

LAND RESOURCE MANAGEMENT STRATEGY



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Introduction	1
Stewardship	1
Revenue Generation	1
Inventory of Land Resources	1
Performing Assets	1
Nonperforming Assets	2
Values	2
Values Inventory Tools	2
Authorization Contracts	2
Income-Generating Authorizations	3
Principal-Generating Authorizations	3
Risk Management	3
Development Issues	4
Public Rights of Access and Compensation	4
Land Management Strategy	4
Financial Reporting and Information Management	5
Key Performance Indicators	5
Profitability in Comparison with Other Land Trusts	5
Goals and Objectives	6

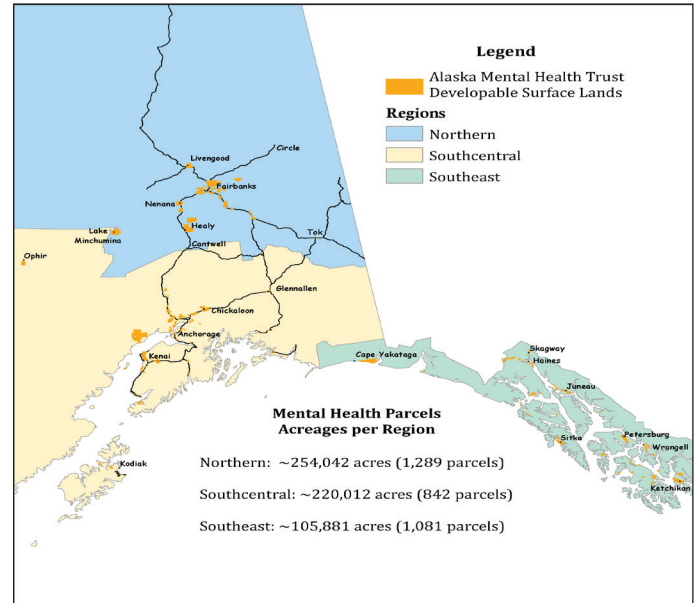
Introduction

The Lands Section works on behalf of the Trust to identify and enhance lands for economic development and mitigate risk liabilities of the land estate held by the Trust. Management actions must be consistent with Trust principles as established by the Alaska Mental Health Enabling Act of 1956.

The Lands Section uses a dynamic and versatile approach to encourage principal and income revenue streams while maintaining the long-term value of the land corpus. As new technologies demand greater land-based infrastructure needs, the TLO has delivered solutions with greater efficiency than many other private and government sectors.

The Trust's land estate is divided into three regional areas (Northern, Southcentral and Southeast), each comprised of organized and unorganized boroughs. The Lands Section's regional managers offer professional expertise to focus on business transactions, ecosystem management, and the economic and political climate of their respective regions. A lands specialist assists the regional managers with adjudication of title issues, encumbrance research, and the replacement lands program strategy with the State of Alaska.

operating expectations and focus on resources at the high end of their market values best markets and then on land or resources with best market potential within the next two to ten years.



Inventory of Land Resources

The surface lands are made up of approximately 579,526 acres and segregated into asset classes as described below.

Stewardship

The Lands Section manages the perpetual Trust land prudently, efficiently, and with accountability to the Trust. Best management practices ensure Trust lands are maintained, assets inventoried, liability exposure minimized, and value is retained for the present and future. A strong field presence ensures protection of the surface resources and continues to be sustained through a working knowledge of the portfolio, identifying and resolving liabilities, and effective working relationships with customers, public, agencies, and governments.

Revenue Generation

This plan provides guidelines for management and development of the surface lands to generate a predictable stream of income and principal funds. Through FY15, the Lands Section has contributed \$86.4 million or 47.64% of all TLO revenue. New opportunities to generate revenue must meet

Performing Assets

A performing asset provides a positive cash flow on a parcel or a selection of parcels. The Lands Section manages land use through various authorizations that generate revenue from fees, licenses, leases, easements, and land sales. As of this publication, the Lands Section actively manages more than 400 land use authorizations. These authorizations grant individuals, corporations, government agencies and other entities limited or full property rights for the use of Trust land.

Projects authorized on the surface lands are often diverse and require Lands Section staff to possess complex land management skills and knowledge. Project types may include easements for utilities, fiber optics, and roads; land sales either competitive or negotiated; land leases for short- or long-term development with infrastructure, such as cellular/communication sites; licenses for exploration or analysis; and letters of authorization for community

LAND RESOURCE MANAGEMENT STRATEGY

2016 RESOURCE MANAGEMENT STRATEGY

events or other minor projects.

