12.8.1

Exxon Valdez Oil Spill Trustee Council

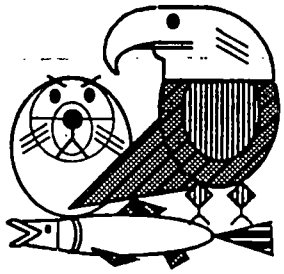
Shuyak Island
Revised Program 11-6-9993

prepared for the
Legislative Budget & Audit Commitee

January 8, 1996

12.8.1

Exxon Valdez Oil Spill Trustee Council
Restoration Office
645 G Street, Suite 401, Anchorage, Alaska 99501-3451
Phone: (907) 278-8012 Fax: (907) 276-7178



MEMORANDUM

TO: Nancy Slagle
Director
Division of Budget Review
Office of Management and Budget

FROM: Molly McCammon
Executive Director

DATE: December 20, 1995

RE: _Exxon Valdez_ Oil Spill RPL 11-6-9993

In accordance with Chapter 1, FSSLA 1992, the Department of Natural Resources requests authority to receive and expend $42,000,000 from _Exxon Valdez_ oil spill settlement trust funds to purchase 26,665.62 acres of surface estate on Shuyak Island from the Kodiak Island Borough.

This parcel of land was evaluated as part of the Trustee Council's Comprehensive Habitat Protection Process - Large Parcel Evaluation and Ranking (November, 1993) and found to be among the highest ranked parcels in the spill area.

This land provides important habitat for several species of fish and wildlife for which significant injury has been documented. These include harlequin ducks, black oystercatchers, marbled murrelets, pigeon guillemots, river and sea otters, harbor seals, Pacific herring, pink salmon, and Dolly Varden. Restoration of these injured species will benefit from acquisition of this important habitat through protection from activities and disturbances which may adversely affect their recovery. The area has exceptional scenic qualities and supports wilderness-based recreation activities including sport hunting and fishing. The area also possesses significant cultural resource values with fifteen documented historical/archaeological sites.

These lands will be managed by the Alaska Department of Natural Resources, with protection of fish and wildlife habitat and populations as the highest management

priority. Under the terms of the agreement, public use of these lands must be allowed and must include sport, personal use, and subsistence hunting, fishing, trapping and recreational uses, consistent with public safety and permitted under law or regulations of the Board of Fisheries and Board of Game. Limited commercial use may be allowed if consistent with state and federal laws and the goals of restoration.

As reflected in the Trustee Council resolution, the Trustee Council's appraisal process resulted in a finding that the Shuyak parcel has a fair market value in the range of $27 million to $33.32 million. Taking into account the basis for the various appraisal numbers, the position of the landowner as to its minimum selling price, and given the exceptional restoration values of the Shuyak lands, the Council felt an offer at the upper end of that range was appropriate. The appraised value is based upon a single cash payment of $33.32 million. Because the payments will be over a period of eight years, in lieu of interest, the purchase price has been adjusted to a total purchase price of $42 million. It should be noted here that the Kodiak Island Borough commissioned three separate appraisals on their own, and these ranged in value from $36 million to $54 million.

There has been widespread support for this acquisition. The Kodiak Island Borough has committed $6 million to be received through this sale to expand the existing Fisheries Technology Center. This expansion, referred to as the Near Island Research Facility, will provide for the consolidation of federal and state fisheries agencies in Kodiak, which will greatly increase their ability to respond to fisheries management and research needs. Borough Mayor Jerome Selby has provided additional information on this facility in his enclosed letter of endorsement.

Additional documentation supporting this request is also being provided:

- Trustee Council Resolution dated December 11, 1995
- Restoration Benefits Report
- Map
- Appraisal information (selections)
- Endorsement from Kodiak Island Borough
- Photos
- Letters of support

Since this is a capital project, authority to receive and expend subject to AS 37.25.020 is requested. If you have any questions about this RPL, please do not hesitate to contact me at 278-8012.

Council Resolution

RESOLUTION OF THE
EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

We, the undersigned, duly authorized members of the Exxon VALDEZ Oil Spill Trustee Council, after extensive review and after consideration of the views of the public, find as follows:

1. Under the Municipal Entitlement Act, the Kodiak Island Borough (hereinafter "KIB") has the right to receive title to the surface estate of certain land from the State of Alaska (hereinafter "State");

2. In 1980 and 1981 the KIB filed certain appeals with the Superior Court in Anchorage for the purpose of determining the KIB's rights under the Municipal Entitlement Act. The appeals were resolved and settled by the KIB and the State in the Agreement of Settlement and Consent Decree in case numbers 3AN-80-3070 Civ, 3AN-80-6710 Civ, and 3AN-81-1385 Civ, consolidated, approved by the court on August 12, 1981, which Agreement was subsequently amended by the Amendment to Settlement Agreement dated January 3, 1985 (hereinafter collectively referred to as the "Settlement Agreement");

3. Pursuant to the Settlement Agreement, the KIB has received title to the surface estate to certain land on Shuyak Island and has equitable title in and has an absolute right to receive patent from the State to the surface estate of other land on Shuyak Island, consisting in total of approximately 26,665.62 acres, more or less, (hereinafter all of the KIB's land and interest in land on Shuyak Island including adjacent rocks and islets are referred to as the "Land"). The KIB is

authorized by state law to sell and convey the land to which it has equitable title with the consent of the State;

4. The KIB wishes to sell the Land to the State;

5. The Land includes important habitat for several species of fish and wildlife for which significant injury resulting from the spill has been documented. A rocky shoreline heavy with kelp beds, pockets of eelgrass and rich communities of invertebrates supports feeding harlequin ducks, black oystercatchers, marbled murrelets, and pigeon guillemots. Black oystercatchers and pigeon guillemots nest and harlequin ducks molt along the shoreline. The mature spruce forests on the parcel provide probable nesting habitat for marbled murrelets. Restoration of these injured species will benefit from acquisition of this important habitat through protection from activities and disturbances which may adversely affect their recovery. There is also a high likelihood of restoration benefits for river otters and concentrations of sea otters which feed and breed along the shoreline. Harbor seals, an injured species with seriously reduced population levels, are likely to benefit from parcel acquisition through protection of haulout areas and control of potential disturbances. Pacific herring, an injured species documented to spawn along the coastline, will benefit as will pink salmon populations, documented in six streams, and Dolly Varden, documented in eight streams on the parcel, through protection from activity which may adversely affect water quality and habitat. The area has high scenic value and supports high value wilderness-based recreation including hunting, fishing, sea-kayaking and camping. The area also possesses high cultural resource values, with fifteen documented historical/archaeological sites;

6. The Land is adjacent to the Shuyak Island State Park to the west and State owned land to the east. Protection of the Land will ensure protection of the entire Shuyak Island ecosystem and

will promote the restoration of the natural resources injured by the *Exxon Valdez* oil spill of March 24, 1989 ("EVOS");

7. Existing laws and regulations, including but not limited to the Alaska Forest Practices Act, the Anadromous Fish Protection Act, the Clean Water Act, the Alaska Coastal Management Act, the Bald Eagle Protection Act and the Marine Mammals Protection Act, are intended, under normal circumstances, to protect resources from serious adverse affects from logging and other developmental activities. However, restoration, replacement and enhancement of resources injured by EVOS present a unique situation. Without passing on the adequacy or inadequacy of existing law and regulation to protect natural resources and services, biologists, scientists and other resource specialists agree that, in their best professional judgment, protection of habitat in the spill affected area to levels above and beyond that provided by existing law and regulation will have a beneficial affect on recovery of injured resources and lost or diminished services provided by these resources;

8. There has been widespread public support for the acquisition of the Land; and

9. The purchase of the Land is an appropriate means to restore a portion of the injured natural resources and services in the oil spill area. Acquisition of the Land is consistent with the Final Restoration Plan.

10. An appraisal for the Trustee Council has concluded that the fair market value of the Land is within the range of $27,000,000 to $33,320,000. The lowest price at which the KIB will sell the Land is based on a value of $33,320,000, which is within the foregoing range. The appraisal is based upon a single cash payment. Because the payments will be over a period of years it is necessary that the purchase price be adjusted for the deferred payments. As authorized by the Trustee Council the State has offered and the KIB has agreed in concept to a purchase price of

$42,000,000 to be paid over seven years. The present value of the deferred payments is $33,320,000.

11. The Kodiak Island Borough Assembly has enacted an ordinance to establish a Facilities Fund in which the proceeds from the sale of these Lands are to be deposited. Disbursements from the fund are limited to the construction, maintenance and debt service for public facilities. As part of this ordinance, funding of at least $6,000,000 was authorized by the Assembly for the construction of the Near Island Research Facility adjacent to the University of Alaska, Fishery Industrial Technology Center. Although the Near Island Research Facility and Fishery Industrial Technology Center are not a part of the Trustee Council restoration program, the work of these facilities will have an undetermined but complementary effect on the work of the Trustee Council restoring natural resources and related services injured by EVOS. Consequently, the Shuyak acquisition provides additional public and restoration benefits.

THEREFORE, we resolve to provide the funds for the State of Alaska to offer to purchase and, if the offer is accepted, to purchase all of the Seller's rights and interests in the surface estate on Shuyak Island, consisting of approximately 26,665.62 acres, more or less, substantially in accordance with the draft AGREEMENT FOR SALE AND PURCHASE OF INTERESTS IN LANDS ON SHUYAK ISLAND (attached as Exhibit A and hereafter referred to as the "Purchase Agreement") and pursuant to the following conditions:

(a) receipt by the United States District Court for the District of Alaska ("District Court") of the annual settlement payments due from Exxon Corporation, et al;

(b) disbursement of these funds by the District Court to the State for the purpose of this acquisition;

(c) completion of a satisfactory title search assuring that the KIB is able to convey fee simple title by general warranty deed to the surface estate of that portion of the Land to which it has received title and by special warranty deed to surface estate of that portion of the Land to which it has equitable title;

(d) no timber harvesting or road development will be initiated on the Lands prior to closing.

Conveyance of the Land to the State shall be subject to to the following conditions:

(a) a restrictive covenant that there shall be no commercial timber harvest on the Land nor any other commercial use of the Land excepting such limited commercial use as may be consistent with State law and the goals of restoration to its prespill condition of any natural resource injured, lost, or destroyed as a result of the EVOS and the services provided by that resource or replacement or substitution for the injured, lost or destroyed resources and affected services as described in the Memorandum of Agreement and Consent Decree between the United States and the State of Alaska entered August 28, 1991;

(b) a covenant that public use of the Land shall include sport and subsistence hunting, fishing, trapping, and recreational uses insofar as consistent with public safety and permitted under law or under a regulation of the Board of Fisheries, Board of Game or the Department of Natural Resources; and

(c) a conservation easement, satisfactory in form and substance to the Alaska Department of Law and the United States Department of Justice, granted by the KIB to the United States. This easement shall authorize the United States to enforce in a court of competent jurisdiction certain restrictive covenants necessary to ensure the protection of the natural resources and services injured by EVOS.

By unanimous consent and upon execution of the purchase agreements and written notice from the State of Alaska and Executive Director of the Trustee Council that the terms and conditions set forth herein and in the Purchase Agreement have been satisfied, we request the Alaska Department of Law and the Assistant Attorney General of the Environment and Natural Resources Division of the U.S. Department of Justice to petition the District Court for withdrawal of the sum of eight million dollars ($8,000,000) from the District Court Registry account established as a result of the Governments' settlement to be paid at the time of closing, and following receipt of the settlement payments due from Exxon in September, 1996, and annually thereafter, to petition the District Court as follows:

(1) for withdrawal of the sum of two million one hundred ninety four thousand two hundred sixty-six dollars ($2,194,266) to be paid by October 1, 1996;

(2) for withdrawal of the sum of four million dollars ($4,000,000) to be paid by October 1, 1997;

(3) for withdrawal of the sum of four million dollars ($4,000,000) to be paid by October 1, 1998;

(4) for withdrawal of the sum of four million dollars ($4,000,000) to be paid by October 1, 1999;

(5) for withdrawal of the sum of four million dollars ($4,000,000) to be paid by October 1, 2000;

(6) for withdrawal of the sum of four million dollars ($4,000,000) to be paid by October 1, 2001;

(7) for withdrawal of the sum of eleven million eight hundred five thousand seven hundred thirty-four dollars ($11,805,734) to be paid by October 1, 2002.

These amounts represent the only amounts due under this resolution to the KIB from the State of Alaska from the joint funds in the District Court Registry and no additional amounts are herein authorized to be paid to the KIB from such joint funds.

The KIB also owns lands at key waterfront locations along Uyak Bay within Kodiak National Wildlife Refuge as a result of forfeitures for tax delinquency. These lands are included within the large parcels which have been evaluated previously by the Trustee Council for the habitat acquisition program and determined to be of high value for EVOS restoration purposes. The Trustee Council hereby authorizes and will provide funding not to exceed one million dollars ($1,000,000) for the United States to acquire such lands at their approved appraised value from the KIB plus such closing costs as may be recommended by the Executive Director of the Trustee Council ("Executive Director") and approved by the Trustee Council. The particular parcels to be acquired must be approved by the Trustee Council. Such acquisitions shall be made by separate purchase agreements executed by the KIB and the United States. In accordance with State law, after satisfaction of back

taxes and interest, any amounts remaining from the purchase price are to be paid to the persons who held such property prior to forfeiture.

Dated this 11th day of December, 1995 at Anchorage, Alaska.

for PHIL JANIK
Regional Forester
Alaska Region
USDA Forest Service

BRUCE M. BOTELHO/CRAIG TILLERY
Attorney General/Trustee Representative
State of Alaska

for GEORGE T. FRAMPTON, Jr.
Assistant Secretary for Fish,
Wildlife and Parks
U.S. Department of the Interior

STEVEN PENNOYER
Director, Alaska Region
National Marine Fisheries Service

FRANK RUE
Commissioner
Alaska Department of
Fish and Game

FOR GENE BURDEN
Commissioner
Alaska Department of
Environmental Conservation

AGREEMENT FOR SALE AND PURCHASE OF INTERESTS IN LANDS ON SHUYAK ISLAND

THIS AGREEMENT is made by and between the Kodiak Island Borough ("KIB"), and the State of Alaska ("State") (collectively, the "Parties").

