FOREST RESOURCE MANAGEMENT STRATEGY

FOREST RESOURCE MANAGEMENT STRATEGY

Introduction

The TLO manages approximately 130,000 acres of lands with commercial forest potential. These lands are located across Southeast, Southcentral, and Interior Alaska. Each region has different forest types due to topography, soil conditions, and climates. These different types vary in the quality, density, and size of the timber which grows there. Revenue derived from Trust forest assets is, as a result, quite variable. Historically, forest resource revenue was generated primarily from traditional, large-tract, old growth timber sales in remote areas of Southeast. These opportunities have dwindled and the region has been transitioning to smaller, young growth sales. Much of the remaining forest land in Southeast is located in areas of high recreational value or in viewsheds in and around communities. The majority of the forested Trust lands is situated in Southcentral and Interior Alaska, but has smaller, less valuable timber making it less feasible to develop.

It is important to understand the diversity of the forest products industry, the quality of the timber required to produce a given product, and the markets and prices associated with those products in order to successfully manage the Trust's forest resources.

History and Objectives

Original land selection under the 1956 Alaska Mental Health Trust Enabling Act included lands located in and around existing communities. In the 1950s, the United States Forest Service (USFS) oversaw a robust timber harvest program on federal lands. Consequently, timber harvest on new Trust lands was not a priority. Multi-use land and community growth were more important factors in selecting Trust lands than the presence of timber resources. Even so, much of the acreage ultimately selected for the Trust does include harvestable stands of timber scattered throughout the state. Some of this acreage is in close proximity to communities.

The timber program began shortly after the establishment of the TLO and timber has been a major source of revenue generating over $40 million. These revenues are split 85 percent to principal and 15 percent to income. The first timber sale was conducted at Icy Bay in 1995. Subsequent sales were held near Thorne Bay, Ketchikan, and Wrangell. Sales were predominately large-tract, old growth sales in a high-demand market. Over the last few years, timber revenue has been declining and the nature of the sales has changed significantly due to the type and location of available timber.

Trust land often borders private residences and some lands have traditionally been used by the public for subsistence, recreation, water sources, view sheds and other activities. These traditional uses are often viewed by the public as conflicting with development. In recent years, objections over proposed Trust timber harvests from adjacent communities have made it difficult to monetize some timber. The TLO has utilized various methods to mitigate the public concern while meeting the Trust's objectives. These include selective helicopter harvesting, public education, and exploring alternatives to timber harvest and land exchanges. These strategies are essential because much of the remote parcels have been harvested.

The TLO is pursuing a land exchange with the U.S. Forest Service (USFS) to increase the portfolio of harvestable timber. Trust parcels in and around communities would be exchanged for remote federal land. If successful, this exchange will provide the Trust with a timber asset base that will likely provide a continuous rotation and cycle of timber harvest revenues and opportunities.

Industry Trends

The current Alaska forest products industry is composed of relatively small but diverse components. Each region of the state has its own unique composition of forest managers, loggers and sawmills. The current size and changes in the forest products industry in general reflect multiple cyclical and long-term phenomena occurring domestically and internationally. Developments in policies, programs, technologies, consumer preferences, as well as social pressures affect the industry and availability of resources. This is especially true when a majority of the land is federally owned as it is in Alaska.

Timber experiences price fluctuations according to the laws of supply and demand. Prices may vary significantly from one market to another based on factors such as availability, cost of production, transportation, and currency exchange rates. The price paid for any product class also varies according to quality.

The costs associated with timber production in Alaska

are typically higher than in most timber producing regions of the world. These high costs are due in part to the logistics of operating in remote locations, environmental regulations, and relative small volumes of timber. Costs such as road construction, infrastructure development, transportation, labor and freight coupled with small operations are challenges to maximizing revenue to the landowner. These costs are off-set by proximity to tidewater, shorter shipping distance to Pacific Rim markets and value of timber (old growth, tight grain wood). Old growth timber from Southeast Alaska is known for its tight grain and clear (no knots) composition. These components are rare in the international markets. As Southeast Alaska transitions to young growth timber it loses the scarcity component of this equation (old growth). Southeast Alaska young growth is very similar to the young growth in other regions of the world.

