



City and Borough of Juneau  
City & Borough Manager's Office  
155 South Seward Street  
Juneau, Alaska 99801

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DATE: September 1, 2017

TO: Wyn Menefee, Deputy Director, Alaska Mental Health Trust Land Office

FROM: Rorie Watt, PE, City Manager

RE: AMHLT Parcel - Juneau Subport Lot C1 – MH Parcel C20499

The disposition of Juneau Subport Lot C1 is of great interest to the City and Borough of Juneau; our Assembly recently passed a resolution in support of a sale of the property (attached). It is my understanding that TLO staff were waiting to determine if the adjacent proposed sale of Lot C2 would be completed before proceeding with determination on C1. As the sale of C2 has been completed, we would like to assist the Trust in its analysis of the proposed sale of C1.

In accordance with Federal and State law, Regulation and its adopted Asset Management Policy Statement and Land Resource Management Strategy, the Alaska Mental Health Trust is charged with maximizing long term revenue from Trust land and doing so in the best interests of the Trust and its beneficiaries.

In 2016, the TLO advertised for interest Juneau Subport Lot C1 and received three offers, two of which have merged. The TLO has an offer in hand for \$3,240,000 that was submitted in December of 2016 and has not yet acted on that offer. The offer is well above a recently appraised value of \$2,735,000. It is the City and Borough of Juneau's opinion that the Trust MUST complete the sale in order to comply with the letter and intent of State law and Regulation – to maximize the financial interests of the Trust and its beneficiaries.

To assist the Trust in completing a best interest determination, we offer the following information and analysis.

Leasing:

For leasing of this parcel to be in the best interests of the Trust and its beneficiaries, leasing must be believed to be more than likely to generate at least as much revenue as a sale. The proceeds of a sale would be presumably invested with the Trust's corpus and managed by the Permanent Fund Corporation. A leasing strategy must also indicate that the prospects for long term lease opportunities exist. Depending on fund management principles, a \$3.24M investment can safely return an annual inflation proofed return of approximately 4.5% or \$145,800/year. To competitively beat a sale strategy, a lease strategy must accrue at least this amount and collect additional funds to pay for land management costs.

Since December of 2016, the Trust has incurred not insignificant and ongoing costs related to lease management, site cleaning, fencing, brush clearing, and liability exposure. The TLO could

have avoided these expenses by selling the property last December (and as an example, would have been fortunate enough to accrue approximately an additional 11%, or about \$350K from the strong market conditions seen since last December).

Lot C1 has sat vacant since the demolition of the old subport warehouse building and absent use for construction staging by the State of Alaska Library and Museum project, the site has not returned significant lease payments. Historic leasing has not produced economic value in excess of the proposed purchase.

Additionally, in 2008-2009 the Trust and the State spent significant resources developing a plan for a conceptual State office building on the adjacent Subport Lot C2, the plans failed due the State legislature's aversion to a long term lease. In the last 30 years (at least) in Juneau, there are no comparable situations where a lessor has invested development capital to build upon leased ground. The TLO should acknowledge that the Juneau real estate and development economy will not support a model of development that is based upon long term land leasing.

#### Sale:

The TLO has provided a solicitation process and has in hand an offer for a purchase at approximately 20% over fair market value. The TLO has not publicly provided a basis for not accepting this offer.

First, in evaluating a sale today, the TLO must evaluate the likelihood of the property appreciating in value. Given the State economy and local trends, there are no economic indicators to believe that a speculative future land value could outpace the value of invested principle.

Second, the proposed purchaser is unique, represents something akin to an angel investor. The proposed development envisions a non-profit science interpretative center, a boat harbor and mixed use development. These Juneau citizens are willing to pursue these two "public good" developments (science center and boat harbor) and are willing to stomach the TLO's demand for above market sales price for one reason – civic pride. If the TLO passes on this opportunity, the land will languish, gaining marginal and short term lease or license fees.

