

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 27, 2017

1:08 p.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Dean Westlake, Vice Chair
Representative Harriet Drummond
Representative Justin Parish
Representative Chris Birch
Representative DeLena Johnson
Representative George Rauscher
Representative David Talerico

MEMBERS ABSENT

Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

COMMITTEE CALENDAR

CONFIRMATION HEARING(S) :

Alaska Gasline Development Corporation Board of Directors

Warren Christian - North Pole, Alaska
Hugh Short - Girdwood, Alaska

- CONFIRMATION(S) ADVANCED

COMMISSIONER-DESIGNEE - Department of Natural Resources

Andrew T. Mack - Anchorage, Alaska

- CONFIRMATION(S) ADVANCED

HOUSE BILL NO. 155,

"An Act authorizing a land exchange in which certain Alaska mental health trust land is exchanged for certain national forest land and relating to the costs of the exchange; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 155

SHORT TITLE: AK MENTAL HEALTH TRUST LAND EXCHANGE

SPONSOR(s): REPRESENTATIVE(s) ORTIZ

03/06/17 (H) READ THE FIRST TIME - REFERRALS
03/06/17 (H) RES, FIN
03/27/17 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

WARREN CHRISTIAN, Appointee
Board of Directors
Alaska Gasline Development Corporation
North Pole, Alaska

POSITION STATEMENT: Testified as appointee to the Alaska Gasline Development Corporation Board of Directors.

HUGH SHORT, Appointee
Board of Directors
Alaska Gasline Development Corporation
Girdwood, Alaska

POSITION STATEMENT: Testified as appointee to the Alaska Gasline Development Corporation Board of Directors.

ANDREW T. MACK, Commissioner-Designee
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Testified as appointee to the position of commissioner of the Department of Natural Resources.

REPRESENTATIVE DAN ORTIZ
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the prime sponsor, introduced HB 155.

WYN MENEFEE, Deputy Director
Alaska Mental Health Trust Land Office
Office of the Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "HB 155 - Alaska Mental Health Trust Land Exchange with the USFS."

ACTION NARRATIVE

1:08: 13 PM

CO-CHAIR GERAN TARR called the House Resources Standing Committee meeting to order at 1:08 p.m. Representatives Tarr, Josephson, Birch, Parish, Talerico, and Westlake were present at the call to order. Representatives Drummond, Johnson, and Rauscher arrived as the meeting was in progress.

CONFIRMATION HEARING(S):
Alaska Gasline Development Corporation Board of Directors

1:08:49 PM

CO-CHAIR TARR announced that the first order of business would be confirmation hearings for the appointments of Warren Christian and Hugh Short to the Alaska Gasline Development Corporation (AGDC) Board of Directors.

1:09:23 PM

WARREN CHRISTIAN, Appointee, Board of Directors, Alaska Gasline Development Corporation (AGDC), testified he has lived in Alaska for 40 years, is currently living in North Pole, and has previously lived in Fairbanks, Anchorage, and Nenana. He said he has worked in the oil and gas industry for over 30 years, starting as a welder helper and working his way up through the company to becoming president [of Doyon Associated, LLC]. For the last 10 years he has worked for Doyon Associated, LLC, (DAL) a partnership between Doyon [Oilfield Services, Inc.] and Associated Pipe Line [Contractors, Inc.] Prior to that he worked for, and was president of, Houston Contracting Company [Alaska, Ltd.], a pipeline company owned by Arctic Slope Regional Corporation (ASRC). He noted that he has worked on the planning and development of many pipeline projects on the North Slope, such as Alpine, Badami, Northstar, Meltwater, Tarn, Exxon's Point Thomson Project, and Conoco Phillips' CD5 Project, to name a few. He also worked on the nine-mile reroute of the 48-inch Trans Alaska Pipeline System (TAPS) in Atigun Pass.

MR. CHRISTIAN further testified that he has been involved in the training of Alaskans. He said he is a trustee of the "Joint Apprenticeship Training Committee for the Plumbers and Pipefitters," and is a trustee and the secretary for the Fairbanks Pipeline Training Center. He is a member of the

[Alaska Support Industry] Alliance, the [Resource Development Council for Alaska] (RDC), and the Fairbanks Chamber of Commerce. He added that he is a certified project management professional and a certified welding inspector. Currently, he serves on the Technical Committee for AGDC, where he actively engages with the management team.

REPRESENTATIVE BIRCH asked what Mr. Christian sees as the top three challenges facing the [Alaska Liquefied Natural Gas (LNG)] Project (Alaska LNG).

MR. CHRISTIAN replied that the commercial side is the challenge that will be most heard about, which is the cost of the project, the market, and the financing. If this first hurdle can be overcome, he said, another major challenge for the state is going to be the training of Alaskans. The project's schedule ramps up extremely quickly and most of the crafts that will work on the project cannot be mastered in a year, but rather several years. Therefore, the overall plan for training Alaskans needs to be thought of and developed far in advance, otherwise Alaskans won't be trained in time to work on the project. The third challenge, he continued, is the safety of the workforce and the public. Thirty-two people lost their lives when TAPS was built and that will not be acceptable building this project. The highest safety standards and safety procedures must be implemented not only in the execution part, but also in the planning and permitting phase.

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CO-CHAIR JOSEPHSON asked what Mr. Christian sees as the project's viability at this point in time. He further asked what future investments the legislature should continue to make in the project.

MR. CHRISTIAN answered that the project's viability is based on the Wood Mackenzie report [entitled, "Alaska LNG Competitiveness Study - DRAFT," dated 21 August 2016] in which a path forward was given to get this project into the commercial range. The items on that path are third party tolling, third party finance, and federal exemption for taxes for state ownership, and this is the path AGDC is on right now, he said. The model that is being created to represent that path and the assumptions around those items will be disseminated to the legislature. There is a path forward, it's challenging and there is a lot of work to do, but AGDC can get there. The future investment - the permitting - is going to take some time, he pointed out, a Record of Decision is

issued, which will take AGDC beyond its current funding and budget that goes to the end of fiscal year 2018. After that, he advised, AGDC is probably going to need some more funding to complete the permitting process.

REPRESENTATIVE PARISH inquired whether Mr. Christian sees any viable alternatives to a gas pipeline in terms of getting Alaska's gas to market.

MR. CHRISTIAN replied he is relatively new to the AGDC board and all the data, and is therefore swamped with binders and binders of information to get up to speed. The amount of work that has been done on the project is massive, he said. An excellent job has been done on the routing, the estimates, and the assumptions. At this time, he continued, he does not see an alternative that AGDC would get complete in time to be near the middle of the 2020 range.

REPRESENTATIVE RAUSCHER noted that Mr. Christian sat on the board of the Alaska Natural Gas Development Authority (ANGDA). He asked how Mr. Christian views what he learned while at ANGDA versus where things are headed now.

MR. CHRISTIAN responded that his term on the ANGDA board was short, about nine months. He said ANGDA's approach was selling - trying to market just gas without an LNG plant or a gas treatment plant (GTP) - whereas the AGDC project is much larger in scope and is a completely different path. The owner companies that formed [Alaska LNG] have done quite a bit more work than was done on any other project to date, including optimization studies. From his perspective, he stated, the project under AGDC is much farther along than anything done before.