The Pacific Rim constitutes the primary markets in Southeast Alaska. This export market allows for much higher returns. The TLO has averaged returns of $125 to $300 per/mbf (for all species) in past sales. Timber volumes of 20 mbf/acre and higher provide greater stumpage returns and the value of timber is based on the value of the products that can be made from them. This is dictated by size (height and diameter), species and quality of the trees. This is especially significant when comparing young growth timber (a readily saleable commodity) and old growth timber (a scarce niche market product).

The markets for timber in the northern region are primarily domestic and are typically about $100 per/mbf for spruce sawlogs. The volume per acre is typically low with an average of less than 3 mbf/acre of spruce. This low volume per acre makes profitable sales difficult. The firewood markets have potential but require extensive administration and seldom provide a positive financial return. Limited export sales have occurred in the past because the distance to markets makes transportation costs challenging.

From 2008 to 2011 the TLO benefitted from an upswing in market demand in China. The Chinese demand for wood began to rapidly increase in 2008 and the Trust, through its timber purchasers, was well positioned for the advantageous market. This market allowed smaller logs which were previously not marketable to be sold. The closure of many West Coast pulp mills made the selling of logs less than 12" in diameter very challenging. If markets could be found, the offered price often did not exceed production costs. Although the market for Alaska's high-end, tight grain, clear timber remains, it has become a niche market. The most dramatic market shift has been the decreased high-end demand from Japan for both Sitka spruce and western hemlock. Japan has been the primary market for expensive vertical grain wood, but this shift has reduced the quantity of high grade Sitka spruce that is sold annually.

Trust timber competes with timber grown all over the world. There are vast tree farms in the southeastern United States, Chile, New Zealand, South Africa, Russia and other regions that compete in the international commodity markets for timber. Random Lengths International, a trade journal which reports on global wood products markets, states, "prices of North American stock in China are heavily influenced by the volume and prices of logs and lumber from Russia, Scandinavia, New Zealand, South America, and other supplying regions."

A potential developing market for Trust timber is for use in biofuel power and heat facilities. There have been a few large biofuel projects proposed in the northern region of the state. To date, none of the larger projects have progressed past the feasibility analysis stage. Clear Airforce Base and Fort Greeley, the City of Fairbanks, University of Alaska, and Alaska Power and Telephone have all conducted studies but have not moved the projects forward. It appears that the emphasis on natural gas in the region to alleviate diesel and coal dependence is a key factor.

Small biofuel projects primarily associated with the heating of schools and other government buildings have been very successful. These projects use pellets, wood chips and cord wood for facility heating. These projects are primarily driven by various government grant programs promoting diesel conversion with the objective of reducing the use of hydrocarbon fuels. However, as these grant programs decrease, the market for timber to supply these small biofuel projects is expected to also decrease. The price paid for timber used as biofuels is typically not sufficient to provide a profit to the landowner.

Inventory of Forest Resources

Trust lands on the Kenai Peninsula, Mat-Su Area, and north of the Alaska Range, constitute the majority of the forested acreage. Although these lands are considered timber lands, the volumes, species,

density, and remoteness can create an insurmountable challenge to development and profitability. The highest-value timber is located in Southeast. The geographic separation of the Trust's timber assets complicates and increases management costs to implementing a sustainable timber harvest plan. The TLO focuses inventory projects on areas with the greatest potential for creating revenue to the Trust. For this reason, inventories have focused on parcels in Southeast. Statewide inventories will continue to identify revenue producing opportunities on Trust forest lands.

Timber is a renewable resource. The primary asset (land) is held while the secondary asset (timber) continues to accrue. Harvest of the secondary asset can occur every 50 to 100 years (70 years on average in Southeast). Timber is a solid source of revenue to the Trust and will continue to make significant fiscal contributions if prudently managed.

Forest Resource Management Strategy

Forest management is defined as the planning and implementation of sustainable production of forest crops and other forest resources and uses. Key decisions in forest management include land allocation to different uses or combination of uses, silviculture[1] method and practices, intensity of management, timber harvest scheduling and environmental protection.

