

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672  
6534 SENATE RESOURCES

938

The IMHTC had, in the RFP, provided that the plaintiffs and intervenors could review and challenge any of the values established by the panels. The lawyers for the plaintiffs and intervenors independently hired their own "appraisal review consultants" to review the work of the opinion of value panels (paid for by the state as court-ordered costs in the Weiss case).

The appraisal consultants hired by the lawyers for the plaintiffs and intervenors were directed to determine "the highest value supported by market data." (Walker letter to Mac Swain, Olson, et.al., dated July 19, 1988). They were not instructed to determine what, in their best professional opinion, they considered to be fair market value (using the definition adopted by the IMHTC). Under their instructions, they valued the surface estate at \$833,280,096 compared to the opinion of value panels' initial value of \$392,000,000.

Their review took approximately nine months and resulted in approximately two-thirds of the values of original mental health trust parcels being questioned.

Due to the large number of questioned values by the appraisal consultants and limited funding, the department proposed a sampling strategy which was adopted by the IMHTC. Certain groups of disputed values along with a computer-generated random sample of the remaining disputed values, were identified and returned to the Southeast panel for review. A representative sampling of large (over 1,000 acres) parcels was submitted to the Southcentral panel for review. The review of these disputed values by the panels resulted in a small increase in the value of some of the parcels. This occurred only after the lawyers for the plaintiffs and intervenors and the chairman of the IMHTC instructed the panels on how to value certain classes of parcels.

The method of applying the sampling results to all three regions resulted in a 30 percent increase in the opinion of value panels' initial \$392 million value for the surface estate, thus increasing it to a final value of \$511,949,467. The value determined by the plaintiffs' and intervenors' review appraisers, however, was not similarly revised downward, but instead was held at \$833,280,096; no downward adjustment in their value was made.

The IMHTC, acting without a recommendation from the Commissioner, adopted the procedure to determine the value of the surface estate by simply splitting the difference between the revised value determined by the opinion of value panels (which was

increased by 30 percent over the initially determined value) and the unadjusted total determined by the appraisal consultants retained by the lawyers for the plaintiffs. This resulted in an arbitrary value of \$672,614,782., halfway between the panels' final recommended surface value of \$511,949,467. and the review appraisers' initial value of \$833,280,096.

The basic flaw in the procedures adopted by the IMHTC majority is that those procedures incorporate, in large measure, the values determined by the plaintiffs' and intervenors' review appraisers. The appraisal consultants were instructed to determine the "highest value that can be supported in the market," a value which is not the same as fair market value. Using the value those procedures produce is not consistent with fair market value specified in Chapter 48. Instead it is simply the average of the fair market value determined by the opinion of value panels as the Legislature contemplated and "the highest value supported by market data" as determined by the review appraiser. The fair market value of the surface estate should be the final value determined by the opinion of value panels, which was \$511,949,467.

## Hard Rock Mineral Evaluation

The procedures proposed and adopted by the IMHTC to assess and value hard rock mineral resources (MDA Report) produced a value which is substantially greater than the facts support.

The initial hardrock mineral assessment was completed, using available information, by the department's Division of Geological and Geophysical Survey (DGGs). However, DGGs did qualify their assessment with the observation that there are inadequate data to perform a comprehensive mineral assessment. In addition, the parcels being studied were too scattered and too varied in size to make any very specific quantitative determinations without a great deal of expense. The department also sought assistance from the U.S. Bureau of Mines, WGM (a private mineral consulting firm), and the department's Division of Mining to quantify these resources. These sources also indicated that there are insufficient data and the parcels are too scattered.

The DGGs did, however, identify the potential for mineral occurrences on mental health trust lands and the pool of potential replacement lands by ranking them from 1 (low potential) to 5 (high potential), with category 5 subsequently broken down by DGGs at the request of the IMHTC to identify the lands with the highest high potential ("Super 5s"). No consideration was given, however, to quantity of potential mineral resources or the economic feasibility of their development. The Super 5 category identified only the highest potential for occurrence of a mineral deposit, not the highest probability of a commercial discovery.

The IMHTC, at a March 17 - 18, 1988 meeting, determined that it was impracticable to determine mineral value in light of the information from DGGs, the U.S. Bureau of Mines, WGM, and the Division of Mining. The department was, therefore, originally instructed by the IMHTC to consider the potential of the land (according to the DGGs assessment) only for replacement purposes.

The department continued, however, to seek procedures to present to the IMHTC that would reflect, to the extent possible, the fair market value of the hardrock minerals on both the original mental health land and the potential replacement land. Eventually, a small number of comparable sales of patented and unpatented mining claims in the state were identified for that purpose.

When presented to the IMHTC, however, the comparable sales approach was rejected. The initial value determined --\$16 million--admittedly seemed quite low.

Unknown to the IMHTC minority, the lawyers for the plaintiffs and intervenors retained two consultants, Paul Metz and Colin Dixon, to estimate the value of the hardrock minerals on the original one million acre grant using a discounted cash flow methodology. Employing a variety of assumptions and probability analyses, Metz and Dixon concluded that the hardrock mineral value of the original grant was \$1.51 billion. The lawyers for the plaintiffs and intervenors presented this information to the IMHTC in the form of a report ("MDA Report").

The MDA Report was criticized by a variety of expert analysts.

The department's natural resource economist, Ed Phillips of the Division of Oil and Gas, reviewed the MDA Report from an economic standpoint and concluded that the methodology, assumptions and judgments were so manipulated that the values are excessively high.

The DGGG geologists responsible for developing the geological data reviewed the MDA report. Their review raised substantive questions relating to the assumed probabilities of discovery and the range of estimated deposit sizes.

The University of Alaska's Institute for Social and Economic Research (ISER) conducted a thorough review and analysis of the MDA Report. Their analysis concluded that if the geologic assumptions, probabilities and costs in the MDA Report are found to be valid, the economic considerations are not. The ISER economists (Dr. Bradford H. Tuck and Dr. Matthew Berman) who reviewed the MDA Report estimated that the net present value of the original one million acre grant would not exceed between 10 and 30 (\$177,000,000. and \$460,000,000. respectively) of the value contained in the MDA Report, and would be in the 10 to 30 percent range only if the geologic assumptions, probabilities and costs are valid. Thus, only under the optimum set of circumstances--i.e., all of the analysts' expectations are realized--would the values even approach one-third of the total estimate in the MDA Report?

The following is the "Summary" from the ISER report (dated March 22, 1989):

"In summary, our review has identified a number of points that question some of the assumptions underlying the Metz appraisal. The three that are critical relate to the assumed probabilities of discovery, the assumed net smelter return, and the timing of the income stream. The assumed values in the appraisal result in projected revenue and production estimates that do not currently exist and are highly improbable in the future.

"The test of an appraisal, as mentioned above, is whether it approximates fair market value. Fair market value is what the asset would bring in a competitive market disposal held today. The historic levels of mining industry activity in Alaska, coupled with long term trends in world mineral markets, simply do not support the notion that the mineral rights on the Mental Health Trust Lands would command 1.5 billion dollars today, or at any time in the foreseeable future."

Perhaps more telling, the MDA Report used a number of works by Dr. DeVerle P. Harris of the University of Arizona for its methodological basis and to justify the numbers that were produced. Dr. Harris was recognized by the IMHTC as one of the leading authorities in the nation in the area of discounted cash flow valuation methodology. To determine if the MDA report properly interpreted his own works, the department entered into a contract with Dr. Harris to review and analyze the report. In his critique of the MDA Report, Dr. Harris found numerous problems with the report and its ultimate value estimate.

Because of Dr. Harris's preeminence in the field, I have included extensive excerpts from his summary as follows:

"The least equivocal judgment that can be made about the analysis performed by MDA is that there can be little confidence that the fair market value of the Alaska Mental Health lands is  $\$1.5 \times 10^9$  because of (1) great uncertainties that exist about critical factors, e.g., mineral endowment, probability for discovery, costs of development and production, and future markets, (2) subjective judgments made, and (3) rough approximations employed in computation of fair market value..."

"Those who use the number, particularly when uninformed about evaluation and estimation practices, ascribe to it much greater confidence than it deserves. Intelligent decision making requires a description of uncertainties about the estimate of a highly uncertain quantity. Clearly, the fair market value of Alaska Mental Health Lands is a highly uncertain quantity. Representing so uncertain a quantity as the fair market value of unseen mineral deposits by a single-point estimate ( $1.5 \times 10^9$ ) begs some explanation, for such analysis clearly is not best practice, nor even usual practice, in evaluation of a complex and uncertain quantity.

"There is another dimension to the neglect of uncertainty besides that of information to the user, namely, the implication of uncertainty to fair market value as perceived by those who would purchase the rights to explore for and exploit the mineral resources. In this case, these buyers are private corporations. Corporations behave generally as though they are risk averse, meaning that the investment value (fair market value) of a highly uncertain venture is less than its expected monetary value. The greater the uncertainty about the outcome, the greater the expected value is discounted by the investor. Thus, fair market value to a private corporation of a highly uncertain venture, such as exploration, development, and exploitation of unseen mineral deposits, is not independent of the magnitude of uncertainty; consequently, a comprehensive evaluation itself requires a probability distribution of the uncertain quantity, which in this case is the fair market value of MHL.

"One may agree with the foregoing but still press the question of whether or not  $\$1.5 \times 10^9$  is a "reasonable" single-point estimate of fair market value when risk is not explicitly accounted for. Responding to this question in an absolute sense is nearly impossible because of the great uncertainties mentioned above, the subjective judgments made, and the approximations employed.

"A more answerable question is whether within the context of the approach used by MDA there were judgments made or procedures employed which, everything

else being equal, tend to over or underestimate fair market value. Clearly, as indicated in the body of the report, such can be identified. The most obvious of these is the ignoring of lead times in the computation of net present value. This neglect leads to overestimation by a factor of 2 or 3. Similarly, neglect of market impacts leads to overestimation. Ascribing to every discovery the 90th percentile tonnage and grade also leads to overestimation, perhaps a large overestimation, unless compensating adjustments are made in discovery probabilities. There is no documentation of such adjustment, but the selection of discovery probabilities by MDA is heavily subjective and especially vague, making it difficult to draw firm conclusions. If, as suggested by the MDA report, the discovery probabilities selected were predicated in part upon the CRA analysis of regions in Alaska that were appraised by the U.S. Geological Survey, then the discovery probabilities probably are considerably too large, because these (CRA) numbers of deposits are expectations for occurrence (not discovery) of deposits of all sizes and grades (not just 90th percentile value).

"The treatment of exploration and mineral potential is particularly vague and unrationalized. This is a serious deficiency of the report, because analysis of value is so sensitive to the treatment of these factors. The effect of this neglect is to create low confidence in the specified probabilities for discovery and in the computed expectations for fair market value. The fact that discovery probabilities were estimated directly using exploration outcomes from other regions, and that these were subjectively adjusted to reflect mineral potential rankings, makes a careful description of the estimation even more important and necessary if the resulting estimate of fair market value is to be credible, because the very foundation upon which the process rests (exploration outcomes) is very difficult to interpret. This is especially the case when these outcomes are to serve as the basis for discovery probabilities for a host of different mineral commodities and different deposit types. The use of constant discovery probabilities for all deposit types and all metals for a given mineral potential ranking is at best a crude approximation and lacks credibility when the objective is fair market value.

"Finally, a fair market value as large as  $\$1.5 \times 10^9$  does not seem consistent with economic conditions and factors. As fair market value,  $\$1.5 \times 10^9$  represents an estimate of the net present value of profits (net of all costs, royalties, and taxes) that firms could earn by acquiring rights to exploration for and exploitation of minerals on the Alaska Mental Health Lands. Such a large value, if correct, would be a strong incentive for acquisition of tenure and exploration of these lands. While the author has little first-hand knowledge about recent metal resource development on the Mental Health Lands, or in Alaska in general, it is his understanding that such activity is and has been at a low level (Tuck and Berman, March 22, 1989; Paul Metz, May 20, 1989, personal communication). Such circumstances challenge a value as large as  $\$1.5 \times 10^9$  as a credible estimate of the fair market value of metal resources of the  $1 \times 10^6$  acres of Mental Health Lands. Moreover, rationalizing inactivity by institutional impediments or by stringent tenure requirements does not lend credence to such a high value. Unless such impediments and stringent tenure provisions are to be altered, fair market value appropriately reflects the impact of current conditions on profitability of resource development."

The foregoing expert critiques, questioning the credibility of the MDA Report's \$1.51 billion estimate for the value of the original one million acre grant, are supported by a number of objective considerations. WGM, a private mineral consulting firm, determined in March, 1988 that the market value of 2.2 million acres of Bering Straits Native Corporation land in Northwest Alaska was \$343 million, an average of \$156 per acre. That land is located in the vicinity of the Seward Peninsula, historically the most productive mineral province in the state. While some mental health land was specifically selected for its mineral potential (as was a considerable portion of the Bering Straits Native Corporation's selections), more was selected for other values (e.g., residential, timber, etc.). Given those facts, I cannot accept the MDA Report's average mineral estate value of \$1,510 per acre for mental health lands. This is particularly true as the Bering Straits Native Corporation lands are in large continuous tracts, which a prospective purchaser could evaluate through appropriate and efficient exploration

strategies. The mental health lands are generally in much smaller parcels scattered throughout the state and could not be explored in as cost-effective a manner.

Furthermore, the MDA Report's conclusions regarding total mineral production from mental health lands appears extremely optimistic in light of existing mineral production in Alaska. The MDA Report used the following formula to estimate the mineral estate value of the original one million acre grant: net present value (NPV) equals the gross value of annual production (GVAP) times the landowner's royalty, measured as a percentage of the net smelter return (NSR), times a uniform series present worth factor (PWF) to discount future income to present value:

$$NPV = GVAP \times NSR \times PWF \text{ (see MDA Report, p. C-1)}$$

Working backwards, the gross value of annual production necessary to produce a given net present value can be determined as follows:

$$GVAP = NPV \quad (NSR \times PWF)$$

Under the assumptions in the MDA Report (4 percent NSR, 10 percent discount rate for 20 years for a PWF of 8.514), the gross value of annual production required to produce the MDA Report's \$1.51 billion net present value is more than \$4.43 billion:

$$GVAP = \$1.51 \text{ billion} \quad (0.04 \times 8.514) = \$4.43 + \text{ billion}$$

Total mineral production for the entire state in 1987 was \$202,389,898. A production increase of 14.7 percent was seen in 1988, and further development of projects such as Greens Creek and Red Dog (none of which, incidentally, are on state or mental health land; furthermore, a third "world-class" deposit, Quartz Hill, also not on state or mental health land, is not commercially viable at this time) undoubtedly will result in further annual increases. However, \$4.43 billion in gross value of annual production statewide is unrealistic given the current status and most optimistic projection by the mining industry in this state. I simply cannot accept that the gross annual value of production from mental health lands alone (one-third of one percent of the state's land mass) would exceed \$4.43 billion.

A survey of fifteen other states with trust lands (including Texas, where the Texas Railroad Commission administers a substantial quantity of oil-rich lands for the University of Texas' benefit) reveals that the subsurface income from those

lands averages \$4.57 per acre per year based on 1987 returns. Under the analysis in the MDA Report, the mental health lands would produce \$120.80 per acre per year based on the eight percent per year rental provision of AS 37.14.011(c) although differences certainly exist between Alaska and other states. I cannot accept that even the most aggressive trust management could produce results so dramatically different from those in other states, including even those states with substantial known subsurface resources (unlike the Alaska mental health land situation) and where transportation and infrastructure systems are much more developed and extensive than in Alaska.

In responding to the various expert critiques of the MDA Report, Metz and Dixon argue that the current lack of mineral production from mental health lands is not a consequence of a lack of interest on the part of industry but instead is the result of state mismanagement. Their report states that, "The failure of the State of Alaska to fully implement a mineral location/leasing system and the various types of land withdrawal and restrictions, have acted as a major disincentive to investment in prospecting and exploration on state land in general and the mental health land (MHL) in particular."