REPRESENTATIVE RAUSCHER remarked that the project's current challenges are big. He inquired whether Mr. Christian sees that these challenges can be overcome, and, if so, how.

MR. CHRISTIAN agreed the project currently has many challenges. From the short amount of time that he has been with AGDC, his perspective is that the most important thing is to complete the Federal Energy Regulatory Commission (FERC) process. There is \$600 million worth of data, he said, and the FERC process will validate that data. The permit will be good for three years, plus AGDC can probably get a two-year extension. That would give a shelf-ready project. If AGDC cannot validate its assumptions in the model in the next year and the market does

change three years from now, the project could be pulled off the shelf and be ready to go. The challenges are there, he allowed, and by the end of next year AGDC will know for sure whether it can validate the assumptions that are in the new model.

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REPRESENTATIVE RAUSCHER asked how Mr. Christian views the state's current position strategically, and knowing the partners that the state has had.

MR. CHRISTIAN answered that based on the [2016] Wood Mackenzie report, a state-led project is strategically the only path the State of Alaska can take right now to accomplish the things that are needed to be done. It must be a state-owned, state-run project to file for the federal tax exemption, he advised. Many of the Lower 48 pipeline projects go to third party financing and have the tolling method and tariff. A producer's cost of equity is much higher than going out to third party financing. He opined the model that AGDC is following now is the correct model for getting to the next stage to find out whether the project is commercial.

REPRESENTATIVE JOHNSON asked about the necessity of having an office in Houston, Texas, and the spending of monies to maintain personnel there.

MR. CHRISTIAN deferred to AGDC president, Keith Meyer, for an answer, but noted Mr. Meyer has told the AGDC board that Houston is the oil and gas capital of the U.S. He related Mr. Meyer feels that having the Houston office staffed with key individuals, one full-time and the others part-time, will benefit this project. He offered his belief that the budget for the Houston office is \$400,000 through fiscal year 2018.

REPRESENTATIVE JOHNSON inquired as to when the FERC process will be completed.

MR. CHRISTIAN replied that AGDC originally planned to file the FERC permit [application] on June 30 [2017], but is now looking to move that up. Once the permit [application] is filed, FERC's review process will take 18 months and then a Record of Decision (ROD) will be issued, which AGDC anticipates will be at the end of 2018. After the Record of Decision, he continued, FERC will issue a draft environmental impact statement (EIS) and take public testimony. So, from right now it will be at least 18-24 months before AGDC has a FERC permit in hand.

REPRESENTATIVE PARISH asked for AGDC's ultimate goal.

MR. CHRISTIAN responded that there are several goals, but the two main goals are to get Alaska's gas to market and to get gas to Alaskans. Another goal is ensuring that Alaska contractors, tenders, and suppliers are used.

CO-CHAIR TARR inquired whether Mr. Christian sees his role as being on the workforce side of things. She further inquired as to whether there are things the legislature should be thinking about or looking at right now related to workforce development.

MR. CHRISTIAN answered yes, and said the Department of Labor and Workforce Development is looking at those things. Before coming to the AGDC board, he said, the department contacted him about how to train people in the short period of time and he has been invited several times to speak to the department's task team in this regard. Now, as an AGDC board member, he looks forward to having more communications around that specific topic.

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REPRESENTATIVE JOHNSON asked whether Mr. Christian sees this project as being multiple construction projects integrated into one, or as being one large construction project.

MR. CHRISTIAN replied that all three segments of the project put together - the LNG plant, the gas treatment plant, and the pipeline - are what make this a mega-project. Each segment on its own is not a mega-project. All three must be coordinated, he explained, because once construction is started it needs to be done as quickly as possible for the return on equity. An effort will be made to compress the schedule, so it is the most optimum. The key is to balance the workforce, he said. If the pipeline is not the critical path then the LNG facility is, and so the key is to try to schedule the pipeline around the workforce that will be required to do the other two facilities. This will best manage the manpower, so it is not spiking way up and then coming way down again, he noted. Each segment will be treated differently with a different type of contractor for each one; but, overall, a lot of the same manpower could work on any one of the three projects.

REPRESENTATIVE RAUSCHER inquired whether Mr. Christian sees himself as contributing to something the AGDC board is lacking or as a complement to what already exists.

MR. CHRISTIAN responded he is very pleased with the makeup of the board because it includes people with financial background, labor background, construction background, and oil and gas background. The board is well-balanced, and members work off each other and have very good discussions with each other. He said he is pleased with the direction in which the board is currently going and thinks the makeup is correct.

CO-CHAIR JOSEPHSON stated he is impressed with Mr. Christian's qualifications because they cover many facets, and this speaks well of the governor for appointing Mr. Christian.

REPRESENTATIVE TALERICO said he appreciates Mr. Christian's introductory remarks about safety because ineffective safety programs are one of the most costly things on any project.

REPRESENTATIVE JOHNSON asked whether Mr. Christian anticipates the pipeline being rerouted to Valdez.

MR. CHRISTIAN answered that based on the information he has seen, doing a reroute at this point would delay the project for some time, putting it into a 2030 timeframe.

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CO-CHAIR TARR opened public testimony on Mr. Christian's appointment and, after ascertaining no one wished to testify, public testimony was closed.

[1:30:18 PM](#)

HUGH SHORT, Appointee, Board of Directors, Alaska Gasline Development Corporation, testified he is currently serving as vice chair of the AGDC Board of Directors, having first been appointed in February 2015. He said he was born and raised in Bethel and currently resides in Girdwood. His profession is running Pt Capital, a private equity firm based in Anchorage that currently has investments across the Arctic, including Alaska and Iceland. He spends much of his time working on identifying good investment opportunities across the top of the globe, he continued. Before Pt Capital, he spent seven years at Alaska Growth Capital, five years of which he spent as the president and chief executive officer (CEO). He left that position in 2013. From 2011-2014 he served as the chairman of the board of the Alaska Industrial Development and Export Authority (AIDEA), the Alaska Energy Authority (AEA), Department

of Commerce, Community & Economic Development. He said it has been an honor to serve on the AGDC board.

MR. SHORT advised that the Alaska LNG Project is significantly challenged right now. In a recent presentation by the Alaska State Chamber of Commerce, he related, it was stated that the confidence of Alaskans in this project has gone down significantly over the past two years. One of the challenges being faced right now is a significant headwind in the commodity prices that drive the price of natural gas and ultimately. An added stressor, he explained, is that the three partners in the project did not elect to move into Front-End Engineering and Design (FEED). The companies made their decisions based on their "baskets" of investments in capital expenditures (CAPEX) globally. Each company looked at its spend and made a decision as to what is, and what is not, going to go forward globally. [The Alaska Gasline Development Corporation] does not have a basket across the globe, it has Alaska's gas. He said he is proud of the leadership of Chairman Dave Cruz, and proud that over the past eight months the board negotiated agreements with BP, Conoco, and Exxon to be able to take a leadership position within the project and to also look at this project from a third-party tolling perspective, which would reduce the cost of capital for the total project so that the tariff could be reduced and ultimately the price to Asian customers.

