease, there is an escalation clause on the rental payments, if the lease is not being diligently developed. Any commercial production from the well would be subject to a 15-percent royalty payment. He states that other features or requirements of this lease will be that the lessee will be required to provide a bond within 30 days of lease issuance to provide for the plugging and abandoning of the well in the event it is not commercial. He goes through some of the background of Tract 29. He adds that another benefit is that this entity, KI Energy, is willing to test both conventional and unconventional resources in the well. In fact, they are more oriented toward the unconventional gas resources. He continues that they are interested in the well because they are involved with a proposal to construct an LNG facility in the area in close proximity to the railroad with hopes of supplying gas for the Interior Gas Project, as well as other markets in the Cook Inlet area. He adds that the tract has been available since 2015 with no credible interest up until now. He would like to negotiate a lease with this entity and get the resource tested and into development. He asks for any questions.

TRUSTEE COOKE states that his first question is that looking at the map the oil and gas lease tract area looks like it is beyond the boundaries of the Trust land.
MR. FRANGER replies that it is a scattering, and when these lease tracts were established, in general, there are about 57 tracts designated around the Cook Inlet area; and this was a way of designating tracts for leasing purposes. He states that the boundaries do include other land, but only the Trust land can be leased by the Trust.

TRUSTEE COOKE states that his second question is about the well that was drilled and never tested; someone else came out to look at it and did not test it. He asks if it would be feasible for the Trust to test it and if that would enhance the lease value potentially.

MR. FRANGER replies that it is pretty expensive to do. It requires a drill rig and the Trust is better off getting an outfit that is willing to come in there that has experience in testing.

TRUSTEE COOKE adds if they will agree to clean up after they are done.

MR. FRANGER replies positively.

CHAIR SMITH states that the motion has been made and seconded, and asks for any objections.

There being no objection, the motion is approved.

MR. MENEFEE takes a few minutes to introduce the new admin assistant at the TLO, Daniel Reynolds. He has some experience working in the private real estate field and excels in customer service.

CHAIR SMITH states the next item is the Department of Defense Exchange Overview.

DEPARTMENT OF DEFENSE EXCHANGE OVERVIEW

MR. MENEFEE states that this is not a consultation, just information to help understand the parts being worked on. He asks Bruce Buzby to go through some background.

MR. BUZBY states that he is the TLO’s northern regional land manager and appreciates the opportunity to present this operational briefing on the proposed land exchange in the Fairbanks area. He states that North Star Alaska Housing Corporation approached the TLO in February of this year with a proposal to enter into a land exchange with the Federal Government for lands in the Birchwood Homes Development near Fort Wainwright in exchange for a 288-acre Trust tract located on the eastern boundary of the base. He states that the current lease between North Star and the U.S. Army expires in 2024, and North Star will be required to restore the land to its original condition. This includes removal of all utilities, roads, and infrastructure. They have indicated that these conditions are a critical barrier to the property’s maintenance and long-term viability. He continues that, concurrently, other agents working on behalf of Fort Wainwright and Fort Richardson have separately approached the TLO in acquiring some Trust land to reduce potential development near the bases that may impact their operational effectiveness, training and readiness missions. He explains that typically what they see is as urban development encroaches on base boundaries, public pressure is often applied to the base commanders to modify or curtail operations. In some cases that leads to base closures. He states that they took a look at evaluating the broader perspective. He continues that 262 Trust parcels have been
identified that are adjacent to military installations, of which 51 parcels may be of particular interest to base commanders; and an additional seventh parcel could potentially be developed to support military operations. He explains that the purpose of this land exchange would be for the TLO to secure the land under the Birchwood Homes for long-term income generation, remove those critical barriers to North Star’s ability to maintain the long-term ability of the housing improvements, and for the U.S. Army to reduce the impacts of development activities that may impede or interfere with the training missions. This would be an equal-value land exchange that is mutually acceptable land selections and appraisal processes. He states that the secondary objective is to include lands potentially in the Fort Rich, Fort Greely, Eielson Air Force bases where there is potential land swap or development with the Trust or DOT. He continues his slide presentation, showing the locations and the lands affected. He states that Birchwood Homes is comprised of 400 units of rental housing, a maintenance leasing facility, associated utilities, roads, parking areas, playgrounds and a central heating system. He adds that, at the time of construction, the best available design construction methods for Arctic conditions were used. During the first 20 years, the U.S. Army leased the housing from North Star under the 801 program for housing military families stationed at Fort Wainwright. He continues that, since 2007, North Star has operated its housing exclusively as a private business, open to the general public but also continuing to serve the military families in the area. He adds that the monthly rental rates for these units range between $1800 to $2400, and the estimated replacement value of the 400 units and ancillary facilities is approximately $100 million. He states that Birchwood Homes is counted as an important component of the available rental housing in the Fairbanks area, and will continue to be a critical resource into the future. He states that the military is interested in the Trust land, and through a joint land-use study, the U.S. Army identified priority lands along the boundary of Fort Wainwright for acquisition as an essential long-term solution to ensure that they are successful and for the success of their missions. He continues that other studies that have been performed in the Anchorage area, also through the joint land use of planning, identified priority lands along the boundary of JBER, including several Trust parcels. He points out a couple of different features and then moves on, explaining all in greater detail. He states that these options are still in the evaluation process because of still being in the plenary stages. There is a need to meet with base managers to discuss their parcels, as well as the Trust parcels that they are interested in exchanging, or that could be addressed from some other mechanism or program. He states that there is a link to a virtual tour on this that can play in the background or can be reviewed at your leisure.