The fact, of course, is that most mental health lands have been available for claim-staking--i.e., the mineral rights were available for free from the time they were selected until they were closed to mineral entry by order of the Commissioner following the Weiss decision in 1985. While some claims were staked, industry interest in mental health lands was not great. It is hard to imagine that a vigorous state leasing program, where industry would have to pay for mineral rights, would result in increased industry interest, particularly where (as Dr. Harris noted) there is a world market in rights to mineral lands and substantial amounts of state and federal land would continue to be open to claim-staking for free.

At the request of the department, Dr. Harris also outlined the activities required to produce a credible estimation of the market value of the mineral resources using the discounted cash flow analysis and the costs of these activities. Dr. Harris estimated that the costs of estimating the market value of the original mental health land and replacement land would be about \$350,000, plus funding for additional DGGS work.

Given the amount of time and money expended to date in an effort to value mental health lands has taken to date, I cannot recommend that additional funds be requested from the Legislature to continue the process.

As an alternative, department staff have suggested employing a comparable sales approach to determine the value of the mineral estate of both the original one million acre mental health land grant and the pool of potential replacement land. The department has received information regarding sales of the mineral rights to certain lands in DGGs's classes 4, 5, and Super 5s for which the mineral endowment is unknown (although suspected), which is the case with the land to be valued. Those sales revealed the following per acre market values:

Super 5	\$2,000/acre
5	1,135/acre
4	108/acre

Using those figures, the value of the mineral estate of the original grant would equal \$73,403,459.

In my opinion, this is a more than reasonable value for the mineral estate. Under the MDA Report assumptions (four percent net smelter return, ten percent discount rate for 20 years), the gross value of annual production from mental health lands would have to exceed \$215 million to produce a net present value of \$73 + million. That is more than the total of statewide mineral production in 1987. In addition, the eight percent annual rent required under AS 37.14.011(c) would result in the subsurface income from mental health lands equalling \$5.87 per acre, substantially greater (more than 28 percent) than the \$4.57 per acre earned on average by trust lands in the 15 lower 48 states surveyed.

The IMHTC majority has made it clear they do not believe a comparable sales approach is a valid method for determining the value of the mineral estate. Even though I believe the foregoing comparisons to current statewide mineral production and subsurface income from trust lands in other states reveal that the result of this approach is eminently fair to the trust, it has been suggested that a panel of Alaska mineral consultants could quickly and inexpensively provide an additional review of both the MDA Report and this comparable sales approach. You may wish to consider that option.

In my opinion, however, the final value of the mineral estate should be that produced by the comparable sales approach which is \$73,403,459.

#### Timber Valuation

A timber resource valuation was prepared at the request of the IMHTC and the Commissioner. The valuation considered all original mental health trust lands, which total approximately one million acres, and all legislatively designated replacement pool lands, which encompass over six and one half million acres.

A detailed process to delineate and value lands suitable for commercial timber activities was developed in concert with the IMHTC and the consultants hired by the plaintiffs and intervenors. The results of this process are a series of 123 forestry potential maps, published as overlays to the USGS one inch-per-mile quadrangles, inventory estimates of commercial standing crop on these lands, and estimates of timber resource values reported on a parcel-by-parcel basis.

The conclusion of this process was that the one million acres of original mental health trust land contained \$36,243,253. in commercial timber. I agree with the timber valuation procedures employed and the value derived.

#### Oil and Gas Valuation

At the request of the IMHTC, a report was written to describe the geology and exploration activity pertinent to establishing a "best estimate" of the oil and gas potential of the legislatively designated replacement pool lands and the original mental health trust lands within Alaska.

For general evaluation, the state was divided into four regions: (1) Gulf of Alaska (including Southeast, Prince William Sound, and the Kodiak area), (2) Alaska Peninsula and Southwestern Alaska, (3) Central and East-Central Interior, and (4) Cook Inlet and Susitna Basins (including the Talkeetna and Chugach Mountains and a portion of the Copper River Basin). Each of these was assigned to a petroleum geologist or geophysicist. These four regions were further subdivided in order to produce a more precise and detailed evaluation. Information from surface geologic mapping and from nonconfidential drilling well logs was utilized. Confidential well log information and data from proprietary seismic surveys were not included in this study.

Of the four areas studied, only the Cook Inlet Basin contains known natural gas fields which underlie some of the mental health and legislatively designated parcels. Where sufficient data were available, an economic analysis was completed for those parcels.

There are no known oil fields beneath any of the parcels.

This process concluded that the oil and gas value of the one million acres of original mental health trust land was \$495,998. I concur with the oil and gas valuation procedures employed and the value derived.

### Coal Value

At the request of the IMHTC, a coal valuation was prepared by the department. The valuation considered all original mental health trust land and all legislatively designated replacement pool land.

The conclusion of this process was that, although coal is present in a number of areas, it is currently economic to produce in only two areas (Nenana and Wishbone Hill). The value of this coal on original mental health trust land was determined by the department to be \$432,866.

The IMHTC proposed and adopted the MDA Report as its procedures and resultant value. The MDA Report states that a current market does not exist for coal other than that identified in the DNR coal valuation. The authors then hypothesize that "several large scale open pit metal mines" in the railbelt and Kenai Peninsula areas could serve to diminish the "current excess electrical generating capacity" and provide additional coal marketing opportunities, with similar opportunities arising elsewhere. The MDA Report then makes a number of assumptions about the mines to produce figures for a cash flow analysis. One of these assumptions is that "The entire production would come from the subject land (i.e. mental health trust land)."

Using the hypothetical developments and related assumptions, the MDA Report concludes that "the net present value of the cash flow" from coal on mental health land would be \$3,200,000. The MDA Report then states: "With the large quantities of coal on adjacent state and federal land in Alaska, it is probably unrealistic to expect more than 10 percent of the model production to come from trust lands."

This statement from the MDA Report infers that under that analysis, the best estimate of net present value is \$320,000. I believe \$432,866. should be used as the value for coal on the original one million acres.

### Material Sources

The DGGs conducted a review of all mental health trust land and replacement pool land in order to assess potential mineral sources. Unfortunately, there is little detailed inventory information available. The DGGs estimated the cost of data gathering sufficient to enable them to determine material sources volumes and quality to be between \$65.4 and \$85.2 million. However, this would still be inadequate data upon which to base a value determination because material source values are heavily influenced upon their proximity to the market. Also, prices fluctuate upon demand. If there is no demand, then there is no value.

At a June, 1989 meeting of the IMHTC, Dick Rieger of DGGs presented three options available for material source valuation. At that meeting, the IMHTC determined that the valuation of material sources was simply not a fruitful exercise, given the uncertainty over material source location, quality and volume. As a result, the IMHTC approved a process whereby the value of the material sources on mental health land would be addressed through the designation of equal potential replacement lands.

However, the IMHTC reversed itself when it adopted the MDA Report. The MDA Report established a range of value between \$2.5 million and \$25.4 million for material sources, with a most likely value of \$13 million. This value was based upon an average of 14 million cubic yards consumption per year statewide, with the original mental health trust land producing 24 percent, or 3.5 million cubic yards. Unfortunately, these assumptions cannot be substantiated since, in reality, only 1.275 million cubic yards were produced in that timeframe (425,000 cubic yards/year) from mental health lands. In fact, if the average annual production level of 425,000 cubic yards were to be maintained into the future, the discounted cash flow for 20 years would be approximately \$420,000/year.

For the above reasons, I reject the MDA Report as a basis for material source value determination. However, I also conclude that we do not presently have sufficient data to produce a meaningful value for this resource. Because there are

insufficient funds available to produce these data, at least at this time, it is impossible to produce fair market value for this resource. Alternately, the trust should be protected if lands of equal material source potential are designated as replacement lands.

#### Integration Procedure and Valuation

On October 21, 1987, the full IMHTC approved the department's recommendation for integrating the various land values (e.g., surface estate value, timber value, mineral value, etc.). Under those approved procedures, values for compatible uses--e.g., a subdivision for residential or commercial use and oil and gas development (i.e. North Kenai area--would be simply added together. Where uses would be incompatible--e.g. subdivision for residential use and coal development (i.e. Beluga area)--the highest value (i.e., the value for the highest and best use) would be used. Generally, those initially approved procedures could result in one of three possible values being selected: (1) the sum of the surface value and the resource value, where extraction or removal of the resource would not affect the surface value; or (2) the resource value where it exceeds the surface value and extraction or removal would diminish the surface value; or (3) the surface value where it exceeds the resource value and extraction or removal of the resource would diminish the surface value.

The IMHTC majority, however, substituted an integration process which simply adds the various value elements, with no consideration given to whether the various uses are compatible or not.

I initially went along with this revised integration procedure, despite objections by department staff, in the spirit of compromise and my desire to achieve consensus. It is well-recognized, however, that a proper valuation procedure cannot simply add separate value elements where use of the property to exploit one element is incompatible with use of the property to exploit another. See, e.g., W. Mason, Jr., M. Azar, and G. Anderson, "Condemnation Value: The Taking of Mineral Bearing Lands," Mining Engineering 10986 (November 1989).

In my opinion, the integration procedures first determined by the IMHTC are the only ones which can produce a credible integrated value. I therefore believe that the following procedures should be used:

- (1) Add the surface value and the oil and gas value;
- (2) Add the mineral value, timber value, oil and gas value, coal value, and material source value; and
- (3) for each parcel, select the highest value developed under (1) and (2) as the fair market value for that parcel.

Using those integration procedures and the per parcel values for each value element as outlined above, the total integrated fair market value for the original one million acre grant equals \$564,700,728. Using the same integration procedures, the pool of potential replacement lands would have a fair market value of \$910,103,205.

#### Replacement Pool Lands

As stated earlier, the IMHTC majority report failed to address the replacement land valuation requirements altogether. Using the procedures included in the majority report, the trust simply cannot be reconstituted by the Commissioner as contemplated by the Legislature and required by AS 38.05.800(b) and (c).

The procedures that I recommend will allow the trust to be reconstituted with equal value land from the replacement pool of legislative designations. Each of the procedures that I recommend has been followed for the replacement pool land on a parcel by parcel basis (with exception of material sources).

#### Redetermination of Values

AS 37.14.011(c) provides for the redetermination of the fair market value of the land constituting the mental health corpus at least every five years. The statute does not provide any further guidance on how this revaluation shall be accomplished.

This requirement can be fulfilled in any number of ways. I feel that the least desirable is to repeat a valuation process modeled on the one that we have just finished. I feel that the time, effort, and continual disagreement with the results would not be productive for all concerned.

I therefore recommend the following revaluation process.

1. Valuation of mental health corpus land will be conducted on an 18 month basis by region. Each of three regions, Northern, Southcentral and Southeast will be valued during successive 19-month periods. The same criteria previously recommended will be used to integrate values and to determine the fair market value of the parcels and the trust corpus as a whole.
2. Surface valuation will consist of an indexing of value increases, or decreases, within each region and application of the appropriate increase or decrease in market value occurring in each area since the previous valuation. Municipal property assessment records (for lands within municipalities) and paired market sales data (for lands outside municipalities or where property taxes are not levied) will be used to determine land value increases or decreases in each area.
3. Mineral values will be indexed to the mineral production in Alaska with the appropriate increases or decreases made for each region on a parcel-by-parcel basis.
4. Coal and oil and gas values will be indexed to the world market with appropriate increases or decreases made statewide on a parcel-by-parcel basis.
5. Timber values will be indexed to the market and conditions for the region with appropriate increases or decreases made regionally on a parcel-by-parcel basis.
3. **The procedures proposed and adopted by the IMHTC create substantial problems with respect to reconstituting the trust and periodically redetermining its value.**

AS 38.05.800 (b) specifically states:

"The Commissioner of natural resources, with the approval of the Interim Mental Health Trust Commission, shall identify land within legislative designations that is equal in value to all land selected by and patented to the state under Sec. 202 of the Alaska Mental Health Enabling Act that is not in legislative designation."

The value of the original mental health land trust is so high under the procedures specified in the majority report of the

IMHTC, that the trust cannot be reconstituted as contemplated by the Legislature. The value of the mental health trust, as established in the majority report, exceeds the value of all possible replacement lands.

Under AS 38.05.800(b) and (c), moreover, the trust is to be reconstituted with land in legislatively designated areas (e.g., parks, wildlife refuges, etc.) which is equal in value to the original mental health land grant. To do this, both the original grant and the pool of potential replacement land must be valued under the same procedures. The majority report of the IMHTC fails to address the replacement land valuation requirement altogether.

Because it is unnecessary to replace every parcel of original trust land (since some trust lands are already within legislative areas), and because the procedures proposed and adopted by the IMHTC make no attempt to value parcels individually, the trust simply cannot be reconstituted through the majority report approach.

Under AS 37.14.011(c), moreover, the trust as reconstituted under AS 38.05.800(b) and (c) must be periodically revalued at least once every five years. Therefore, because the pool of potential replacement land has not been valued under the same procedures used to value the original grant and therefore cannot be reconstituted, it also cannot be periodically revalued as contemplated by the Legislature.

## CONCLUSIONS AND RECOMMENDATIONS

For the foregoing reasons, I have concluded that the Commissioner simply cannot comply with the applicable provisions of law at this time. The valuation procedures set out in the IMHTC majority report were adopted over my objection on behalf of the department, and therefore are not the product of consensus as contemplated by the Legislature and specified by law. The procedures that I believe should be employed, on the other hand, have not been approved by the IMHTC as required by the Legislature and specified by law.

I therefore recommend that the Commissioner send letters to both the Speaker of the House of Representatives and the President of the Senate explaining that she is unable to comply with the law as currently written, enclose copies of both the IMHTC majority and minority reports, and list three options for legislative consideration: (1) change the law and accept the \$2.2 + billion value determined under the procedures adopted by the IMHTC majority; or (2) change the law and accept the \$564 + million value determined under the procedures I believe should be used to comply with Chapter 48; or (3) appropriate additional funds to permit the IMHTC to continue seeking consensus.

I believe that the Commissioner should recommend to the Legislature that they adopt option (2) and accept the 564 + million value for the original one million acre mental health trust land grant. The procedures used to determine that value have been subject to review by outside professional experts and developed, reviewed, and approved by department staff who have a wide variety of expertise in valuing the various resources found on mental health lands. Furthermore, the Attorney General's Office advises that such a procedure would be legally defensible since the United States Supreme Court ruled that it is permissible to use "procedures established by the Commissioner's rules, or any other procedures reasonably calculated to assure the integrity of the trust and to prevent misapplication of its lands and funds." Lassen V. Arizona Highway Department, 385 U.S. 758, 465 (1967).

It also would be eminently fair to both the trust and the state. It would establish the various elements of value as follows:

Surface Estate	\$511,949,467.00
Hardrock Minerals	73,403,459.00
Timber	36,243,253.00
Oil and Gas	495,998.00
Coal	432,866.00
Material Sources	undetermined

Following the integration procedures outlined above, the total integrated fair market value of the original one million acre grant would equal \$564,700,782.82.

As an objective measure of the fairness of this value to the trust, the eight percent of this amount which the Commissioner of Revenue annually must allocate to the mental health trust income account under AS 37.14.011(c) until revaluation takes place equals \$45,176,058. or \$45.18 per acre per year; this compares very favorable to the national average of \$8.97 per acre per year returned for trust lands in other states.