The TLO will continue to employ various forest management strategies to decrease the time between harvests which will increase income to the Trust. Furthermore, it will work toward increasing fiber production for long-term management of Trust lands and research different methodology to maximize the financial return to Trust beneficiaries from its timberlands.

Forest stewardship plans and silvicultural techniques will be developed to improve timber management, while still maintaining flexibility to take advantage of high market conditions. Industry and product trends, as well as market conditions and the economy, will be evaluated to determine when and how to sell a given commodity. The TLO will continue to work closely with industry and keep resources available for desirable market conditions.

The TLO will look for and evaluate projects where multiple resources can be developed simultaneously on Trust land or use the timber development to positively affect the other resource development potential. For instance, this may be a combination of timber sales and subsequent land sales utilizing the infrastructure built by the forestry project to enhance the subdivision sales. At times timber sales may enhance access for mining development.

The TLO works to maintain a viable timber program in Southeast Alaska. If all the companies that can support timber harvest and the necessary infrastructure disappear, the marketable timber on Trust lands will not be harvested, causing a loss of revenue to the Trust. The TLO will work with the Division of Forestry and the University of Alaska and other parties to offer enough timber to at least maintain a small timber industry in Southeast Alaska.

The TLO uses a basic economic exercise to determine if a given parcel of Trust land with a timber component is viable for harvest. The process identifies potential profitability by evaluating whether the project generates revenue greater than the cost of the operation. One of the primary factors that determine the amount of revenue generated by a project is the volume per acre of merchantable material. In Southeast Alaska, volumes per acre can be as high 30,000 board feet per acre (30 mbf/acre) or more for four merchantable species (hemlock, Sitka spruce, red and yellow cedar). In Alaska's Interior, volumes of spruce (desired saw log) in a stand are much lower (2 to 5 mbf/acre) with no other viable species, based on current markets. The average price in the Interior paid for saw log stumpage is $100 per mbf to a limited domestic market. In Southeast, the average price paid for all species is $100 to $300 per mbf to a virtually unlimited export market (prices are from recent timber sales.)

The following considerations are measured when testing the viability of a timber harvest:

a. Cost of operation (access to resource, road construction, infrastructure and harvest costs);

b. Cost of transporting timber to point of sale;

c. Quality and quantity of the timber being

1 Silviculture is the practice of controlling the establishment, growth, composition, health and quality of forests to meet diverse needs and values.

produced; and

d. Price the market will pay for timber.

The market price (d) must be greater than the sum of the first three values (a-c) or development of the parcel or resource is not feasible (i.e. there is no profit). If the projected selling price is not adequate to cover access, harvest, transportation, and administrative costs, the project is not considered viable. If a harvest project is not viable, the TLO must decide either to wait for more favorable markets or to consider developing the parcel for a purpose other than timber.

The TLO must also determine if the revenue derived from the sale of the specified asset will be higher or lower in the near future. Harvest opportunities often swing with market conditions. Typically, many Alaska regions are viable for timber harvest only at extreme high markets. This is primarily due to access difficulties and expensive harvest costs, low volumes per acre and distance from markets.

Risk Management

Market Risk

The risk of not obtaining the highest potential market values for timber can be mitigated by utilizing long-term contracts, monitoring trade publications and maintaining relationships with a variety of individuals and companies that are active in the trade. The TLO monitors industry, proposals and developments that could favorably affect the harvest of Trust assets statewide. The viability and profitability of various contingencies are analyzed often to determine if and when it would be in the Trust's best interest to participate in a market or offer a resource for development.

Regulatory Risks

Federal

Federal regulatory intervention in the management of timberlands is a major risk. Statutes such as the Clean Water Act, Clean Air Act, and Endangered Species Act can have a profound impact on forest land management. These risks can be somewhat mitigated by monitoring Federal agencies, Non-Governmental Organizations, and maintaining relationships with trade and economic development entities. It is important that the TLO maintains relationships with groups which monitor and comment on Federal regulations to influence them to minimize impacts on Trust lands.