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REPRESENTATIVE BIRCH inquired about how much latitude is had [by the AGDC board] for looking at other opportunities, or other means of monetizing the state's gas asset.

MR. SHORT replied that the board has focused on Alaska LNG as has been conceived over the course of the last four years. By the time the studies are done, a total of around \$700 million will have been spent to prepare for the FERC submission. He said he has brought conversations to the board; for example, a project in Russia is now using icebreaking LNG vessels to transport LNG directly from the source to Asia. There are all sorts of different projects with global climate change thinning the ice and potentially opening up opportunities in the North. Currently, he continued, that is not a viable alternative that has been looked at by the board. He offered his assumption that the board probably wouldn't look at such an alternative prior to making a decision to pause, or to discontinue the pursuit of Alaska LNG as is currently conceived.

REPRESENTATIVE PARISH asked whether careful consideration of an alternative to the LNG pipeline as currently conceived would be a useful prerequisite in deciding whether to pause the current project.

MR. SHORT responded that a number of viable alternatives to the 800-mile gas pipeline, the gas treatment plant (GTP), and the LNG facility were looked at in the process of Alaska LNG. The FERC process requires alternative proposals to what is the primary proposal. He agreed with Mr. Christian that spending a significant amount of time, effort, or resources on alternatives at this point might result in missing the window of 2023/2025 to be able to hit the market.

MR. SHORT added that his efforts for 2017 are: How much can the tariff be reduced? How much can the wellhead cost be reduced? How much can the cost of the GTP be reduced? Can one train, two trains, three trains be staged and leveraged into the project over a period of time, versus building the large project all at once? If this can be done, can customers/buyers be added, and the math made to work? He said the big question right now is whether the math can be made to work on the large project, and losing focus on that at this point potentially puts at risk the total project. Therefore, his recommendation has been, and probably will continue to be, to focus on pushing hard to make Alaska LNG, the 800-mile pipeline, the GTP, and the LNG facility work as an infrastructure system.

REPRESENTATIVE PARISH inquired whether it is possible that Mr. Short, or any member of his family, will benefit financially by decisions being made by the AGDC board for which he is applying.

MR. SHORT answered no, and pointed out that all board members must submit a financial disclosure. He said Alaskans are probably going to benefit significantly from the construction of this pipeline and ultimately that will drive the economy, but there is no direct benefit [to himself].

REPRESENTATIVE RAUSCHER asked whether Pt Capital would be inclined to invest in this pipeline in the future.

MR. SHORT replied that the private equity fund he manages would not be inclined as [the pipeline] does not meet the parameters of his company's investors. Plus, he said, his company's fund is about \$125 million, and the pipeline has a few more zeroes behind it than that. Regarding that point, he noted that the AGDC board is very focused on ensuring there are opportunities

for Alaskans to invest directly, such as by an election through the permanent fund. Also, he related, the AGDC board thinks there is an important and excellent opportunity to partner with Alaska Native corporations.

REPRESENTATIVE RAUSCHER asked from where the bulk of funding would eventually come.

MR. SHORT responded that a two-stage process is currently ongoing. The first stage was an investor/buyer conference that was held in Girdwood about three weeks ago. Attendees included the Korea Gas Corporation (KOGAS), and representatives of the largest buyers of gas in the world. Those representatives also flew to Prudhoe Bay and gained an understanding of the Arctic nature of Alaska. Since then there has been an exhibited interest by large buyers to take another deeper look at the opportunity to participate in purchasing Alaska's gas. The second stage, he said, requires a third-party investor to come in alongside the State of Alaska and provide infrastructure finance. Today, he explained, insurance companies, large pension funds, and sovereign wealth funds primarily drive infrastructure finance. These large pools of money are looking for infrastructure-type investment returns for a long period of time, as well as looking for very low risk for those infrastructure returns. Over the last 5-10 years, the biggest area of focus of large sovereign and pension funds has been infrastructure investment. He said the AGDC board believes there are institutions that, if there is a customer and willing sellers, would finance the project if the numbers work.

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REPRESENTATIVE RAUSCHER asked whether the large buyers that are exhibiting interest were part of the group from the conference that went to the North Slope.

MR. SHORT answered that [AGDC] initially put together the conference, but the conference was 100 percent paid for by sponsors, including all [AGDC's] partners. Since then, he said, a number of parties have asked for more information about the project, so he thinks the interaction between those participants and the participants on behalf of the state has led to additional follow-up. These are long-term relationships doing business in Asia, he noted, and it takes a lot of trust and a lot of time. While there is lots of variability in that, he said he believes there is a lot of interest in this project from conference attendees.

REPRESENTATIVE WESTLAKE commented that in looking at the resumes of the appointees he is very impressed. He said he has known Mr. Short for a while, knows the investment firm that Mr. Short is talking about, and has spoken at length with one of the associates. He expressed his wish that Mr. Short worked for the state, but understands there is more money in the private world. Alaska's problem, he posited, is that it is just a one-resource state - oil. Oil and gas and resource development are needed, he continued, so he is glad Mr. Short is here. He thanked Mr. Short and Mr. Christian for their work.

REPRESENTATIVE BIRCH offered his understanding that [Resources Energy Inc. (REI), a consortium of Japanese companies and municipal governments,] [has withdrawn from] a proposed LNG in Cook Inlet. He inquired whether lessons were learned from this and whether Mr. Short has a reading on what that says or portends for the future for the state and this industry.

MR. SHORT replied that the differentiation between what REI was pursuing and what Alaska LNG is pursuing is that the REI proposal was strictly a Cook Inlet play and a fairly small production plant of about a million tons per year. The Alaska LNG Project is about 20 million tons, so 20 times the size, and the gas is stranded up on the North Slope. He said looking at REI and Alaska LNG is like looking at apples and oranges, so he would not make any assumptions specifically to Alaska LNG based on REI's decision. However, he continued, hanging above everyone is the over two-year-long downturn in commodity prices, a recession in Alaska, and [AGDC's] partners that have reduced their CAPEX spending significantly across the board. All the foregoing issues put "downward pressure," but when getting down to the nuts and bolts they are two different types of projects.

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REPRESENTATIVE PARISH, regarding Mr. Short's capacity as CEO, chairman, and co-founder of Pt Capital, noted that Andrew Mack, appointee to the position of Commissioner-Designee of the Department of Natural Resources, was previously an employee of Mr. Short's. He requested Mr. Short to provide further explanation about Pt Capital's primary investments, and what are some of the more important elements in its portfolio.

MR. SHORT responded that he left Alaska Growth Capital in 2013. He realized at the time that no institutional private equity firms had been created, run, or headquartered within Alaska.

Looking elsewhere in the U.S., he continued, private equity is anywhere between 20 and 40 percent of the capital in any market, while Alaska did not have an institutional private equity firm. So, he raised a seed round of funding to be able to capitalize the company; after that, [his company] was able to raise a private equity fund, which is about \$125 million. From there three investments were made, he said, two in Alaska and one in Iceland. A fairly large investment was closed last week in Reykjavik, Iceland, and [his company] now owns 50 percent of the largest mobile phone company in Iceland.