At first blush, this figure might appear unfair to the state. After all, it is more than five times the national average, and exceeds even Washington which, at \$45.68 per acre (as a consequence of its prime and easily accessible timber resources), has the highest average in the nation. At the same time, it must be remembered that, following the exchange contemplated by Chapter 48, all of the newly reconstituted mental health trust will consist of land within legislatively designated areas which the state will continue to administer for legislatively designated purposes. In other words, unlike the case in most states, the state here will be using every acre of the newly constituted mental health trust for its own purposes. It therefore is only fair that the state compensate the trust for that use. One consequence of this is that, unlike the case in other states, every acre of the mental health trust will be productive in terms of generating revenue. That has the effect of raising the per acre earnings of the entire trust, a result which I believe is not inappropriate.

I recognize that many in the mental health community will find fault with the approach I have recommended and its result. I did my best, as a Commission member, to be cooperative and strive toward achieving consensus. Unfortunately, it was simply not possible to reach agreement on all of the difficult issues that required decisions. It should not go unnoticed that the IMHTC was able to reach agreement on many issues. I believe the facts and information presented in this report support my recommended approach and the resultant values. While further litigation may be inevitable as a consequence of my recommendation, I cannot

accede to the values determined under the procedures adopted by the IMHTC majority since they significantly overstate the value of the original one million acre mental health trust land grant as of September 7, 1987. Accordingly, for the reasons stated, I dissent from the report filed by the IMHTC majority.

Date

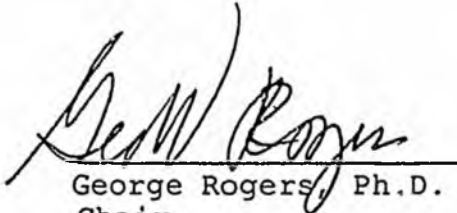
February 1, 1990




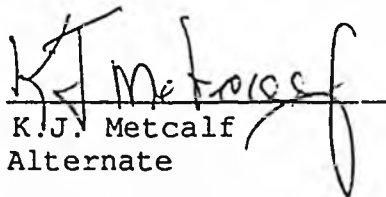
Rod Swope, Designee  
Interim Mental Health Trust  
Commission

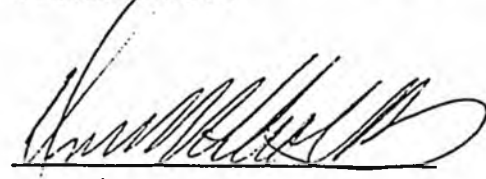
INTERIM MENTAL HEALTH TRUST COMMISSION (IMHTC)  
RESPONSE TO  
MINORITY RECOMMENDATION TO THE COMMISSIONER OF NATURAL  
RESOURCES

March 20, 1990

  
George Rogers, Ph.D.  
Chair

  
Lidia Selkregg, Ph.D.  
Commissioner

  
K.J. Metcalf  
Alternate

  
Dennis Scholl, Ph.D.  
Alternate

### Introduction:

The Commission members and alternates have reviewed the "Minority Recommendation to the Commissioner of Natural Resources" (Minority Report) submitted February 1, 1990 by Rod Swope, the Commission member serving as the Designee for the Commissioner, Department of Natural Resources (DNR). The review of the Minority Report by the Commission majority produced no basis for modification or revision of the "Interim Mental Health Trust Commission Draft Final Report" (Commission Report) of December 20, 1989. The Commission Report stands as the final report on the "Approved Procedures for Determining the Fair Market Value of Alaska's Mental Health Trust Lands." The public members of the Commission and their alternates re-affirm their recommendations.

### General Nature and Character of the Minority Report:

The nature of the Minority Report was a significant disappointment to the other members of the Commission. While failing to substantiate DNR's findings and conclusions, the Minority Report attempted to discredit the Commission's work by portraying the public members as unprofessional, not acting in the public interest and in fact acting illegally. These are serious personal allegations that require a personal response.

The Minority Report opens on the first page by asserting that the Commission exceeded its authority and adopted,

*"...valuation procedures urged by the attorneys for the plaintiffs and intervenors in the Weiss case, procedures designed to maximize value and not to produce fair market value as required by Chapter 48."*

The Minority Report is laced with similar implications of professional misconduct by the public members of the Commission. Designee Swope portrays himself as the lone champion of reason and legality, and by implication, and sometimes directly, portrays the public members as being the reverse. On page 6, for example, Swope claims

*"I strived toward achieving consensus and a common resolution...[On the other hand] it became apparent that the majority of the IMHTC was dissatisfied with the results of the initially approved procedures and began amending them to produce higher values."*

It is extremely unfortunate that the Minority Report personally attacked two professionally respected, long time Alaskans who have dedicated their lives to public service, by

implying they would put their professional and personal reputations on the line for the benefit of an interest group.

The public members of the Commission volunteered over three years of their time without compensation to develop a legitimate process for arriving at the "fair market value" of the original Mental Health Trust. The process is legitimate and the Commission Report accurately documents the effort.

Another tactic used at the outset of the Minority Report has nothing to do with the Commission recommendations as such, but is designed to create an attitude in the mind of the reader that would be antagonistic to the Commission and favorable to the Minority Report. At the top of the second page the Minority Report introduces a half truth to portray the dire consequences to the State budget of following the Commission's recommendations.

*"The importance of the value determination used to determine fair market value cannot be overstated because of the dramatic effect they will have on the overall state budget. Under the valuation procedures adopted by the majority of the IMHTC...this would result in more than \$178 million in otherwise unrestricted state general funds being restricted in the Mental Health Trust Income Account."*

The omitted half of the whole truth is that the restriction to the Mental Health Trust Income Account is only a temporary accounting transaction required by Chapter 48 in an attempt to comply with the 1956 Congressional Alaska Mental Health Enabling Act which created the Trust. After payment from the account of only the necessary expenses (not the unnecessary expenses) of the Mental Health Program, the balance of the income is transferred to the General Fund for other public purposes. The value of the land corpus (whether it be high or low) does not determine the Mental Health Program budget as Designee Swope states. The Program budget is determined by Legislative appropriation after consideration of the recommendations of the Alaska Mental Health Board. In short, the effect of the valuation procedure upon the overall State budget is neutral, not "dramatic" as alleged.

The public member majority of the Commission do not feel resolution of the issue is served by trying to alarm Alaskans, rightfully concerned with fiscal solvency of the State, by painting a fiscal horror story not supported by facts. They further believe that the tactic was used to justify DNR's own fanatical efforts throughout the process to drive down the estimated value of the original Trust Lands.

The personal attacks in the Minority Report are distressing and had to be addressed. But, to belabor this does not serve the purpose of resolving the complex Mental Health Lands Trust issue. The technical questions raised in the Minority Report are more appropriate to address.

Technical Questions Raised by the Minority Report:

The Minority Report fails to address directly the Commission Report. Instead, Designee Swope's dissent is based upon two charges, (1) that the Commission exceeded its statutory authority, and (2) that the Commission adopted "procedures designed to maximize value and not to produce fair market value."

Minority Report Finding 1: "The IMHTC exceeded its statutory authority by proposing and adopting its own valuation procedures instead of reviewing and approving procedures proposed by the Commissioner."

The long and arduous task of developing a procedure for identifying fair market value was undertaken by the Commission in an atmosphere of cooperation and trust. We, the public members, assumed all parties were working toward a solution. This enormous task was made difficult by shortages of data, time, and funds and by the limited expertise of DNR staff. The Commission Report adequately details the process. The Commission followed the advice and counsel of the Attorney General's office in developing the fair market value procedures. It therefore came as a shock to find DNR and/or the Attorney General's office, in the Minority Report, creating a new interpretation of the Commission task in an apparent attempt to invalidate our years of effort. It is all too apparent this new interpretation evolved because DNR disagreed with the Commission's approved procedures. This unfortunate "eleventh hour" tactic suggests the Commission's assumption of trust and good faith was ill-founded.

Chapter 48, SLA 1987 revised and replaced certain sections of Chapter 132, SLA 1986 which created the Commission to oversee interim management of the Trust lands and work with the Legislature in establishing a statutory basis for resolving the Trust land issues. The Commission membership was reduced from five (5) to three (3) -- the Commissioner of DNR and two public members -- and its mission redefined in terms of the negotiated settlement framework. The reduced Commission assumed sections of Chapter 132 not replaced or revised were still in effect and for more than two years continued operations much as it had in its original form without question or challenges.

Throughout this period the Commissioner of DNR participated continuously (through various designees) and the Attorney General was represented by Tom Koester. It came as a surprise, therefore, to be informed three months after the Commission submitted its final approved procedures and two months after forwarding its draft final report that the Commission had "exceeded its statutory authority."

The Minority Report further alleges,

*"By proposing and adopting valuation procedures over the department's objections, the IMHTC has ignored the legislative requirement that, in effect, there be consensus as to the valuation procedures to be employed. ... In my opinion, the failure of the IMHTC to reach consensus on valuation procedures makes it impossible for the Commissioner to comply with Chapter 48."*

Consensus was not a "legislative requirement". Chapter 132, SLA 1986 provided that motions could be adopted by majority vote and, in fact, many of the "action items" treated by the present Commission were resolved by a two yea vote (the other member voting nay or abstaining). The actions resulting in the final approved procedures and the Commission Report were carried out, at the suggestion of Designee Swope, as a means of bringing the whole issue of valuation to a close. He also stated, and it was agreed, there might also be a minority report.

In the Minority Report Designee Swope also charges the Commission improperly changed the originally approved procedures and he implies this was a frequent practice aimed at producing a value substantially greater than fair market value. In fact, the originally "accepted and approved" procedures were observed to the very end of the Commission deliberations adjusted only when required by lack of funds or data. This is more fully discussed in the final section of this reply (page 10, below).

Minority Report Finding 2: "The procedures proposed and adopted by the IMHTC in the majority report do not produce fair market value, as required by Chapter 48; instead they produce a value substantially greater than fair market value."

The bulk of the Minority Report attempts to discredit the Commission's fair market procedures. After careful review of the Minority Report, the Commission determined there is no reason to alter its conclusions. The Commission Report sets forth the final approved procedures in detail. Rather than

repeat that substantial information, a summary response is given to key challenges in the Minority Report.

Given the limitations of budget, time, data and staff the final approved procedures are appropriate, legal and lead to a mid-range value, not a high value. This is summarized in the text of the resolution adopted November 7, 1989 (see Appendix A in the Commission Report of December 21, 1989).

The largest differences between DNR's preferred values and the values arrived at by the Commission's final approved procedures are in the surface estate and the mineral resources. Further clarification on surface estate valuation and procedure for valuing mineral resources follows.

### Surface Estate Valuation Procedures

Because of time and financial constraints the Commission could not use "best practices" (i.e. appraisals). Instead, three geo-panels of appraisers were selected to give opinions of value for parcels in their regions. At best the process was highly judgmental and subjective, but in addition only an estimated seven to ten minutes was spent on each parcel and data was limited to that provided by DNR or brought to the meetings by the appraisers. Because of inevitable differences of opinion between appraisers and the probability of error due to time and data limitations, the approved procedures provided for a review and discussion of questioned values. In the event the review step did not resolve differences, the Commission could utilize a mediator to recommend resolution.

The review stage was never completed and the mediation stage never reached.

Although problems arose in connection with the operations of the geo-panels, it was with the initiation of the review stage of the approved procedures that the surface estate valuation process began to break down. Through various tactics the DNR staff attempted to thwart the proper implementation of this stage of the surface valuation with the justification that the approved procedure might result in increases in values. After several bitterly fought meetings, the process was allowed to continue with modifications. The Minority Report chose to ignore the review aspects of the approved procedures and wrongfully portrays the role of the review appraisers as something added later at the insistence of attorneys for the plaintiff and intervener.

The Southeast geo-panel was provided a random sampling of the questioned surface estate values. On the basis of the geo-panel's accepted adjustments the initial geo-panel value for

Southeast parcels was increased by 30%. However, of the 387 sample parcels reviewed more than half (207) were recommended for further mediation, a step of the originally approved procedures that never came to fruition.

The Southcentral geo-panel was called into review session, but DNR staff neglected to invite the review appraiser. Although an apology was made to the Commission, the end result was the reviewer could only be present for a few hours of one morning. At that time he did present comparable sales for large parcels which the geo-panel did not know existed. Once provided this useful large parcel information, the Southcentral geo-panel recommended five of six large parcels re-examined be increased in value by 68%. If the southcentral review had been possible, as provided by the approved procedures, there was a high probability other similar adjustments would have been made.

A review of the Northern geo-panel was never even initiated. At this point the Commission was informed by the DNR staff that funds had been exhausted.

In the course of carrying out the approved procedures it became apparent the opinion of value approach was seriously flawed. The State's appraiser provided the geo-panels during their deliberations with interpretation of the valuation instructions for application to actual cases. The review step disclosed the State's interpretations as not totally unbiased. During the geo-panels' deliberations the State appraiser reported to the Commission problems between members of the Southeast panel in coming to agreement. Additionally, the members of the Southcentral geo-panel submitted a memorandum to the Commission designed to protect their professional reputations. The memo stated the product of the abbreviated valuation process was "not even 'preliminary opinions of value' as commonly understood in the appraisal profession" and listed other limitations such as time and funding and the manner in which the State had parcelized the land for appraisal(see Commission Report, Appendix B, page B4).

The unfinished process of carrying out the approved procedures left the Commission with a wide range of surface estate values -- the adjusted values of the geo-panels advocated by DNR and the values presented by the review appraisers advocated by the plaintiffs. The Commission chose a procedure leading to a mid-level value between these extremes.

Procedures for Valuing Mineral Resources -- A  
Question of Most Appropriate Methodology

The National Appraisers Association Standards for determining fair market value recognized three general approaches: market (comparable sales), income (capitalization of income stream from the property) and replacement cost. From the beginning the public member majority of the Commission have insisted the methodology most appropriate to the type of estate being valued would be employed and the various Commissioners of DNR and designees understood this requirement. On September 29, 1987, for example, the then Commissioner of DNR directed the Division of Geological and Geophysical Surveys (DGGs) to "assess the quantity and quality of known and potential hard rock minerals...followed by a resource valuation." This value was to "be determined by an independent entity, likely retained under contract to the department."

In April 1988 DGGs maps reflecting mineral potentials and favorability of mineral occurrence on Trust Land were presented to the Commission. In preparing for the next phase, the Commission was informed

*"assuming it proves impossible to complete an in-house mineral valuation (for whatever reason), we will be prepared to proceed with contract solicitation to complete the work."*

The Commission assumed it had approved procedures that included mineral valuation by outside consultants using the income approach. This is the point at which DNR decided to depart from the previously approved procedures and to use instead the comparable sales approach. The comparable sales approach was considered totally inappropriate by the public members as well as the State's own professional consultant, (Dr. Harris). Using the wrong approach, DNR first set the mineral value at zero and later at \$16 million. In commenting on the Commission's rejection of this value, the Minority Report author agrees, "The initial value determined--\$16 million--admittedly seemed quite low." (see Minority Report, page 16).

To bring these mineral valuation procedures to a conclusion, therefore, the plaintiffs and interveners entered into a contract with independent consultants as provided in the originally approved procedures. The Minority Report asserts wrongfully that the consultants used "a procedure not previously recommended by the Commissioner or formally discussed or approved by the Commission." This statement is an outrageous distortion of the truth. From the very beginning the Commission has distinguished between procedures and the methodology selected to implement the procedures and also has always held the most appropriate methodology would

be used in implementing the procedures. This was formally reiterated by the Commission and agreed upon by all members at the July 12, 1989 meeting. "Fair market value for purposes of Chapter 48 means utilization of the best information and methodology available." (see Commission Report, page 5, emphasis added).

Designee Swope and the DNR staff, however, have overlooked this Commission direction. Instead, at the September 5, 1989 meeting the lead DNR staff member emotionally exclaimed

*"we have been faithful to the market approach because that is what the Legislature required."*

(Commission Report, page 5). We have searched the statute in vain for any such requirement! Stonewalled by DNR staff the Commission was left with two mineral values ranging from the unacceptable "comparable sales" value of \$16 million and the \$1.5 billion value arrived at by employing an appropriate "income" methodology.