Nonperforming Assets

A nonperforming asset is defined as a parcel that is not producing revenue. The Lands Section proactively explores business opportunities to generate a wider range of authorizations, such as cottage industries, roads, utilities, and communications infrastructure. In addition, the Lands Section focuses on new, land-based needs for technology and communication industries or acts in response to regulatory requirements to promote authorizations on remote, rural, or undesirable parcels to reduce the number of nonperforming assets.

Values

Throughout the Trust's history, valuation of the real property portfolio has been difficult to quantify. In the settlement of the class action suit that reorganized the Trust in 1994, the fair market value of Trust lands could not be agreed upon due to valuation issues related to the original Trust lands compared to the substitute lands awarded in the 1994 settlement agreement. The Trust has made a conscious decision to not specifically attempt to value the land or non-cash portfolio that has been held by the Trust from inception. An important consideration in making that decision was the difficulty and expense associated with establishing those values and in maintaining accurate values. Each parcel may contain numerous monetization possibilities, and identifying every possibility would be impractical. The TLO does, however, appraise and evaluate parcels in the course of doing business.

The TLO utilizes multiple evaluation tools to determine valuation. The valuation process entails a wide range of analysis methods based on the proposed type of authorization. Current parcel values are determined by either an internal review process that may include historical values, review of tax assessment records, analysis of comparable sales transactions, and/or external reviews such as a broker opinion of value or an appraisal.

The 1994 settlement established a mechanism to replace parcels from other state lands under a Replacement Land Program whose values from encumbrances or other restrictions significantly hindered its economic value. The first round of the replacement land program was closed in 2015. Future

parcels that are encumbered by DNR authorizations or physical characteristics, such as submerged lands rendering the parcel value as de minimis, may be negotiated in a future land replacement program.

Values Inventory Tools

The Lands Section is entrusted with the responsibility of protecting or enhancing the future value of the surface lands. This includes developing stewardship policies, procedures, and guidelines to assess current parcel conditions, alleviate and mitigate unauthorized land use and trespass, and develop restoration and reclamation projects. To facilitate this process, the TLO developed a Parcel Attribute Library (PAL), an electronic database that documents each parcel's known condition, attributes, use history, known values and authorizations. PAL is an important management tool for the continuity of future transactions and the current demands for management decisions.

The RED Team (Review, Encourage, and Develop) is an important dynamic communication tool that has yielded authorizations of higher revenue value and efficiencies. This is an internal working group among various TLO resource groups was established to promote and facilitate the development of the surface estate to achieve the highest and best use of a parcel and to reduce the conflict of uses related to a specific parcel.

Focus Area Plans (FAP) are an additional tool to increase higher revenue values. A FAP is similar to comprehensive plans but will define future uses in respect to land use development and asset preservation for a smaller geographic area within a region. They are intended to forecast an area's economic trends and land resource potential as well as identify preservation opportunities and needs. The process may include the evaluation of site characteristics, history of land use, analysis of local zoning regulations, evaluation of market potential, identification of appropriate management policies, and coordination with other resource sections. The FAP will target strategic areas for development at the optimum market conditions. These plans will be reviewed and approved by the TLO executive director.

Authorization Contracts

Land resource management generates revenue through a variety of transactional authorizations that

grant permissions or rights for compensation. The basis of an authorization type is predicated on:

1. The amount of risk to the Trust associated with the proposed activity;
2. The term or extent of the authorization; and
3. Infrastructure added or modification of the property.

Authorizations types are described below.

Income-Generating Authorizations

Letter of authorization: A revocable and non-exclusive land use for a short period of time, with low risk and low impact to the surface lands. Often, these are used for community-supported events and may provide opportunities for positive public relations for the Trust.

Revocable license for land use: A license allows non-exclusive use of the surface lands and is revocable without cause and infrastructure is temporary.

Land lease: A lease allows exclusive use of the property and typically will add more infrastructure associated with its use. At the end of the lease term, the infrastructure may be removed, sold to another party or retained by the Trust. It is considered a disposal and requires consultation with trustees.

Non-perpetual easement: A long-term easement for land use development that may include communication towers, roads, trails, or utilities. Co-locations require a separate authorization by TLO. A master easement agreement was created for applicants that required multiple easements over time.

Interest from land sales: The contract interest rate is set by statute and determined by the prime rate as reported in the Wall Street Journal on the first business day of the month plus 3 percent.

Principal-Generating Authorizations

Perpetual easement: A disposal of the surface land in which the mineral rights are usually retained by the Trust. Perpetual easements are negotiated on a limited basis because of the potential for lost economic opportunity in the future. Perpetual easements are treated as a negotiated sale and the value is determined by an appraisal plus a 25 to 35 percent surcharge to compensate for not selling through a

competitive process.