State

The Alaska Forest Resources and Practices Act is the primary statute regulating timber lands and associated activity within Alaska. The implementation of this act is overseen by the Board of Forestry. The board is comprised of seven seats representing commercial fisheries, the timber industry, environmental, recreation, foresters, native organizations, and the State Forester. The TLO attends these biannual meetings, which provide an awareness of new and ongoing forest land issues statewide. Close association with Alaska Department of Fish and Game also aids in minimizing impact on Trust timberlands. Although the TLO has identified potential development issues within this document, there are no current statutes preventing the Trust from harvesting its current timber holdings.

Social License

This has been defined as a local community's acceptance or approval of a company's project or ongoing presence in an area. It is increasingly recognized by various stakeholders and communities as a prerequisite for development. These groups can use opposition of development, including timber sales, as a means to raise awareness for various causes and fund raising. These groups are generally very organized and have the capability to mobilize quickly to oppose a project. Because of their willingness to litigate to stop projects, it is a growing concern for timber harvest proponents.

Over the past several decades the commercial harvest of timber has become more complex. The U.S. Forest Service no longer has a commercial timber sale program although it offers timber for sale from restoration, wildlife management, and management objectives other than timber. State and private landowners continue timber programs although operations must adhere to additional and restrictive statutory regulations and permitting processes that can require considerable expense and risk.

Business Models

Timber is an asset that literally grows physically and in value through time. A tree typically increases in size and volume and becomes more valuable with age. This relationship between a tree's biological growth and its financial value means that the negative impact of the time value of money and the risk of negative returns can be offset through timberland investment. This is due to the increasing timber volumes it generates through time.

A rapidly growing segment of global investment is Timberland Investment Management Organizations (TIMO). TIMO's were developed in the 1970's after Congress passed legislation that encouraged institutional investors to diversify their portfolios. By the early 1990's a fundamental ownership of commercial timberlands occurred and by 2008 the management of timberland moved from manufactures of timber-related products to timber management organizations. These TIMOs have the technical and market knowledge to maximize yield and increase investor return. The study of various TIMO's asset management strategies and decision criteria can assist the management of Trust timber lands.

Criteria cited for investing in timber and associated timberlands:[2]

a. The worldwide demand is increasing.

b. Timber is an inflation hedge. Timber increases in value "on the stump" at a greater rate than inflation. Between 1905 and 2005 timber prices have grown at a rate of 3% above inflation.

c. Timber returns beat stocks. Between 1990 and 2007 the NCREIF Timberland Index annual compound return was 12.88% versus 10.54% for the S&P 500 index.

d. Timber has a low correlation to other asset classes.

e. Land is an appreciating asset.

Some of the major TIMOs are Plum Creek, Weyerhaeuser, Hancock Timber Resource Group, Forestland Group, Resource Management Service, Rayonier Potlatch. These TIMOs and others collectively manage or own 57 million acres of timberland in the U.S. (Journal of Forestry, October/November 2012).

The TIMO models differ from the Trust management model and typically include more productive timberland than the Trust currently owns. The TIMO model demonstrates that the holding of productive timberlands over time is prudent investment. The TLO will continue to monitor TIMO trends, investigate potential marketing of Trust timber, and manage lands for future timber supply. It is prudent to investigate potential sale of Trust timberlands to interested parties and reinvest in other timberlands or asset categories that could provide a higher return.

Long Term Contracts

Timber, like any other commodity, experiences price fluctuation according to the laws of supply and demand. Prices may differ significantly in accordance to the markets and timing in which it is sold. Previous TLO timber contracts have demonstrated that contracting for an extended term maximizes revenue. Long term contracts provide time for contractors to develop markets and then sell the resource at optimum market rates. Contractors involved in international and domestic trade deal with multiple factors that affect price, including government fiscal policies, changes to international transactions such as currency fluctuations, market expectations, and supply and demand. The TLO will seek to create long term contracts when possible, but recognizes the need for shorter term contracts when the volume of timber does not warrant long term contracts.

