

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE MEETING

June 25, 2014

10:00 a.m.

Taken at:

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

Trustees Present:

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

Trust Staff Present:

Jeff Jessee
Steve Williams
Nancy Burke
Valette Keller
Carrie Predeger
Natasha Pineda
Kevin Buckland
Mike Baldwin
Marilyn McMillan
Carley Lawrence
Amanda Lofgren

TLO Staff Present:

Marcie Menefee
John Morrison (via speakerphone)
Sarah Cunningham-Morrison
Mike Franger
Paul Slenkamp
Cindi Bettin
Craig Driver
Karol Collyer

PROCEEDINGS:

CHAIR NORENE calls the meeting to order and recognizes the Trustees present. He asks for any announcements.

TRUSTEE MICHAEL declares a potential conflict of interest. She states that her family is engaged in the potential leasing of the Health and Social Services Building, and asks to add that to the agenda.

CHAIR NORENE puts that on the agenda and states that there will be another change to the agenda. He adds Item E, the Trust Land Exchange, will be placed at the top of the updates. He asks for any other changes. There being none, he approves the agenda. He moves on to the minutes of April 17, 2014.

TRUSTEE DERR makes a motion to approve the minutes of April 17, 2014.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

CHAIR NORENE moves to the Denardo-Fahrenkamp property in Fairbanks, and asks Ms. Menefee to continue.

MS. MENEFEE states that due diligence was done on the Denardo facility, which includes a Phase 1 Environmental Assessment, as well as looking at budgets and utility costs. She continues that the Department of Health and Social Services increasingly had an interest in giving the facility to the Trust, and it was realized that the facility was covered by a land lease. She explains that the Fahrenkamp facility and the Denardo facility are located on the same parcel which is under a leasehold interest. She continues that in order to accept the Denardo facility and whether turn it into a program facility or a commercial revenue-producing property, the lease has to be dealt with. She states that the intent is to request approval to accept both facilities as they are, which is clearly in the best interest of the Trust.

MR. MORRISON states that both facilities are subject to the ground lease which currently has a 55-year term. He continues that accepting the facilities would include due diligence and removal of the ground lease so that the property is free and clear. He adds that \$15,000 or less could complete the due diligence, which would be paid out of the operating budget. He states that once due diligence is satisfied, a smooth transition of ownership and management has to be worked out with the Department of Health and Social Services. He continues that the tenant in the Fahrenkamp facility is currently saying that they want to have the property for another 18 months to two years. He states that the total operating budget for both facilities will need to be funded into the operating budget so that our property manager could manage the facility. He continues that the Denardo facility was constructed in 1986 by the Department of Health and Social Services and was previously used as a residential treatment center for adults. He adds that it is roughly 6500 square feet and appears to be in good, marketable condition. He states that the

Fahrenkamp facility is very similar and was also built by the Department at the same time. He continues that it is roughly 10,000 square feet and is situated on the same parcel. He adds that it is currently being used by Family Centered Services as a residential treatment center. He states that there are two ways to look at the anticipated benefits of the acquisition: If they were one day used to generate income, the Denardo could produce up to \$74,000 a year in net income revenue, and the Fahrenkamp might provide as much as \$140,000 in revenue. From a programmatic standpoint, they would provide the Trust opportunity to support and direct programs in the area and could serve to reduce the cost of programs using the facility.

MS. MENEFEE asks for some Trust direction on the acquisitions.

TRUSTEE McCLELLAN asks if there is a cost associated with holding back and not doing anything.

MS. MENEFEE replies yes and explains the costs. She introduces Craig Driver who recently started at the TLO as the Asset Manager and is working in the real estate program. She states that he comes with a lot of fantastic commercial real estate development experience and a lot of skills.

MR. DRIVER states that the Denardo expenses will be absorbed by the Trust, and most of the Fahrenkamp expenses will be covered by the tenant.

A discussion ensues stating the TLO will wait one year from date of acquisition before commencing commercial marketing of either facility.

TRUSTEE DERR makes a motion that the Resource Management Committee recommends that the Alaska Mental Health Trust Board of Trustees approve the action of acquiring and operating the facilities known as Denardo and Fahrenkamp.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

TRUSTEE DERR makes a motion that the Resource Management Committee recommends to the Alaska Mental Health Board of Trustees to approve an increase to appropriation 15960-2015 from the Facility Maintenance Account, AKSAS fund 34048, in the amount of \$275,000 for Denardo and Fahrenkamp, and authorizes the CFO to transfer the funds to the third-party property manager for management of the facilities.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

CHAIR NORENE moves on to updates, and recognizes Paul Slenkamp.

UPDATES

MR. SLENKAMP begins with a quick update on the Icy Bay parcel, stating that an Invitation for Proposal of Timber Sale was issued and closed on June 12, 2014. He states that Sealaska Timber Corporation Southeast put in a straightforward per-thousand proposal, which is very favorable. He continues that a sale contract is being worked on with a hope to finalize it next week. He adds that one of the conditions of the contractual requirements will be to close the camp and road systems. He states that this provides an option to remove the Trust presence from those parcels for a time, which will cut off a lot of closing costs over the year. He moves on to the land exchange, stating that the Forest Service has prioritized the U.S. Forest Service and Mental Health Trust Land Exchange and have completed all of the federal land status reports, different surveying for the different reports that are required to complete the feasibility analysis. He continues that the one remaining component is the valuation consultation. He adds that once that consultation is completed, the entire package gets sent back to the Natural Lands Adjustment Team in Washington, D.C., which will, on approval, remand it back to the Forest supervisor of the Tongass, Forrest Cole, for signature on this feasibility analysis.