Whereas, under the Municipal Entitlement Act the KIB has the right to receive title to certain land from the State; and

Whereas, in 1980 and 1981 the KIB filed certain appeals with the Superior Court in Anchorage for the purpose of determining the KIB's rights under the Municipal Entitlement Act; and

Whereas, such appeals were resolved and settled by the KIB and the State in the Agreement of Settlement and Consent Decree in case numbers 3AN-80-3070 Civ, 3AN-80-6710 Civ, and 3AN-81-1385 Civ, consolidated, approved by the court on August 12, 1981, which Agreement was subsequently amended by Amendment to Settlement Agreement dated January 3, 1985 (hereinafter collectively referred to as the "Settlement Agreement"); and

Whereas, pursuant to the Settlement Agreement the KIB has received title to certain land on Shuyak Island and has equitable title and an absolute right to receive patent from the State to other land on Shuyak Island; and

Whereas, the KIB is authorized under AS 29.65.070 to make conditional sales of the lands in which it holds equitable title; and

Whereas, by Resolution dated December 11, 1995 the Exxon Valdez Oil Spill Trustee Council ("Trustee Council") has determined that all of the KIB lands located on Shuyak Island should be acquired in fulfillment of the Trustee Council's duties and has agreed to provide funding to the State for this acquisition; and

Whereas, the KIB wishes to sell to the State its land located on Shuyak Island.

NOW THEREFORE, the Parties agree as follows:

1. SALE OF PROPERTY. The KIB shall sell to the State all the KIB's property rights, title and interests at Shuyak Island, Alaska, consisting of approximately 26,665.62 acres, more or

less, as more particularly described in Exhibit A ("Property"), such sale to be made in accordance with the terms and conditions of this Agreement for Sale and Purchase of Interests in Lands on Shuyak Island ("Agreement"). The KIB affirms and represents that the Property has been conveyed or equitable title has been conveyed to the KIB pursuant to AS 29.65 and the Settlement Agreement.

2. EFFECT ON ENTITLEMENT. The parties recognize that the Property for which the KIB holds equitable title have not been surveyed. The Parties hereby agree and stipulate that:

a) no further surveys for purposes of AS 29.65 shall be required to be conducted;

b) such lands shall be deemed for all purposes under AS 29.65 to contain 26,656.32 acres;

c) the KIB entitlement under AS 29.65 shall be charged in the amount of 26,656.32 acres; and

d) the KIB has no further entitlement under AS 29.65 other than to the lands identified in the Settlement Agreement.

3. WARRANTIES. The KIB does hereby warrant and represent: (1) that the KIB is vested with title or the right to acquire title to the surface estate to the Property and (2) that no liens, encumbrances, defects or third party interests have been created in the Property except as provided herein.

4. INTERESTS CONVEYED. The interests shall be conveyed as follows:

a) the KIB shall deliver to the United States Department of the Interior a Conservation Easement in substantially the form attached hereto as Exhibit B ("Easement");

b) the KIB shall execute and deliver to the State, a Special Warranty Deed for that portion of the Property in which it holds equitable title and a Warranty Deed for that portion of the Property in which it holds legal title (collectively the "Deeds"), in substantially the forms attached hereto as Exhibits C and D which exhibits are incorporated herein by reference. The Deeds shall convey the Property free and clear of all claims, liens and encumbrances other than the noted exceptions;

c) the Deeds shall be subject to the Easement. The Easement shall be executed and accepted before the Deeds are executed and accepted, and recorded before the Deeds are recorded, and

d) the Parties shall execute and deliver at closing or at any other time, such additional documents as may be necessary to convey the KIB's interests in the Property to the State or to secure or preserve the Parties' rights under this Agreement.

5. PURCHASE PRICE. The purchase price is $42,000,000. The purchase price will be paid as follows:

At closing:	$8,000,000
October 1, 1996	$2,194,266
October 1, 1997	$4,000,000
October 1, 1998	$4,000,000
October 1, 1999	$4,000,000
October 1, 2000	$4,000,000
October 1, 2001	$4,000,000
October 1, 2002	$11,805,734

The KIB agrees to proceed with the construction of the Near Island Research Facility adjacent to the University of Alaska, Fairbanks, Fishery Industrial Technology Center in Kodiak. The KIB agrees to contribute at least $6,000,000 for that construction. As recognized by the Trustee Council Resolution of December 11, 1995, the Near Island Research Facility and Fishery Industrial Technology Center will have a positive benefit on natural resources and services injured by EVOS.

6. CONDITIONS OF SALE. Prior to closing the following conditions must be satisfied: (a) a completed hazardous substance survey must establish that there are no hazardous substances on the Property, (b) there must be satisfactory compliance with the National Environmental Policy Act, and c) a title search must be completed satisfactory to the State and the United States for the respective interests in land being acquired.

7. RIGHT TO ENTER PROPERTY. Upon execution of this Agreement by the Parties and until closing, employees or agents of the Trustee Council, the State, the United States, upon reasonable notice, shall have the right to enter the Property for all lawful purposes in connection with this Agreement, including environmental audit purposes.

8. CLOSING. The Parties shall meet for closing within 14 days after the funds for the initial payment to the KIB have been provided by the Trustee Council and are available for lawful expenditure by the State, and all documents that are required to be provided or completed and executed by the Parties have been tendered. The date, time and location of closing shall be set by the State in concurrence with the KIB.

9. RESERVATION OF CLAIMS. KIB reserves and retains any and all claims and causes of action against Exxon Corporation, Exxon Shipping Company or any other person or entity for any and all loss, injury or damage, including compensatory and punitive damages, sustained by KIB as a result of the effect of the *Exxon Valdez* oil spill of March 24, 1989 ("EVOS") on the Property. The Parties further agree that nothing in this Agreement or any document executed

pursuant to this Agreement shall be deemed a release, waiver or assignment of any claim KIB may have against Exxon Corporation, Exxon Shipping Company or any other person or entity as a result of the EVOS, including, but not limited to, real property damage or loss.

10. RESCISSION. The KIB may rescind this Agreement by written notice to the State if the funds for the initial payment of $8,000,000 have not been provided by the Trustee Council and made available for lawful expenditure by the State within eight months from the date of this Agreement.

11. DEFAULT. In the event that an installment payment described in paragraph 6 of this Agreement is not paid when it is due after closing, then the KIB may declare this Agreement terminated and in such event the KIB shall be entitled to bring an action in partition against the State and the United States to receive title to a portion of the Property in accordance with the provisions of this paragraph. Such portion of Property shall be equal in value to the unpaid balance due under this Agreement plus, to the extent allowed by law, the costs and reasonable attorney fees incurred by the KIB in the enforcement of this paragraph. Such portion of the Property shall be determined by agreement of the parties, taking into consideration the primary goal to ensure that the portion of Property being returned to the KIB shall be suitable for economic development including ports and harbors and the secondary goal to ensure that the portion remaining with the State is structured in such a way so as to not unnecessarily impact the restoration of natural resources or services injured by EVOS and is an integrated part of any state park or other land management unit which may have been created to manage the Property. Any dispute arising under this paragraph shall be submitted to binding arbitration pursuant to the rules of the American Arbitration Association.

12. OTHER AGREEMENTS AND ACTIONS. The Parties shall take other action or enter into other agreements reasonably necessary to the exercise and closing of this Agreement. In the event of a conflict between this Agreement and the Settlement Agreement, this Agreement shall control.

13. SIGNATURE AUTHORITY. Each signatory to this Agreement represents that such signatory is authorized to enter into this Agreement.

14. NOTICE. Written notices shall be provided to the parties at the following addresses:

State of Alaska
Department of Natural Resources
Director, Division of Land
P.O. Box 107005
Anchorage, Alaska 99510-7005

Kodiak Island Borough
710 Mill Bay Road
Kodiak, Alaska 99615-6340

Craig Tillery
Attorney General's Office
1031 West 4th Ave. Suite 200
Anchorage, Alaska 99501

Joel H. Bolger
Jamin, Ebell, Bolger & Gentry
323 Carolyn Street
Kodiak, Alaska 99615

STATE OF ALASKA

By:_____
Marty Rutherford

Its: Deputy Commissioner
Department of Natural Resources

Date:_____

KODIAK ISLAND BOROUGH

By:_____
Jerome M. Selby

Its: Mayor

Date:_____

Return to:
Alex Swiderski
Assistant Attorney General
1031 W. 4th Avenue Suite 200
Anchorage, Ak. 99501

EXHIBIT A

Property situated in the Kodiak Recording District, Third Judicial District, State of Alaska, more fully described as follows:

USS 1738, (according to the United States of America, Department of the Interior, General Land Office plat accepted in Washington, D.C., on April 22, 1927, containing 9.3 acres);

USS 9221, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 31.96 acres) subject to BLM case file AA-7069 parcel C;

USS 9226 lots 1 & 2, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 39.92 acres) subject to BLM case file AA-7069 parcel B;

USS 9228, that portion east of the protracted location of the West ½ line, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 20 acres, more or less); subject to BLM case file AA-7069 parcel D;

and, the following:

The described land that follows is based on unsurveyed, protraction map S-23-1 (dated September 19, 1960) and the Alaska Division of Lands Grid No. S-23-1, protracted map (dated December 12, 1966) overlying the affected Tract A or B township surveys. All special surveys (United States Surveys [USS]) are excluded from the township descriptions:

All of the following described lands within **Tract A, Township 18 South, Range 19 West, Seward Meridian**, according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted January 18, 1978:

Sec. 26: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner

common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 27: All;

Sec. 28: That portion lying east of a line which runs between the corner common to Sections 21, 22, 27 and 28, T. 18 S., R. 19 W., Seward Meridian to the northwest 1/16 corner of Section 33 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 29: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay (fractional);

Sec. 30: That portion of the E1/2,E1/2,SE1/4,SE1/4 lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay (fractional);

Sec. 32: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay, west of the west shore of Shangin Bay, and that portion lying south of the north 1/16 line of Section 32 and east of the east shore of Shangin Bay (fractional);

Sec. 33: That portion on the east shore of Shangin Bay lying south of the north 1/16 line of Section 33 to the northwest 1/16 corner of Section 33, and that portion lying south and east of a line which runs between the corner common to Sections 21, 22, 27 and 28, T. 18 S., R. 19 W., Seward Meridian to the northwest 1/16 corner of Section 33 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 34: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 35: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R.

19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian.

All of the following described lands within **Tract A, Township 18 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted August 5, 1992 and filed August 24, 1992:

Sec. 35: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet and east of the east shore of Carry Inlet (fractional);

Sec. 36: That portion of the W½ lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional).

All of the following described lands within **Tract B, Township 19 South, Range 19 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted September 4, 1992 and filed September 16, 1992:

Sec. 3: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 4: All;

Sec. 5: That portion lying above the mean high tide line of the shore of Shangin Bay (fractional);

Sec. 6: All;

Sec. 7: All;

Sec. 8: All;

Sec. 9: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 10: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 16: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 17: All;

Sec. 18: All;

Sec. 19: All;

Sec. 20: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 21: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner

common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 29: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 30: All;

Sec. 31: All;

Sec. 32: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian.

All of the following described lands within **Tract B, Township 19 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted September 4, 1992 and filed September 16, 1992:

Sec. 1: All;

Sec. 2: That portion lying south, east and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional);

Sec. 3: That portion of the E½,E½, lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional);

Sec. 10: That portion lying above the mean high tide line on the shore of an unnamed bay that connects to Big Bay, including that portion of the N½,NW¼, abutting USS 9228 lying east of the West ¼ line (fractional);

Sec. 11: All;

Sec. 12: All;

Sec. 13: (fractional) All, excluding the large unnamed lake in the W½;

Sec. 14: (fractional) All, including the 35± acre island within the lake, excluding the large unnamed lake in the E½;

Sec. 15: All;

Sec. 16: All;

Sec. 17: That portion lying east and above the mean high tide line on the east shore of an Neketa Bay, including the island in the SW¼ (fractional);

Sec. 19: That portion lying east and above the mean high tide line on the east shore of Neketa Bay and on above mean high tide line on both sides of the unnamed bay that connects to Shelikof Strait including all islands, islets, pinnacles and rocks above the mean high water line within the unnamed bay that connects to Shelikof Strait (fractional);

Sec. 20: That portion lying east and above the mean high tide line on the east shore of the unnamed bay that connects to Shelikof Strait, south, east and above the mean high tide line of the south shore of Neketa Bay, and on both sides of Shuyak Harbor (fractional);

Sec. 21: All;

Sec. 22: All;

Sec. 23: All;

Sec. 24: All;

Sec. 25: All;

Sec. 26: All;

Sec. 27: That portion lying north and above the mean high tide line on the north shore of the unnamed bay, located in the SW¼SW¼, that connects to Shuyak Strait (fractional);

Sec. 28: That portion lying north and above the mean high tide line on the north shore of the unnamed bays that connects to Shuyak Strait (fractional);

Sec. 29: That portion lying north and above the mean high tide line on the north shore of the unnamed bays that connects to Shuyak Strait, and both sides of Shuyak Harbor (fractional);

Sec. 30: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait, and west of Shuyak Harbor (fractional);

Sec. 32: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 33: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 34: That portion lying north and east above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 35: All;

Sec. 36: All.

All of the following described lands within **Tract A, Township 20 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted January 18, 1978:

Sec. 2: That portion of the W½ lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 3: That portion lying north and above the mean high tide

line on the north shore of Shuyak Strait (fractional).

Containing 26,665.62 acres more or less.