Harvest Marketing

Through experience and working closely with industry partners and the known limitations and challenges previously discussed, the TLO has developed a new harvest strategy that capitalizes on market highs. The TLO's experience with this harvest-market strategy (HMS) has demonstrated that cooperating with a reliable partner in a long-term business relationship can provide higher revenue returns for both parties. When this relationship is employed in the timber industry it allows the operator to find specific markets suited for the type of timber to be harvested. Most purchasers are looking for long-term dependable supplies and will pay premium prices to guarantee

2 Timber Investments Cut Down Portfolio Risk; Robert Stammers, 2008; www.investopedia.com/articles/stocks/08/timber-investment.asp

stability. This vertically structured marketing can provide higher returns for all parties involved. The TLO has determined it to be in the best interest of the Trust to employ this model and utilize a harvest marketing strategy model in select instances.

The HMS concept is based on a shared risk and shared profit scenario. The Trust receives a percentage of the net profit rather than a fixed stumpage rate. This contractual relationship requires close scrutiny by the TLO but provides a means to increase volume as well as revenue. This maximizes revenue to Trust beneficiaries and fulfills a TLO mandate.

A typical harvest marketing agreement contract will require sale layout, timber harvest, marketing and maintenance of infrastructure but may also require the application of silvicultural treatment (pre-commercial thinning). The operator will have rights to construct road, harvest and market timber, and perform activities associated with timber harvest.

Roads, camps, log transfer facilities, shop facilities and other infrastructure constructed during the timber sale represent substantial capital expenditures. When left in place, these capital improvements may provide future economic opportunities unknown at the time of the initial timber sale contract. The presence of roads, bridges and camps can greatly enhance mineral exploration, recreational opportunities, real estate development, tourism opportunities, material sales and other economic revenue generation. In addition, long-term maintenance of this infrastructure is necessary to support access for future silviculture activities, and potentially for other development projects.

Whereas the traditional fixed stumpage price puts the risk solely on the purchaser, the HMS is based on net profit. Operating costs incurred by the contractor are deducted from the sale of the resource. The TLO must closely monitor these costs, but this effort can be mitigated with experienced contract managers. The contract negotiation can fix the pricing of overhead and development costs such as road construction per mile, thereby reducing risk to the Trust. Other costs can be negotiated on a board foot basis. These include logging costs based on system (cable and shovel), landing costs, haul costs on a per mile basis, sortyard and scaling costs, rafting, transportation to ship loading, stevedoring, shipping, and administration. The HMS was applied on the addition to the Leask Lake Timber Sale in 2011. This sale provided a significant increase in stumpage payments to the Trust as compared with the traditional fixed stumpage scenario. Utilizing this strategy, the Trust received 66 percent of the profit while the contractor received 34 percent. This contract change resulted in a 37 percent increase over the initial contract stumpage return.

Contrarily, it is possible that employing HMS could negatively affect the Trust's timber revenue. However, if timber markets crashed during the term of an HMS contract, it is most likely that both the Trust and the contractor would agree to cease timber harvest until such a time as the markets recovered.

Land Exchange

In 2005, a proposed TLO timber sale in Petersburg was strongly opposed by a local group. At issue was the question of whether the logging of timber on steep slopes created a public safety hazard. The proposed sale included logging units located on steep ground above the Mitkof Highway and some residential subdivisions. The group contended that harvest of trees could result in increased soil erosion and landslides. The TLO proposal utilized selective harvest by helicopter to reduce required road construction and impacts such as landslides. While the TLO still believes the Petersburg timber sale area could be harvested. In a safe and responsible manner, the controversy provided an opportunity to re-craft the Trust timber harvest program to be less impactful while still profitable. The TLO decided to postpone the timber sale while it pursued a new alternative — an exchange of the Trust's timberlands near communities for USFS lands in more remote areas. That effort has led to the proposed land exchange outlined below.

There are two basic types of federal land exchange: legislative and administrative. The legislative exchange requires Congress to pass a bill that directly instructs a federal agency to conduct a specific land exchange. An administrative exchange is negotiated between a federal agency and a non-federal party for the exchange of lands. Both processes require the parcels be of equal value. The process of value equalization is conducted through a closely monitored appraisal system. The appraisal considers the highest and best uses of each of the parcels. The same appraisal criteria are used for both ownerships.