DNR staff have consistently insisted on or returned inappropriately to reliance upon only one methodology -- comparable sales -- and have gone to the extreme of insisting this and nothing else results in fair market value. This entrenchment is clearly because their valuation experience has been primarily in "condemnation litigation" (the Minority Report at least twice, pages 10 and 27, admits these are the DNR standards). This is the methodology DNR has always used and they are most comfortable with. But, the present transaction is not a condemnation valuation and comparable sales are totally inappropriate to determining fair market value of a mineral endowment.

This view of limitations of DNR experience and capability was shared by DNR's own expert consultant, Professor Harris, who also provided possible explanation for DNR's very narrow interpretation. Dr. Harris diplomatically worded an evaluation of the technical expertise of the DNR staff (see Harris, September 1989, pages 8-9). Of the types of expertise required for the mineral estate valuation estimates attempted, he found the DNR staff qualified "as to certain types of deposits...especially well qualified as to regional knowledge...[but] not highly experienced in estimation methodology." He also noted the possibility of bias or at least the "appearance of conflict of interest," due to the State being defendant in litigation.

In his conclusion as to the requirements for a process following "best practices," Harris reiterated his evaluation of the in-house expertise by stating the DGGS work on mineral endowment would have to be redone. He recommended this work and the estimation of value not be done in-house. Instead,

the mineral endowment should be done by contract with the U.S. Geological Survey (he confirmed USGS could and were willing to do the work) and the valuation work should be done by independent economic consultants such as the Center for Mineral Resource Science in Arizona (Ibid. page 10). Ironically, these recommendations by DNR's mineral valuation expert consultant coincide with the recommendations of the Commission Chairman made in a memo over two years previously, June 19, 1987.

#### In Search of a Resolution:

The task of valuation was far more complex, controversial and time consuming than anyone had contemplated beforehand. The public Commission members entered the effort, more than three years ago, with the belief that fair resolution of the Trust valuation was in the best interests of Alaska. To not resolve the issue and continue the legal battle could be disastrous to the well-being of all Alaskans, not just the primary beneficiaries of the trust. The Commission believed at the outset that it had the latitude to craft a resolution that could be recommended to the Legislature. This goal was pursued until mid-1989 when it became apparent DNR and the public members of the Commission could not achieve accord on the methodology to be used in implementing the approved procedures.

Only at this point did the Commission contemplate amending the originally approved procedures. At its May 16, 1989 meeting the Commission discussed (but did not adopt) a draft report submitted by the three lawyers in the case which noted "Continuing with the Commission's currently approved valuation procedures no longer appears possible" and also recommending amended procedures. These would attempt to narrow the range of values calculated by use of the two sets of methodology and the Commissioner of DNR would determine a value within the narrowed ranges.

No progress was made toward narrowing the range and a team composed of the three lawyers in the Weiss case and a DNR staff member explored the possibility of using negotiation to arrive at an acceptable value for purposes of settlement. The defendants made a token increase (mineral value from \$16 to \$73 million) and the plaintiffs decreased their value by \$200 million. At the October 1989 Commission meeting the team announced an impasse leaving a difference of more than \$1.5 billion.

At this point Designee Swope agreed that a resolution setting forth procedures should be placed before the Commission for a vote. This was done on November 7th, 1989. The public members and their alternates stand firm on their final approved recommendations. We followed the law. We recognize a divergence of opinion exists. We see it as unfortunate complete consensus was not achieved. However, complete consensus may never be reached. We feel it is essential to complete the task of reconstituting the Trust and removing the threat of continued litigation and resulting disruption.

We urge the Commissioner of the Department of Natural Resources to use the Commission procedures in establishing a fair market value for the Mental Health Trust.

# ALASKA MENTAL HEALTH BOARD

---

STEVE COWPER, GOVERNOR  
STATE OF ALASKA

ST. ANN'S CENTER  
419 6th STREET, SUITE 124  
JUNEAU, ALASKA 99801  
907-465-3071

March 26, 1990

Senate Resources Committee  
P.O. Box "V"  
Juneau, AK 99811

Honorable Senators,

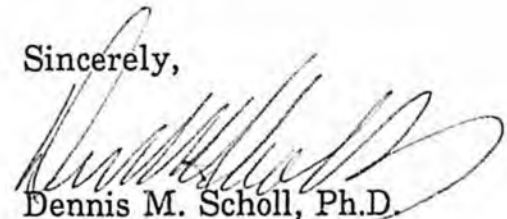
The Alaska Mental Health Board (AMHB) has reviewed SB493, "An Act relating to the reconstitution and administration of the mental health trust." At its meeting in February the AMHB took action in support of the intent of SB493 including that:

- (1) the Legislature recognize the trust value of \$2,243,000,000 established under procedures approved by the Interim Mental Health Trust Commission,
- (2) land and resources in legislatively designated areas be identified as security for the trust corpus, and
- (3) revaluation procedures be established which effectively continue to reflect the value of the original trust lands over time.

In actions related to the AMHB discussion of SB493, the Board re-affirmed its prior action supporting appointment of an independent trustee for the mental health trust and urging the appointment of an interim trustee pending final resolution of issues in the Weiss v. State litigation.

On behalf of the Alaska Mental Health Board I convey their support for the intent of SB493.

Sincerely,



Dennis M. Scholl, Ph.D.  
Executive Director

cc.  
AMHB



Official Business

COMMITTEE:

SENATE RESOURCES

DATE: 4/20/90

SIGN-IN

Subject of meeting:

SB 493 Mental Health Trust

PLEASE PRINT!

NAME

ADDRESS

(MAILING) & (ZIP)

PHONE

REPRESENTING:

DO YOU WANT TO TESTIFY?

David V. Shoemaker	215 Fidalgo St., Suite 102, Kenai, AK 99611	(907) 283-7501	Central Peninsula Counseling Services	
BOB IRVINE	230 E. PAULSON STE 68 WASILLA	375-2411	MHT 50 COMMUNITY COUNSELING	
DIPNA BRINKMAN	" " "	"	" "	
<del>Dianne Lyles</del>	<del>3602 E ST, Anch, AK 99503</del>	<del>762-2384</del>	<del>ADWR</del>	
David Walker	326 4th St. just W. from	586-3537	Benevolent	yes? answer question
Dennis Scholl	326 4th St #1110 Lemay	99801	AMTB of self	Yes

**S B**

**511**

# ALASKA FOREST REGENERATION CENTER

---

## *Why Regenerate Forests?*

---

Regeneration of Alaska's forests will provide jobs, encourage investment by the forest industry, sustain aesthetic values of forest land, and may help diminish global changes in climate. Existing programs for producing and planting trees in Alaska are not sufficient to regenerate forests completely following harvesting, burning, or destruction by insects or disease. Recent damage by the spruce bark beetle alone has impacted 1.9 million acres of forest land in Alaska. Without sufficient production of tree seedlings and a tree planting program, state-owned forest land cannot be managed for high levels of sustained yields. Thus, timber sales must be curtailed, and jobs and other benefits derived from healthy forests will diminish.

## *What Can Be Done?*

---

The Alaska Reforestation Council recommends an expanded Forest Regeneration Center at Eagle River, Alaska, and a coordinated tree planting program in the northern, southcentral and southeastern regions of the state. This commitment will produce high quality tree seedlings to rehabilitate areas devastated by insects or fire, reclaim state-owned forest land that is currently understocked, and support applied research to insure successful reforestation. Projected benefits include the annual production of 1,600,000 tree seedlings. Approximately one-half of these will be planted on state land. The remainder will be sold to private land owners for use in reforestation required by the Forest Practices Act. Operational programs for site preparation and tree planting in the various regions of Alaska are included in the reforestation program. Approximately 70 percent of the funds for this work will be allocated for contracts in local communities.

## *How Should the Center Be Funded?*

---

Much of Alaska's need for reforestation involves land owned and managed by the state. Thus, the Alaska Reforestation Council recommends that General Fund appropriations be provided for the production of tree seedlings at the Forest Regeneration Center, and for subsequent contracts for planting trees. Current legislation permits use of a portion of the income obtained from timber sales on state-owned land to support reforestation. However, appropriations must be made each year for this purpose. In the short term, this investment will provide reforestation on forest land owned by the state,

avoid the necessity of buying seedlings outside of Alaska, and provide training and jobs in reforestation in cooperating communities. In the long term, it will regenerate Alaska's forest lands and provide sustained yields of superior quality trees for future generations in the Great Land.

## *What is the Alaska Reforestation Council?*

---

The Alaska Reforestation Council is a non-profit corporation organized in 1988 to: (1) improve forest management in Alaska, (2) promote the development and use of high quality seedlings for reforestation, (3) support the development of a tree nursery system in Alaska, and (4) promote a tree improvement program in the state. Council membership includes individuals with private businesses, conservation groups, Native corporations, state and federal agencies, the University of Alaska, and the general public.

## *How Soon Will the Center Be Operating?*

---

Present support is insufficient to continue the production of tree seedlings at the forest nursery in Eagle River. If funding is provided by the Alaska State Legislature for FY 1991 to develop the Alaska Forest Regeneration Center, the production of seedlings could be initiated immediately. Capital improvements to enhance the production of seedlings and contracts for planting would begin in 1990; full production would occur by 1993.

## *What Are the Costs?*

---

An Alaska Forest Regeneration Center requires an initial appropriation for capital improvements at Eagle River, Alaska, and annual appropriations for operations to produce tree seedlings and carry out reforestation on forest land owned by the state.

Capital improvement of center (one-time only)		\$1,052,000
Annual operations at center .....	\$820,000	
Annual expenditures for reforestation on state land:		
Northern Region .....	543,800	
Southcentral Region .....	107,100	
Southeast Region .....	90,100	
		<hr/>
		1,561,000
TOTAL		<hr/>
		\$2,613,000

The future of Alaska's forests depends on investment now in the Alaska Forest Regeneration Center and a reforestation program. These forests will continue to provide increased economic and social benefits for Alaskans as projected declines in petroleum production result in decreased revenue to the state. Benefits range from jobs in the production and processing of wood products to

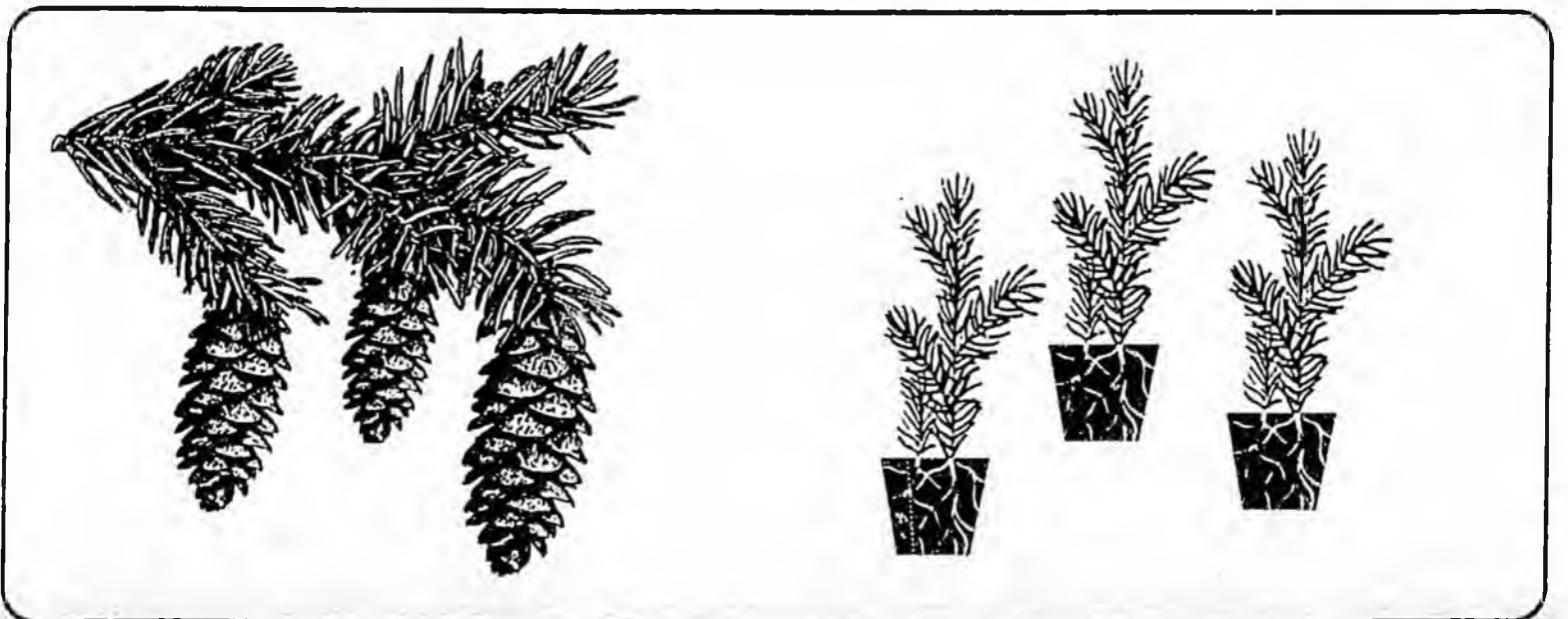
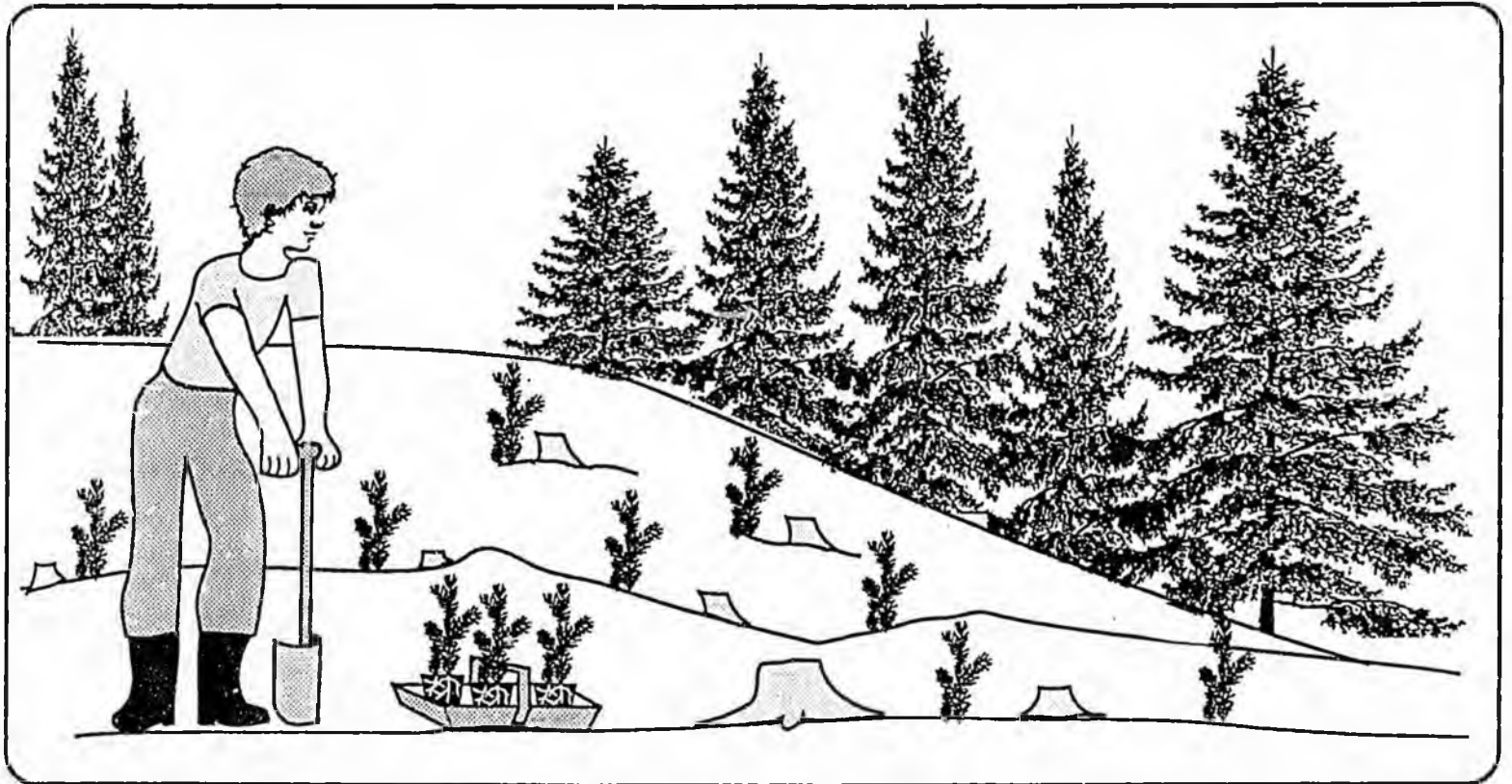
enhanced tourism associated with recreation and wildlife values.