EXHIBIT B

CONSERVATION EASEMENT

THIS Conservation Easement is made this ___day of _____ 199__, by the **Kodiak Island Borough** ("KIB") 710 Mill Bay Road, Kodiak, Alaska 99615-6340 ("Grantor") and the **United States of America,** ("Grantee") under the authority of Section 1302(a) of the Alaska National Interest Lands Conservation Act (16 U.S.C. § 3192(a)), the Fish and Wildlife Act of 1956 (16 U.S.C. §742f(b)(1)) and the Agreement for Sale and Purchase of Interests in Lands on Shuyak Island between the KIB and the **State of Alaska** ("State"), dated _____ ("Agreement") and the State.

WHEREAS, Grantor has received title to or has equitable title in the surface estate of certain land on Shuyak Island;

WHEREAS, the real property subject to this conservation easement (the "Protected Property") is a natural area that provides significant habitat for migratory birds and other fish and wildlife and plant species that were injured as a result of the *Exxon Valdez* oil spill;

WHEREAS, the *Exxon Valdez* Oil Spill Trustee Council ("Trustee Council") has approved the use of joint settlement funds for acquisition by the State of the protected property, subject to certain third-party rights to be held by the Grantee in order to assure that the restoration objectives for use of the settlement funds are achieved;

WHEREAS, Grantor intends to convey its interest in the surface estate of the Protected Property to the State;

WHEREAS, Grantor desires to provide to the Grantee an independent right in perpetuity to enforce the restrictive covenants as to the surface estate set forth herein;

NOW THEREFORE, pursuant to the laws of Alaska and in particular AS 34.17.010 - 34.17.060 and AS 29.65.070, and in accordance with the provisions of the Agreement, Grantor does hereby grant and convey to Grantee, its successors and assigns, forever, with special warranties of title noted herein, subject to conditions, restrictions and limitations of record, a conservation easement in perpetuity over the Protected Property of the nature and character and to the extent hereinafter set forth (the "Easement"), as to the surface estate of the property described as follows:

USS 1738, (according to the United States of America, Department of the Interior, General Land Office plat accepted in Washington, D.C., on April 22, 1927, containing 9.3 acres);

USS 9221, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 31.96 acres) subject to BLM case file AA-7069 parcel C;

USS 9226 lots 1 & 2, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 39.92 acres) subject to BLM case file AA-7069 parcel B;

USS 9228, that portion east of the protracted location of the West ⅛ line, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 20 acres, more or less); subject to BLM case file AA-7069 parcel D;

and, the following:

The described land that follows is based on unsurveyed, protraction map S-23-1 (dated September 19, 1960) and the Alaska Division of Lands Grid No. S-23-1, protracted map (dated December 12, 1966) overlying the affected Tract A or B township surveys. All special surveys (United States Surveys [USS]) are excluded from the township descriptions:

All of the following described lands within **Tract A, Township 18 South, Range 19 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted January 18, 1978:

Sec. 26: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ⅛ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 27: All;

Sec. 28: That portion lying east of a line which runs between the corner common to Sections 21, 22, 27 and 28, T. 18 S., R. 19 W., Seward Meridian to the northwest 1/16 corner of Section 33 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 29: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay (fractional);

Sec. 30: That portion of the E1/2E1/2SE1/4SE1/4 lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay (fractional);

Sec. 32: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay, west of the west shore of Shangin Bay, and that portion lying south of the north 1/16 line of Section 32 and east of the east shore of Shangin Bay (fractional);

Sec. 33: That portion on the east shore of Shangin Bay lying south of the north 1/16 line of Section 33 to the northwest 1/16 corner of Section 33, and that portion lying south and east of a line which runs between the corner common to Sections 21, 22, 27 and 28, T. 18 S., R. 19 W., Seward Meridian to the northwest 1/16 corner of Section 33 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 34: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 35: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian.

All of the following described lands within **Tract A, Township 18 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted August 5, 1992 and filed August 24, 1992:

Sec. 35: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet and east of the east shore of Carry Inlet (fractional);

Sec. 36: That portion of the W½ lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional).

All of the following described lands within **Tract B, Township 19 South, Range 19 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted September 4, 1992 and filed September 16, 1992:

Sec. 3: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 4: All;

Sec. 5: That portion lying above the mean high tide line of the shore of Shangin Bay (fractional);

Sec. 6: All;

Sec. 7: All;

Sec. 8: All;

Sec. 9: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within

Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 10: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 16: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 17: All;

Sec. 18: All;

Sec. 19: All;

Sec. 20: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 21: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 29: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R.

19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 30: All;

Sec. 31: All;

Sec. 32: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East 1/16 corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian.

All of the following described lands within **Tract B, Township 19 South, Range 20 West, Seward Meridian**, according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted September 4, 1992 and filed September 16, 1992:

Sec. 1: All;

Sec. 2: That portion lying south, east and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional);

Sec. 3: That portion of the E1/2E1/2 lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional);

Sec. 10: That portion lying above the mean high tide line on the shore of an unnamed bay that connects to Big Bay, including that portion of the N1/2NW1/4 abutting USS 9228 lying east of the West 1/16 line (fractional);

Sec. 11: All;

Sec. 12: All;

Sec. 13: (fractional) All, excluding the large unnamed lake in the W½;

Sec. 14: (fractional) All, including the 35± acre island within the lake, excluding the large unnamed lake in the E½;

Sec. 15: All;

Sec. 16: All;

Sec. 17: That portion lying east and above the mean high tide line on the east shore of an Neketa Bay, including the island in the SW¼ (fractional);

Sec. 19: That portion lying east and above the mean high tide line on the east shore of Neketa Bay and on above mean high tide line on both sides of the unnamed bay that connects to Shelikof Strait including all islands, islets, pinnacles and rocks above the mean high water line within the unnamed bay that connects to Shelikof Strait (fractional);

Sec. 20: That portion lying east and above the mean high tide line on the east shore of the unnamed bay that connects to Shelikof Strait, south, east and above the mean high tide line of the south shore of Neketa Bay, and on both sides of Shuyak Harbor (fractional);

Sec. 21: All;

Sec. 22: All;

Sec. 23: All;

Sec. 24: All;

Sec. 25: All;

Sec. 26: All;

Sec. 27: That portion lying north and above the mean high tide line on the north shore of the unnamed bay, located in the SW¼SW¼,

that connects to Shuyak Strait (fractional);

Sec. 28: That portion lying north and above the mean high tide line on the north shore of the unnamed bays that connects to Shuyak Strait (fractional);

Sec. 29: That portion lying north and above the mean high tide line on the north shore of the unnamed bays that connects to Shuyak Strait, and both sides of Shuyak Harbor (fractional);

Sec. 30: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait, and west of Shuyak Harbor (fractional);

Sec. 32: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 33: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 34: That portion lying north and east above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 35: All;

Sec. 36: All.

All of the following described lands within **Tract A, Township 20 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted January 18, 1978:

Sec. 2: That portion of the W½, lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 3: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional).

Containing 26,665.62 acres more or less.

The acquiring agency is the Department of the Interior, U.S. Fish and Wildlife Service.

SUBJECT, however, to easements, rights and reservations of the State, and third parties if any, of record.

The Grantee shall be entitled to enforce on a non-exclusive basis the terms of the following restrictive covenants against the Grantor, its successors or assigns:

(a) The following listed activities are prohibited on the Protected Property except as determined by the State, Department of Natural Resources, Division of Parks and Outdoor Recreation, or its successors in administrative function ("Division of Parks") to be necessary for either conservation research or management of the subject lands (whether carried out by the Division of Parks, an entity approved by the Division of Parks, or its successors in law or interests), or for conveying information to the public to protect public safety or natural resources:

(i) the construction or placing of buildings, fixed or improved camping accommodations or mobile homes, fences, billboards or signs, except that the Division of Parks may construct public use cabins, trails, camping facilities and other facilities for public use as are in keeping with the management of a wilderness state park and do not have a significant negative impact on the restoration objectives of the Trustee Council;

(ii) the changing of the topography of the Protected Property in any manner except as is reasonably necessary for the actions permitted in paragraph a;

(iii) the removal, destruction or cutting of trees or plants except for local subsistence uses except as is reasonably necessary for the actions permitted in paragraph a;

(iv) the use of biocides except as necessary to control or remove non-indigenous fish, wildlife or plants;

(v) the manipulation or alteration of natural water courses, shores, marshes or other water bodies or activities or uses detrimental to water purity on the Protected Property; or

(vi) the use of motorized vehicles.

(b) The following listed activities by any person are prohibited:

(i) the introduction of fish, wildlife or plants which are not indigenous to the Kodiak Archipelago, including, but not limited to, the grazing of domestic animals or the introduction of reindeer; and

(ii) the dumping of trash, garbage, or other unsightly or offensive material.

* * * *

Nothing herein shall be deemed to in any third party the right to enforce these covenants.

Nothing herein shall be deemed to pertain to, affect, expand or limit the rights of the subsurface owner to utilize that estate in accordance with applicable law.

Grantor agrees that these restrictive covenants shall run with the lands and shall be binding upon Grantor, its successors and assigns; except as to any portion of the Protected Property which may be subject to an order of partition directing that such portion be returned to the Grantor pursuant to paragraph 11 of the Agreement as a result of the failure of the State to make a required payment or payments.

The Grantor hereby covenants to and with the Grantee and its assigns, that the Grantor is lawfully seized of the surface estate in fee simple of the above granted real property, or has equitable title in the same with a good and lawful right and power to sell and convey the same with the consent of the State as noted below, that the same is free and clear of encumbrances, except as noted herein, and that the Grantor will forever warrant and defend the title transferred herein, such warranty and defense being limited to that portion of the chain of title from the moment of conveyance by the Grantee to the State to and including the moment at which this Easement is validly conveyed to the Grantee and its assigns, against the lawful claims and demands of all persons.

TO HAVE AND TO HOLD unto Grantee, its successors, and assigns forever.

IN WITNESS WHEREOF Grantor and Grantee have set their hands on the day and year first above written.

(Grantor)
Kodiak Island Borough

By:_____
Mayor

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on the _____ day of _____, 199_, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared Jerome M. Selby, Mayor of the Kodiak Island Borough, to me known and known to be the person he represented himself to be, and the same identical person who executed the above and foregoing CONSERVATION EASEMENT on behalf of Kodiak Island Borough, in the name of and for and on behalf of said Borough, freely and voluntarily for the use and purposes therein mentioned.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year first above written.

_____
NOTARY PUBLIC in and for the State of Alaska
(SEAL) My commission expires: _____

STATE CONSENT

In accordance with AS29.65.070, I do hereby consent to this Conservation Easement.

_____

Marty Rutherford
Deputy Commissioner
Department of Natural Resources
State of Alaska

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on the _____ day of _____, 199_, before me, the undersigned, a Notary Public in and for the State of Alaska, duly commissioned and sworn, personally appeared Marty Rutherford, Deputy Commissioner, Department of Natural Resources, State of Alaska, to me known and known to be the person she represented herself to be, and the same identical person who executed the above and foregoing CONSERVATION EASEMENT on behalf of State of Alaska in the name of and for and on behalf of said State of Alaska, freely and voluntarily for the use and purposes therein mentioned.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year first above written.

_____

NOTARY PUBLIC in and for the State of Alaska
(SEAL) My commission expires: _____

ACCEPTANCE

Pursuant to § 1302 of the Act of December 2, 1980, Alaska National Interest Lands Conservation Act, P.L. 96-487 (U.S.C. § 3192), the Fish and Wildlife Act of 1956, (16 U.S.C. § 742f(a)(4)), and the Agreement for Sale and Purchase of Interests in Lands on Shuyak Island dated _____, 1995, the Grantee hereby accepts this Conservation Easement conveying to the United States and its assigns, those interests in lands described therein.

Dated this _____day of _____, 199__.

_____
Regional Director, Region 7
U.S. Fish and Wildlife Services

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on this ____ day of _____, 1995, before me, the undersigned a Notary Public in and for the State of Alaska, duly commissioned and sworn as such, personally appeared _____, known to me and to me known to be the _____, Region 7 of the U.S. Fish and Wildlife Service, and she/he acknowledged to me that she/he signed as accepting the foregoing Conservation Easement conveying to the United States, those lands described therein, and she/he executed the foregoing instrument freely and voluntarily.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, the day and year first written above.

(SEAL)

_____
Notary Public in and for the State of Alaska
My commission expires:_____

AFTER RECORDING RETURN TO:
U.S. Department of the Interior
Fish and Wildlife Service
Division of Reality
1011 E. Tudor Road
Anchorage, Alaska 99503

EXHIBIT C

SPECIAL WARRANTY DEED

GRANTOR, the Kodiak Island Borough, an Alaska municipal corporation, whose address is 710 Mill Bay Road, Kodiak, Alaska, 99615, for and in consideration of ten dollars ($10.00) and other good and sufficient consideration, grants and conveys to GRANTEE, State of Alaska, whose address is Department of Natural Resources, 3601 C Street, Suite 960, Anchorage, Alaska, 99503, with the special warranties of title noted herein, subject to the conditions, restrictions and limitations noted herein all of GRANTOR'S right, title and interest in the surface estate of the following described property, excepting only those rights specifically reserved in to the GRANTOR by this Special Warranty Deed, situated in the Kodiak Recording District, Third Judicial District, State of Alaska, more fully described as follows:

USS 9221, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 31.96 acres) subject to BLM case file AA-7069 parcel C;

USS 9226 lots 1 & 2, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 39.92 acres) subject to BLM case file AA-7069 parcel B;

USS 9228, that portion east of the protracted location of the West ½ line, (according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted in Anchorage, Alaska on November 28, 1989; containing 20 acres, more or less); subject to BLM case file AA-7069 parcel D;

and, the following:

The described land that follows is based on unsurveyed, protraction map S-23-1 (dated September 19, 1960) and the Alaska Division of Lands Grid No. S-23-1, protracted map (dated December 12, 1966) overlying the affected Tract A or B township surveys. All special surveys (United States Surveys [USS]) are excluded from the township descriptions:

All of the following described lands within **Tract A, Township 18 South, Range 19 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted January 18, 1978:

Sec. 26: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ½ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 27: All;

Sec. 28: That portion lying east of a line which runs between the corner common to Sections 21, 22, 27 and 28, T. 18 S., R. 19 W., Seward Meridian to the northwest ¼ corner of Section 33 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 29: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay (fractional);

Sec. 30: That portion of the E½,E½,SE¼,SE¼ lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay (fractional);

Sec. 32: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Shangin Bay, west of the west shore of Shangin Bay, and that portion lying south of the north ½ line of Section 32 and east of the east shore of Shangin Bay (fractional);

Sec. 33: That portion on the east shore of Shangin Bay lying south

of the north ½ line of Section 33 to the northwest ¼ corner of Section 33, and that portion lying south and east of a line which runs between the corner common to Sections 21, 22, 27 and 28, T. 18 S., R. 19 W., Seward Meridian to the northwest ¼ corner of Section 33 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 34: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 35: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian.