The Trust land exchange, for which the Agreement to Initiate (ATI) was signed in 2015 with the USFS, is the result of several prior proposals. Initially, the TLO sought a legislative exchange, but that route did not lead to significant progress. Consequently, in

2011, the TLO began pursuing an administrative land exchange with the USFS. A committee of interested parties was formed including the USFS, Tongass Futures Roundtable (TFR)[3], and the TLO, to identify suitable lands for exchange. Organizations represented included The Nature Conservancy, Trout Unlimited, Southeast Conservation Council, Audubon Society, Sealaska Corporation, and the Landless Natives.[4] The lands in the proposed land exchange are from a pool of six alternatives selected using stringent criteria from the USFS, the Nature Conservancy, and Audubon Society. In September 2012, the TFR voted by consensus to endorse the USFS-AMHT Land Exchange,[5] as it had been identified through the committee's work. The recommendation included about 18,000 acres of Trust land and a pool of approximately 21,000 acres of USFS land.

The execution of the ATI required the completion of tasks such as verification of title to the lands, determination of compliance with the Tongass Land and Resource Management Plan, a preliminary best interest determination that the land exchange is in the best interest of the public, mineral review, list of encumbrances, and Washington D.C. office review. These individual steps and reports were to be completed by both landowners. Now that the ATI has been signed the federal process for finalizing the exchange continues. The federal land exchange process includes many steps which include items such as the National Environmental Policy Act (NEPA) compliance,[6] timber cruises, surveys, land appraisals and environmental assessments.

The exchange process also has a state component defined in AS 38.50. Under this statute the Alaska State Legislature must approve the exchange of state land because of the value of the exchange. The average time to closing of an administrative exchange after the ATI is signed is three to five years. Applying these parameters, the land exchange will be completed by 2020.

The TLO will be better positioned to fulfill its mandate of maximizing Trust timber assets after the exchange is complete. If successful, the Trust will own forest resources in areas more suitable for timber harvest, mitigating the known public opposition to monetizing its current and future assets. These assets will be managed for long-term timber production and supply revenue for Trust programs on a continuing basis.

It is the TLO's goal to provide a sustainable revenue source from the Trust's timber resources. This can be accomplished in Southeast Alaska by consolidating the timber asset base through the proposed land exchange with the USFS. Once consolidation takes place, these new timber assets can then be managed on a sustainable basis. For example, under the current land exchange proposal, the Trust will acquire new timberlands. The new land, coupled with existing timberlands including Icy Bay, totals about 48,000 acres of Southeast Trust timberlands. These lands will be harvested over time. A harvest plan based on a 70-year rotation provides 686 acres of harvestable land each year. This process creates a continuous cycle of mature trees. For example, an average yield of 20,000 board feet (20 mbf) per acre can be applied. The resulting annual harvest is about 14 million board feet (14 mmbf) of wood per year. The TLO will manage the Trust's timber assets to maximize long-term revenue from Trust land while preserving the long-term viability of the resource. In practice, annual harvest rates vary and should be project specific.

In the event that the land exchange is unsuccessful, an alternative plan utilizing current Trust timber holding is discussed in Appendix A.

Summary

The Trust Land Office's (TLO) objective for its timberlands is to maximize revenue to the Trust beneficiaries. To facilitate this objective, the TLO will continue to research new forest products, perform ongoing timber inventories, conduct site visits

3 The Tongass Futures Roundtable brought together a diverse group of stakeholders long involved in the Tongass to discuss how to incorporate economic, cultural, and ecological values in public policy issues throughout the region. The Roundtable seeks to explore how a broad range of stakeholders can address these public policy issues and work together to achieve a long-term balance of healthy and diverse communities, vibrant economies, responsible use of resources — including timber, while maintaining the natural values and ecological integrity of the forest. [http://www.tongassfutures.net/about] The TFR was disbanded May 2013.

4 Landless Natives represents groups of Alaska natives left out of the Alaska Natives Claims Settlement Act of 1971 from Wrangell, Petersburg, Tenakee Springs, Haines and Ketchikan.

5 More information about the details of the exchange is available online: http://mhtrustland.org/index.php/southeast-land-exchange/.

