



To: Carlton Smith, Chair
Resource Management Committee
From: Paul Slenkamp
Date: 10/12/2016
Re: K-3 Timber Sale MHT 9100854 – Item II
Fiscal Year: 2017

Consultation

Proposed RMC Motion:

"The Resource Management Committee recommends that, at its November 17, 2016 board meeting or as soon thereafter as possible, the Alaska Mental Health Trust Authority board of trustees reconsider this consultation and advise whether or not it concurs with the proposed disposal of timber on Trust land near Ketchikan, through a negotiated sale sometime after January 15, 2017, unless by that time legislation is enacted by Congress directing the Secretary of Agriculture to exchange with the Trust identified and approved National Forest land that is equal in value to the subject parcel."

Background:

Revenue Projections: **Principal \$ 1,785,000 (up to)**
 Income \$ 335,000 (up to)

Transaction/Resource: The Trust Land office (TLO) will offer approximately ten million board feet (10,000 MBF) of timber on approximately 898 acres of Trust land through a negotiated sale.

Property Description/Acreage/MH Parcel(s): Twn. 75S, Rng. 91E portions of sections 27, 28, 29, 32, 33, 34 and 3, containing 895 acres more or less, Parcel CRM-3158-01 and Twn. 75S, Rng. 91E portions 29, containing 5 acres more or less, Parcel CRM-5086.

General Background: The TLO has engaged in the sale of timber as a major contributor to its traditional revenue portfolio. The proposed timber sale will dispose of commercially viable timber on Trust lands located near the community of Ketchikan, Alaska. The proposed sale is composed of lands near the community that have high visibility from the community and have a highly used public trail. Deer Mountain trail transects the western portion of the parcel with the peak of Deer Mountain comprising the NW corner. The remainder of the parcel is visible from the Tongass Narrows which is utilized by cruise ships and the Alaska Marine Highway. The parcel was included in a three-parcel land sale with the USFS in 2002. Two parcels (Petersburg Creek and Mt. Vestovia) were sold. This parcel was dropped by the congressional delegation for purchase consideration at the request of the Alaska Forest Association. Because of some of the challenges of these previous sales, the TLO elected to pursue a land exchange with the USFS and this parcel is included in the proposed AMHT Land

Exchange. After 10 years of diligent effort the TLO has determined that entering the NEPA process as required by the federal administrative land exchange process will require expenditure of at least \$3 million and require a minimum of five years to complete. It is also apparent that the likelihood of litigation is high, resulting in a further increase in time and expense to complete the administrative land exchange. In recent years, the USFS has significantly reduced its timber offerings and has announced a transition to young growth harvest only on the Tongass National Forest which will further decrease the availability of timber to the remaining industry in SE Alaska. The TLO is concerned that the expense and timeline of the exchange and the degradation of the existing industry will further erode the value of this timber asset.

S.3006, the Alaska Mental Health Land Exchange Act of 2016, was introduced by Senator Murkowski in May of 2016. This bill currently directs the USFS to complete the land exchange in 12 months. The bill in its current form is being opposed by several groups, but negotiations are underway to address those concerns. If S.3006 is not successfully passed this year in Congress, it is the TLO's recommendation to begin cutting timber on some of the Trust parcels identified to be exchanged to begin to make what revenue it can from the Trust's remaining SE Alaska Timber Assets while a viable timber industry in SE Alaska continues to exist. Timber industry representatives (other than Sealaska Timber Corporation) have publicized that their companies will be forced to close down operations in SE Alaska if insufficient timber is supplied in the next 2-3 years. Analysis have shown that it is critical to bring Trust timber to market within the 2 to 3-year time frame because of the lack of timber supply from the USFS, University, and State timber sales.

This timber sale may be predominantly a helicopter sale because of location, but some may be cut utilizing conventional harvest methods. The harvest will likely occur in more than one year. Harvest methodology will follow all existing and applicable statutes.

Anticipated Revenues/Benefits:

1. The timber sale will generate approximately \$2,120,000 in revenue in FY17 & FY18.
2. Some local jobs may be created related to the sale.
3. Harvest of timber will maximize revenue while providing for timber regeneration and future timber harvests.
4. This timber sale will be a key contributor, providing enough timber to keep some of the remaining timber harvest businesses operating in Southeast Alaska for a period of time during USFS transitions to young growth, a key to keeping other Trust forest assets marketable in the future.

Anticipated Risks/Concerns: There is some anticipated public concern associated with the proximity of the sale area to the community of Ketchikan. This sale will be associated with parcels in the AMHT/USFS land exchange and will be strongly opposed by the community because of their desire to see the land transferred to the USFS without being cut; however, the TLO has a sole loyalty obligation to the Trust rather than the public interest at large. Though the harvest is directly in line with its loyalty to the Trust, it does not diminish that there will be public concerns about viewsheds, potential landslides, blowdown, and other harvest-related issues.

Project Costs: Costs will be low and be primarily staff time. Timber cruise and other data collection was done for the prior sale and is still valid.

Other Considerations: Over the past several years the timber industry in Southeast Alaska (its infrastructure and harvest levels) has changed dramatically. There are fewer operators, timber owners, purchasers, and markets as in the past. The cost of timber operations has increased while market values have fluctuated both higher and lower depending on species and quality. A positive aspect is that demands for lower timber grades/sorts have increased due to the China market. The higher grade Spruce and Hemlock have both seen significant declines in demand while prices have fluctuated, but have not reached historic highs. There is concern that markets will continue the trend toward alternate products. Lastly, the cost of helicopter harvest necessary for this sale continues to increase. It is, therefore, prudent for the Trust to harvest the identified parcel as soon as possible.

Due Diligence: TLO staff members have visited the project area and conducted sale layout and timber cruises. On-going field inspections and financial tracking will be conducted by TLO staff during the timber sale.

Alternatives:

Do Nothing: This alternative assumes that timber values will not be maximized by harvesting at this time. Timber is a commodity and 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. Not supplying timber at this time may create a situation in the future where there are no timber companies operating in Southeast Alaska in the future, making it impossible to make revenue from Trust timber assets.

Alternate Development: Due to the character and location, the parcel does not lend itself to other development opportunities that would produce a return to the Trust comparable to a commercial timber harvest.

Proposed Alternative: This alternative will provide the Trust with revenue. The harvest should not adversely impact other future development.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land”, which was adopted January, 2016 in consultation with the Trust which allows the TLO to focus first on land or resources at the high end of the market values (“best markets”). Given the current market values of timber, the prospective lands affected by this decision are in a “best market” situation and should be offered now rather than later.

Trust Land Office Recommendation: Proceed with the competitive K-3 Timber Sale on Parcels CRM-3158-01 and CRM-5086, if S. 3006 does not pass during this session of Congress.

Applicable Authority: This briefing document fulfills the consultation requirements that are applicable to the transaction under 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.

Exhibit(s):

Exhibit 1 - Timber Sale Map