The Alaska Forest Regeneration Center will produce genetically superior trees for reforestation in areas where trees have been harvested, burned, or killed by insects. Reforestation will increase sustained timber yields, provide training and jobs for youth, and enhance the scenic beauty of forest land. In addition, high levels

of sustained yields will permit expanded harvest of timber on state lands designated for wood production.

Good stewardship of forest land will benefit Alaskans well into the future. Now is the time to invest in reforestation for jobs today and for sustained forest yields tomorrow. *When the oil stops flowing, the trees will be growing.*

## SUPPORT THE ALASKA FOREST REGENERATION CENTER



# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

# ALASKA FOREST REGENERATION CENTER

---

## *Why Regenerate Forests?*

---

Regeneration of Alaska's forests will provide jobs, encourage investment by the forest industry, sustain aesthetic values of forest land, and may help diminish global changes in climate. Existing programs for producing and planting trees in Alaska are not sufficient to regenerate forests completely following harvesting, burning, or destruction by insects or disease. Recent damage by the spruce bark beetle alone has impacted 1.9 million acres of forest land in Alaska. Without sufficient production of tree seedlings and a tree planting program, state-owned forest land cannot be managed for high levels of sustained yields. Thus, timber sales must be curtailed, and jobs and other benefits derived from healthy forests will diminish.

## *What Can Be Done?*

---

The Alaska Reforestation Council recommends an expanded Forest Regeneration Center at Eagle River, Alaska, and a coordinated tree planting program in the northern, southcentral and southeastern regions of the state. This commitment will produce high quality tree seedlings to rehabilitate areas devastated by insects or fire, reclaim state-owned forest land that is currently understocked, and support applied research to insure successful reforestation. Projected benefits include the annual production of 1,600,000 tree seedlings. Approximately one-half of these will be planted on state land. The remainder will be sold to private land owners for use in reforestation required by the Forest Practices Act. Operational programs for site preparation and tree planting in the various regions of Alaska are included in the reforestation program. Approximately 70 percent of the funds for this work will be allocated for contracts in local communities.

## *How Should the Center Be Funded?*

---

Much of Alaska's need for reforestation involves land owned and managed by the state. Thus, the Alaska Reforestation Council recommends that General Fund appropriations be provided for the production of tree seedlings at the Forest Regeneration Center, and for subsequent contracts for planting trees. Current legislation permits use of a portion of the income obtained from timber sales on state-owned land to support reforestation. However, appropriations must be made each year for this purpose. In the short term, this investment will provide reforestation on forest land owned by the state,

avoid the necessity of buying seedlings outside of Alaska, and provide training and jobs in reforestation in cooperating communities. In the long term, it will regenerate Alaska's forest lands and provide sustained yields of superior quality trees for future generations in the Great Land.

## *What is the Alaska Reforestation Council?*

---

The Alaska Reforestation Council is a non-profit corporation organized in 1988 to: (1) improve forest management in Alaska, (2) promote the development and use of high quality seedlings for reforestation, (3) support the development of a tree nursery system in Alaska, and (4) promote a tree improvement program in the state. Council membership includes individuals with private businesses, conservation groups, Native corporations, state and federal agencies, the University of Alaska, and the general public.

## *How Soon Will the Center Be Operating?*

---

Present support is insufficient to continue the production of tree seedlings at the forest nursery in Eagle River. If funding is provided by the Alaska State Legislature for FY 1991 to develop the Alaska Forest Regeneration Center, the production of seedlings could be initiated immediately. Capital improvements to enhance the production of seedlings and contracts for planting would begin in 1990; full production would occur by 1993.

## *What Are the Costs?*

---

An Alaska Forest Regeneration Center requires an initial appropriation for capital improvements at Eagle River, Alaska, and annual appropriations for operations to produce tree seedlings and carry out reforestation on forest land owned by the state.

Capital improvement of center (one-time only)		\$1,052,000
Annual operations at center .....	\$820,000	
Annual expenditures for reforestation on state land:		
Northern Region .....	543,800	
Southcentral Region .....	107,100	
Southeast Region .....	90,100	
		1,561,000
<b>TOTAL</b>		<b>\$2,613,000</b>

The future of Alaska's forests depends on investment now in the Alaska Forest Regeneration Center and a reforestation program. These forests will continue to provide increased economic and social benefits for Alaskans as projected declines in petroleum production result in decreased revenue to the state. Benefits range from jobs in the production and processing of wood products to

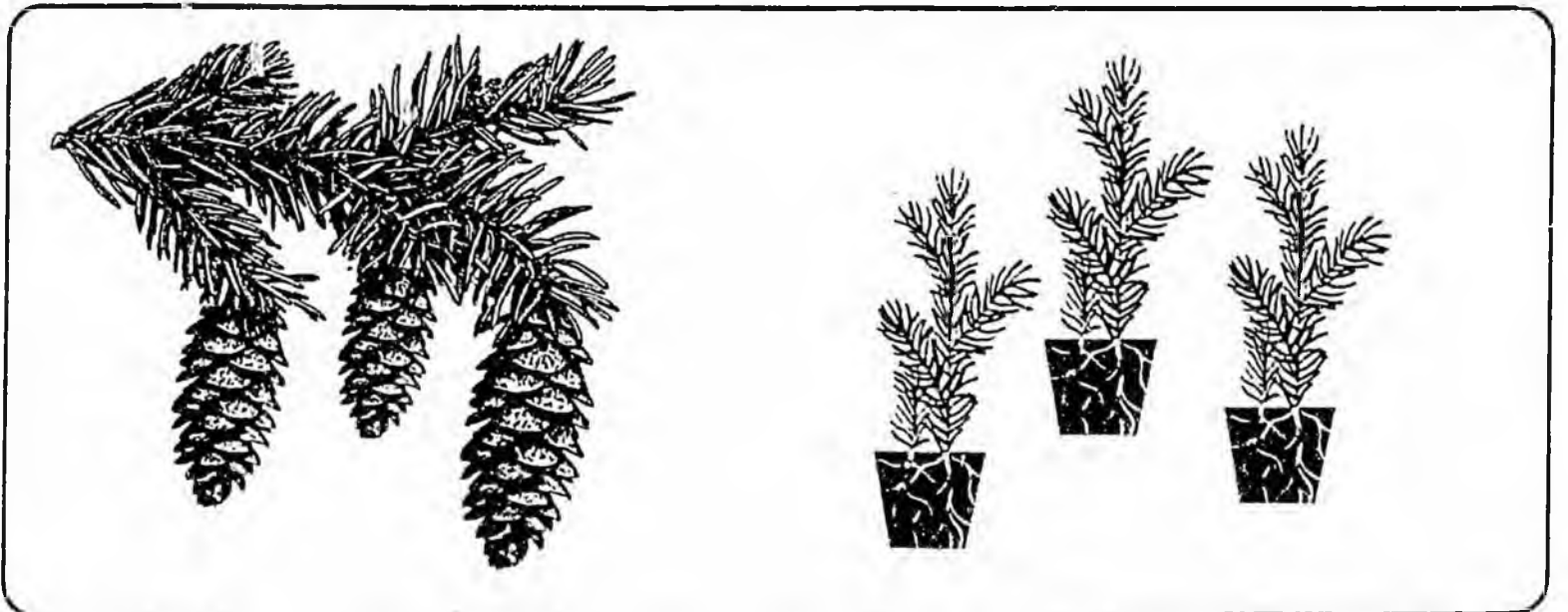
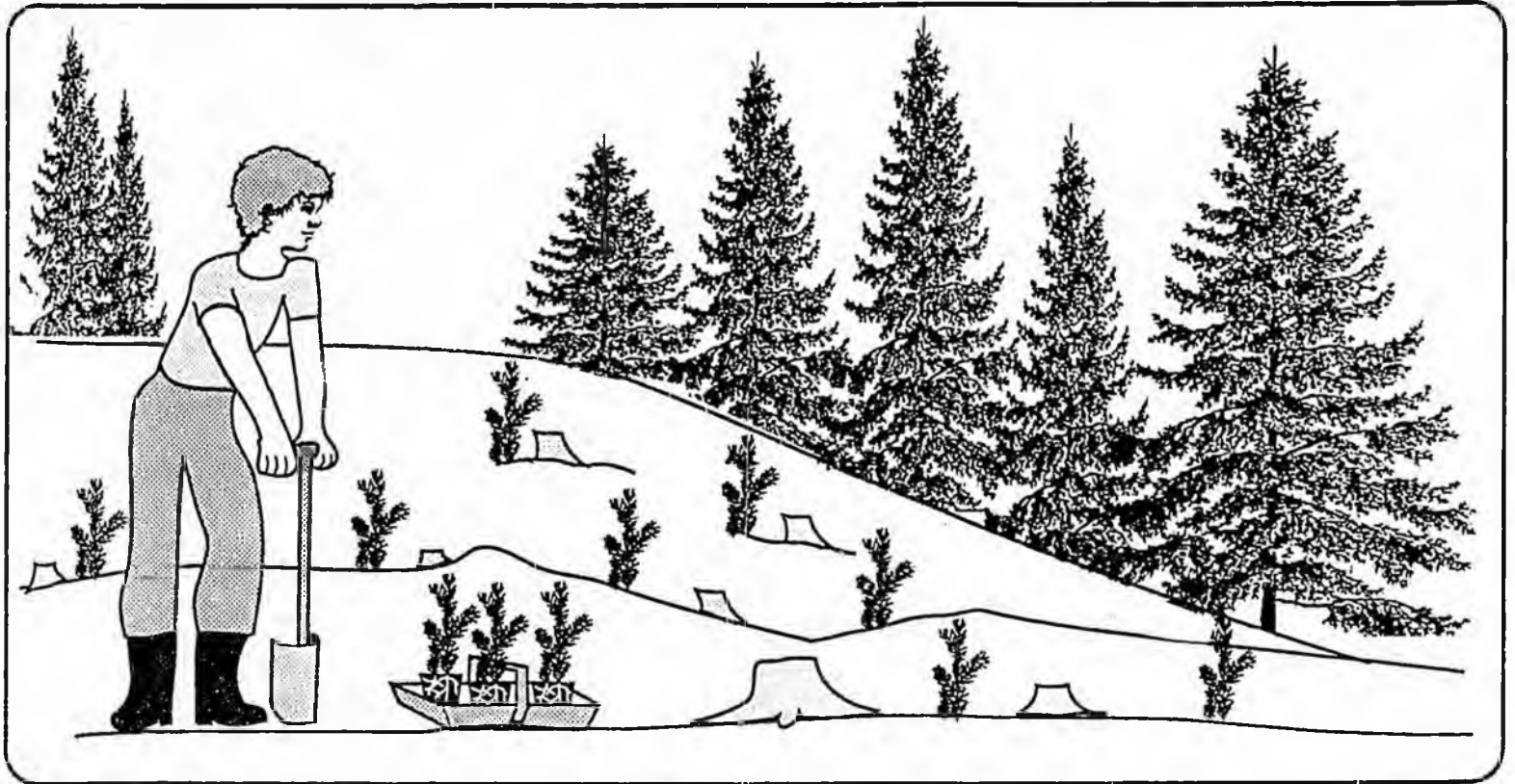
enhanced tourism associated with recreation and wildlife values.

The Alaska Forest Regeneration Center will produce genetically superior trees for reforestation in areas where trees have been harvested, burned, or killed by insects. Reforestation will increase sustained timber yields, provide training and jobs for youth, and enhance the scenic beauty of forest land. In addition, high levels

of sustained yields will permit expanded harvest of timber on state lands designated for wood production.

Good stewardship of forest land will benefit Alaskans well into the future. Now is the time to invest in reforestation for jobs today and for sustained forest yields tomorrow. *When the oil stops flowing, the trees will be growing.*

## SUPPORT THE ALASKA FOREST REGENERATION CENTER



SENATE COMMITTEE REPORT  
FIRST COMMITTEE OF REFERRAL

DATE: 3/2/90

FURTHER: Finance

Date of 5-Day Notice: 3-1-90  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3-5-90

Resources Committee considered SB 511

"An Act making special appropriations to the Department of Natural Resources for reforestation; and providing for an effective date."

and recommended:

- replace with \_\_\_\_\_ CS \_\_\_\_\_  same title
- attached amendment(s)  new title
- \_\_\_\_\_ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:

Department(s)/Date:

fiscal note(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

appropriation-no fiscal note

Governor's bill w/fiscal note

SIGNING DO PASS:

Stos Nord  
Paul Zhauff  
Carliso Sturgis  
J. Kent

OTHER RECOMMENDATIONS:

Rick Halford No REC  
~~Paul Zhauff No REC~~

Fahrenkamp Do Pass  
 Chair: Signature and Recommendation

United States  
Department of  
Agriculture

Forest  
Service

Pacific  
Northwest  
Research  
Station

Forestry Sciences Laboratory  
308 Tanana Drive  
Fairbanks, Alaska 99775-5500  
(907)474-8163 FAX(907)474-3350

---

Reply To: 4000

Date: February 15, 1990

Senator Bettye Fahrenkamp  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Fahrenkamp:

I am again asking for your support in contacting the Alaska Congressional Delegation in Washington for funds to support forestry research at the Institute of Northern Forestry in Fairbanks. The funding proposed for the Institute of Northern Forestry by the President's Budget for FY 1991 includes reductions of \$150,000 and \$100,000. Restoration of funds to support research on white spruce regeneration and tree improvement in Alaska are high priority funding needs for FY 1991. This research is done in cooperation with the Forest Tree Improvement Cooperative of the Alaska Reforestation Council. The Reforestation Council is presently seeking funds from the Alaska State Legislature to develop an Alaska Forest Regeneration Center. Reductions in the federal research program could severely impact the cooperative programs between the Institute of Northern Forestry and the Alaska Division of Forestry's regeneration program.

Enclosed is a statement of the impact this reduction would have on our program and a list of contacts in Washington who are involved in the Forest Service budget process.

Sincerely,

*Richard A. Werner*

RICHARD A. WERNER  
Project Leader

Encl: 2

PACIFIC NORTHWEST RESEARCH STATION

PNW-4351, Ecology and Management of Taiga and Associated Environmental Systems  
in Interior and Southcentral Alaska  
Fairbanks, AK

This unit develops improved understanding of disturbed and undisturbed taiga forests--the northernmost commercial forests of North America--and associated environments, to improve the base of knowledge for resource management and stewardship. Particular attention is paid to direct and indirect consequences of resource development, wildfire, and insects and diseases on wildlife habitats, timber and forage production; soil and water quality, and landscape stability; and wildlife/habitat relationships in the taiga of interior Alaska. This research unit is the only forest resources research entity (state, federal, or university) in the high-latitude boreal forest of the United States.