6 NEPA includes the Environmental Assessment (or EIS) of the lands included in the exchange. In addition, NEPA requires a Phase I Environmental Assessment, conducted as part of the resource reports, to identify potential contamination on parcels in the exchange.

throughout the state, track timber markets, attend seminars on developing technology and maintain an on-going timber sale program.

Timber has been a solid source of revenue for the Trust and with careful planning and management will continue to be long into the future. The overall objective is to consolidate Southeast timberlands and place them in long-term contracts to maximize stumpage return to the Trust and seek profitable ventures to utilize timber assets statewide. The TLO will also explore all options to monetize the Trust timber holdings including: exploring new technologies and industries, harvest marketing sales, sales of timberlands, sale of future timber options, and other land exchanges.

Goals and Objectives

The goals for managing Trust timber and forest resources are straightforward. It is important, however, to recognize the need for flexibility and the ability to respond to the market and political and environmental changes. It is also important to remember that the Trust's forest resources extend beyond the traditional timberlands in Southeast Alaska. These goals and objectives are intended to recognize all of these considerations.

Goal 1: Maintain, manage and develop forest resources to maximize revenue for the Trust.

Objective 1: Provide sustainable revenue for the Trust from a timber portfolio acquired through the USFS-AMHT Land Exchange.

Objective 2: Time harvest activities with optimal market conditions.

Objective 3: Develop timber programs throughout the state when viable.

Objective 4: Encourage domestic processing and/or use of forest products while preserving maximum revenue to the Trust.

Objective 5: Manage and develop non-timber forest resources.

Goal 2: Manage for long-term preservation of the Trust's forest resources.

Objective 1: Implement forest stewardship plans to preserve the inherent value of the Trust's timber portfolio.

Objective 2: Focus on timber or other forest resources on Trust land in the Interior and Southcentral areas to determine potential value and viability.

Appendix A

Alternative Plan to Land Exchange

Under a scenario in which the TLO is not successful in full conveyance of the lands identified in the USFS-AMHT Land Exchange, an alternative plan will be pursued to generate revenue from the Trust's timber portfolio. Toward that end, extensive planning has been conducted on the Trust's current timber holdings within the proposed exchange. Although several of the parcels in the exchange were logged in the past by TLO contractors, other Trust parcels (also in the exchange) would net significant volumes and revenue to the Trust.

Potential options for utilizing timber assets which have been explored in the past and will continue to be monitored are conservation easements, and carbon sequestration credits, and sale of the lands.

The following parcels will be analyzed for resource development and extraction if the proposed USFS-AMHT Land Exchange is not successful:

Juneau

This parcel on Douglas Island includes uplands above the Treadwell Mines and other claims. These lands will be assessed for potential timber and mineral production. This area is also considered important for public recreation to Juneau residents and is anticipated to be controversial.

Petersburg

These parcels have gone through the TLO's administrative process for the disposal of Trust assets. A large timber sale was negotiated and then canceled due to local opposition. These lands would be reconsidered for a competitive commercial timber offering.

Sitka

Parcels will be assessed for subdivision or other revenue generation. The Katlian Bay parcels were previously helicopter harvested for timber. There are known recreational trail use issues and potential conflicts on the parcels adjoining Sitka.

Wrangell

Parcels have had prior harvesting by the TLO or were harvested prior to conveyance to the Trust. Areas not previously harvested have local zoning restrictions that may require variances for timber harvest.

Meyers Chuck

These parcels will be difficult to develop for timber due to a lack of necessary infrastructure. There is no road system or log transfer facility. The TLO anticipates significant public opposition to a timber sale in Meyers Chuck. The small area (169 acres) will most likely not provide sufficient volume to cover development and mobilization costs.

Ketchikan

There are several parcels identified for exchange in this area. A large timber sale conducted by a TLO contractor in 2004 generated more than $4 million in revenue. This sale was performed by helicopter rather than through a ground harvest that would have required road construction.

One particular large parcel not harvested, Deer Mountain, has excellent timber. This parcel has been cruised and initial plans for sale are in place. The TLO anticipates the proposed harvest of this parcel, which is located within the view shed of Ketchikan and cruise ship traffic, will produce significant revenue but will continue to be very controversial.

Appendix B

Land Exchange Process