Competitive land sales: The program is designed to dispose of subdivided lots and small parcels that do not lend themselves to resource development. The competitive nature of the program is derived from the directive to maximize revenue from Trust land.

TLO regulations require the disposal of the surface lands on a competitive basis, unless the executive director determines a negotiated sale is in the best interest of the Trust. The land sale program since 1998 has contributed revenue above appraised values and historically, has averaged 26 percent over appraised values. Generally, the appraised value establishes the minimum bid.

An outgrowth of the competitive land sale program is the Outcry Auction. Since 2006, properties with unique characteristics (waterfront, scenic view sheds and islands) are offered for sale in the Outcry Auction. Although the number of parcels offered in the Outcry Auction is usually low, the competitiveness of auction dynamics often increases revenues compared with other methods.

Negotiated land sales: From time to time, private parties, communities, conservation groups, nonprofits and local governments approach the TLO, interested in acquiring Trust land. Each request is carefully evaluated and subjected to a stringent adjudication process. If pursued, each sale requires consultation with trustees, a written finding of a best interest decision and publication of a public notice under 11 AAC 99.050. A negotiated sale is based on a current appraisal plus a 25 to 35 percent surcharge to compensate for not selling the parcel through a competitive process.

Risk Management

Risk management is the mitigation of the Trust's liability through a process that identifies and assesses the risk associated with a resource management decision and establishes a method to minimize, monitor and control the risk within the parameters of land resource management criteria. Best policies include:

1. Use of contract stipulations requiring indemnification and insurance in all land use contracts issued by the TLO. Boilerplate language for risk mitigation has been recommended by the State of Alaska risk

management group.¹ On a case by-case basis, specific authorizations may include input from the Department of Law for prudent environmental or transactional stipulations or conditions.

2. Performance guarantees used to protect the Trust if an applicant defaults on the terms and conditions of a land use contract.
3. An applicant must provide a performance guarantee before being authorized to use Trust land, unless the perceived level of risk associated with the activity is de minimis.

Development Issues

Surface lands are managed for the economic benefit of the Trust — not for the public at large. Consequently, TLO management practices may conflict with the priorities of various public or private user groups. This conflict between the public's interest in Trust land versus the interest of the Trust has at times led to confusion and tension between the Trust or the TLO and user groups, government agencies, and individuals.

The Lands Section may receive pressure to limit the development of surface lands through the public process: public relation campaigns, agencies, or zoning laws. Often the public process inadvertently devalues the property and does not compensate the Trust for its limitation of parcel development opportunities from the full market potential. This action is inconsistent with AS 38.05.801 and 11 AAC 99.

Public Rights of Access and Compensation

The burden of section line easements,² RS2477 rights of way,³ and 'to and along'⁴ easements on Trust lands may, on a case-by-case basis, be in conflict with the TLO's mission as well as inter-agency agreements. Generally, these are public rights of access created without compensation to the Trust prior to the settlement. There are instances when these rights augment the development of Trust resources. At the same time, there may be instances when these

easements diminish the value of Trust land or create a risk or liability to the Trust from trespass or other unauthorized activities. The 1994 settlement allows the Trust to challenge the validity of any encumbrance or interest. Existing case law supports compensation for public takings, such as access easements.

Land Management Strategy

The Lands Section has a three-pronged business strategy to continue to build upon past successes, develop new markets, and use innovation to make each authorization more efficient and less costly to produce. The competitive land sale program has been extremely successful for the Trust; as of FY15 \$69 million or approximately 38 percent of all TLO revenue is attributable to land sales. It is important to note that less than 2.5 percent of the land corpus has been sold. Historically, DNR conveyed small lot subdivisions to the Trust as a result of the 1994 settlement. Almost all of the DNR small lot subdivisions have been sold and the future of the competitive land sale program is dependent on subdividing smaller parcels into recreation or marketable residential lots. The Lands Section continues to select small parcels requiring minimal infrastructure for subdivision development that will generate maximum revenues. Revenues from land sales contribute both principal and income if sold under a land sale contract.

Emerging markets from various new technologies are required to satisfy the Alaskan population's need for access to internet and communication technology for personal and business demands. As utility companies expand in these markets, the demand for fiber optics easements or cellular tower sites continues to grow. The Lands Section created an innovative long-term master agreement that allows those businesses with multiple easements or leases to do so efficiently and at a predictable cost over time. The efficiency of the agreement dramatically lowered cost and reduced permitting times for both the TLO and its customer.

As long-held federal and state easements issued to utilities in the 1950's and 1960's begin to expire, the TLO is able to capitalize on this existing infrastructure that has previously been a low revenue producer. The utility companies do not plan to remove their infrastructure and are in the process of negotiating with the Lands Section for future long-term agreements affording legal access. The master agreement is a particularly effective tool to meet the

1 Division of Risk Management <http://doa.alaska.gov>.

2 AS 19.10.010

3 AS 19.30.400

4 AS 38.05.127

utility's needs.