This unit also provides information concerning integrated management of the forests of south-central and interior Alaska; silvicultural options for white spruce, mixed spruce/hardwood, and hardwood forest stands; wildfire consequences for forest succession and long-term productivity; consequences for hydrologic regimen, sediment production and stream quality of forest management practices in taiga upland forests; forest pathogen and insect problems and remedial measures, with emphasis on high-value white spruce stands; habitat management to enhance moose populations; and forest genetics and seed provenance implications for reforestation and afforestation in forests of south-central and interior Alaska. This unit is a key component of the Station's global climate change program. /

The funding proposed for this unit by the President's Budget for FY 1991 includes reductions of \$150,000 and \$100,000 to the unit's 1990 funding as described by the Planned Program Base.

The impact of these reductions would be to delay research on white spruce regeneration and tree improvement which involves field trials with superior strains of spruce in geographic areas of Alaska and to delay technology for reforestation. The program is an absolute necessity if Alaska is to build a long-term forest industry in interior and south-central regions of the state. This research is in cooperation with the Forest Tree Improvement Cooperative of the Alaska Reforestation Council. Reduction of this research would affect all members of the cooperative.

Restoration of the \$250,000 will maintain the research needed to continue a viable reforestation program in Alaska. In addition, it would maintain the cooperative work with the Forest Tree Improvement Cooperative.

Agency Capability Increase List

	<u>Research Unit</u>	<u>Narrative</u>	<u>Funding</u>
TMR 13	PNW-4351 / Fairbanks	Restore research on white spruce re-generation and classification of interior Alaska ecosystems.	\$150,000
TMR 21	PNW-4351 Fairbanks	Continue research and management and tree improvement of white spruce in interior Alaska forests.	\$100,000

Congressional Contacts for Forest Service Budget

House Appropriations Subcommittee for Interior and Related Agencies

Honorable Sidney R. Yates, Chairman  
B-308 Rayburn House Office Building  
U.S. House of Representatives  
Washington, DC 20515

House Committee on Interior and Insular Affairs

Honorable Morris K. Udall, Chairman  
1324 Longworth House Office Building  
U.S. House of Representatives  
Washington, DC 20515

Senate Committee on Energy and Natural Resources

Honorable J. Bennett Johnston, Chairman  
Suite SD-364, Dirkson Senate Office Building  
U.S. Senate  
Washington, DC 20510

Honorable Ted Stevens  
United States Senate  
522 Hart Senate Office Building  
Washington, DC 20510-6025

Honorable Frank Murkowski  
United States Senate  
700 Hart Senate Office Building  
Washington, DC 20510-6025

Honorable Don Young  
United States House of Representatives  
Rayburn House Office Building  
Washington, DC 20515

**Sec. 41.17.300. State land reforestation fund.** A state land reforestation fund is established in the department. The money in the state land reforestation fund may be used only for the reforestation of state land, including site preparation, seed and seedling acquisition and cultivation, planting, and other reforestation measures, timber stand improvement, and the development of materials and techniques for the reforestation of state land. (§ 2 ch 91 SLA 1983)

**Sec. 41.17.310. Appropriations to state land reforestation fund.** (a) The state land reforestation fund consists of money appropriated by the legislature and contributions from private donors. It is the intent of the legislature that the appropriations made to the fund equal no less than 25 percent of the revenues from the sale of timber and other forest products from state land as well as the total revenues from

(1) compensation for loss or damage to land within a state forest; and

(2) the federal government and other governmental units for reforestation.

(b) Money appropriated to or paid into the state land reforestation fund does not lapse. (§ 2 ch 91 SLA 1983)

**Sec. 41.17.320. Report to the legislature.** The commissioner shall make an annual report to the legislature within the first 10 days of each session of the legislature on the uses of the money in the state land reforestation fund, the proposed uses of the fund in the following fiscal year, and the balance in the fund. (§ 2 ch 91 SLA 1983)

## Article 5. Tanana Valley State Forest.

### Section

#### 400. Tanana Valley State Forest

**Sec. 41.17.400. Tanana Valley State Forest.** (a) Subject to valid existing rights and except for land owned by or transferred to the University of Alaska under a settlement agreement between the state and the university, the state-owned or acquired land and water lying within the parcels described in (d) of this section is designated as the Tanana Valley State Forest.

(b) The commissioner shall prepare a management plan for the Tanana Valley State Forest under AS 41.17.230.

(c) In addition to the uses described in AS 41.17.230(e), the commissioner may establish transportation corridors within the Tanana Valley State Forest.

(d) The Tanana Valley State Forest includes the state-owned or acquired land and water lying within the following described parcels:

## ALASKA FOREST REGENERATION CENTER

### Program Description

Provide a dependable supply of high quality forest seedlings to Alaska's landowners. Seedlings would be grown to meet the requirements of AS 41.17; rehabilitate the areas devastated by the spruce bark beetle; reclaim areas currently understocked on State lands; and allow continued forest research. The existing nursery program is severely understaffed, underfunded and ill-equipped to meet the challenges that it now faces. This program would provide for the growing of the needed seedlings and the reforestation of State lands.

The projected distribution of the 1.6 million seedlings that would be grown annually includes: 350,000 to the USDA-Forest Service; 50,000 for research; 417,200 for private landowners; and 782,800 (with planting funds) for State lands. By implementing this budget, the legislature will be indicating its support for professional treatment of State owned land and preclude the necessity of forest managers having trees grown out-of-state. Training would be provided to residents of cooperating communities in the care and growing of seedlings.

On State lands the emphasis of this program is to generate contracts for private sector field accomplishments that will provide much needed stable job opportunities in rural areas. The following would be accomplished by State Region (State land only):

DESCRIPTION	N O R T H E R N REGION	SOUTHCENTRAL REGION	S O U T H E A S T REGION
A c r e s Planted	1008	227	125
Acres Seeded	670	55	-0-
Acres Site Preparation	1975	271	232
A c r e s Regeneration Survey	1660	390	1100
Estimated contracts to issue	30	7	5

Spruce bark beetles are presently causing significant mortality on nearly 200,000 acres around Southcentral and the Interior. A large portion of these acres must be reforested using state-of-the-art techniques if they are to regain their productivity. The investment in planting requires the use of high quality seedlings with high survival potential. This program would meet that need.

AS 41.17.060(4) directs that "... if artificial planting is required, silviculturally acceptable seedlings must first be available for planting at an economically fair price in Alaska." This program would meet that need as quoted from Alaska's Forest Resources and Practices Act.

The "State Forest Nursery" would become the "Alaska Regeneration Center". This name more correctly describes the facility resulting from this programs role in forest land management - a role that includes research, production, and training.

The following pages present the details of this program in tabular form to enable better understanding.

## ANNUAL STATISTICS

### Benefits accrued:

Seedlings produced = 1,600,000  
State land treated = 2,085 acres (planted and seeded)  
State land site prepared = 2478 acres  
State land surveyed for regeneration = 3,150 acres  
Seedlings available for non-state use = 817,200  
Local residents trained at nursery = 6  
Day labor - Days of employment generated = 1320  
Amount of work contracted by State = \$343,780.00  
Reimbursement for seedlings (projected) = \$122,580.00 (\$0.15  
per seedling)  
Non-state lands reforested = 1,200 acres  
Private sector employment enabled = 41 (at minimum)

Alaska Regeneration Center requires the following funding commitment by the Alaska Legislature:

STAFFING	MAN MONTHS	TOTAL COSTS
Agronomist III (Center Manager)	12	\$63,000.00
Maintenance Worker II	12	\$47,388.00
Forest Technician IV (Research/Tree Improvement)	12	\$39,336.00
Forest Technician IV (Assistant Center Manager)	12	\$39,336.00
Forest Technician III (Center Foreman)	12	\$35,196.00
Clerk-Typist III (Center Clerk/Admin)	12	\$31,800.00
Forest Technicians I/II (Center Technicians) 6 ea @ 9 mons.	54	\$142,688.00
Forest Technicians I/II (Cooperator Trainees) 6 ea @ 3 mons.	18	\$47,566.00
Day laborers (Spot help) 1320 man days @ 40.00 per day	61	\$52,800
TOTAL	205	\$499,110.00
	Personal services short funding	-\$34,688.00
	Usable personal services funding	\$464,422.00

SEASONAL POSITION DISTRIBUTION (Pos/Mths.)

Position	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Trainees		6/6	6/6	6/6								
Regular Seasonals		6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6	6/6		
Day Laborers				28/ 18		12/ 12		40/ 30		12/6		

B U D G E T CATEGORY	T O T A L F U N D I N G REQUIRED	BREAKDOWN	DESCRIPTION
<u>Travel</u>	\$10,000.00		Assess cone crops, gather propagation materials, audit/monitor seedling condition at field sites, assess progeny sites, monitor seed production areas, maintain professional currency.
<u>Contractual Services</u>	\$161,000.00	Professional Services	\$10,000.00 (Consultants Cones)
		Communications	\$10,000.00 (Phones)
		Transportation	\$25,000.00 (Shipping Seedlings)
		State Equipment Fleet	\$15,000.00 (State vehicle charges)
		Printing	\$1,000.00 (brochures handouts)
		Public Utilities	\$60,000.00 (Electricity Gas)
		Minor Repair and Maintenance	\$25,000.00 (buildings and

			equipment)
		Rental of machinery and equipment	\$5,000.00 (Specialized equipment)
		Other expenditures	\$10,000.00 (State Risk Management)
<u>Supplies and Materials</u>	\$130,500.00	Office supplies	\$2,000.00
		Agricultural supplies	\$10,000.00 (Fertilizer and fungicides)
		Household and Institutional	\$3,000.00 (Cleaning agents)
		Professional and Scientific	\$93,000.00 (Grit, medium, and containers)
		Data processing supplies	\$1,500.00 (Software and paper)
		Other operating supplies	\$15,000.00 (Shipping boxes)
		Repair and Maintenance	\$6,000.00 (Strapping, tray racks)

Equipment

\$30,000.00

Phased replacement of worn equipment. Upgrading of outdated equipment over time. Acquisition of needed communications and technical equipment.

Capital Improvement Projects

\$1,052,000.00

Water monitoring and delivery system improvements

\$20,000.00

Outdoor portable irrigation system

\$15,000.00

Complete fence around growing yard

\$12,000.00

Complete pole shed

\$5,000.00

Construct two greenhouses (completely equipped with power)

\$800,000.00

Construct fire warehouse for SCR to free up Headshed for use

\$200,000.00

Regional offices require the following funding commitments to meet program targets:

NORTHERN REGION

Description	Man Months	Total Costs
Personal Services		
Forester 1 (Delta and Tok)	12	\$46,670.00
Forester 1 (Fairbanks)	12	\$46,000.00
Forest Technician III (Fairbanks) 2 @ 6 mons.	12	\$35,458.00
Forest Technician III (Fairbanks) 1 @12 mons.	12	\$35,458.00
Total Personal services	48	\$163,586.00
Contracts for Field work		\$345,900.00
Support for Region Staff		\$18,265.00
TOTAL FOR NORTHERN REGION		\$527,751.00

SOUTHCENTRAL REGION

Personal Services		
Forester 1 (Regional office)	12	\$42,219.00
Total Personal Services	12	\$42,219.00
Contracts for field work		\$61,280.00
Support for Regional Staff		\$2,765.00
TOTAL FOR SOUTHCENTRAL REGION	12	\$106,264.00

SOUTHEAST REGION

Personal Services		
Forester 1 (Juneau)	12	\$48,936.00
Total Personal Services	12	\$48,936.00
Contracts for field work		\$44,860.00
Support for Regional Staff		\$2,835.00
TOTAL FOR SOUTHEAST REGION	12	\$96,631.00
TOTAL STATEWIDE	72	\$622,964.00

ANNUAL COST CALCULATIONS BY REGION

Northern Region

<u>Activity</u>	<u>Acres</u>	<u>Breakdown</u>	<u>Costs</u>
Planting	1008	Contract costs = 150.00 per acre	\$151,200.00
		Contract prep and admin = 30.79 per acre	\$31,036.00
		Support costs = 5.00 per acre	\$5,040.00
		TOTAL PLANTING	\$187,276.00
Scarification	1975	Contract costs = 80.00 per acre	\$158,000.00
		Contract prep and admin = 30.79 per acre	\$60,810.00
		Support costs = 5.00 per acre	\$9,875.00
		T O T A L SCARIFICATION	\$228,685.00

Direct Seeding	670	Contract costs	\$20,100.00
		= 30.00 per	
		acre	
		Contract prep	\$20,629.00
		and admin =	
		30.79 per acre	
		Seed costs =	\$10,050.00
		15.00 per acre	
		Support costs	\$3,350.00
		= 5.00 per	
		acre	
		TOTAL DIRECT	\$54,129.00
		SEEDING	
Regeneration	1660	Contract costs	\$16,600.00
survey		= 10.00 per	
		acre	
		Contract prep	\$51,111.00
		and admin	
		costs = 30.79	
		per acre	
		T O T A L	\$67,711.00
		REGENERATION	
		SURVEY	
TOTAL FOR			\$537,801.00
NORTHERN			
REGION			

Southcentral Region

<u>Activity</u>	<u>Acres</u>	<u>Breakdown</u>	<u>Costs</u>
Planting	227	Contract costs	\$34,050.00
		= 150.00 per acre	
		Contract prep and admin costs = 44.77 per acre	\$10,163.00
		Support costs = 5.00 per acre	\$1,135.00
		TOTAL PLANTING	\$45,348.00
Scarification	271	contract costs	\$21,680.00
		= 80.00 per acre	
		Contract prep and admin = 44.77 per acre	\$12,133.00
		Support costs = 5.00 per acre	\$1,355.00
		T O T A L SCARIFICATION	\$35,168.00

Direct Seeding	55	Contract costs	\$1,650.00
		= 30.00 per	
		acre	
		Contract prep	\$2,463.00
		and admin =	
		44.77 per acre	
		Support costs	\$275.00
		= 5.00 per	
		acre	
		Seed costs =	\$825.00
		15.00 per acre	
		TOTAL DIRECT	\$5,213.00
		SEEDING	
Regeneration	390	Contract costs	\$3,900.00
surveys		= 10.00 per	
		acre	
		Contract prep	\$17,460.00
		and admin =	
		44.77 per acre	
		T O T A L	\$21,360.00
		REGENERATION	
		SURVEYS	
TOTAL FOR			\$107,089.00
SOUTHCENTRAL			
REGION			

Southeast Region

<u>Activity</u>	<u>Acres</u>	<u>Breakdown</u>	<u>Costs</u>
Planting	125	Contract costs	\$18,750.00
		= 150.00 per acre	
		Contract prep and admin =	\$4,198.00
		33.59 per acre	
Scarification	82	Support costs	\$625.00
		= 5.00 per acre	
		TOTAL PLANTING	\$23,573.00
Scarification	82	Contract costs	\$6,560.00
		= 80.00 per acre	
		Contract prep and admin =	\$2,754.00
		33.59 per acre	
T O T A L S C A R I F I C A T I O N		Support costs	\$410.00
		= 5.00 per acre	
		T O T A L	\$9,724.00
		S C A R I F I C A T I O N	

Prescribed 150  
Fire

Contract labor \$8,550.00  
= 57.00 per  
acre

Contract prep 5,037.00  
and admin =  
33.59 per acre

Support costs \$1,800.00  
= 12.00 per  
acre

T O T A L \$15,387.00  
P R E S C R I B E D  
F I R E

Regeneration 1100  
surveys

Contract costs \$11,000.00  
= 10.00 per  
acre

Contract prep \$36,947.00  
and admin =  
33.59 per acre

T O T A L \$47,947.00  
R E G E N E R A T I O N  
S U R V E Y S

T O T A L  
S O U T H E A S T  
R E G I O N

\$96,631.00

T O T A L  
S T A T E W I D E

\$741,521.00

After the first five (5) years of this program funding could be reduced by \$124,230.00 in services to be contracted for as the State completes rehabilitation of "backlogged" areas due to earlier harvest and fires. This would make an additional 230,000 seedlings available for use on other lands and increase nursery revenues by \$34,500.00 at the same time.