All of the following described lands within **Tract A, Township 18 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted August 5, 1992 and filed August 24, 1992:

Sec. 35: That portion lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet and east of the east shore of Carry Inlet (fractional);

Sec. 36: That portion of the W½ lying south and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional).

All of the following described lands within **Tract B, Township 19 South, Range 19 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted September 4, 1992 and filed September 16, 1992:

Sec. 3: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W.,

Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 4: All;

Sec. 5: That portion lying above the mean high tide line of the shore of Shangin Bay (fractional);

Sec. 6: All;

Sec. 7: All;

Sec. 8: All;

Sec. 9: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 10: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 16: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 17: All;

Sec. 18: All;

Sec. 19: All;

Sec. 20: That portion lying west of a line which runs between the

corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 21: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 29: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian;

Sec. 30: All;

Sec. 31: All;

Sec. 32: That portion lying west of a line which runs between the corner common to Sections 31 and 32 within Tract B, T. 19 S., R. 19 W., Seward Meridian and common with Sections 5 and 6 within Tract A, T. 20 S., R. 19 W., Seward Meridian to the East ¼ corner common to Sections 23 and 26 within Tract A, T. 18 S., R. 19 W., Seward Meridian.

All of the following described lands within **Tract B, Township 19 South, Range 20 West, Seward Meridian**, according to the United States of America, Department of the Interior, Bureau of Land Management supplemental plat accepted September 4, 1992 and filed September 16, 1992:

Sec. 1: All;

Sec. 2: That portion lying south, east and above the mean high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional);

Sec. 3: That portion of the E½,E½, lying south and above the mean

high tide line on the south shore of an unnamed bay that connects to Carry Inlet (fractional);

Sec. 10: That portion lying above the mean high tide line on the shore of an unnamed bay that connects to Big Bay, including that portion of the N½NW¼, abutting USS 9228 lying east of the West ⅛ line (fractional);

Sec. 11: All;

Sec. 12: All;

Sec. 13: (fractional) All, excluding the large unnamed lake in the W½;

Sec. 14: (fractional) All, including the 35± acre island within the lake, excluding the large unnamed lake in the E½;

Sec. 15: All;

Sec. 16: All;

Sec. 17: That portion lying east and above the mean high tide line on the east shore of an Neketa Bay, including the island in the SW¼ (fractional);

Sec. 19: That portion lying east and above the mean high tide line on the east shore of Neketa Bay and on above mean high tide line on both sides of the unnamed bay that connects to Shelikof Strait including all islands, islets, pinnacles and rocks above the mean high water line within the unnamed bay that connects to Shelikof Strait (fractional);

Sec. 20: That portion lying east and above the mean high tide line on the east shore of the unnamed bay that connects to Shelikof Strait, south, east and above the mean high tide line of the south shore of Neketa Bay, and on both sides of Shuyak Harbor (fractional);

Sec. 21: All;

Sec. 22: All;

Sec. 23: All;

Sec. 24: All;

Sec. 25: All;

Sec. 26: All;

Sec. 27: That portion lying north and above the mean high tide line on the north shore of the unnamed bay, located in the SW¼SW¼, that connects to Shuyak Strait (fractional);

Sec. 28: That portion lying north and above the mean high tide line on the north shore of the unnamed bays that connects to Shuyak Strait (fractional);

Sec. 29: That portion lying north and above the mean high tide line on the north shore of the unnamed bays that connects to Shuyak Strait, and both sides of Shuyak Harbor (fractional);

Sec. 30: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait, and west of Shuyak Harbor (fractional);

Sec. 32: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 33: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 34: That portion lying north and east above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 35: All;

Sec. 36: All.

All of the following described lands within **Tract A, Township 20 South, Range 20 West, Seward Meridian,** according to the United States of America, Department of the Interior, Bureau of Land Management plat accepted January 18, 1978:

Sec. 2: That portion of the W½, lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional);

Sec. 3: That portion lying north and above the mean high tide line on the north shore of Shuyak Strait (fractional).

Containing 26,656.32 acres more or less.

Together with the improvements located thereon.

SUBJECT, however, to:

(1) Easements, rights and reservations of the State of Alaska, and third parties, if any, of record; and

(2) Rights of the United States as established by the Conservation Easement granted by Grantor to the United States dated _____, 199__, attached and incorporated herein, authorizing the United States to enforce on a non-exclusive basis the restrictive covenants set forth therein.

RESERVING to the Grantor the covenant that public use of the Land shall be permitted in perpetuity and shall include sport and subsistence hunting, fishing, trapping, and recreational uses insofar as consistent with public safety and permitted under law or under a regulation of the Alaska Board of Fisheries, Alaska Board of Game or the Division of Parks, Department of Natural Resources;

RESERVING further to the Grantor, the non-exclusive right to enforce the restrictive covenants in the Conservation Easement granted by Grantor to the United States dated _____, 199__, attached and incorporated herein; except that such reservation shall terminate as to any portion of the property at when it is designated a state park.

The GRANTOR hereby covenants to and with the GRANTOR and its successors

and assigns, that the Grantor has equitable title in the surface estate of the above described real property with has a good and lawful right and power to sell and convey the same with the consent of the State of Alaska as noted below, that the same is free and clear of encumbrances, except as noted herein, and that the Grantor warrants the quiet and peaceable possession of the same, and will defend the title to the same against all persons claiming the same.

TO HAVE AND TO HOLD unto GRANTEE, its successors, and assigns forever.

Dated: _____, 1995.

GRANTOR:

THE KODIAK ISLAND BOROUGH

_____

By: Jerome M. Selby
Mayor

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me on _____, 1995, by Jerome M. Selby, who is known to me to be the Mayor of the Kodiak Island Borough, a municipal corporation, on behalf of the Kodiak Island Borough.

WITNESS my hand and notarial seal .

_____

Notary Public in and for the State of Alaska
My commission expires:

STATE CONSENT AND ACCEPTANCE

In accordance with the requirements of AS 29.65.070 I do hereby consent to this sale by the Kodiak Island Borough. Pursuant to AS 38.05.035(12), I do hereby accept title to the above described real property on behalf of the State of Alaska.

_____

Marty Rutherford,
Deputy Commissioner
Department of Natural Resources
State of Alaska

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me on _____, 1995, by Marty Rutherford, who is known to me to be the Deputy Commissioner, Department of Natural Resources, State of Alaska.

WITNESS my hand and notarial seal .

_____

Notary Public in and for the State of Alaska
My commission expires:

Return to:
Alex Swiderski
Assistant Attorney General
1031 W. 4th Avenue, Suite 200
Anchorage, Ak. 99501

EXHIBIT D

WARRANTY DEED

GRANTOR, the Kodiak Island Borough, an Alaska municipal corporation, whose address is 710 Mill Bay Road, Kodiak, Alaska, 99615, for and in consideration of ten dollars ($10.00) and other good and sufficient considerations received, grants, conveys and warrants to GRANTEE, the State of Alaska, whose address is Department of Natural Resources, 3601 C Street, Suite 960, Anchorage Alaska, 99503, the surface estate of the following described real property situated in the Kodiak Recording District, Third Judicial District, State of Alaska, more fully described as follows:

USS 1738, filed with the Department of the Interior,
General Land Office in Washington, D.C., on
April 22, 1927.

Together with the improvements located thereon.

SUBJECT, however, to:

(1) Easements, rights and reservations of the State of Alaska, and third parties, if any, of record; and

(2) Enforcement Rights of the United States as established by the Conservation Easement granted by Grantor to the United States dated _____, 199__, attached and incorporated herein, authorizing the United States to enforce on a non-exclusive basis the restrictive covenants set forth therein.

RESERVING to the Grantor the covenant that public use of the Land shall be permitted in perpetuity and shall include sport and subsistence hunting, fishing, trapping, and recreational uses insofar as consistent with public safety and permitted under law or under a regulation of the Alaska Board of Fisheries, Alaska Board of Game or the Division of Parks, Department of Natural Resources;

RESERVING further to the Grantor, the non-exclusive right to enforce the restrictive

STATE CONSENT AND ACCEPTANCE

In accordance with the requirements of AS 29.65.070 I do hereby consent to this sale by the Kodiak Island Borough. Pursuant to AS 38.05.035(12), I do hereby accept title to the above described real property on behalf of the State of Alaska.

_____

Marty Rutherford,
Deputy Commissioner,
Department of Natural Resources
State of Alaska

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me on _____, 1995, by Marty Rutherford, who is known to me to be the Deputy Commissioner, Department of Natural Resources, State of Alaska.

WITNESS my hand and notarial seal .

_____

Notary Public in and for the State of Alaska
My commission expires:

Return to:
Alex Swiderski
Assistant Attorney General
1031 W. 4th Avenue Suite 200
Anchorage, Ak. 99501

covenants in the Conservation Easement granted by Grantor to the United States dated the _____ day of _____, 199___, attached and incorporated herein; except that such reservation shall terminate as to any portion of the property when it is designated a state park.

Dated: _____, 1995.

GRANTOR:
THE KODIAK ISLAND BOROUGH

_____
By: Jerome M. Selby
Mayor

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me on _____, 1995, by Jerome M. Selby, who is known to me to be the Mayor of the Kodiak Island Borough, a municipal corporation, on behalf of the Kodiak Island Borough.

WITNESS my hand and notarial seal .

_____
Notary Public in and for the State of Alaska
My commission expires:

Restoration Benefits

Shuyak Island — Restoration Benefits

REGION: Shuyak Island is directly north of Afognak Island in the Kodiak Island archipelago.

PROPOSED ACQUISITION DESCRIPTION: Shuyak Island, lying at the northern tip of Kodiak Island, has a crenulated, rocky coastline and low rolling terrain. It is thickly forested with Sitka spruce below which grows a dense understory of Sitka alder, willow, devil's club, blueberries, ferns, mosses and lichens. Blue joint and beach rye grasses fringe the upper beach zone. Numerous lakes and streams surrounded by bogs and meadows dot the interior of the island. The Shuyak Island parcel occupies the center of Shuyak Island and represents over half of the island's acreage. The parcel is bordered by the Shuyak Island State Park on the northwest and the proposed Alexander Baranov State Game Refuge on the east. Several small private parcels exist along Shuyak Strait on the south and Perevalnie Passage on the north. The area provides good deer and river otter habitat and supports a population of brown bears. Its shorelands support a rich diversity of wildlife habitat including seabird colonies, bald eagle nests, and harbor seal haulouts. Pink, coho and chum salmon are found in streams and Steller sea lions, sea otters, porpoises and whales inhabit nearshore waters. There are large populations of ducks along the coast. The area is popular for its outstanding hunting, wildlife viewing, fishing, and sea kayaking opportunities. The island supports several lodges and guiding operations. A total of 26,666 acres were appraised. Title to the subsurface estate is held by the State of Alaska.

RESTORATION BENEFITS: The parcel includes important habitat for several species of fish and wildlife for which significant injury resulting from the spill has been documented. A rocky shoreline heavy with kelp beds, pockets of eelgrass and rich community of invertebrates supports feeding harlequin ducks, black oystercatchers, marbled murrelets,

SHUYAK ISLAND — RESTORATION BENEFITS FROM HABITAT PROTECTION

RESTORATION BENEFITS	acreage	Bald eagle	Sockeye salmon	Pink salmon	Dolly Varden	Cut-throat trout	Pacific herring	Blk Oyster-catcher	Comm. murre	Harbor seal	Harlequin ducks	Intertidal Subtidal	Marbled murrelet	Pigeon guillemot	River otter	Sea otter	Archeol. resour-ces	Wilder-ness	Recr-Tourism	Subsis-tence
KIB 01/Shuyak Is (H - 63)	27,900	L	L			—			L											L

■ = high value L = low value

▒ = moderate value — = indicates that the specific resource is not present

Source: Comprehensive Habitat Protection Process — Large Parcel Evaluation and Ranking (Volumes I - II)

and pigeon guillemots. Black oystercatchers and pigeon guillemots nest and harlequin ducks molt along the shoreline. The mature spruce forests on the parcel provide probable nesting habitat for marbled murrelets. Restoration of these injured species will benefit from acquisition of this important habitat through protection from activities and disturbances which may adversely affect their recovery. There is also high potential recovery benefits for river otters and concentrations of sea otters which feed and breed along the shoreline. Harbor seal, an injured species with seriously reduced population levels, have the potential to benefit from parcel acquisition through protection of haulout areas and control of potential disturbances. Recovery for Pacific herring, an injured species documented to spawn along the coastline, will benefit as will pink salmon populations, documented in six streams, and Dolly Varden, documented in eight streams. These resources would be protected from activity which may adversely affect water quality and habitat.