Another exciting emerging market is Unmanned Aircraft Systems (UAS) or drone technology that requires a small land lease with easy access but large airspace. The unmanned aerial systems sector is the fastest-growing segment of the global, aerospace and defense industry, and has the potential for high-tech job growth and significant economic impact. By entering the market in the early stage of authorized, commercial operations, the TLO can partner with a UAS provider to establish and operate training ranges. As the Federal Aviation Administration (FAA) develops rules to address commercial uses, the demand for qualified pilots and observers will increase proportionately. Another application for drones is the acquisition of multi-spectral aerial imagery. Trust parcels can be selected where there is a need for high resolution imagery, in the case of trespass, development projects, or new programs. The next five years will bring other new innovative technologies to Alaska that the Trust lands are well poised to meet.

Financial Reporting and Information Management

The State's financial management system does not adequately report on operational and profit measurement standards for the Trust's for-profit business model. The Lands Section is aggressively working with TLO administration to address its ongoing need to develop financial accountability tools to report on transactional measurements related to operational, contractual, and administrative costs. With determination of the cost-benefit analysis of projects and authorizations, the Lands Section has been able to focus on authorizations that yield strong profits to the Trust with greater labor efficiency.

Presently, the Lands Section is continuing its efforts at developing business efficiencies to its daily work processes through the planning and implementation of automated systems. Currently in development are electronic submittals and routing of electronic applications, enhanced document production and management tools, and enhanced integration with state systems such as LAS. Pre-population of data into electronic records will streamline and create greater accuracy of the business process.

Key Performance Indicators

Key performance indicators are based on achieving profit in both principal and income funds, as well as revenue maximization by type of authorization and parcel. A key component of establishing performance measures is the statistical financial information derived from marketing analysis and returns from prior authorizations or developments. Authorizations for land use that have low returns will be denied unless they fulfill a stewardship obligation by increasing the inherent or potential value of a parcel.

Stewardship typically does not have revenue performance measures because its focus is the preservation of the parcel; however, revenue potential may be created through lease opportunities for nondevelopment easements to keep lands pristine and undeveloped.

Profitability in Comparison with Other Land Trusts

The Western States Land Commissioners Association (WSLCA) covers 23 states, and its membership oversees 447 million acres of state land, of which most are managed for school trusts. Due to the lack of a standard reporting system, the WSLCA developed a reporting standard (Return on Asset to compare asset or authorization types) to measure asset performance across multiple states. Although the TLO is a WSLCA member, it does not yet have the ability to measure itself in comparison to other state trusts, except by revenue per acre, until similar financial reporting functions are developed. The advances of cost-benefit analysis reporting are one step closer to producing comparison reports with other similar land trusts.

Goals and Objectives

Goal 1: Maximize long-term revenue by increasing development opportunities over time.

Objective 1: Encourage lease programs for nondevelopment on nonperforming assets that will employ sound economic and environmental practices while providing income/revenue.

Objective 2: Promote income producing authorizations for commercial opportunities related to industry drivers in tourism, pipelines, roads, utilities, and communication sites.

Objective 3: Maintain a three-year inventory of lots through subdivision developments in support of the competitive land sale program.

Objective 4: The Lands Section will contribute a total of \$3 million in revenue per fiscal year through the development of goals during fiscal years 2017-2020.

Goal 2: Manage Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries.

Objective 1: Develop Focus Area Plans and market analysis reports that will make recommendations for future land use that will encourage a diversity of revenue-producing uses and generate strong returns.

Objective 2: Continue to develop new business processes that will increase efficiency of operations and reduce operational costs.

Objective 3: Develop management reports to measure revenue over expenses and track costs including labor time by authorization type.

Objective 4: Develop analysis tools to provide a basis for comparison of profits and other financial matrices with other trusts.

Goal 3: Protect and enhance the inherent value of the surface lands through stewardship obligations.

Objective 1: Establish or increase collaborative relationships with local governments, NGOs,⁵ communities, and state and federal agencies to advance the TLO's mission and land management decisions.

Objective 2: Actively engage in monitoring and abating proposed actions of governments and agencies related to zoning, regulatory changes, plans, operations, and projects that may adversely affect value of Trust land.

Objective 3: Identify and resolve issues that negatively impact Trust land related to access, trespass, environmental degradation, or contamination.

Objective 4: Resolve long-term pre-1994 settlement DNR actions that negatively affect the value of Trust land such as inter/agency management agreements.

5 Non-government organizations