MR. SHORT added that [his firm] is proud of its investments in Alaska and is focused on continuing to make Alaska a place where it invests. The types of companies invested in are operating companies - companies that do boring things and are in business. [Pt Capital] is not a venture capital firm, he pointed out, it doesn't invest in start-ups, and it also doesn't invest into large infrastructure projects as those are not the types of returns that [his firm's] investors would like. [Pt Capital] has nine employees in Anchorage and is proud to be the first institutional private equity fund built in Alaska, he said. His hope is that it is the beginning of many more financial services to be created within the state.

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CO-CHAIR TARR opened public testimony and, after ascertaining no one wished to testify, public testimony was closed.

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The committee took a brief at-ease.

COMMISSIONER-DESIGNEE - Department of Natural Resources

[1:52:56 PM](#)

CO-CHAIR TARR announced that the committee would now hear from Andrew Mack, [designee] to the position of commissioner of the Department of Natural Resources (DNR).

[1:53:25 PM](#)

ANDREW T. MACK, Commissioner-Designee, Department of Natural Resources (DNR), testified he took the position of commissioner-designee of the Department of Natural Resources on July 1, 2016. Born and raised in Soldotna, he said he went to Concordia

College and then to law school. Upon returning to Alaska he worked in a private law firm as a criminal defense lawyer, and then went on to work as an employee of the North Slope Borough, and later he became a resource development consultant. He noted that prior to taking his current position as commissioner he was a managing director for Pt Capital.

COMMISSIONER-DESIGNEE MACK addressed a question about Pt Capital that was asked by Representative Parish during the earlier confirmation hearing for Hugh Short, appointee to the board of directors of the Alaska Gasline Development Corporation (AGDC). He said he has known Mr. Short for three decades and said Mr. Short is one of the most innovative, hardworking, intelligent, and business-like persons he knows in Alaska. When Mr. Short was building his new company, the business model was to attract investment from outside of Alaska and bring that investment to Alaska to generate wealth in the state and to make sure that all the fees and the business was done in the state. He expressed his pride in having been a part of Mr. Short's team.

COMMISSIONER-DESIGNEE MACK noted that [while at Pt Capital] he his clients worked on some of the largest public issues in Alaska, namely the state's relationship with the federal government, and the hard-to-get-to places in the state that have significant resources. These places included the outer continental shelf (OCS), the National Petroleum Reserve - Alaska (NPR-A), and the 1002 area of the Arctic National Wildlife Refuge (ANWR). Having worked in that space, he said, he has spent quite a bit of time understanding how to most clearly identify priorities and get to those objectives as quickly as possible while working with folks in the state.

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COMMISSIONER-DESIGNEE MACK stated he views his role at DNR as a promoter of the development of Alaska's resources. It is an obvious role and is embedded in the state's constitution, its statutes, and its regulations, he continued. The commissioner of DNR is a person who tries to see what is happening in the next 5-10 years and place Alaska in the strongest position to get there. The department has an unbelievable team that includes Mark Wiggin, Ed Fogels, and Ed King, so there is very significant support and help from DNR's team. He said the commissioner's job is to be the long-term protector of the many important agreements held by the state. These agreements start with the [Alaska Statehood Act], flowing through the Alaska Native Claims Settlement Act (ANCSA), and through the Alaska

National Interest Lands Conservation Act (ANILCA), and all the principles that are built into those important documents. As it matures, he added, the state is trying to find the best way to manage its affairs, protect its interests, and to work collaboratively, although sometimes issues are settled by the courts.

COMMISSIONER-DESIGNEE MACK stated that the first thing to happen after he took his job was Alaska LNG transitioning from an equity-based investment as envisioned in Senate Bill 138 [passed in the 28th Alaska State Legislature] and being refocused as the [partner] companies downsized their teams and handed off the project to the state. This was also done at DNR, he said. The very specific and dedicated team at the department was [restructured] and the "spend" was reduced while maintaining core competencies and the ability to respond to what is going on in the project when needed. It is a challenging situation, he continued, but in most cases DNR is going to do everything it has done before, although there may be "some slippage in time," and, if there is, DNR will come to the legislature.

COMMISSIONER-DESIGNEE MACK pointed out that recently DNR transitioned to looking at opportunities within the new federal administration. This includes looking at ways to get the best outcomes on a range of resource development issues, he said, including the state's relationship with the Bureau of Land Management (BLM), U.S. Department of the Interior, and BLM's Eastern Interior Resource Management Plan.

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REPRESENTATIVE BIRCH stated he is troubled by the Department of Revenue's (DOR) domination in the ongoing debate and discussion related to the oil and gas industry in Alaska. He said he respects DOR, but it seems DOR has been missing the engagement that needs to happen with industry partners regarding what needs to be done for a path forward that attracts and retains investment needed in the state to continue the uptick in oil throughput through the Trans Alaska Pipeline System (TAPS). He requested Commissioner-Designee Mack's perspective as to where he sees the role and the balance between the revenue side and DNR, since DNR is tasked with tracking those types of investments, putting out the lease sales, and managing relationships with those partners.

COMMISSIONER-DESIGNEE MACK replied that DNR has historically done a good job at managing the leases and units on the North

Slope and ensuring the state gets what it is owed under the contractual terms of the leases. Through the management of units, DNR often requires work commitments, he explained, and while there is some flexibility, the basic term is that the lessee has an obligation to the state to continue to develop in order to maintain and continue to operate on the lease and in the unit. The testimony of the administration and of DOR certainly is another aspect of that revenue base, he continued. When testifying, [DNR] has been abundantly clear about what the royalty revenues are, and they are very significant. The tools and the policies that the legislature puts in place, such as production tax and credit systems, historically have not been and currently are not the function of DNR to talk about, although DNR is a big believer that everything must be on the table. [The legislature] is the policy body that makes these important decisions, he said. An issue in [Senate Bill 138] was the public's ability and the legislature's ability to know what is going on. In these situations, he said, DNR is happy to work with the body and to answer those types of questions.

[2:04:53 PM](#)

REPRESENTATIVE RAUSCHER inquired as to DNR's role in the [issue of the Klutina Lake Road access and the revised statute of the Mining Act of 1866 known as R.S. 2477].

COMMISSIONER-DESIGNEE MACK reiterated his opening comment that one role of the DNR commissioner is to understand the agreements included in the Alaska Statehood Act, ANCSA, ANILCA, and all subsequent agreements. He said the concept at issue here is built into these agreements, and that is access and particularly access to public/state lands and what historical trails mean to that. A very specific and very nuanced view taken by DNR is to understand what this has meant to the state historically, how these trails have been used, and what it means to the state today and how it places the state as a practical, matter as well as a legal matter, 10-20 years down the road.

COMMISSIONER-DESIGNEE MACK explained that in the case of Klutina, DNR is one of the clients of the Department of Law, along with the Department of Transportation & Public Facilities (DOTPF), and the Alaska Department of Fish and Game (ADFG). He said it is DNR's belief, and his personal belief, that the Department of Law is doing a very good job of representing [the state's] interests. Something to be cognizant of in the Klutina case, he said, is that a piece of litigation has been ongoing for eight years. In a courtroom setting [the state] would have

certain expectations and would perhaps prevail, but it is not a bulletproof situation in a legal sense. He noted that DNR has let the Department of Law know what its fundamental requests and fundamental needs are in this case, and that DNR has been advised as to [the position] of the other party.