#### Summary:

The Trust was given access to approximately one million acres of land in Alaska to be managed to the benefit of the organization and trust beneficiaries. It is my strong opinion that avoiding a sale and leaving the land fallow fails this responsibility. Analysis of this parcel leads to the conclusion that the Trust must sell this parcel of land and that the sale is in the best interests of the Trust, the beneficiaries. Although the best interests of the City and Borough of Juneau are not the duty or consideration of the Trust, our interests do align in this matter. It is the legal duty of the Trust to maximize its long revenue from Trust land; in this case that duty is to sell Lot C1. Please contact me if you have any questions on this matter.

#### Attachments

cc: Alaska Mental Health Trustees  
Honorable Senator Dennis Egan  
Honorable Representative Sam Kito, P.E.  
Honorable Representative Justin Parish

Presented by: The Manager  
Introduced: 06/26/2017  
Drafted by: A. G. Mead

## **RESOLUTION OF THE CITY AND BOROUGH OF JUNEAU, ALASKA**

**Serial No. 2799**

### **A Resolution Supporting the Disposal of Lot C1, Juneau Subport Subdivision by the Alaska Mental Health Trust Authority.**

WHEREAS, the Trust Land Office manages the land and resources owned by the Alaska Mental Health Trust Authority and is tasked with generating revenue for the benefit of the Trust and its beneficiaries through land sales and other types of real property disposals; and

WHEREAS, the Trust Land Office is contemplating the sale of Lot C1, Juneau Subport Subdivision (Mental Health Parcel C204099, Trust Land Office project # 2017-156); and

WHEREAS, historically, the Trust has been unable to maximize the economic value of the land, which has sat vacant for many years and which has not generated any interest from potential investors; and

WHEREAS, the Trust Land Office has recently received a proposal from the private sector to purchase the property; and

WHEREAS, the proposal is consistent with the Trust Land Office's land sales policy; and

WHEREAS, the sale of the land will be in the best interest of the Alaska Mental Health Trust Authorities beneficiaries; and

WHEREAS, the City and Borough of Juneau understands that the interested buyer is proposing a project designed to further the development of Juneau's waterfront and which would be of great benefit of the community.

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

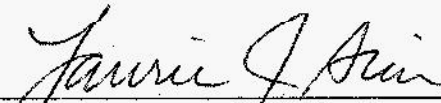
**Section 1.** The Assembly fully supports the disposal of Lot C1, Juneau Subport Subdivision, by the Alaska Mental Health Trust.

**Section 2. Effective Date.** This resolution shall be effective immediately after its adoption.

Adopted this 26<sup>th</sup> day of June, 2017.

  
Kendell D. Koelsch, Mayor

Attest:

  
Laurie J. Sica, Municipal Clerk

## **11 AAC 99.020. Management of Alaska mental health trust land**

(a) This section describes the management responsibilities that are consistent with trust principles accepted by the Territory and State of Alaska under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)).

(b) Trust land shall be managed consistently with trust responsibilities accepted by the state under the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)), which means that management shall be conducted solely in the best interest of the Alaska mental health trust and its beneficiaries.

(c) In determining the best interest of the trust and its beneficiaries, and in determining consistency between state law and the Alaska Mental Health Enabling Act (P.L. 84-830, 70 Stat. 709 (1956)), the executive director shall, at a minimum, consider the following trust management principles:

(1) maximization of long-term revenue from trust land;

(2) protection of the corpus;

(3) protection and enhancement of the long-term productivity of trust land;

(4) encouragement of a diversity of revenue-producing uses of trust land; and

(5) management of trust land prudently, efficiently, and with accountability to the trust and its beneficiaries.

(d) The disposal of trust land shall be made on a competitive basis, unless

(1) the executive director, in consultation with the trust authority, determines in a written decision required by 11 AAC [99.040](#) that a non-competitive disposal is in the best interest of the trust and its beneficiaries; or

(2) an existing law that is applicable to other state land and that is consistent with (a) - (c) of this section allows for a negotiated transaction.

(e) If a provision of state law requires that an action be taken or decision be made in the "best interest of the state," that provision as applied to trust land means that the action must be taken or decision be made in the best interest of the trust and its beneficiaries.

(f) Unless otherwise specified in this chapter, every provision of law applicable to other state land applies to the management of trust land unless its application is determined, in the written finding required by 11 AAC [99.040](#), to be inconsistent, in whole or in part, with (a) - (c) of this section.