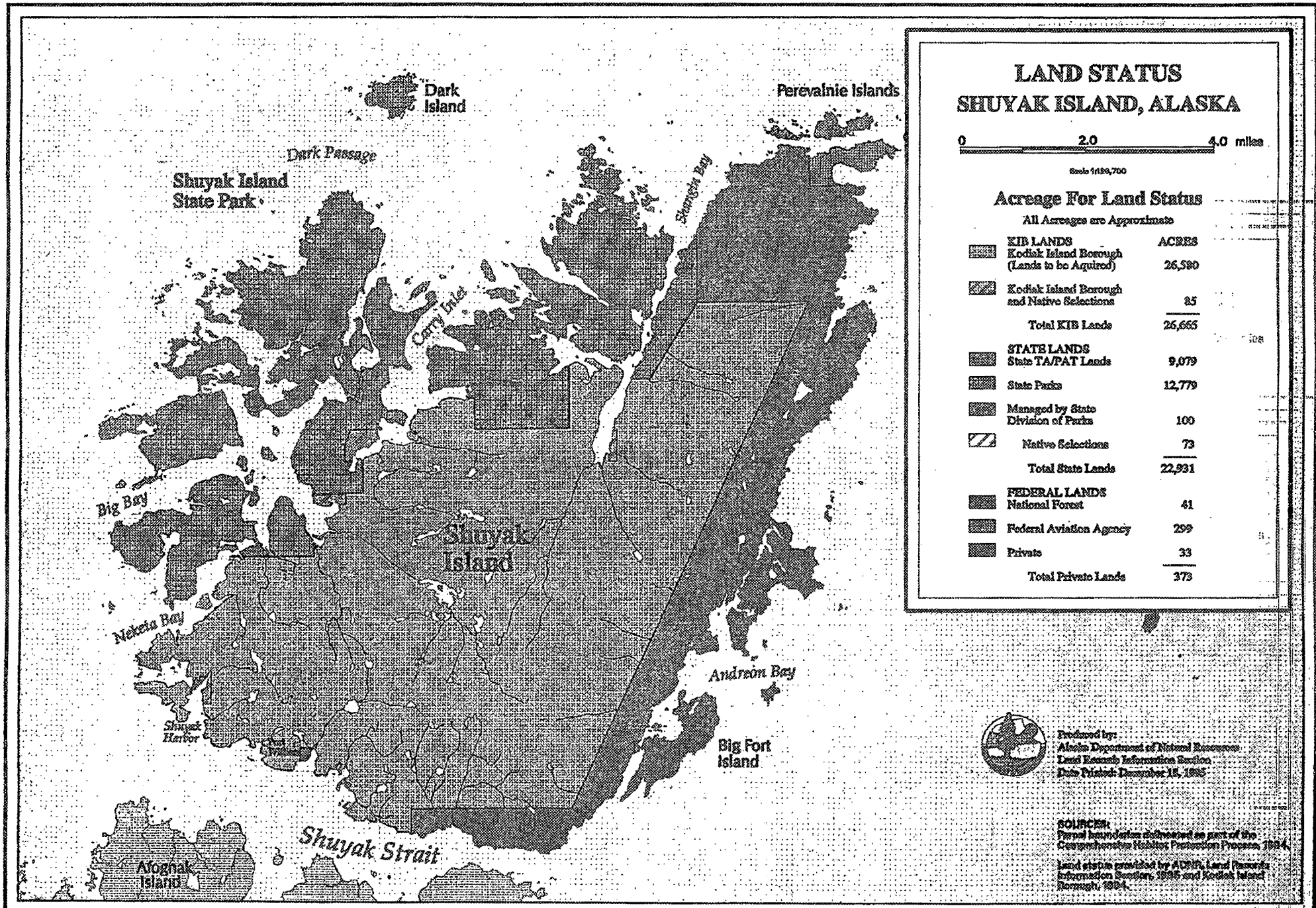
The area has high scenic value and supports high value wilderness–based recreation including hunting, fishing, sea kayaking and camping. The area also possesses high cultural resource values, with fifteen documented historical archaeological sites. Protection of the habitat in the spill area to levels above and beyond that provided by existing law and regulation will have a beneficial effect on recovery of injured resources and lost or diminished services provided by these resources.

The Division of Parks and Outdoor Recreation, Alaska Department of Natural Resources maintains seasonal rangers and cabins on the island. Protection of fish and wildlife habitat and fish and wildlife populations will be the highest management priority. Public use of the lands must include sport, personal use, and subsistence hunting, fishing, trapping and recreational uses, consistent with public safety and permitted under law or regulations of the Board of Fisheries and Board of Game. The Alaska Department of Fish and Game manages the fish, wildlife, and aquatic plant resources from offices in Kodiak. There will be no commercial timber harvest on these lands nor any other commercial use of these lands, except any limited commercial use that may be consistent with state and federal laws and the goals of restoration.

The acquisition will allow for an expeditious recovery of injured resources and services by precluding additional impacts to habitat and disturbance to injured fish and wildlife populations.

###

Map


Dark Island
Perevalnie Islands
Dark Passage
Shuyak Island State Park
Sturgis Bay
Carry Inlet
Big Bay
Shuyak Island
Nekeia Bay
Shuyak Harbor
Andreom Bay
Big Fort Island
Shuyak Strait
Afognak Island
LAND STATUS
SHUYAK ISLAND, ALASKA
0
2.0
4.0 miles
Scale 1:129,700
Acreage For Land Status
All Acreages are Approximate
KIB LANDS
ACRES
Kodiak Island Borough (Lands to be Aquired) 26,580
Kodiak Island Borough and Native Selections 85
Total KIB Lands 26,665
STATE LANDS
State TA/PAT Lands 9,079
State Parks 12,779
Managed by State Division of Parks 100
Native Selections 73
Total State Lands 22,931
FEDERAL LANDS
National Forest 41
Federal Aviation Agency 299
Private 33
Total Private Lands 373
Produced by:
Alaska Department of Natural Resources
Land Records Information Section
Date Printed: December 18, 1995
SOURCES:
Parcel boundaries delineated as part of the Comprehensive Habitat Protection Program, 1994.
Land status provided by ADNR, Land Records Information Section, 1995 and Kodiak Island Borough, 1994.


Appraisal

United States Department of Agriculture
Forest Service
Alaska Region
P.O. Box 21628
Juneau, AK 99802-1628

File Code: 5410 Date:

Subject: Shuyak Island Appraisal

To: Regional Forester

In accordance with our interpretation of the Uniform Appraisal Standards for Federal Land Acquisition, our positions as appraisers may also serve as staff consultants in the following manner.

In an appraisal report prepared by Black-Smith and Richards, with timber analysis supplied by Pacific Forest Consultants, the property under the ownership of the Kodiak Island Borough at Shuyak Island was valued. The report has a date of November 21, 1994 and concluded a total value of $27,000,000; 24,000,000 attributable to timber interest. This report was reviewed and approved by Carl Rasmussen, USF&WS, and Dennis Lattery, Alaska DNR, and myself, on behalf of the EXXON VALDEZ OIL SPILL Trustee Council. Subsequent to that review, the landowners and their representatives were supplied a copy of the report and offered their comments in conformance to the prescribed twelve step process. Those comments indicated that it was appropriate to conduct an independent review of the timber valuation. The Forest Service enlisted the services of Cascade Appraisal to do the assignment.

In the review conducted by Cascade, a range of value for the timber interests was established between $27,550,000 and $32,300,000 with a conclusion that the value would be $30,320,000 under the most likely harvesting scenario. The accompanying overall real estate value for associated cutover and non-timbered lands adds an additional $3,000,000 under all scenarios. When this latter review was submitted, there were certain methodology issues raised which affected quantification of the values by the timber experts of the Forest Service and State. It is not likely that the respective appraisers will come to agreement.

There are a number of items that come to mind. First, we have an approved appraisal that is about a year old that has a limited shelf life. Another is that with the independent review, the indications of value are well within 20 percent of one another. In the appraisal profession, even though the conclusion of value is typically a prescribed dollar amount as of a particular date, we are really dealing with ranges of value for not only the subject properties, but the comparables as well. These specific dollar amounts become less meaningful when we have very large tracts, with multiple commodities, and varied highest and best uses.

Under federal quidelines, we are required to offer no less than fair market value. In light of the observation set forth above and the unique characteristics of some of these acquisitions, working within a range of 27,000,000 to 33,320,000, including both timber and land, may prove to be the most appropriate and still meet legal guidelines.

RICHARD M. GOOSSENS
Regional Appraiser

951115 1500 ps 5410 rg

Exxon Valdez Oil Spill
Trustee Council
Review Appraisal
Shuyak Island

Value

As Of

September 1, 1994

Review As Of

September 15, 1995

Cascade Appraisal Services, Inc.
P.O. Box 423
Wilsonville, Oregon 97070

CASCADE
Appraisal Services, Inc.
Forest Consultants • Industrial Appraisers

September 15, 1995

Mr. Richard Goossens, Regional Appraiser
U.S. Forest Service
Department of Agriculture
709 W. 9th St.
P.O. Box 21628
Juneau, Alaska 99801

Re: Appraisal Review - Shuyak Island

Dear Mr. Goossens:

At your request, we have reviewed a timber appraisal report prepared by Pacific Forest Consultants, Inc. on 26,624 acres of timber located on Shuyak Island near Kodiak, Alaska. The valuation date of the appraisal reviewed is September 1, 1994. This review can only be relied upon by a reader familiar with the original appraisal and the reader should consider this review within the context of that appraisal.

The review process is limited in scope to volume, cost, and market data with comments on specific factors affecting these categories.

This letter serves to introduce the critique which follows. This review and its use are subject to the contingent and limiting conditions and the certificates attached.

Sincerely,

CASCADE APPRAISAL SERVICES, INC.

Ray E. Granvall, Jr., ASA, RP/TT

Larry L. Ismert

REG:db

503/682-3766
503/682-3766
PARK PLACE BUILDING SUITE A • 30470 S.W. PARKWAY AVENUE
P.O. BOX 423 • WILSONVILLE, OREGON 97070
PARK PLACE BUILDING SUITE A • 30470 S.W. PARKWAY AVENUE
P.O. BOX 423 • WILSONVILLE, OREGON 97070

REVIEW OF THE SHUYAK ISLAND TIMBER APPRAISAL

A review of an appraisal report prepared by Pacific Forest Consultants, Inc. (PFC) for a tract of timber owned by Kodiak Island Borough (KIB) has been conducted. The tract of approximately 26,624 acres is located on Shuyak Island approximately 50 miles north of Kodiak, Alaska. The legal description of the subject properties is not herein included but is retained in our work files. The date of the valuation as cited in the appraisal is September 1, 1994.

This review has been conducted on the basis of the documentation provided, on a field examination of the subject property, and on a recruise of selected stands within the tract. The review considers physical features of the tract as they apply to harvest costs and anticipated revenues based upon market data for the Afognak Island/Prince William Sound area of Alaska.

PURPOSE AND INTENDED USE OF THE REVIEW

The purpose of this review is to present the appraiser's best estimate of the volume, market, and cost data pertinent to the timber in the Shuyak Island tract as of the valuation date. The review is intended to assist the client in the process of analyzing proposals for acquisition of this tract of timber as part of the resolution of Exxon Valdez Oil Spill Trustee Council responsibilities.

DEFINITION OF MARKET VALUE

"The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts."[1]

Market value is defined by the federal financial institutions regulatory agencies as follows:

"Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(1) buyer and seller are typically motivated;

(2) both parties are well informed or well advised, and acting in what they consider their own best interests;

(3) a reasonable time is allowed for exposure in the open market;

(4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

(5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."[2]

---

[1]IRS Reg. § 20.2031-1(b)

[2]Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [f].

PROPERTY RIGHTS APPRAISED

The rights appraised include all those that contribute to the value of the timber on the subject property.

DATE OF VALUATION

The effective date of the market value estimate is September 1, 1994.

DATE OF REVIEW REPORT

The date of this review report is September 15, 1995.

DATE OF INSPECTION

The property was inspected for this review on May 24, 1995 and a recruise of selected stands within the tract was conducted on July 22 through July 31, 1995. To our knowledge, no changes have taken place in the property between the date of inspection by the respective original appraisers, the date of inspection for this review, the date of the recruise, and the effective date of this review.

SUMMARY OF ANALYSIS AND VALUATION

VOLUME

Timber volumes have been determined by Pacific Forest Consultants, Inc. and provided the basis for the volume estimations used in the report. These volumes are the result of a cruise of the subject property conducted in July and August, 1994.

The PFC cruise reported volume by sort. These cruised results were adjusted to reflect removal of areas determined to be economically inoperable. Inoperable areas were determined by PFC and the merchantable volumes reduced by application of (3) successive "screens". Final harvest volumes by sort were then valued with delivered log prices attributed to the Afognak Island area.

The original PFC cruise of the Shuyak Island timber prior to the applications of any 'screens' indicated a total net merchantable volume of 17.8 MBF per acre. After the screening process the net merchantable volume per acre had increased to 22.4 MBF per acre. A 1990 cruise of timber stands on nearby Afognak Island found an average net merchantable volume of 18.7 MBF per acre. Our original expectations were that the Afognak timber might have held a little more volume per acre since those stands were presumably a little older and held larger timber. The total falldown from gross volume to net merchantable volume reported by both cruises was 12.2 percent. Prior to the application of the 'screens' the timbered areas represented by the Shuyak cruise included significant acreages of younger timber. These stands are of a large enough size to produce measurable scribner volume but many of the logs produced from such stands are only marginally economical at current export market levels. This type of log is one that is described in 1993 and 1994 Afognak Island sorts as a 6 inch minimum diameter, 20 foot minimum length with a 5 percent allowance of

4

13 to 19 foot logs, maximum defect of 10 percent and a log grade of #4 sawlog and better. On good export markets such as that experienced in early to mid-1993, material such as this was a regular component of export shipments leaving Alaska. A component of this sort was present in 1992, 1993, and 1994 production from Afognak Island.

The minimum merchantable tree as per the PFC cruise specifications had to be sufficient to produce at least one 12 foot log to a 6 inch scaling diameter. The typical minimum export length generally available for logs produced from young timber such as this is 24 feet. Thus, there is a component of the younger timber which is presently only marketable in Alaska in low valued export sorts or in the pulp wood market. Shipments of this lower quality material have been sold in the Pacific Northwest as domestic sawlogs during the past two years. We are of the impression that the minimum merchantability standard used in the PFC cruise tends to maximize the volume which could be considered merchantable under the current export market.

The PFC cruise identified a total of 289 stands which are referred to as types in the PFC inventory report. A total of 1,211 plots were installed in those 289 stands. The resulting average is a little over 4 plots per stand. No plots were taken in 31 of the stands. Volumes for stands in which no plots were taken were assigned based on perceived similarity to other nearby stands.