COMMISSIONER-DESIGNEE MACK related that DNR believes it is getting good representation in this complex case, which is complex because it is a mixture of an R.S. 2477 case and a 17(b) easement. [17(b) easements are rights reserved under the Alaska Native Claims Settlement Act to provide access to public land across Native private land.] He explained that an R.S. 2477 extends from the Richardson Highway to the confluence of the Klutina River in Klutina Lake; beyond that is private land owned by Ahtna, Incorporated, [one of the thirteen Native regional corporations established under ANCSA]; and beyond that is BLM land over which [the state] can assert a 17(b) easement to get to state land that is beyond that federal land. A benefit being discussed in this, he continued, is whether BLM can be taken out of the picture and simply have a right-of-way over the land owned by Ahtna to get to additional state properties to the west. There are a lot of details and about a week ago the governor made a statement about this. There is some misinformation, he advised, and DNR would be happy to provide clarifications. It has been a difficult issue due to the nature of the facts and the [the state's] procedural posture.

[2:08:56 PM](#)

REPRESENTATIVE RAUSCHER asked how many more of these joint 17(b) and R.S. 2477 issues are left to settle.

COMMISSIONER-DESIGNEE MACK responded that the legislature passed a bill in 1999 that identified 600 R.S. 2477s. Regarding a combination of R.S. 2477s with some sort of 17(b) easement or alternative solution, he said he would get back to the committee with an answer. As to how the state looks at these issues, he said an example is Izembek National Wildlife Refuge, which is a federal refuge through which the state would like to build a road connecting the community of King Cove to the Cold Bay Airport. [The state] has proposed a legislative solution, he explained, but at the same time there is a very legitimate ANILCA Title 11 claim which would potentially get that access. Additionally, there is an R.S. 2477 claim. [The state] has kept all three options on the table so as not to limit its legal options in that case, particularly when viewing things long-term. On the question as to whether what is being done today is

going to affect similar situations later, he said he would get back to the committee with a specific answer.

REPRESENTATIVE RAUSCHER confirmed he is asking about the precedent being created from here onward and what is the department's position. He inquired whether there is something that Commissioner-Designee Mack wishes DNR could do that it doesn't have the authority to do right now.

COMMISSIONER-DESIGNEE MACK answered that one thing DNR continually bumps up against is big, complex, heavily data-driven federal planning documents. He said if he could just snap his fingers he would make some changes in [DNR's] relationship with the federal government that would place the state in a stronger role as the manager of lands within Alaska.

REPRESENTATIVE RAUSCHER noted [the legislature] is positioning DNR for approving expenditures for the oil industry and posited that this is almost starting a new department to accommodate that. He asked how DNR views this new idea.

COMMISSIONER-DESIGNEE MACK replied that the important question is what is [the legislature's] ability as appropriators to understand the mechanics of these programs as it discusses budgets and proposes lots of cuts. Secondly is the public's right to know if there is a proposal to deeply cut another area of government and there is another system in play. How much should the public know under those circumstances? Those are very important concepts, he said, and folks in the administration have talked about the need for legislators to know and the right and need for the public to know. [The department] would like to work on that to get as much information into the system as possible.

[2:14:05 PM](#)

CO-CHAIR JOSEPHSON recalled Representative Birch's perception that DOR is dominant, and inquired whether commissioner-designee Mack believes DNR's role is satisfactory when there are overlapping operations between the two agencies, particularly on questions involving the North Slope.

COMMISSIONER-DESIGNEE MACK answered that as owner of the resource, DNR has the important responsibility to ensure what is the initial agreement with a company in a lease sale, and then what the company is encouraged, or required, to do under the lease terms to place the lease in production or relinquish. The

department does have some flexibility; for example, it has encountered and evaluated requests for royalty relief. Another example, he said, is the Northstar development where the operator of the unit came to the State of Alaska saying it couldn't get to production under the current terms of the leases, and therefore was requesting changes to those terms. It went through a very public legislative process and was eventually approved by this body in the 1990s and there has been significant production. So, he continued, DNR plays an incredibly important role in what is the revenue base, from an owner's perspective, in the development of the state's resources.

COMMISSIONER-DESIGNEE MACK said the question of tax is slightly different. He pointed out that any member of the public could easily obtain a copy of the leases and understand the lease terms, the royalty rate, the work commitments, and the timing. The department also views its role as being primary - royalty comes before tax. That money is paid as a matter of contract. However, he continued, how to incent, and how much to take, is a separate question. He said DNR works a lot with DOR on various issues, the most recent example being that historically a contractor was hired to do some of the front-end modeling on the production forecast, but DNR now does that in-house. Mr. King, who used to work at DOR and is now at DNR, has been engaged in the process of developing the production forecast. The production forecast is an example of where DNR works very fluidly in a process to come up with what is presented to [the legislature] and the Alaska public. So, he continued, there is quite a bit of communication and cross-pollination between DNR and DOR and the two agencies understand what is being done.

[2:18:30 PM](#)

REPRESENTATIVE JOHNSON, returned attention to the Klutina issue, and asked whether commissioner-designee Mack agrees with the recommendation for settlement from the current acting attorney general.

COMMISSIONER-DESIGNEE MACK described the way the process works. Early in the case, he explained, DNR provided its perspective and its "must-haves." This case has many different elements, he said, the R.S. 2477 part and the 17(b) access over the privately-owned Ahtna land. As a client, DNR is working in consort with and advising the Department of Law lawyers.

COMMISSIONER-DESIGNEE MACK noted that the must-haves were identified in a press release from the governor where it was explained that one of DNR's requirements is that there be a full 100-foot right-of-way within the R.S. 2477 space between the Richardson Highway and the confluence of Klutina Lake and Klutina River, which is in the settlement documents right now. Another requirement, he said, is that Alaska residents have access beyond that and the preference that the BLM not be in any way involved in the 17(b) area, which is the area beyond the R.S. 2477 claim and state land to the southwest along the northern shore of the lake. Also, he continued, DNR has insisted there be multiple access points to the river and that there be access to the river where the right-of-way intersects the actual river itself. Additionally, places are identified for use of trailers to launch boats, to launch boats without motors and without trailers, and for fishing access. Other must-haves are that there be places to pull out and reasonable access for camping.

COMMISSIONER-DESIGNEE MACK explained that the aforementioned things were locked into the discussion as must-haves and said DNR believes the discussions are going reasonably well. The way the process works, he continued, is that eventually a final proposed settlement will come back to the clients - ADFG, DOTPF, and DNR - and then there will be further discussion regarding whether the clients agree. Thus far a final proposed settlement has not yet been seen.

REPRESENTATIVE PARISH noted that a term frequently used in this committee, and which he thinks is a bit misleading, is industry "partners" when in fact they are "customers" because they are purchasing the resource from the people of Alaska. He said the resource is held in trust [by the legislature] for the people and distributed for the people. He inquired whether Commissioner-Designee Mack would say it is more accurate to describe industry in Alaska as partners or customers.