The revenue from the sale of seedlings is based on a cost of \$0.15 per seedling. This requires a change in the Department of Natural Resource's fee schedule which was adopted by regulation a few years ago.

Also worthy of note is the fact that the requirement to program a short funding of personal services costs would be devastating to this program - and likely many others as well.

OVERALL PROGRAM SUMMARY

<u>BUDGET ITEM</u>	<u>FUNDING REQUIRED</u>	<u>FUNDING PROPOSED FY90</u>	<u>ADDITIONAL FUNDING REQUIRED</u>
Personal Services	\$753,851.00	\$96,500.00	\$657,351.00
Travel	\$10,000.00	\$2,800.00	\$7,200.00
Contractual	\$636,905.00	\$172,700	\$464,205.00
Commodities	\$141,375.00	\$26,900.00	\$114,475.00
Equipment	\$30,000.00	\$1,500.00	\$28,500.00
TOTAL	\$1,572,131.00	\$300,400.00	\$1,271,731.00
Capital Projects	\$1,052,000.00	-0-	\$1,052,000.00
<u>GRAND TOTAL</u>	<u>\$2,624,131.00</u>	<u>\$300,400.00</u>	<u>\$2,323,731.00</u>

file - Forestry - general  
Reforestation

# The Alaska Reforestation Council Forest Tree Improvement Cooperative

3601 X 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60

## ANNOUNCEMENT

GENERAL BUSINESS MEETING OF  
THE ALASKA REFORESTATION COUNCIL  
JANUARY 25-26, 1990  
TANANA CHIEFS BUILDING\*  
FAIRBANKS, ALASKA

THIS ANNOUNCEMENT IS A BIT LATE BUT IT, ALONG WITH A TELEPHONE ALERT, SHOULD ALLOW AMPLE TIME TO PREPARE FOR THE MEETING. AGAIN, I'VE GONE TO SOME DETAIL IN THE AGENDA. INCLUDED ARE COPIES OF MEMOS THAT ARE PERTINENT TO SPECIFIC ITEMS ON THE AGENDA THAT WILL GIVE YOU A BETTER PERSPECTIVE AND ENABLE YOU TO PARTICIPATE MORE EFFECTIVELY.

IN ADDITION, A MEETING IS BEING CALLED OF THE AD HOC ORGANIZATION COMMITTEE, AND ANYONE ELSE WHO WANTS TO ATTEND, ON WEDNESDAY EVENING, JANUARY 24, AT 1900 IN THE DNR OFFICE ON AIRPORT WAY. COME PREPARED TO PARTICIPATE IN LIVELY DISCUSSIONS PERTAINING TO THE COUNCIL'S MEMBERSHIP, BASE OF SUPPORT, MISSION, PROJECTS, ETC., AND THE ORGANIZATION THEREOF.

LOOKING FORWARD TO A CONSTRUCTIVE MEETING. HOPE YOU CAN MAKE IT.

Sincerely,

EARL P. STEPHENS, PhD.  
Executive Director  
Alaska Reforestation Council Forest  
Tree Improvement Cooperative

\* 122 1ST STREET, BOARD ROOM, 6TH FLOOR

STATE OF ALASKA  
DEPT. OF NATURAL RESOURCES

JAN 18 1990

DIVISION OF FORESTRY  
CENTRAL OFFICE

"The Private and Public Sectors Working Together"

P.O. Box 242081 Anchorage, Alaska 99524-2081

AGENDA

GENERAL BUSINESS MEETING OF  
THE ALASKA REFORESTATION COUNCIL  
JANUARY 25-26, 1990  
TANANA CHIEFS BUILDING  
122 1ST STREET, BOARD ROOM, 6TH FLOOR  
FAIRBANKS, ALASKA

THURSDAY, JANUARY 25, 1990

- 0900-0915 Welcome - Chris Maisch  
Announcements, Introductions, etc. - Drew/Alden/Stephens
- 0915-1945 ARC Chairman's Report:  
Objectives of Meeting, Background, etc. - Drew
- 0945-1115 Eagle River Nursery:  
Options for Nursery's Future - Dick/Beebe  
  
Nursery Committee Report - Stehlik  
  
Pt. McKenzie Tract - Beebe  
  
Seedling Pricing Structure - Beebe  
  
Survey of Seedling Needs:  
Species, Wood Characteristics - Beebe
- 1115-1200 Ad Hoc Committee Report on Organization of ARC:  
Mission, Policies, Job Descriptions, Representation, Dues,  
By-Laws, etc. - Stephens/Drew/Alden/Wood et al.
- 1200-1330 LUNCH
- 1330-1430 Executive Committee Reports:  
General - Drew  
  
Article for Agroborealis - Drew

THURSDAY, JANUARY 25, 1990 (CON'T)

Seed Zone Maps:

Cover Letter - Drew/Alden

Guidelines - Alden

Distribution:

MOU Among Agencies - Beebe/Dick

News Article Release of Seed Zone Maps - Clifford

Fund Requirements - Alden

Pass Thru Funds - Beebe/Dick/Wheeler

Finance Report - Stephens

Industrial Development - Karl/Ricketts/Maisch/Others

Public Relations:

Reforestation Fund, Legislative Session - Karl/Dick/Drew

1430-1445

Advisory Committee Reports:

General - Stephens (Eggleston Retired)

1445-1515

Technical Committee Reports:

General - Beebe

ReTree International Proposal:

Conversion of Idle Land to Forests  
Alden - Wood

1515-1600

Silviculture Committee Reports:

General - Lessard

Quartz Creek Demonstration Area - Lessard

THURSDAY, JANUARY 25, 1990 (CON'T)

1600-1700 Tech Transfer Committee Report:  
Conflict of interest Conference - LaBau/Cole

Video Development: Seedling Care and Planting:  
Kesti/Packee/Gasbarro/Wheeler

FRIDAY, JANUARY 26, 1990

0800-0900 Tree Improvement Committee Reports:  
General - Beebe

Tok White Spruce SPA:  
Soil Tests - Ward

Tissue Analyses - Packee

Mgt. Plan - Alden/Stephens

Mat-Su SPA Sites - Beebe

TIP - Blanton/Packee

Handbook for Plus Tree Selection - Blanton/Packee

Supplemental Funding for Blanton - Drew/Packee

Communications:  
Blanton & ARC - Alden/Packee

0900-0930 Arboretum Committee Reports:  
General - Wright

0930-1000 Grants and Research:  
Alden/Ricketts

1000-1045 New Business

IUFRO XIX World Congress, 1990. Packee/Alden

Society of American Foresters National Convention of 1994 -  
LaBau/Alden

Statistical Support:-----  
Exp't. Design and Analysis - Packee

Role of Fertilizers in White Spruce Seed Production:  
literature survey and interpretation - Packee

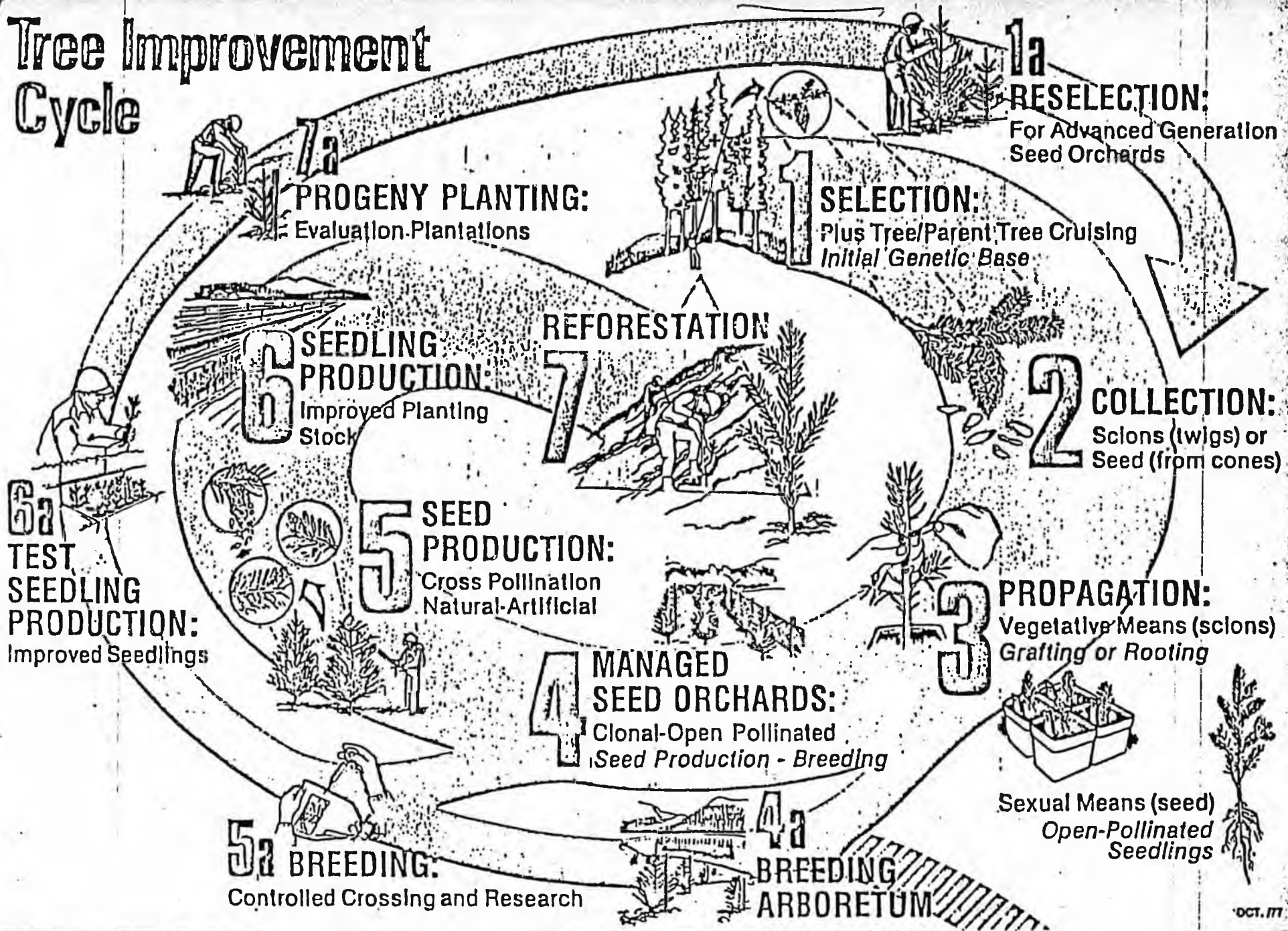
Nordic Contacts: Max Hagmann Exchange - Packee/Others/Alden

1045-1115 Other

1115-1130 Next Meeting .

1130-1200 Unfinished Business

# Tree Improvement Cycle



1157002

Reforestation

### III. C. GEOGRAPHIC RESPONSIBILITIES\*

#### Breeding Zones

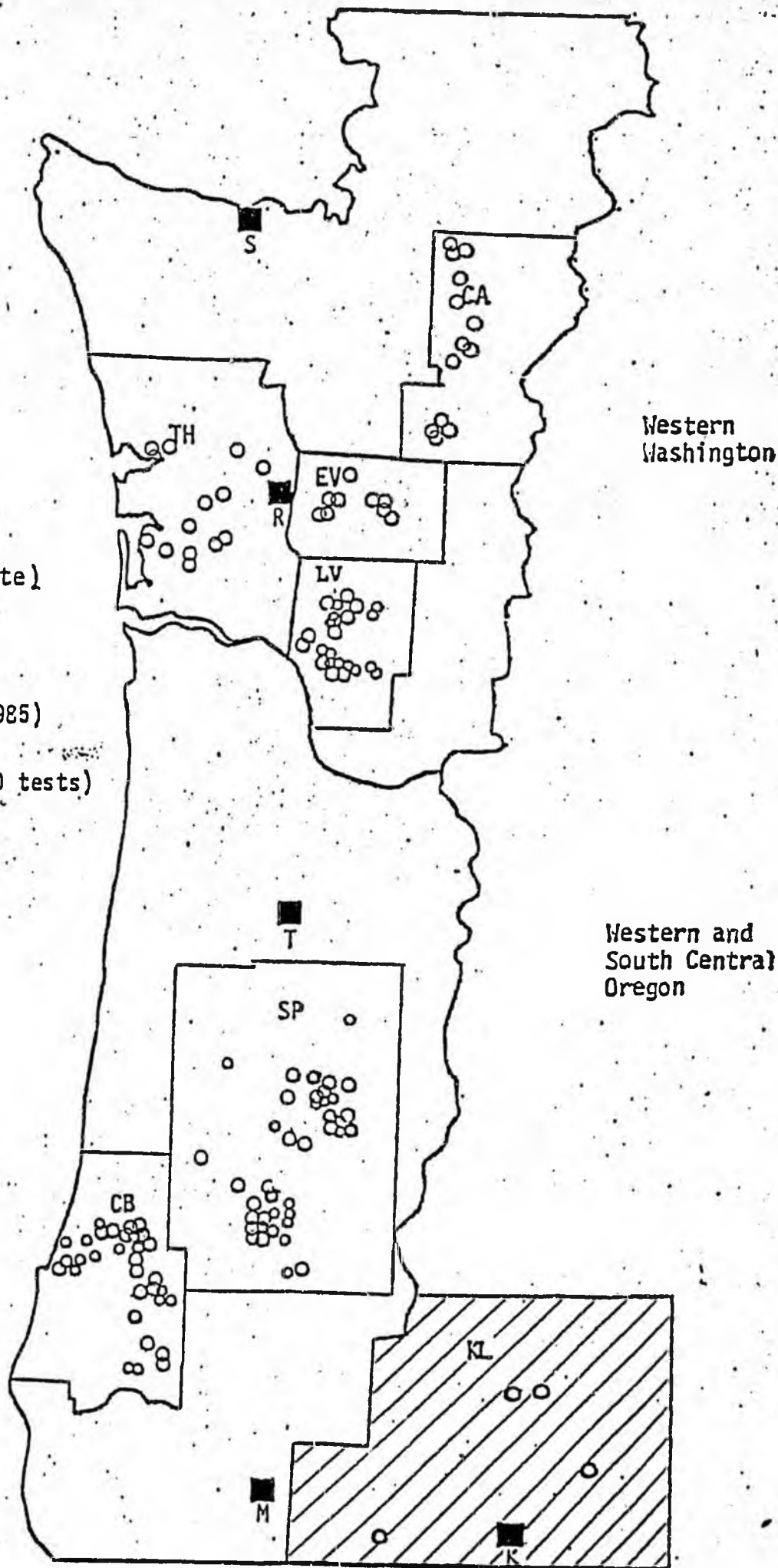
- CA - Cascade
- CB - Coos Bay
- EV - Everett
- LV - Longview
- SP - Springfield
- KL - Klamath Falls (pine)

#### Orchards

- R = Rochester
- S = Sequim
- T = Turner
- K = Klamath Falls
- M = Medford (2nd gen. site)