The PFC total volume appears to be generated on a stand by stand basis with the total tract volume produced by summing the results for each stand. The PFC statistical summary included with the timber inventory data reports a standard error of 2.2%. It appears to us that this degree of statistical accuracy would have been possible only if the volumes were developed on a total tract basis rather than on a stand by stand basis. If the cruise intensity

is insufficient to produce a reasonable degree of accuracy on a stand by stand basis it brings into question the overall results produced by summing the stand volumes.

The Shuyak Island tract includes a vast number of small lakes and ponds. The occurrence of these features promotes a significant amount of timbered acreage which can be characterized as "edge effect" timber. Such fringe timber which borders on non-forested areas is typically of poorer form, more defective, and rougher than timber from the interior of the same stands. In many cases, this edge effect influence extends only two to four chains into the stand. We are of the opinion that the light sampling intensity utilized in the PFC cruise does not produce an accurate reflection of the edge effect timber.

A further concern in our review of the volumes produced in the PFC inventory was related to the fact that the PFC screening process removed approximately 11,680 acres of timber from the Shuyak inventory. These stands, according to the PFC data, held measurable Scribner volume of approximately 181,296 MBF. It appeared to us that such stands, holding more than 15 MBF per acre on very gentle terrain, held some commercial value.

As a result of the concerns discussed above and the actual experienced results of harvest operations on nearby Afognak Island we have conducted a recruise of selected stands in the Shuyak tract. The results of that recruise are included in the Addenda as an appendix to this report at page A-2. In general, the comparisons of the recruise to the original cruise were consistent with our observations and suggested that average volumes per acre found in

the PFC cruise were somewhat overstated. As a result of the recruise information we have applied the following adjustments to the original PFC cruise:

For Stands	Adjustment Factor
Less than 20 MBF per acre	0.864
20 MBF per acre thru 34 MBF per acre	0.981
35 MBF per acre and greater	0.656

In addition to adjusting the volumes for the various stands we depart from the screening process utilized by PFC which generated a patchwork of operable timber stands intermixed with inoperable stands throughout the tract. Generally, we have included in our adjusted inventory those stands which hold 10 MBF per acre or more. We have included some stands which hold slightly less than 10 MBF per acre where such stands are surrounded by or are contiguous with heavier volume stands and we have eliminated some stands in excess of 10 MBF per acre where these stands are isolated and surrounded by low volume stands.

The volumes cited below are included on an estimated total of 15,358 acres and produce an average of 18,882 board feet per acre. Following is a summarization of the inventory volume which we have generated by utilizing the PFC cruise as the basis and applying the adjustments discussed above:

For Stands	Total Volume
Less than 20 MBF per acre	108,290 MBF
20 MBF per acre thru 34 MBF per acre	151,426 MBF
35 MBF per acre and greater	30,276 MBF
Total	**289,992 MBF**

The PFC cruise of the subject property also identified the volume through the use of a standardized set of log grades according to the cruise specifications. However, the log grade data was not located in either the inventory data or in the report. The PFC cruise and valuation report both estimated the composition of the subject timber by sort utilizing a series of sort specifications found on page 5 in the timber inventory report. Since log values in Alaska are primarily determined based upon the sorts into which the logs fall, the sort breakdown becomes central to the valuation.

Partitioning Into Sorts - It is essential in any conversion return valuation (i.e., residual value calculation) to separate the subject timber into the sorts which the delivered log market recognizes in the general market area of the subject timber. One should be aware that simply calling a particular sort category by a recognized sort name does not insure that this category is the identical category which the market is recognizing. Rather, it is the sort specifications which will determine if the described category actually reflects the market. Simply calling a sort a "High Grade" sort or a "J" sort doesn't necessarily mean that the logs in that category so described will qualify for the prices being placed on those sorts by the market. Therefore, one of the first considerations in a review must be to confirm that the sorts used in the valuation are consistent with the sorts which the market is recognizing.

The sort specifications for the Shuyak cruise did not contain any reference to maximum allowable defect or surface requirements (i.e., number and size of knots permitted). The Shuyak #1 sort was described as a Domestic sort but received a pulp log price, all of the sorts except the Peewee sort referenced a minimum log length of 20 feet, (comparable sorts on Afognak Island require a minimum 24 foot log), and other than an

implied difference between the #4 and #5 sort (by virtue of the name) no distinction is made between these two sorts in the information provided to us.

After reviewing the sort information provided, we are of the opinion that since our price information originates throughout south central Alaska as well as on Afognak Island, we should be careful to express our sort breakdowns according to sort specifications typically found in this area. We thus look to Afognak Island performance for the last three years as well as the recruise of selected Shuyak stands to arrive at an estimation of the sort breakdowns applicable to Shuyak Island. It is our opinion that the sort percentages found on Shuyak should approach but be somewhat reduced from the percentages found on Afognak. Table 1, page 10 lists a series of export log sorts experienced on Afognak. Pulp logs on Afognak have long been only a very marginal performer.

TABLE 1

AFOGNAK ISLAND
LOG SORT PERCENTAGES 1992 - 1994
SITKA SPRUCE

#	Description	Dia.	Length	1992	Operator #1 1993	Operator #2 1993	1994
1	Hi	18"+	24'-39'	2.6	2.0	1.2	1.0
2	J Sort	12"-17"	24'-39'	11.0	4.4	5.8	4.8
12	Peewee	8"-11"	24'-39'	2.0	1.0	1.5	1.7
3	Red/C	18"+	24'-39'	16.7	34.2	23.8	10.2
4	K Sort	8"+	24'-39'	50.1	40.5	50.2	57.4
14	K Sort	6"-7"	24'-39'	2.2	2.2	2.3	4.1
5	Dom.	8"+	13'-39'	12.4	12.6	12.2	15.3
6	Pulp	6"+	12'+	0	0	0	0
7	Dom.	6"+	20'+	1.3	1.8	2.1	4.3
8	Short	12"+	13'-25'	0.9	1.3	0.9	1.2

Table 1 demonstrates that Afognak logs display a large degree of homogeneity. The K Sort reduction in 1993 marked a pronounced drop in the K Sort market which occurred in the second half of 1993 after the market had peaked. Alaskan K Sort logs were encountering stiff competition at that time from Russian logs as well as from New Zealand and Chilean radiata pine. Consequently, some 1993 K Sort logs were held over into 1994 until more favorable market conditions returned. The data assembled in Table 1 provides our basis for the sort breakdown estimate for Afognak Island logs. We have compared this data to the results obtained from the recruise of selected Shuyak stands to produce our estimate of the sort composition appropriate to the Shuyak tract. That comparison is shown in Table 2, following.

TABLE 2

SHUYAK ISLAND
SITKA SPRUCE
ESTIMATED SORT COMPOSITION

Sort	Description	Total Recruise Percent	Actual Afognak Production	Est. Shuyak Percent
EXPORT				
1	18" + High Sort	0.0%	1.0%	0.0%
2	12"-17" High Sort	0.7%	5.0%	3.0%
12	8"-11" J Sort	0.4%	1.0%	1.0%
3	Shop type C/J Sort	1.4%	20.0%	10.0%
4	8" Min. K Sort	49.2%	50.0%	50.0%
14	6" Min. K Sort	4.8%	5.0%	5.0%
5	Domestic Sort	31.9%	15.0%	24.0%
7	6" + Chip & Saw	11.6%	3.0%	7.0%
TOTAL EXPORT		~~93.1~~% 94.6	95.5%	95.0%
PULP		~~6.9~~% 5.4	4.5%	5.0%

Delivered Log Prices - Table 3, page 12 applies FOB delivered log prices to the estimated Shuyak average log distribution by sort as indicated by Table 2. The resultant average prices demonstrate that the market moved strongly upward in 1993 and then fell back in 1994 to a point approximately 75 to 80 percent of the 1993 average level.

TABLE 3

SHUYAK ISLAND
EXPORT FOB LOG PRICES 1992 TO CURRENT
SITKA SPRUCE

		Afognak Island Prices			Shuyak
#	Description	1992	1993	1994	Est %
1	Hi Sort	650	900	775	0%
2	J Sort	495	830	750	3%
12	Peewee	480	760	600	1%
3	Red/C	450	795	640	10%
4	K Sort	435	750	600	50%
14	K Sort	390	645	400	5%
5	Dom.	320	655	440	24%
7	Dom.	220	390	300	7%
Average Export		394	704	539	100%

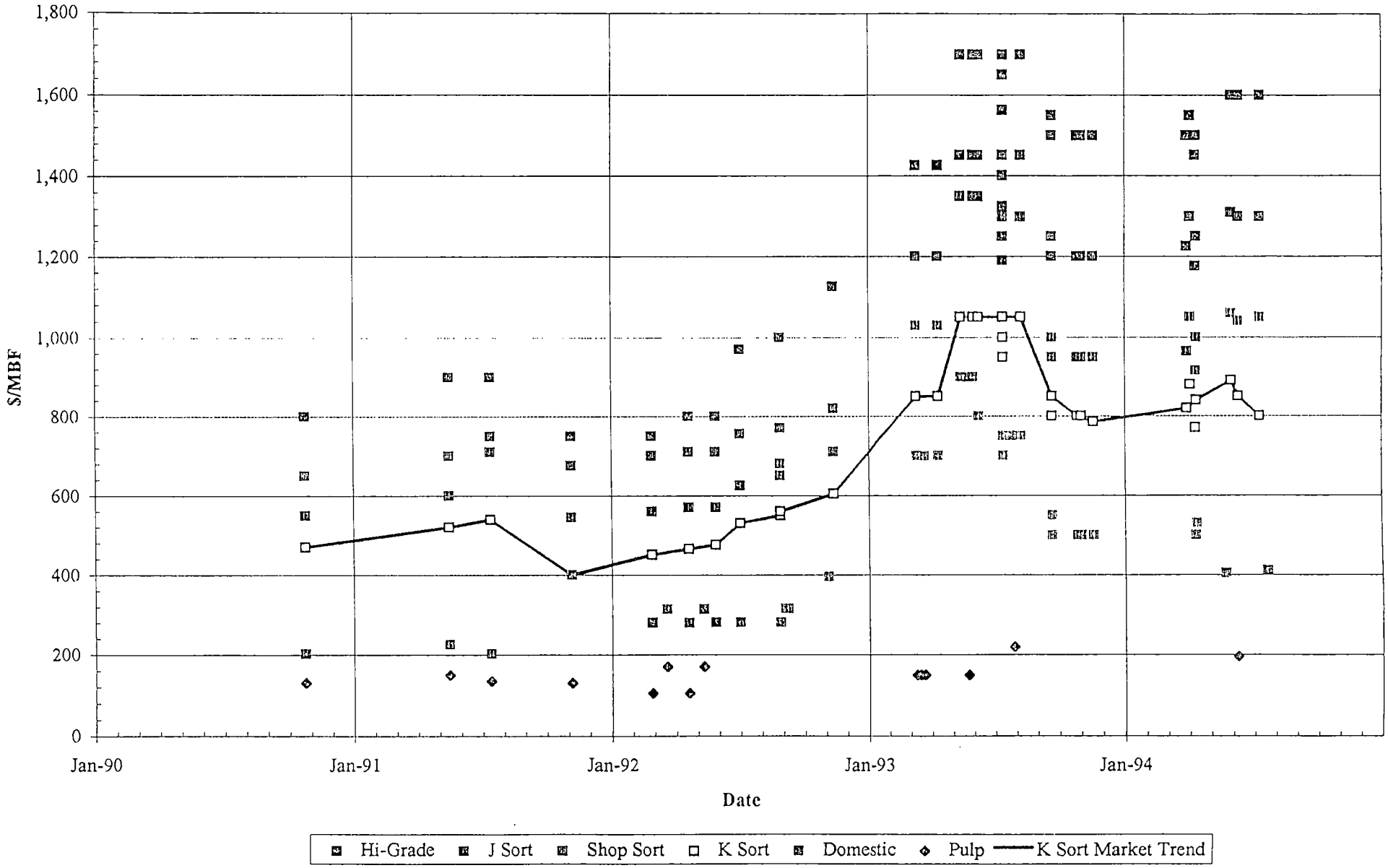
By late 1993, the market had stabilized somewhat and through 1994 remained fairly level with only relatively minor upward and downward movements. We have followed the market level of the K Sort material produced in the Prince William Sound area through this period. That market movement is charted on the graph shown on page 14. Both the graph of the Prince William Sound K Sort market and the data shown above in Table 3 from Afognak Island demonstrate a low sort market which stabilized at a point approximately midway in the range of prices experienced during the period 1992 through 1994. Since the market fell from its 1993 peak, 1994 prices mark neither a high nor a low in the export market, we are of the opinion that these prices are at a reasonable level for development of a conversion return calculation for the Shuyak timber. The first and second quarter 1995 prices increased only slightly over the 1994 levels and are reportedly falling again as the third quarter approaches.

As noted earlier, the prices shown in Table 3 are for exportable logs only. Afognak Island operators indicate that they have been experiencing approximately 5% of their total volume in pulp material. The PFC cruise also identified a "sort 1" volume of 4.3% which they described as domestic but to which they assigned a pulp log value. We therefore anticipate that the Shuyak Island stands will produce an estimated 5% of the total net merchantable timber volume in pulp logs. These logs are primarily comprised of the rough tops and those logs too defective to qualify for any export sort.

This component does not appear in Afognak production records since it is not scaled once it has been identified as being in the pulp sort. As a result, the convention usually followed in this area has been to sell the pulp logs to the logger at a nominal $1 per MBF or in some cases to merely let the logger have the pulp logs if he wishes to deliver and sell them.

We note that a substantial increase in pulp prices occurred in this area in January, 1995. Pulp prices increased to as high as $385/MBF before falling back to a more conservative level. Combining the export log component of 95% at an average price of $539 per MBF with the pulp component of 5% at an estimated price of $200 per MBF produces an average delivered Sitka spruce log value of $522 per MBF FOB.