COMMISSIONER-DESIGNEE MACK replied that the Alaska State Constitution and state law drive what is done by DNR. He said it ultimately can be boiled down to a contract, a lease is a contract, and it is a contract between the developer and the State of Alaska. In most cases, it is viewed as a contractual relationship that DNR has with the developers and that probably tends more towards a business relationship. Obligations, duties, and expectations are built into every contract, he added.

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REPRESENTATIVE PARISH asked whether it is more akin to a contract where one party is a customer purchasing something or more akin to a contract in which there are two partners with more closely aligned roles.

COMMISSIONER-DESIGNEE MACK responded that in every contract there are duties and obligations and failure to perform under the contract will extinguish the contract. In this case no one will get the benefit of the agreement and [DNR] will have to start the process again to lease [the state's] land on the North Slope.

REPRESENTATIVE PARISH quipped that he appreciates the artistry of the dodge, but is asking again whether Commissioner-Designee Mack would say it is more of a customer-seller relationship or a relationship between partners.

COMMISSIONER-DESIGNEE MACK answered, "Clearly we own a part of the oil, that's our royalty share of the oil, so ... we are in the role of selling that oil for the highest value and ... that's what we get hopefully ... with folks who are in the production sphere." He looks at it as a very business-like agreement, he said. As well, he looks at it as a lawyer - here's the contract for the lease and "we're gonna as owners enforce the terms of that lease just like any business, if you want to call it a business partner, would."

REPRESENTATIVE RAUSCHER inquired about how to get more money from the state's oil production and other resources, and whether there is a way to streamline the permitting system and other variables that are stopping potential investors and instead make Alaska more inviting.

COMMISSIONER-DESIGNEE MACK opined Alaska lacks capital to invest and develop these projects. Whether [an investor] goes to Canada or another country, he said, it takes an incredible amount of capital and intensity to develop and produce products from mines or from oil production. He advised that people must be cognizant that what is said publicly may go across the globe, which is happening with Alaska LNG. What is said in the capitol building matters to people who are in the market to buy LNG, who are in mining, and who are in oil. While there is nothing wrong with healthy dialogue and debate, at some point there must be talk about the opportunity and communication with folks outside of Alaska. The amount of capital that it takes is incredible,

he reiterated. About \$6.5 billion is spent annually in the oil business on the North Slope, and it should be an objective of the State of Alaska to spend that much or more in the mining industry.

[2:29:35 PM](#)

REPRESENTATIVE RAUSCHER offered his understanding that the permitting process takes about eight years for starting a mining operation and said the investor must hope that commodity prices are still good after that amount of time and investment. He asked what could be done in this regard [to keep investors from going to another country instead].

COMMISSIONER-DESIGNEE MACK replied that the aforementioned is a good question and is partly why the Office of Project Management and Permitting (OPMP) is within the Department of Natural Resources. He explained that OPMP helps people to understand what the permit challenges are and to bring timelines into a reasonable amount of time. He offered his belief that with some of the major oil plays on the North Slope the timeline could be shortened, and production brought online more quickly than has been done historically. It takes a tremendous amount of focus and significant amount of resources, he continued, and he is not suggesting that there is a magic wand. He said he hopes the State of Alaska is never in a role where it is slowing down the process of evaluating a prospect, and he doesn't think that is happening because DNR moves faster than do other agencies.

REPRESENTATIVE RAUSCHER inquired whether more could be done for the timber industry.

COMMISSIONER-DESIGNEE MACK answered that he was very happy to sign the sale for some footage from Southeast Alaska's Coffman Cove. Plus, he noted, a couple of other timber sales on state land are on the tee and there are other resources in the Matanuska-Susitna Valley and the Interior that have some high prospects.

REPRESENTATIVE BIRCH noted that HB 111, an oil and gas tax bill, has a provision that proposes the pre-approval of production cost before that cost could be written off. He recalled that DNR's fiscal note describing the cost went from inconsequential to substantial. He asked how Commissioner-Designee Mack sees this provision functionally working as last proposed.

COMMISSIONER-DESIGNEE MACK, regarding the provision in HB 111 that would require pre-approval of basic expenditures, said, "we as an administration" have talked about the legislature's need to know and more specifically what companies are thinking about doing and how that affects tax and whether there is a qualifying credit that might be reimbursable. To the extent it doesn't violate tax code or confidences, he continued, it is an important issue for legislators to know as appropriators. He said he thinks that [DNR] supports the provision and the concept behind it. As to functionally how that happens, he said [DNR] hopes to get to a point where it can understand "what people are coming in the door with." According to testimony, the House Finance Committee is going to look at that provision and [DNR] will be happy to offer suggestions on how this provision can best be accomplished. [The department] didn't put much detail into the fiscal note, he advised, due to uncertainty about what would be required of [DNR] at the front end and uncertainty about how industry might respond to this. As the process moves along there will probably be some better detail on which [DNR] can offer some insights.

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REPRESENTATIVE TALERICO relayed the administration probably had the same issues as he did with BLM's approval of the Eastern Interior Resource Management Plan. He offered his understanding that it started out as a calving migration question along the upper Yukon River and then grew into an enormous tract that goes all the way down to Northway and encompasses a traditional mining area in Alaska that includes Chicken and Eagle. He said, "It walked right over the top of the Fortymile River area," and that area's management plan, which in his opinion was a violation of ANILCA. If it were up to him, he said, the legislature would make the decision with DNR and then let the federal government know what [the state] is doing. The Eastern Interior Resource Management Plan has the upper portion of the Yukon in it, he noted, yet [BLM] created the Central Yukon Resource Management Plan, which goes over Atigun Pass up the pipeline corridor to the North Slope. It is insulting to everyone in Alaska to think that anything north of Atigun Pass is part of the Yukon system, he opined. He inquired whether DNR plans to push forward to get a change in the Eastern Interior Resource Management Plan [Eastern Interior plan] and turn the Yukon plan into "everything in the Yukon." He assumed that given the change in [federal] administration there might now be people who will listen more closely to the state's concerns.

COMMISSIONER-DESIGNEE MACK responded that [DNR] is considering all its options with respect to the Eastern Interior plan. He said he thinks [the administration's] favored option is to join in part with the Fortymile Mining District and in part with Doyon [Limited], which has slightly different concerns on the same plan, and press forward in litigation. He said [DNR] believes that the preferred alternative in that plan did a number of things that were harmful and unnecessary. Parts of the final preferred alternative were not considered in the draft environmental impact statement (EIS); parts and pieces of the different alternatives were combined and then some things were added. It is a disservice to Alaskans on a number of fronts and that is [DNR's] preferred position today, he opined. While he doesn't want to get ahead of [the administration], he said he thinks [DNR] will likely end up asking that that be rolled back. He was very unhappy with the Eastern Interior plan, and with the Central Yukon plan, that covers the North Slope and extends to the boundaries of the state ownership interest, which is three miles seaward of the mean high tideline in the Beaufort Sea. Also, it weaves together, potentially, the management plan that exists in the Arctic National Wildlife Refuge (ANWR) and the management plan that exists in the NPR-A, with another plan. It has significant potential negative consequences, he said. The comment period just ended on 3/17/17, and it is very concerning, so [DNR] is going to do everything it can to ensure that it works for Alaska.