## AS 38.05.801. Management of Mental Health Trust Land.

(a) Mental health trust land shall be managed consistent with the trust principles imposed on the state by the Alaska Mental Health Enabling Act, P.L. 84-830, 70 Stat. 709 (1956).

(b) Subject to (a) of this section, the department

(1) shall manage mental health trust land under those provisions of law applicable to other state land;

(2) may exchange other state land for mental health trust land under the procedures set out in AS [38.50](#); and

(3) may correct errors or omissions in the legal descriptions of mental health trust land.

(c) The commissioner shall adopt regulations under AS [44.62](#) (Administrative Procedure Act) to implement this section. The regulations adopted under this subsection must, at a minimum, address

(1) maintenance of the trust land base;

(2) management for the benefit of the trust;

(3) management for long-term sustained yield of products from the land; and

(4) management for multiple use of trust land.

# Mental health trust proposes \$45M building

## Four-story downtown structure could serve state workers by 2012

**Posted:** Wednesday, February 11, 2009  
By JEREMY HSIEH

State office workers could have some new downtown digs by 2012 under a plan to build a \$45 million office building near Coast Guard Station Juneau and the old subport building site.

The Alaska Mental Health Trust Authority is pushing plans to build a four-story, 147,000 square foot building on a few acres of its land just off the waterfront near the intersection of Egan Drive and Whittier Street. The site is currently used as a parking lot.

The trust authority is a state corporation founded and endowed with land and cash during statehood proceedings 50 years ago. The trust spends about \$25 million a year in earnings toward its mission: supporting programs in the state that serve the mentally ill, chronic alcoholics and developmentally disabled, among others. Constructing and leasing this office building is a revenue generating investment that serves that interest.

A written agreement outlining the state's commitment to lease the space beginning in May 2012 from the trust is in its "final stages," trust Executive Director Harry Noah told the Juneau Assembly on Monday.

Wayne Jensen, the project's principal with the Juneau architecture and planning firm Jensen Yorba Lott, said the state intends to lease 90 to 95 percent of the office space. The uncommitted space would be on the ground floor and available to lease for commercial use, fitting with the city's long-term plans for mixed-use space on the waterfront and capitol complex.

The state intends to relocate its departments of Labor, Corrections, Public Safety and Fish and Game into the proposed building. Noah said several of the existing spaces those departments use are in need of major repair or demolition. He referred inquiries about the state's intentions for its old buildings to Department of Administration Deputy Commissioner Kevin Brooks. Brooks could not be reached for comment.

Assemblyman Bob Doll questioned the size of the building, which will be comparable in height to the Sealaska building downtown.

Jensen said the number of stories is prescriptive, a product of the building's footprint and state's needs. It isn't any larger, Noah said, because the trust had "probably gone to the edge" of its appetite for investment risk with the small amount of uncommitted ground floor space.

"The fact that we have (most of) the space leased going in is enough comfort to us to go forward. We're not a speculative group," Noah said.

Assemblyman Randy Wanamaker applauded the plan, alluding to concerns about capital creep.

"I don't know anyone else that wants to come to Juneau, invest \$45 million and help secure the capital. And that's what this is going to do."

Noah said the lease terms call for an initial 20-year commitment plus two 10-year extensions.

The Assembly doesn't have any immediate role in the building process, though Noah said the trust is seeking a small parcel of city land off Whittier for a parking garage to serve the building at a future date yet to be determined.

The site of the old subport building, demolished in 2007, will provide parking in the interim, though that prime waterfront land will eventually be put to use for more worthwhile development, Noah said.

The parking garage is being put off because of the extra \$20 million the garage is estimated to cost, Noah said, which would drive lease prices "unreasonably high."

Some rezoning and variance issues related to the project were before the Juneau Planning Commission on Tuesday. To meet the state's timeline for relocating offices in 2012, the trust wants to have every element of the plan finalized this June, Noah said.

- Contact reporter Jeremy Hsieh at 523-2258 or e-mail [jeremy.hsieh@juneauempire.com](mailto:jeremy.hsieh@juneauempire.com).