TRUSTEE MICHAEL asks how many acres are in the residential portion that is being contemplated.

MR. BUZBY replies 76 acres.

TRUSTEE COOKE states that this is a new kind of transaction for him, and he gets the land exchange part. He continues that as far as the ground lease or ownership of that, what is the length of the lease.

MR. BUZBY replies that the current lease that North Star Alaska Housing Corporation has with the U.S. Army is set to expire in 2024, and the military has indicated that they will not do an extension on that lease. North Star’s interest is entirely to get the land out from underneath the military reservation into some other entity that they could then spend capital on to continue the project.
MR. MENEFEE follows up on the question and adds that the TLO is looking at a 30-year lease, because that will give enough longevity for North Star to be able to invest in upgrading their housing and amortize out that investment, which is what they are looking for. He states that there may be terms beyond that which will be worked out.

TRUSTEE COOKE asks about the risk of incurring some liability based on the Trust ownership of the land.

MR. MENEFEE replies that it was considered before doing an exchange to creating an LLC on these properties. There is nonrecourse to the Trust. When the site was first developed, there were studies done and there appear to be no hazards. There is a heating system there which has diesel tanks buried. The Trust would have an obligation to do appropriate investigation on that. He adds, that is very important on how the lease is written.

TRUSTEE COOKE asks about the nature of this land, is it permafrost or is it in a floodplain.

MR. MENEFEE replies that he is not sure of the floodplain. He states that the permafrost issue is that these are not on stilts. He adds that Fairbanks is known for permafrost, but these have been there for quite some time and are not heaving because of the way they are built.

MR. BUZBY believes that the ground that will be acquired, the 76 acres, a very good ground for building.

TRUSTEE COOKE asks about flooding.

MR. MENEFEE replies that the Chena River is in the area, and in all the floods they had, this has never been flooded.

TRUSTEE COOKE asks that in the course of developing this proposal that the floodplain maps and environmental hazards be looked at.

MR. MENEFEE replies that they will be hiring certain people to do some of the due diligence and some due diligence will be done by staff. He states that all of that has to be vetted out thoroughly. He adds that this is a long process.

CHAIR SMITH asks for any further questions. There being none, he moves to the management overview of the timber sale contract.

MR. MENEFEE states that there will be timber sales, managing the timber sales, and brings the trustees up to speed on some of the terminology. He asks Paul Slenkamp to go through that as a little refresher on timber management.