[2:40:04 PM](#)

CO-CHAIR TARR opened public testimony on the appointment of Mr. Mack as Commissioner of the Department of Natural Resources and, after ascertaining no one wished to testify, public testimony was closed.

[2:40:29 PM](#)

CO-CHAIR JOSEPHSON [moved to advance the confirmations of Mr. Short, Mr. Christian, and Mr. Mack.] He stated that the House Resources Standing Committee has reviewed the qualifications of the governor's appointees Hugh Short and Warren Christian to the Alaska Gasline Development Corporation [Board of Directors] and recommends their names be forwarded to a joint session for consideration. He advised that this does not reflect intent by any of the members to vote for or against these individuals during any further sessions for the purposes of confirmation. Additionally, he continued, the House Resources Standing Committee has reviewed the qualifications of the governor's

appointee Mr. Andy Mack for commissioner of the Department of Natural Resources and recommends that his name be forwarded to a joint session for consideration. Again, he said, this would not mean or reflect the intent by any member to vote for or against Mr. Mack during any joint sessions for the purposes of confirmation. There being no objection, the confirmations of Mr. Short, Mr. Christian, and Mr. Mack were advanced.

[2:41:22 PM](#)

[CO-CHAIR TARR passed the gavel to Co-Chair Josephson.]

The committee took an at-ease from 2:41 p.m. to 2:43 p.m.

HB 155-AK MENTAL HEALTH TRUST LAND EXCHANGE

[2:43:04 PM](#)

CO-CHAIR JOSEPHSON announced that the final order of business would be HOUSE BILL NO. 155, "An Act authorizing a land exchange in which certain Alaska mental health trust land is exchanged for certain national forest land and relating to the costs of the exchange; and providing for an effective date."

[2:43:28 PM](#)

REPRESENTATIVE DAN ORTIZ, Alaska State Legislature, as the prime sponsor, introduced HB 155. He explained that the bill would authorize a land exchange between the Alaska Mental Health Trust Authority ("Trust") and the U.S. Forest Service (USFS). The bill would be a triple win, he said, because it would protect viewsheds, enhance the timber industry, and help fund the Trust's mental health programs. Lands vital to the recreation and tourism industries would be protected, such as Ketchikan's Deer Mountain, while at the same time the exchange would make available other lands of comparable value to the timber industry. Projects would be created, he continued, that would act as a "bridge" in the industry until young-growth timber is ready to be logged, which would address Representative Rauscher's question about what can be done to stimulate logging in the state. Because the bill would allow for time-sensitive logging it would help sustain the timber industry, which is beneficial to Southeast Alaska's economy. The Trust would gain resources and revenue from the timber industry to fund programs that serve some of the most vulnerable people in Alaska, he said. The Trust provides funding to programs and services across the state that benefit people with mental illness,

developmental disabilities, Alzheimer's disease, traumatic brain injuries, and substance abuse disorders. He noted that the Alaska Mental Health Trust Land Office has been working with the U.S. Forest Service, communities, and interest groups to conduct an administrative land exchange between the Trust and the USFS. Additionally, he explained, U.S. Senator Lisa Murkowski and U.S. Senator Dan Sullivan have introduced similar legislation in the U.S. Congress with Senate Bill 131, and U.S. Representative Don Young introduced [House Resolution] 513. Also, Senator Stedman has introduced parallel legislation [SB 88] in the Alaska State Senate. Overall, he said, HB 155 would increase revenue for mental health programs and the timber industry, while still protecting iconic lands used for recreation and tourism.

REPRESENTATIVE BIRCH asked whether an assessment of the mineral value and other economic assessments have been done on the lands that would be exchanged.

REPRESENTATIVE ORTIZ assured the committee the Trust would not trade away lands for less valuable lands.

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REPRESENTATIVE JOHNSON requested the sponsor to expound on why he thinks the Trust would not trade for lands of lesser value.

REPRESENTATIVE ORTIZ responded that the Trust was established initially with land grants across the state and its activities are funded through the monetization of these lands. The Trust is bound to act in its own best interest, he said, so it can further the goals for which it was founded. If the Trust currently controls lands that offer large monetization potential through mining, he wouldn't think the Trust would trade away that land because it would go against the Trust's basic tenant to maximize the potential of the lands it has been given.

REPRESENTATIVE RAUSCHER drew attention to the bill, beginning on page 1, line 14, and continuing to page 2, lines 1-2, which name the Southeast communities of Wrangell, Sitka, Juneau, Meyers Chuck, Petersburg, and Ketchikan. He inquired whether the bill is specific to "an area only."

REPRESENTATIVE ORTIZ answered it is his understanding that the lands that would be exchanged with USFS are primarily lands in Southeast Alaska and so in that sense it is region specific. In further response to Representative Rauscher, he said the bill could not apply to other lands in the state, but affects lands

illustrated by maps in the committee packet describing the lands that are part of this exchange. He said his understanding is that all the lands described on those maps are within Southeast Alaska.

REPRESENTATIVE TALERICO offered his understanding that for the exchange to happen, a bill must be passed by the Alaska State Legislature as well as an action by Congress to authorize an exchange between USFS and the Trust.

REPRESENTATIVE ORTIZ responded yes, the legislature needs to do what it needs to do on the state's end, but the exchange won't happen unless Congress also passes federal legislation. They both must happen for this exchange to take place.

REPRESENTATIVE TALERICO opined moving HB 155 forward would help with the decision-making in Congress.

REPRESENTATIVE ORTIZ agreed.

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REPRESENTATIVE RAUSCHER inquired whether this has been vetted through all the important channels.

REPRESENTATIVE ORTIZ said yes.

REPRESENTATIVE PARISH noted the letters of opposition propose a federal buyout of the land [instead of an exchange], but observed that a buyout would not create jobs in the timber industry, which is one of the primary benefits of the bill. He asked whether there is something the legislature would need to do to accommodate a buyout option if at a federal level it became a possibility.

REPRESENTATIVE ORTIZ replied he is not prepared to answer that question at this time. He agreed that a buyout option might help the Trust and the tourism industry, but not the timber industry, which is the third part of his "win-win-win."

REPRESENTATIVE PARISH inquired as to how many "job years" would be enabled under the bill, job years meaning one job for one year.

REPRESENTATIVE ORTIZ deferred to Mr. Wyn Menefee for an answer. The bill is about making timber offerings more of a possibility, he said, but it is out of his realm to quantify how much.

CO-CHAIR JOSEPHSON announced that a sectional analysis of HB 155 will be presented at the bill's next hearing and that a proposed committee substitute will also be discussed at that time. He then invited Mr. Menefee to provide a presentation on the bill.

2:55:50 PM

WYN MENEFE, Deputy Director, Alaska Mental Health Trust Land Office, Office of the Commissioner, Department of Natural Resources (DNR), provided a PowerPoint presentation entitled, "HB 155 - Alaska Mental Health Trust Land Exchange with the USFS." Displaying slide 2, he explained that the Alaska Mental Health Trust ("Trust") is a perpetual trust with the purpose of improving the lives of its beneficiaries. The Trust has programs that it funds to help create a comprehensive integrated mental health program in Alaska, as the enabling Act dictated for it to do. For example, he said, the Trust puts about \$20 million a year in projects and activities at state agencies and nonprofits, has provided about \$3 million in grants since 2013 in Southeast Alaska, approved \$10 million to help fund Medicare, and a sundry of other things.