CHAIR NORENE thanks Mr. Slenkamp and moves forward to the updates, and recognizes Marcie Menefee.

MS. MENEFEЕ states that Buccaneer Energy, the operator on the Kenai, has filed Chapter 11 bankruptcy in Houston at the end of May. She continues that prior to that filing, the landowners that had been negotiating the allocation of the production were within hours of signing an agreement toward that end, and the Oil & Gas Commission preemptively ruled 24 hours in advance that 100 percent of the production should go into an escrow account to force the landowners to come to agreement. She adds that the bankruptcy process is moving very rapidly. She states that the bankruptcy judge accepted a proposal by Buccaneer to auction all of their Alaskan assets, which is to occur in August. She adds that there is one privately owned company out of Texas that is in a position to purchase the assets, and there could be up to five other Alaskan companies that bid at this auction. She continues that the well is still producing gas on a daily basis with a steady stream of revenue coming out of it.

A short discussion ensues.

MS. MENEFEЕ moves on to Wrangell and what is happening with the environmental contamination. She recognizes Cindi Bettin.

MS. BETTIN states that DEC looked at the Trust findings from the site inspection and photos, and they sent three notice-of-violation letters: One on air quality; one from the solid waste; and the third from the spill prevention group. She continues that DEC requested and that the licensee hired a consultant to do a site characterization assessment plan and viewed the licensee as being compliant. She adds that DEC asked for a couple small corrections and then approved the plan. She states that the next phase is that the consultant will go out on site and perform the work of the assessment plan, the Phase I, and at some point a site inspection will be done again with DEC and the contractor as things move forward.

MS. MENEFEE states that Mike Franger will give a quick update on Chickaloon with the coal lease with Riversdale Alaska.

MR. FRANGER states that Riversdale has been attempting to drum up some interest in joint venture partners to further the operation at Chickaloon and are optimistic that they will be able to find someone interested in the property. He continues that they have applied to DNR to extend the exploration permit for another year. He adds that the interest is still there, which is encouraging.

MR. JESSEE asks how all is going in Chuitna with PacRim.

MR. FRANGER replies that they are in the midst of the permitting process and have a lot of consultants engaged. He states that they have their hands full trying to keep the permit process going, supplying the information that the agencies need and are pretty active.

MR. JESSEE asks when that process will appear in the public eye again.

MR. FRANGER replies that the draft SEIS (Supplemental Environmental Impact Statement) should be finished by the end of the year and go out for agency comments; the public comment period will probably begin next year.

MR. BUCKLAND asks, in regard to Riversdale and Chickaloon, if they are in compliance with the lease agreement.

MR. FRANGER replies yes.

A short discussion ensues.

MS. MENEFEE moves on to the Parks facility, and asks Mr. Morrison to continue.

MR. MORRISON states that a loan for \$10 million on the Parks building was successfully closed.

MS. MENEFEE states that there was some Trustee interest on whether or not Trust land was affected by some of the wildfires in May and June. She continues that the Funny River Fire came very close to some Trust parcels on the Kenai River, but those did not burn. She adds that there was a loss of less than 50 acres up northeast of Fairbanks. Less than 10 miles from Downtown Fairbanks, there was some Trust land hit with a lightning strike and about 47 acres are impacted by fire there. No other Trust land was affected. She states that Ms. Bettin is continuing to work on the potential for wetlands mitigation banking on Trust wetlands. She continues that the hope is to offer a workshop to the Trustees in October or November to discuss findings. She adds that the complexities of wetlands mitigation banking will take more than an hour and will be in conjunction with a board meeting.

CHAIR NORENE asks for any questions on the monthly report. He asks Trustee McClellan to share his thoughts on the DNR conflict.

TRUSTEE McCLELLAN states that, as a new Trustee, he has been asking a lot of questions and putting his perspective on some things. In his experience in his dealings with DNR, they are a regulatory agency and do not want to regulate projects that the State would be participating in. He continues that they send out projects to outside state agencies where DNR can regulate them without conflict of interest. He states that his question for discussion is: Should the Land Trust Office talk to DNR about the mechanisms for transferring any conflict-of-interest land leases? He continues that the Trust Land Office is already set up to manage land leases, but it is a separate entity, which removes the conflict of interest. He adds that there are a few that could be controversial which the State might get challenged on because it is a conflict of interest. He states that transferring the lease over to the Trust Land Office and any subsequent revenues sent into the Permanent Fund would remove that conflict of interest. He asks if this concept is worth pursuing.

MR. FRANGER responds that DNR would still be the regulators and does not think that situation will ever arise.

TRUSTEE McCLELLAN agrees that it will not come up for a noncontroversial project, but it could happen in the future.

CHAIR NORENE states that the topic should be explored.

TRUSTEE DERR states that it is intriguing.

TRUSTEE McCLELLAN states that he threw it out to think about.

CHAIR NORENE asks for anything else to come before the committee. There being none, he adjourns the meeting.

(Resource Management Committee meeting adjourned at 11:10 a.m.)