MR. SLENKAMP states that he is senior resource manager from the Trust Land Office and runs the Forestry Program. He begins his slide presentation talking about the 130,000 acres of timber land from Fairbanks to Ketchikan that is managed by the Trust. He states that the timberlands have to be identified, access to it has to be provided, it has to be harvested, transported to market, and the value of that commodity must exceed those costs. He continues that the leftover is
referred to as stumpage, which is the money that would actually be paid to the Trust for that timber. He moves to the Division of Forestry, which has an active inventory program with state lands that they manage their timberland. There is also an inventory forester that has an ongoing inventory program. They did an inventory on about 110,000 acres of Trust lands that are adjacent to the Tanana State Forest in that area. He states that they also worked together developing some of the inventory in the Tyonek area in Southcentral and inventory at Icy Bay. He continues that the predominant purpose of the Forest Practices Act is to protect water quality and anadromous fish habitat. He adds that most of the best management practices that are implemented under that Act are to provide guidelines that allow the development of lands under the Clean Water Act. There are several federal regulatory regulations that are mitigated and applied within the state by the state agency, particularly Division of Forestry. He talks about the timber sale program which, since the inception of the Trust Land Office in about 1994, is approaching $50 million in revenue. He states that it is important to keep the board members and the public aware that several different studies are being done through some of the timber sales on the protection of the fish and the habitat. He then goes through the timber vocabulary, explaining as he goes along.

CHAIR SMITH asks, for illustrative purposes, to explain how a scaler will value a log, how he will measure it and give it a value.

MR. SLENKAMP states that are all sorts of species are in the forest: red cedar, yellow cedar, hemlock, and spruce. Spruce is still a high-valued log and could possibly fall under a piano grade. He explains that piano grade has over 20 rings to the inch and can barely be seen. There are no knots to it and is a straight vertical ring. He explains how a log scaler measures to determine how many board feet will come out of any log. He adds that he was a log scaler for a dozen years, and moves on to explain how the stumpage is the revenue that is paid to the land owner. He describes and explains rafting, stevedoring, and goes through the different ways to move the timber to market. He states that silviculture is the science of growing trees and explains how it is used in determining how to thin the lands. He continues his presentation, explaining the timbering process in greater detail. He states that there are three active timber sales and three active operators and talks about two of them: Icy Bay, with anticipation of 50 to 60 million board feet that will give a revenue of approximately $6.6 million; Kasaan timber sale originally sold in 2013 which will be completed this fall with an anticipated 4 million feet and about $500,000 revenue.

CHAIR SMITH asks him to share the locations for Kasaan and Naukati.

MR. SLENKAMP replies that Kasaan and Naukati are both on Prince of Wales Island and are both on the road system. He states that Kasaan is located just south of Thorne Bay.

CHAIR SMITH asks for any questions. He thanks Mr. Slenkamp for putting that together, adding that it is greatly appreciated.

TRUSTEE BOERNER states appreciation for the presentation. She continues that it is definitely an education and appreciates all the work putting this together and helping her understand it.

TRUSTEE COOKE observes that before the Trust realizes any income or royalties from timber sales, there is a huge amount of work that goes into all the steps and processes. He asks if there
is some way to get an opinion or clarification that the money that comes in from royalties and income is not just profit. The developmental costs, and all expenses have to be accounted for.

MR. MENEFEE replies that there is a lot of effort and costs and some aspects are tracked to pay a certain project. He states that it is traced pretty closely, but not to the detail of all costs.

A brief discussion ensues.

CHAIR SMITH asks if there are any further questions or comments. There being none, he asks for anything else to come before the committee. Hearing none, he asks for a motion to adjourn.

TRUSTEE DERR makes a motion to adjourn the meeting.

TRUSTEE COOKE seconds.

There being no objection, the motion is approved.

(Resource Management Committee meeting adjourned at 4:40 p.m.)