#### Genetic Test Sites (thru 1985)

- Operational Tests  
(includes large scale R&D tests)
- Supplemental Site Tests

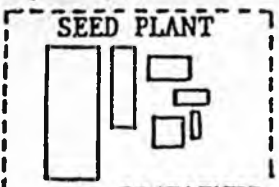


Revised: Feb. 25, 1986

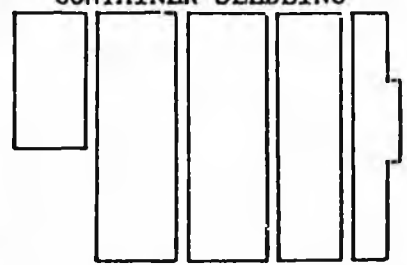
ROCHESTER REGENERATION CENTER



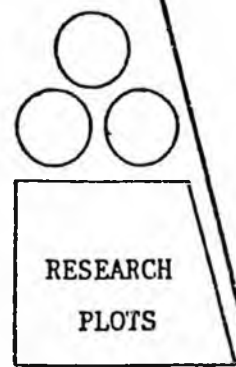
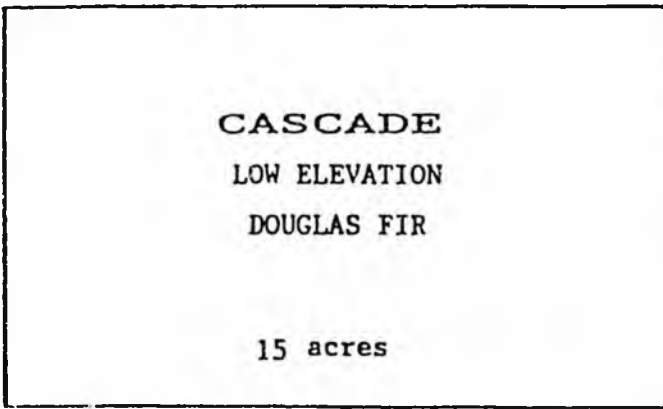
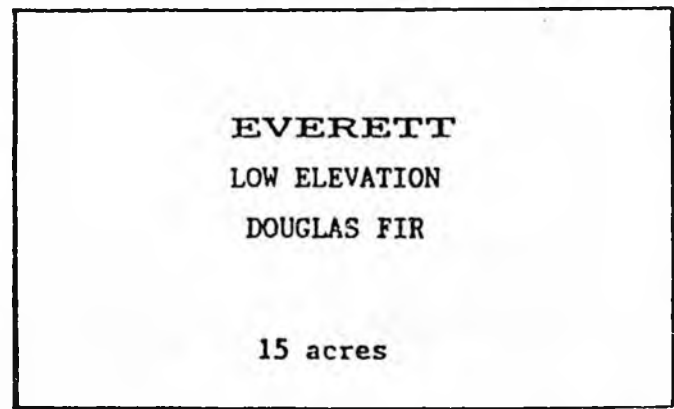
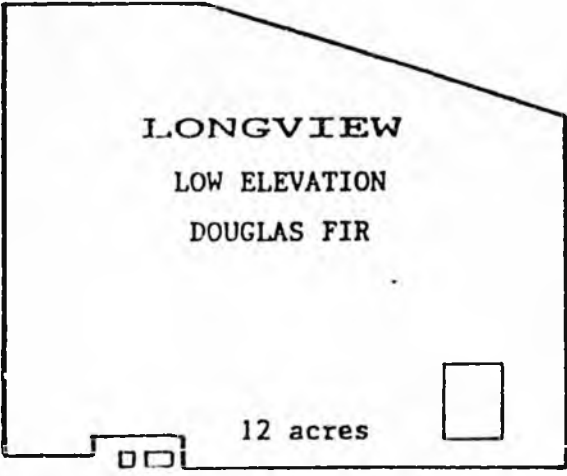
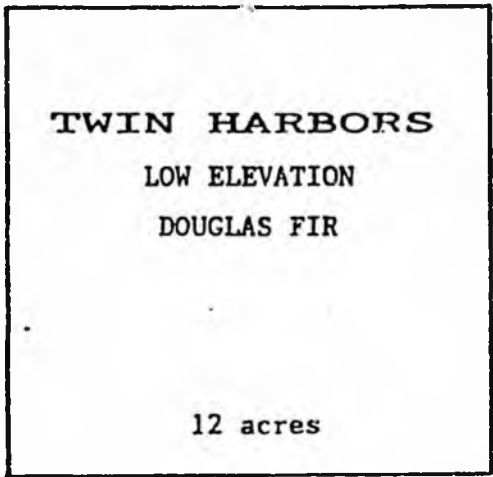
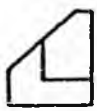
HWY 12



CONTAINER SEEDLING



OFFICE



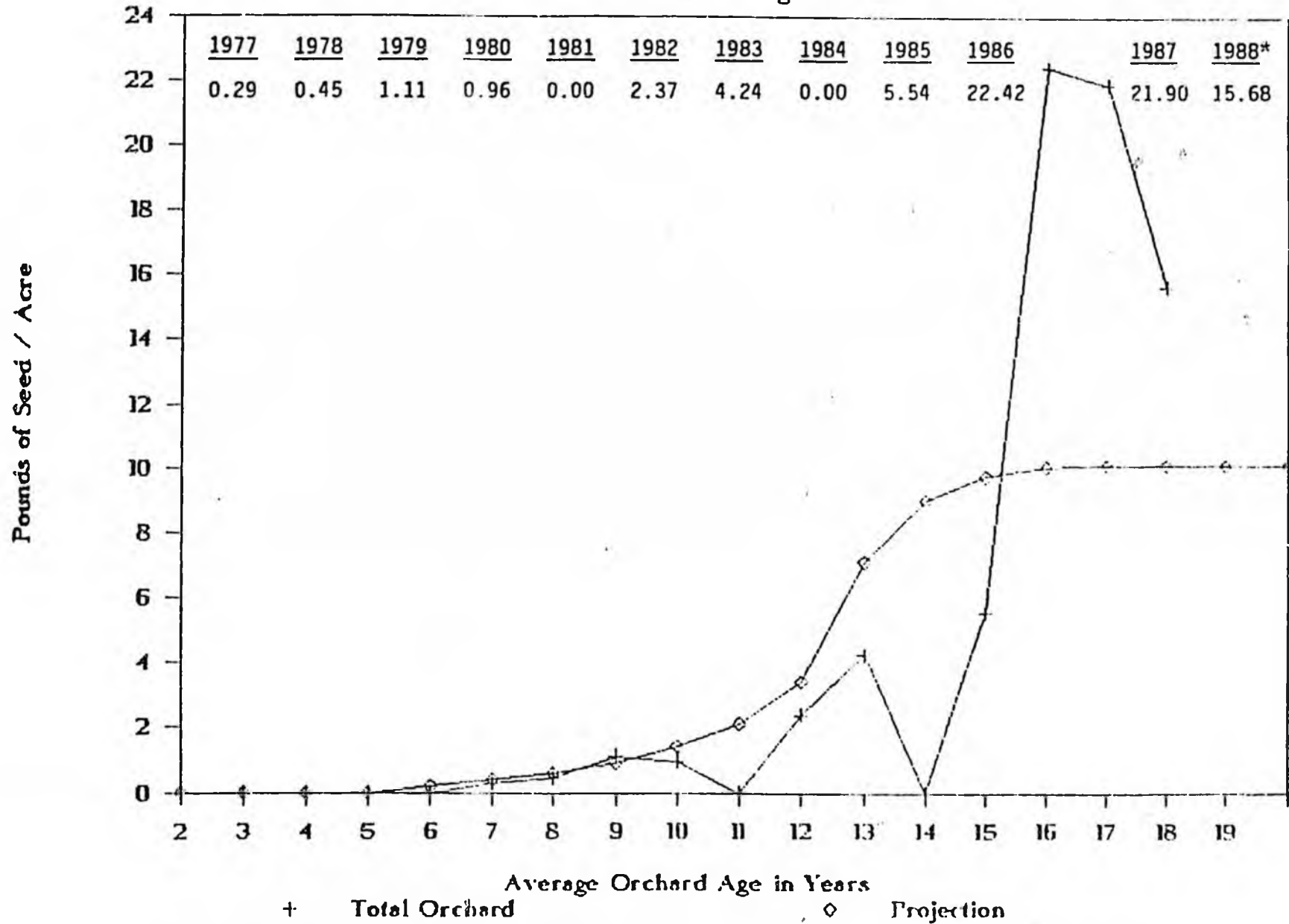
1989 OPERATING PLAN/ROCHESTER SEED ORCHARD

ORCHARD DESCRIPTION

PROGRAM			CLONES ORIG/CURR	ASSIGNED POSITIONS	OCCUPIED POSTIONS	ACRES	SPACING RXC	ESTABLISHMENT DATES	AVE AGE
REGION	ELEV	SPECIES							
CASCADE	LOW	DOUG FIR	120/73	2400	765	15.0	10 x 24	1969-1975	17
EVERETT	LOW	DOUG FIR	120/76	2400	759	15.0	10 x 24	1969-1975	17
LONGVIEW	LOW	DOUG FIR	106/69	2150	616	12.0	10 x 24	1969-1975	18
TWIN HARBORS	LOW	DOUG FIR	102/81	2200	789	12.0	10 x 24	1968-1975	17
TOTALS			448/299	9150	2929	54.0			

# Rochester Seed Orchard

Total Low Elev. Douglas Fir



\* Estimated using .33 pounds per bushel

\* Reduction in Yield/Acre is a Result of Selectively Harvesting by Genetic Rank

ROCHESTER SEED ORCHARD  
 PRODUCTION REVIEW  
 6 DECEMBER 1988

SEED PRODUCTION

YEAR	AGE	BUSHEL	TOTAL #SEED	#/BUSHEL	#/ACRE	PLANTABLE SEEDLINGS
1977	7	87	15	.17	.29	270,000
1978	8	125	23	.18	.45	414,000
1979	9	201	57	.28	1.11	1,026,000
1980	10	242	49	.20	.96	882,000
1981	11	0				
1982	12	246	121	.49	2.37	2,178,000
1983	13	728	216	.30	4.24	3,888,000
1984	14	0				
1985	15	932	294	.32	5.54	5,292,000
1986	16	2928	1255	.43	22.4	22,590,000
1987	17	3000	1182	.39	22.3	21,276,000
1988*	18	2420	850	.35	15.7	15,300,000
TOTAL		10,909	4,062			73,000,000.

850 cones/bushel

30 filled seed/cone

.30-.40 pounds/bushel

36,000 seed/pound

# ORCHARD CULTURAL ACTIVITIES

## PROTECTION and MAINTENANCE

- .Mowing
- .Herbicide
- .Fertilizing
- .Fungicide
- .Irrigation
- .Tree Removal
  - Mortality
  - Silvicultural
  - Roguing
- .Limb Removal
- .Transplanting
- .Graft Union Scribing

## DATA COLLECTION

- .Orchard Masterfile
- .Cone Production
- .Clonal Seed Production/Quality
- .Phenology
- .Cone Efficiency
- .Seed Efficiency
- .Weather

## SEED PRODUCTION

- .Flower Stimulation
  - Girdling/CAN<sub>2</sub>
  - G.A. 4/7
- .Frost Protection
- .Bloom Delay
- .Pollen Boosting
- .Supplemental Mass Pollination
- .Insect Control
- .Harvest

**S B**

**516**

SENATE COMMITTEE REPORT  
FIRST COMMITTEE OF REFERRAL

DATE: 3/7/90

FURTHER:

Date of 5-Day Notice: 3-15-90  
(in accordance with Uniform Rule 21)

DATE TURNED INTO OFFICE: 3-26-90

Resources \_\_\_\_\_ Committee considered \_\_\_\_\_ SB 516 \_\_\_\_\_

Certain reports and records concerning game animals.

and recommended:

- replace with \_\_\_\_\_ CS SB 516 (Res)  same title
- attached amendment(s)  new title
- \_\_\_\_\_ letter of intent adopted

- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to \_\_\_\_\_

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:

Department(s)/Date:

fiscal note(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

zero fiscal note(s) FtG  
\_\_\_\_\_  
\_\_\_\_\_

appropriation-no fiscal note

Governor's bill w/fiscal note

SIGNING DO PASS:

[Signature]  
\_\_\_\_\_  
[Signature]  
\_\_\_\_\_  
[Signature]  
\_\_\_\_\_

OTHER RECOMMENDATIONS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[Signature] Chair Do Pass.  
Chair: Signature and Recommendation



STATE OF ALASKA  
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Fish and Game	DIVISION Wildlife Conservation	BILL NUMBER SB 516	SPONSOR Resources
SHORT TITLE OF BILL Reports and records concerning game animals			
DEPARTMENT POSITION Support			
PREPARED BY Bruce Dinneford	DATE 3-17-90	COMMISSIONER'S SIGNATURE <i>Bruce A. Dinneford</i>	DATE 3/19/90

SUMMARY

OTHER AGENCIES AFFECTED BY BILL Department of Public Safety Department of Law	CONSTITUENT GROUP(S) AFFECTED BY BILL Hunters Trappers
ORGANIZATIONAL SUPPORT FOR BILL	ORGANIZATIONAL OPPOSITION TO BILL

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

This bill would make names, addresses, license numbers, or any other personal identifying information appearing on a hunting or trapping document confidential. The act requires the removal of such identifiers from documents before release to the public.

ANALYSIS OF BILL/PROGRAM EFFECTS

This bill provides benefits for conservative management of wildlife resources. A trapper, hunter, or guide would not be able to track another's take of game from department documents and direct effort to where other successful trappers or hunters have harvested game. If made into law, those who wanted names and addresses of those harvesting game would not be able to get them without a court order.

Because a persons identity will be protected, we expect the accuracy of reported information to increase, especially location of kill.

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS

## FISCAL NOTE

**REQUEST:**

Revision Date: 3-7-90  
 Title: Reports and records concerning game animals  
 Sponsor: Rules Committee  
 Requestor: Governor

Agency Affected: Fish and Game  
 BRU: Wildlife Conservation  
 Components: Wildlife Conservation

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	Ø	Ø	Ø	Ø	Ø	Ø
<b>CAPITAL</b>						
<b>REVENUE</b>	Ø	Ø	Ø	Ø	Ø	Ø

**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** (Attach a separate page if necessary)

No FY 90 impact.

Prepared by W. Bruce Dinneford  
 Division: Wildlife Conservation

Phone: 465-4190  
 Date: 3-19-90

Approved by Commissioner: *[Signature]*  
 Agency: \_\_\_\_\_

Date: 3/19/90

Distribution (by preparer) :  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

4/4/90

SB 516 was introduced in response to a request by the Alaska Trappers Association. It was their number one priority, as they do not want the location of their trapping or hunting activity known. First, because the reports would be confidential, it would prevent others from going to an individual's hunting or trapping location to hunt or trap. Secondly, it would help prevent hunter harassment by those who might not approve of hunting or trapping.

The Department of Fish and Game supports this bill since it would also help to ensure that hunters and trappers would give accurate location of the take, with the assurance the information is confidential.

The Alaska Outdoor Council also supports the bill.

THE SENATE RESOURCES CS ADDS: on Page 1, Line 27, or the location of the taking.

And on Page two, line 6, regarding trapping or hunting activities; "trapping or hunting document" includes a report or record

And on Page two, line 9 and all other trapping or hunting harvest records

Nancy

**ALASKA TRAPPERS ASSOCIATION**

P.O. Box 82177

Fairbanks, Alaska 99708

FEB 14 1990

February 12, 1990

Senator Betty Fahrenkamp  
Pouch V  
Juneau, AK 99801

Dear Senator Fahrenkamp:

The top priority for legislation for the Alaska Trappers Association is what has become known as the confidentiality bill. This was first introduced on February 5, 1988, and was titled SB398. You probably recall that you were one of the co-sponsors at that time.

Perhaps you don't recall the position that trappers find themselves in. By law, a trapper must have beaver, otter, lynx, wolf and wolverine sealed before selling the hides. This sealing form is then often released to various parties upon request. Trappers feel like the need to know certain data for good resource management is valid, but that releasing our names, addresses, and other information to various environmental organizations is not really legitimate.

We understand that at this point a bill would have to be introduced as a committee bill. We would appreciate your help in getting this bill passed.

Sincerely,



Dean L. Wilson  
Legislative Chairman  
Phone: 479-4369