MR. MENEFE turned to slide 3, and noted that the Trust puts out money to help mental health. It needs money to do that, which leads to the Alaska Mental Health Trust Land Office (Trust Land Office). The job of the Trust Land Office, he said, is to make money off the non-cash assets of the Trust and to improve the lives of the beneficiaries. The land office manages multiple asset classes and timber is one of those asset classes. Although he is within the Department of Natural Resources, the Trust Land Office basically acts as a contractor to the Alaska Mental Health Trust Authority and manages the Trust's lands.

MR. MENEFE provided slide 4, that illustrated Trust lands are managed according to [four] principles as follows: make money by maximizing long-term revenue from the land; protect and improve the corpus; encourage diverse revenue-producing uses of trust land; manage trust land. He said timber harvest is just one aspect of a diverse portfolio, and the land exchange will help diversify the Trust's portfolio and increase the Trust's revenue stream, which will directly benefit beneficiaries. The land exchange will protect the corpus by not allowing the timber assets to become devalued, which could happen "if the timber industry goes away." The Trust cannot sell timber if there is nobody to buy it, he said, and revenue would be lost at that

point. It is very important to sell timber to a timber industry while it still exists.

MR. MENEFEER displayed slide 5, "Land Distribution," and said the map depicts the Trust's approximate land holdings that are located throughout Southeast Alaska.

MR. MENEFEER addressed slide 6, that was a map showing that about 18,000 acres of Trust lands are adjacent to the communities of Wrangell, Petersburg, Sitka, Juneau, Meyers Chuck, [and Ketchikan]. The Trust also holds land in No Name Bay, he said. The U.S. Forest Service has about 20,000 acres of remote land on Prince of Wales Island and Shelter Cove. The reason for the different acreages, he explained, is that it is an expected amount of acreages that are being offered; however, it is an equal value land exchange, which means that after the lands are appraised, an equal value exchange must be done and so at the end it won't be those acreages. Those acreages are being put on the table and it is specific to just those parcels. It is done in two phases, he continued. The first phase is exchanged within one year. The key about rushing through the first year, giving a smaller amount exchange, is the need to get timber to market. The rest is exchanged within two years and this is when parcels may be adjusted to equalize the value.

MR. MENEFEER brought attention to slide 7 depicting two maps, one entitled, "Trust Land To Be Exchanged in Southeast Alaska," and one entitled, "National Forest Service Land to be Exchanged." He said the exchange is a consolidation [of Trust land ownership].

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MR. MENEFEER turned to slide 8, and stated that the Trust Land Office expects to receive between \$40 and \$60 million over the next 20 years from timber sales from these parcels if they are acquired through this exchange. Right now, he advised, trying to cut timber on the lands currently owned by the Trust does not go well - last year's Deer Mountain episode being an example. The communities do not want the Trust cutting timber. However, he continued, the resources of the Trust are supposed to be managed solely for the interests of the Trust, which means the public can be ignored in that sense. Even if the public says it doesn't like it, if it is in the best interests of the Trust, the Trust is supposed to still do it. But, he said, the Trust is trying to work it out by doing this exchange, so timber can be cut where there is no opposition.

MR. MENEFEER stated that the Trust sees the land exchange and the selling of the timber as a sustainable thing because trees grow back, and another harvest will provide revenue in the future. The land exchange will protect the timber and tourism industries because it protects the viewsheds while giving the timber industry the capability of having timber to market, which is critical right now, because the timber industry is failing due to lack of timber. He said the timber industry has multiple layers of great economic impact because it includes stevedores, equipment rental, maintenance, purchases, transportation, timber fellers, and cruisers. Timber harvest on the exchanged lands would be done in an environmentally responsible manner, he maintained, because the Trust must follow the Alaska Forest Resources and Practices Act.

MR. MENEFEER addressed slide 9. He explained that the Trust has been working on this exchange for 10 years. The Trust tried to do it administratively and entered into an agreement to initiate with USFS to exchange these very lands. The problem, he said, is that USFS's estimate of how much it would cost to get it done and how long it would take goes well past when the timber industry would fail in Alaska. "We're the only ones with timber that potentially could be brought to market right now in any amount that will keep the timber industry alive," he stated. He reiterated that he is concerned about the timber industry because if the timber industry is not viable, the Trust has nobody to sell its timber to, and that is the devaluing of its asset.

MR. MENEFEER stated that the Tongass Futures Roundtable [a group of stakeholders convened by USFS, Alaska Region] had about 35 entities, everything from governments to boroughs to conservation groups, and they all came out with the same idea that the exchange is a good idea for the communities, the timber industry, and the Trust. In working through this exchange, the Trust has worked with conservation groups and other interested parties. The Trust has modified boundaries and addressed concerns to try to make the exchange successful. The only group that has expressed concern in recent time, he said, is the Southeast Alaska Conservation Council (SEACC). Primarily SEACC has expressed concern about a litigation it has on No Name Bay. He assured the committee that the Trust has clear title in No Name Bay, can go forward with the exchange, and that there is nothing in the litigation that would stop the Trust going forward. He related that in its testimony on SB 88, [the companion bill] in the other body, SEACC said it wanted No Name

Bay to go to USFS. He further related that SEACC has stated it would like to have the Trust's lands purchased. However, he continued, \$40 million-\$60 million doesn't seem to be available, and the Trust does not have other options that compare with the proposed exchange.

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MR. MENEFEЕ continued to slide 10, and noted USFS owns the majority of land [in Southeast Alaska]. He said the areas on the map colored in brown or tan cannot be cut, and the areas colored in green could be cut, which is a small portion of the forest. The U.S. Forest Service used to be the primary seller of timber in Southeast Alaska; however, when USFS cut back on the amount of timber sold each year, the timber industry started failing and the number of jobs declined. The Trust is attempting to bridge the interim while USFS transitions to a sustainable young-growth harvest. It is critical right now to get timber to market during that two-year period, he added, and that is why the state and federal legislation needs to get through.

MR. MENEFEЕ moved to slide 11, and explained that both the federal and state legislation need to pass and are compatible. The federal legislation directs USFS to complete the exchange, he said, and the state legislation allows the Trust to go forward with the exchange. Passage of both the federal and state legislation would enable consummation of this exchange, get the lands appraised and surveyed, and get timber to market within the two-year timeframe.

MR. MENEFEЕ turned to slides 12 and 13, and concluded by pointing out that there are many supporters of the exchange. He reiterated that the bill is a positive revenue-generating exchange that would help improve the lives of beneficiaries and would help communities by preserving jobs, economies, viewsheds and watersheds. He urged for the passage of HB 155.

REPRESENTATIVE BIRCH asked whether an appropriate assessment of minerals has been done on the lands currently owned by the Trust to assure that there is not another gold mine within.

MR. MENEFEЕ acknowledged assessing mineral potential is difficult. However, to the best of the Trust's knowledge from surveys that have been done, there is not a mineral potential that would be lost.

3:09:01 PM

[HB 155 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:09 p.m.