PRINCE WILLIAM SOUND
Delivered Log Prices — Sitka Spruce
$/MBF By Sort, FOB Basis



LOGGING COSTS

Two methods are generally available to an analyst who is attempting to estimate logging costs. A cost can be estimated by constructing an estimate of the respective amounts of all the various cost centers included or a cost can be estimated by observation of bonafide contract logging costs found on similar logging jobs. In the current case, PFC has used a constructed cost method for estimation of appropriate logging costs for the Shuyak Island tract. We tend to look to actual similar contract information as much as possible for verification of estimated costs. In the current case we have contract logging information in our files relating to Afognak Island as well as to other south central Alaska logging operations quite similar to the subject tract.

Direct Logging Costs - Direct costs include the costs to fall, buck, yard, load, haul, scale, sort, band, and the costs of storage and shiptending. Direct costs for the Shuyak Island tract will be influenced by the presence of islands of timbered areas intermixed with islands of non-commercial timber types and the frequent occurrence of small lakes, ponds, and other wet and swampy areas. These features will tend to reduce average daily production and increase the road requirement for the tract. Nearby Afognak Island operators indicate that approximately 80 percent of the Afognak logging is done with shovels while about 20 percent is carried out with yarders. We believe that the Shuyak Island tract is nearly all harvestable with shovels or other ground logging equipment. Direct logging costs for shovel logging are estimated to be $230 per MBF.

Log Transfer Facility (LTF) - Of concern in the estimation of total applicable cost are the unknown aspects relating to the siting and operation of a log transfer facility and moorage in the immediate vicinity of Shuyak Island. The Shuyak Island coastline has some

fairly shallow waters and narrow passages. Further complicating the log transfer operation is the aspect of a fairly narrow window of relatively calm ocean and weather conditions conducive to rafting of logs. Several potential sites exist on and near Shuyak for the combination of camp, LTF, and moorage which would be necessary. These potential sites include Neketa Bay, Shuyak Harbor, Port Williams, and Andreon Bay. Use of Andreon Bay would require that an access road across State of Alaska lands must be constructed. The State of Alaska owns a band of property which traverses the full length of the east side of Shuyak Island. According to a title analysis performed by and for the State of Alaska DNR "three (3) specific easements across State land on the east coast of Shuyak Island were granted to KIB (Kodiak Island Borough) to access the selected land further inland." The Andreon Bay site would require a little additional road construction but would also produce a little shorter truck haul route for some of the more marginal stands located in the easterly portions of the KIB ownership. If a moorage were not feasible in Andreon Bay, a LTF located at that site has a reasonable opportunity to raft logs to the vicinity of the old LTF and moorage located in Discoverer Bay. Discoverer Bay lies in the southern end of Perenosa Bay approximately 14 miles to the south of Andreon Bay. We are also advised that the owner of private property located in Shuyak Harbor has indicated a willingness to enter into discussions regarding siting of an LTF at that location.

Because of the potential problems surrounding rafting, we are of the opinion that the sort yard associated with the LTF should be large enough to provide enough dry storage to accumulate logs during periods when shipping and/or rafting and towing is curtailed. This would suggest a sort yard of around 8 acres which is expected to cost approximately $225,000. A dump, including rock cribbing, rails, installation, and moorage is estimated at

$175,000. The total cost of constructing an LTF including sort yard, dump, and moorage is thus expected to be approximately $400,000.

Communications - A communications system is considered to be a necessity for remote locations such as Shuyak Island. An installed communications system is expected to cost approximately $100,000.

Logging Camp - A logging camp suitable for 65 to 75 men is considered necessary for the Shuyak Island tract. One of the more recent dry land camp facilities built in south central Alaska was constructed for approximately $3,000,000. This facility included an approximate 100 man logging camp, sort yard, dump, moorage, standing boom, and communications equipment. The LTF and communications are considered to be comparable to those required at Shuyak leaving the camp cost alone at an estimated $2,500,000. On a scale comparable to the manning requirements of Shuyak Island this would suggest a cost of from $1,600,000 to $1,900,000. We estimate the cost of the installed logging camp at $1,750,000.

The total initial capital requirement exclusive of roads is thus estimated to be $2,250,000. This cost includes the logging camp, communications, sort yard, dump, booms, and moorage.

Roads - The road construction opportunity on Shuyak Island is generally very good. The terrain is gentle and lends itself well to road construction. The most significant drawback to the road building operation is the substantial additional road required to log the tract as a result of the circuitous routes necessary to avoid the numerous lakes and wet areas. Stream crossings are fairly minimal and will require only short log stringer bridges. Based on the experience of operators on a south central Alaska tract with very similar conditions

(gentle ground and many wet areas) the road system required accessed only 63 merchantable acres per mile of road. This represents approximately half again as much road per acre of merchantable timber as is normally anticipated on tracts without the problem of the wet areas. The estimated merchantable volume inventory encompasses a total of 15,358 merchantable acres. Based on an estimated 70 merchantable acres per mile of road the estimated road requirement is 219 miles. Recent contracted road construction costs near Cordova are documented at $105,000 per mile on a somewhat more difficult road job. Road construction costs on Afognak Island mainline roads have been running in the vicinity of $100,000 to $105,000 per mile. Mainline roads are defined as those roads which connect cutting units and are of an upgraded nature to account for concentrated hauling of logs. We estimate that about a third of the road construction will be of mainline roads at a cost of $100,000 per mile while the remaining two thirds of the road miles will be of a spur road or secondary character at a cost of $75,000 per mile. The road construction cost for the Shuyak Island tract is thus estimated to be approximately $63 per MBF.

Other Costs - Other estimated costs included in the total delivered logging cost estimate are:

Towing Contingency	$7.00
Road Maintenance	$5.00
Scaling	$7.50
Administrative Cost	$8.00
Loading Cost	$25.00

The towing cost is included as a contingency cost in the event that a suitable moorage is not available at the LTF location.

Total Logging Cost - The total anticipated logging cost at September 1, 1994 is thus estimated as shown in Table 4, following.

TABLE 4

LOGGING COST ESTIMATE
DOLLARS PER THOUSAND BOARD FEET (MBF)

Volume	289,992 MBF
Direct Logging Cost	$230.00
Sort Yard, Dump, Camp, Boom, & Moorage	7.75
Road Construction	63.00
Towing	7.00
Road Maintenance	5.00
Scaling	7.50
Administrative	8.00
Loading	25.00
Total Logging Cost	**$353.25**
Rounded	**$353.00**

Marketing Cost - Since the delivered log prices relied upon are prices paid to an exporter from a foreign trading company, the exporter will incur the cost of operation of his marketing organization to secure the prices received. The estimated cost of marketing to be included in the net back calculation is $16 per MBF.

Profit & Risk - A profit and risk allowance is also included in the net back calculation. We estimate the applicable profit and risk rate at 12½ percent. Profit and risk is applied to the total delivered log values. To account for profit and risk already included

within the delivered log values, the profit and risk net percentage is divided by one plus the estimated percentage; i.e., Profit and Risk Factor = 12½%/(1 + 12½%) or 0.125/1.125 = 0.11111.

Indicated Value - Table 5, following sets forth the estimated net back calculation for the merchantable subject timber. Applicable delivered log values by species are reduced for indicated cost components and profit and risk to derive a net back per MBF. The results are extended by the volume to derive the total indicated timber sale value and sale value per MBF.

TABLE 5

SHUYAK ISLAND
INDICATED MARKET VALUE
SITKA SPRUCE

Item		Total
Total Estimated Volume (MBF)		289,992 MBF
Delivered Log Value		$522
Less:	Delivered Logging Cost	353
	Marketing Cost	16
	Profit & Risk	58
Net Back		**$95 per MBF**

Table 5 above supposes that all the merchantable grades of timber included in the Shuyak tract are removed and sold for a total indicated value of $27,549,240. As previously discussed, Afognak Island producers have not found it profitable to market the pulp log component of their inventories and have disposed of it by selling to their logger at a nominal stumpage price of $1 per MBF. Following that practice at Shuyak Island would result in an

exportable volume of 275,492 MBF with a delivered log value of $539 per MBF and a net back of $110 per MBF. Under this scenario, the pulp volume of 14,500 MBF would generate a nominal $14,500 and the total indicated value of the tract would be $30,318,620.

Under the array of export log prices shown in Table 3 and used in this report neither Sort 14 or Sort 7 returns a positive indicated value. Elimination of these two sorts along with the pulp results in an exportable log volume of 240,693 MBF. Restatement of the remaining sort percents and expansion by the 1994 prices shown in Table 3 results in an average delivered log value of $566 per MBF and a net back of $134 per MBF. Again, adding back a nominal ($1.00/MBF) stumpage value for this low grade and the pulp component of $49,299 generates an indicated value of $32,302,161.

Pre-Merchantable Timber - The timber cruise performed by PFC initially determined that there was a total of 21,360 timbered acres within the Shuyak Island tract. We estimate that submerchantable timber stands exist on 6,002 acres of the Shuyak tract. The vast majority of the submerchantable volume is comprised of young stands of timber which have not yet attained a size sufficient to justify an export harvest operation. In this analysis no attempt is made to ascribe value to these submerchantable stands under the assumption that any value attributable to these stands will accrue to the value of the land on which the stands are growing.

SUMMARY

The merchantable volume propositions included in the PFC report have been adjusted to provide a basis upon which to proceed with the valuation of the merchantable timber on this tract. The tract includes a substantial volume of younger timber with comparatively low

sort expectations. We have included consideration for the merchantable portion of this younger timber in our analysis.

Our information regarding the presence of anadromous fish streams suggests that not many exist on Shuyak Island. At this time we have not been able to confirm the extent of any anadromous fish habitat which may be present within the Shuyak tract. An absence of anadromous fish habitat suggests that buffer requirements in riparian areas will be minimal. However, the sheer size of the tract and the frequent occurrence of lakes and ponds suggests to us that some degree of riparian requirements as well as other habitat considerations will be required in the harvest of this tract.

We have restated the export sort percentages which we believe to be present on the Shuyak Island merchantable volume through inspection of the recruise of selected stands and actual production records from nearby Afognak Island. We have done so to be confident that the delivered log prices which we observe for this area are in agreement with the sorts defined.

A concern remains as to establishment of a satisfactory LTF and moorage. The location of the moorage and whether a towing requirement is present are important considerations. We believe that the Andreon Bay location may offer the best opportunity for a LTF and moorage but recognize that other potential sites exist. We have summarized the results of our considerations in the conclusion which follows.

Conclusion

Comparable stumpage sale information was considered for use in this review but was rejected as a result of insufficient transactional information. Some stumpage transactions

occurred during 1994 but most were in southeast Alaska. As such, these transactions were of a decidedly different timber type and in a very different market place as compared to the subject timber. These southeast transactions exhibited a mixed relationship when compared to conversion analysis. One transaction along the south central coast near Yakutat sold in mid-1994 at or slightly above the economic conversion analysis used in valuation of that timber. This particular stand contained over 100 MMBF.

We have utilized an economic approach to develop indicators of value for the subject timber. Under the economic approach, a conversion return was developed for merchantable timber stands based upon market data for logs from south central Alaska and nearby Afognak Island areas. The economic approach is the basis for our conclusions as to the value of the merchantable timber within this tract.

In addition to the merchantable timber value developed from the conversion return, a certain acreage of younger and smaller timber exists on the subject properties. We do not attempt herein to place a value on this submerchantable timber. Any value attributable to these stands of young timber is considered to be related to the value of the land on which the stands are located. This report addresses only the value of the merchantable timber. Under the various harvesting regimes which we have considered for the Shuyak tract an indicated value range of from $27,550,000 to $32,300,000 exists. We believe that it is unlikely that a harvest operation geared to the elimination of Sorts 14 and 7 would be attempted. Additionally, the potential effects of habitat and riparian requirements suggests to us that the top end of the value range is not a viable conclusion. However, inasmuch as the sale of pulp logs to the logger has been an established practice in this area we believe that would result in the most probable indicated value for the Shuyak tract.

Table 6, following sets forth the estimated market value for the Shuyak Island tract. The market value for the merchantable timber on the Shuyak Island tract is estimated to be no greater than $30,320,000 on September 1, 1994 based upon currently available information.

TABLE 6

SHUYAK ISLAND
MARKET VALUE SUMMARY

VALUATION AS OF SEPTEMBER 1, 1994

Description	Units	Indicated Value	Total Value
Merchantable Exportable Sitka Spruce Timber	275,492 MBF	$110.00/MBF	$30,304,120
Pulp	14,500 MBF	$1.00/MBF	$14,500
Total	**289,992 MBF**	**$104.55/MBF**	**$30,318,620**
Rounded At			**$30,320,000**

This amount is within a reasonable range of value assuming the volume set forth by PFC and as adjusted herein exists. The (10) stands recruised show a wide divergence in variance with some higher but most (8 out of 10) showing lesser volumes than indicated by PFC. The recruise placed 406 variable plots within an area of 1,442 acres or approximately (1) plot per 3.55 acres. The PFC cruise established (90) plots on this identical acreage, (1) plot per 16 acres, and purports to have an accuracy measured by standard error of 2.2%. For comparative purposes, see Addenda page A-6, the recruise shows a standard error of

only 2.6% which would indicate that the statistical accuracy of the PFC cruise is meaningless. Without an accurate cruise, a more refined valuation is not attainable.

ADDENDA

TABLE 7

STAND VOLUME SUMMARY - NET VOLUME BY SORT/GRADE/MSF

Sort		Sort S2	Sort S12	Sort S3		Sort S4		Sort S14		Sort S5			Sort S6			Sort S7			
Grade		2S	3S	SM	2S	2S	3S	3S	4S	2S	3S	4S	3S	4S	Utility	2S	3S	4S	Utility
Stand #	# Plots																		
16	42					960	1,109	123		197	579	6	46	180			385	97	19
17	71		90		165	2,566	788	52		1,038	1,355	12	76	232	27		406	79	
22	59	29		60	125	1,570	617	95		695	1,087		37	143	24		485	49	
23	11					207	96				103		5	25			36		
29	66	194	67		173	2,082	407			735	1,924		36	120	146		319	151	
30	15				70	278				26	195		29	9			17		
212	38					602	1,061	136		504	736		20	214	48		355	73	10
214	45	81			42	1,369	996	409	17	799	971		8	270	141	66	469	108	
243	48					940	1,175	491			928		103	229			622	31	
266	11					778	254	108			65		73	56	38		237		
TOTAL PLOTS	406																		
(38,686)	TOTAL	304	157	60	575	11,352	6,503	1,414	17	3,994	7,943	18	433	1,478	424	66	3,331	588	29
	% BY GRADE	1%			1%	29%	17%	4%		10%	21%		1%	4%	1%		9%	2%	
	% BY SORT	1%	0%		1%		46%		4%		31%				6%				11%

TABLE 8

Comparison of Gross and Net Volumes
For purposes of comparison PFC Net Utility Volume was included in total net volume category.

Stand	Original Gross Volume MBF	Check Gross Volume MBF	PFC Variance %	Original Net Volume MBF	Check Net Volume MBF	PFC Variance %
16	3,159	3,941	-19.8%	3,042	3,701	-17.8%
17	13,565	7,484	+44.8%	13,002	6,886	+47.0%
22	5,152	5,341	-3.5%	4,508	5,016	-10.2%
23	734	493	+32.8%	681	472	+30.7%
29	7,519	7,057	+6.1%	7,059	6,354	+10.0%
30	1,157	674	+41.7%	1,109	624	+43.7%
212	4,462	3,944	+11.6%	4,198	3,759	+10.5%
214	7,260	6,133	+15.5%	6,817	5,746	+15.7%
243	5,724	4,683	+18.2%	5,384	4,519	+16.1%
266	2,302	1,734	+24.7%	2,023	1,609	+20.4%
Total	**51,034**	**41,484**	**+18.7%**	**47,823**	**38,686**	**+19.1%**

TABLE 9

DEFECT INFORMATION

A. HIDDEN DEFECT AND BREAKAGE FACTOR

Utilizing observation made in the field while cruising the subject timber stands, and historical information, a hidden defect and breakage factor of 2% was assigned to the Sitka spruce. The easy logging ground and relatively young timber were major considerations in determining the defect and breakage factor.

B. GROSS NET RATIOS BASED ON CRUISED VOLUMES BY STAND

Stand	Avg. Gross Volume MBF/Acre	Avg. Net Volume MBF/Acre	Total Defect %
16	34.947	32.752	6.3%
17	35.469	32.635	8.0%
22	36.088	33.892	6.1%
23	41.083	39.333	3.3%
29	41.269	37.158	9.7%
30	37.444	34.667	7.4%
212	18.175	17.322	4.7%
214	27.379	25.652	6.3%
243	18.081	17.448	3.5%
266	25.130	23.319	7.2%
Weighted Average	**28.744**	**26.828**	**6.7%**

TABLE 10

STATISTICAL ANALYSIS OF CHECK CRUISE

A. STAND SUMMARY

Stand	Plots Cruised	Avg. Trees/Plot	Avg. Bole Length	Avg. D4H	Basal Area	Trees/Acre
16	42	4.5	53	16.0	281.3	201.7
17	71	4.0	60	19.9	248.2	115.5
22	59	5.1	59	18.2	266.4	147.7
23	11	3.1	62	17.0	278.2	177.2
29	66	4.4	64	20.3	273.7	121.9
30	15	3.8	62	24.6	237.5	71.7
212	38	4.8	50	15.9	162.7	117.8
214	45	5.6	51	16.2	225.8	156.8
243	48	3.9	44	15.2	180.9	144.3
266	11	4.1	44	16.5	255.7	172.8
Total	**406**	**4.5**	55	**17.7**	**240.6**	**140.4**

TABLE 11

STATISTICAL ANALYSIS OF CHECK CRUISE

B. STANDARD ERROR

The standard error is based on net board feet per acre and is calculated to a confidence level of one standard deviation.

Stand	Plots Cruised	Coefficient of Variation	Standard Error
16	42	35.0%	5.4%
17	71	44.9%	5.3%
22	59	42.8%	5.6%
23	11	46.9%	14.1%
29	66	41.9%	5.2%
30	15	70.0%	18.1%
212	38	74.3%	12.1%
214	45	53.2%	7.9%
243	48	71.0%	10.3%
266	11	46.6%	14.0%
Total/All Stands	406	52.9%	2.6%

STATEMENT OF CONTINGENT AND LIMITING CONDITIONS

The Certification of the Appraiser appearing in this review report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the review appraiser within this review report.

1. No responsibility has been assumed for matters which are legal in nature, nor has any opinion on title been rendered. This review report assumes marketable title. Liens and encumbrances, if any, have been disregarded, and the property is appraised as though free of indebtedness.

2. The information furnished the review appraiser by others is believed to be reliable but no responsibility is assumed for its accuracy.

3. Possession of this report, or a copy thereof, does not carry with it the right of publication, nor may it be used for any purpose by any person other than the client without the previous written consent of the review appraiser or the client and then only with proper qualifications.

4. Preparation and delivery of this report does not include the requirement to give testimony or to appear in court by reason of this review report, with reference to the property in question, unless arrangements have been made previously therefor.

5. Maps, sketches, and other pictorial matter presented herein are for illustrative purposes only. Scales used are approximate and differences in dimensions, locations, etc. which may be noted have no significant effect on value conclusions.

6. This review report is based upon the assumption that no change has taken place in the property between the date of the appraiser's inspection and the date of evaluation. If important changes have taken place which were not considered in the review analysis, the review appraiser reserves the right of revising value estimates.

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- the facts and data reported by the review appraiser and used in the review process are true and correct.

- the analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, unbiased professional analyses, opinions and conclusions.

- I have no present or prospective interest in the property that is the subject of this report and I have no personal interest or bias with respect to the parties involved.

- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review report.

- my analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

- I did personally inspect the subject property of the report under review.

- no one provided significant professional assistance to the person signing this review report.

Ray E. Granvall, Jr., ASA, RP/T/T — 9-15-95

Ray E. Granvall, Jr., ASA, RP/T/T — Date

Larry L. Ismert — 9-15-95

Larry L. Ismert — Date

QUALIFICATIONS OF FOREST CONSULTANT/APPRAISER

Ray E. Granvall, ASA

Business Position:

President, CASCADE APPRAISAL SERVICES, INC.

Professional Associations:

Candidate, American Institute of Real Estate Appraisers.
Senior Member, American Society of Appraisers - Machinery and Equipment. Recertified through December 29, 1999.
Senior Member, American Society of Appraisers - Real Property/ Timber & Timberland. Certified through February 22, 1998.

The American Society of Appraisers has a mandatory recertification program for all of its Senior Members. I am in compliance with that program.

Qualified and Testified as Expert Witness Before:

U.S. Tax Court, San Francisco, California.
Oregon Department of Revenue in Salem, Oregon.
U.S. Court of Claims in San Francisco, California.
I.R.S. Appellate in Portland, Oregon.
U.S. Tax Court, Portland, Oregon.
Oregon Tax Court, Salem, Oregon.
American Arbitration Association, Seattle, Washington.
Circuit Court, Linn County, Oregon.
Maine State Board of Property Tax Review, Augusta, Maine.

Education:

Bachelor of Arts Degree in Business with a major in accounting from Humboldt State University, 1969.
Graduate Courses - Principles of Real Estate Appraisal, Real Estate Finance, Real Estate and Land Use, and Market Research from Humboldt State University, 1971.
American Institute of Real Estate Appraisers - Courses lA, lB, II and VII, 1975-1979, SPP-A & B, 1991.
Association of Consulting Foresters - Practicing Foresters Institute, 1979 and 1987.
Variable Probability Sampling, Variable Plot & Three-P Cruising - Oregon State University, 1982.
Asbestos Abatement - University of Washington, 1989. Recertified 1990.
Helicopter Timber Harvesting - Oregon State University, 1990.
Modern Analytical Photogrammetry - Oregon State University - 1994.

Licenses:

Certified General Appraiser - Alaska #207.
Certified General Appraiser - Maine #CG00000645.
State Certified Appraiser - Oregon #C000161.

Appraisal and Associated Experience:

Appraiser/Forester - Western Timber Services, Inc. 1969-1971.
Asst. Property and Timber Tax Manager - Georgia-Pacific Corporation 1971-1977.
Private Forest Consultant/Appraiser 1977 to present.

Appraisal and Associated Assignments* for:

Alaska - State Department of Natural Resources
All American Stud
American Forest Services
Andersonia Lumber Co.
Arcata Planing & Dry Kiln Co.
Arcata Redwood Company
Bendix/Skagit Corporation
Bohemia, Inc.
Boise Cascade Corporation
Brand S Corporation
Bureau of Land Management
Burlington Resources
California-Oregon Broadcasting Company
Cape Fox Corporation
Cascade Timber Consulting, Inc.
Champion International
Chugach Alaska Corporation
City of Old Town, Maine
Clorox Corporation
Colquet Timber Company
Columbia Plywood Corporation
Crown Zellerbach Corporation
Custer Lumber Company
Davidson Industries
Eagle Picher Industries
Eugene F. Burrill Lumber Co.
FDIC - Federal Deposit Insurance Corporation
Forest Acres, Inc.
Fort Hill Lumber Co.
Georgia-Pacific Corporation
Goldbelt, Inc.
Gregory Affiliates, Inc.
Hampton Affiliates
Hancock Lumber Company
Harwood Investment Company
Hi-Ridge Lumber Company
Holmes Lumber Company
Huna Totem Corp.
Hyampom Lumber Co.
Indian Hill Timber Co.
International Paper Company
John Hancock Mutual Life Insurance Company
Kimberly-Clark Corp.
Klawock Heenya Corp.
Koncor Forest Products Company
Kootznoowoo Inc.
Lamb-Weston, Inc.
LaPine Pumice Company
Les Schwab Tire Centers
Longview Fibre Company

Appraisal and Associated Assignments for* (Cont.):

Louisiana-Pacific Corp.
Matthews Machinery Company
Medford Corporation
Miller Redwood Co.
Modoc Lumber Co.
Mt. Hood Meadows
North Coast Farm Credit Services
Oregon Cedar Products, Inc.
Oregon Forest Industries Council
Pacific Forest Management
Pannell, Kerr, Forster
Plum Creek Timber Co.
Pope and Talbot, Inc.
Port of Portland
Publishers Paper
Rainier National Bank
Rainier Wood Products
Roseburg Lumber Co.
Rough and Ready Lumber Co.
S. D. Warren Company
Safe Guard
Scott Paper Company
Seal Bay Timber Company
Sealaska Corporation
Seneca Sawmill Co.
Seward Forest Products
Shaan-Seet Incorporated
Shee Atika Corp.
Sierra Pacific Industries
Spalding and Son, Inc.
States Industries
Stimson Lumber Company
Superior Lumber Co.
Swanson Bros. Lumber Co.
Sycan Forest Products
The Agnew Company
Timber Products Co.
Timber Trading Company
Travelers Insurance Company
Tyonek Native Corporation
University of Alaska
U. S. Bank
U.S.D.A. Forest Service - Alaska Region
U. S. Fish & Wildlife Service
W-I Forest Products, Inc.
Washington - State Department of Natural Resources
Westwood Timber Corporation
Weyerhaeuser Company
Willamette Industries
Willamina Lumber Company
Wisconsin-California Forest Products, Inc.
Woolley Enterprises, Inc.

*partial listing

Timber Evaluation for 631(a) Tax Purposes for the following Companies:

Crown Zellerbach Corporation
Georgia-Pacific Corporation
Miller-Redwood Co.
Modoc Lumber Co.
Plum Creek Timber Co.
Spalding & Son, Inc.
Stimson Lumber Co.
Willamette Industries

Various Assignments:

Cruise of forest properties taken from Louisiana-Pacific Corporation and included in the 1978 Redwood National Park Expansion.

Check cruise and appraisal of the old growth cedar groves and surrounding properties owned by Weyerhaeuser Co. and U.S. Fish & Wildlife Service on Long Island, Washington.

Cruise of 40,000± acres of forest land in western Washington owned by the State of Washington - Department of Natural Resources and Weyerhaeuser Company.

Cruise of the 180,000± acres of forest land acquired by W-I Forest Products from Pack River Lumber Company in Washington, Idaho, and Montana.

Appraisal of timber harvested by Plum Creek Timber Co., in Idaho, Montana and Washington in 1985 thru 1987.

Cruise and appraisal of 22,000± acres of old growth hemlock and Sitka spruce in southeast Alaska owned by Shaan-Seet, Inc. on Prince of Wales Island, Alaska.

Asset allocation appraisal of the 322,000± acres of timberland, timber and production facilities of the Kimberly-Clark Corporation - California Business Division in northeast California acquired by Roseburg Lumber Company.

Appraisal of cedar sawmill, shake plant and fence plant complex owned by Oregon Cedar Products, Inc. Springfield, Oregon.

Appraisal of Timber Harvested by Georgia-Pacific Corporation, Fort Bragg, California in 1976 thru 1987.

Evaluation Appraisal of the 28,000± acre acquisition by Stimson Lumber Company of International Paper Company properties at Grand Ronde, Oregon.

Appraisal of Champion International, Lebanon, Oregon complex, including plywood and hardboard plants.

Appraisal of Stimson Lumber Company, Forest Grove, Oregon veneer, stud mill and hardboard plants.

Various Assignments (Cont.):

Appraisal of Georgia-Pacific Corporation, Toledo, Oregon Pulp and Paper Complex.

Appraisal of S. D. Warren Company, Westbrook, Maine Pulp and Paper Complex.

Appraisal of ± 194,000 acres of Scott Paper Company timber and timberland holdings in northwest Washington containing approximately 1,315,000 MBF of merchantable Douglas fir and western hemlock with associated minor species.

Appraisal of approximately 1,405,000 MBF of merchantable Douglas fir and western hemlock timber in southwest Washington owned by the Washington State Department of Natural Resources.

QUALIFICATIONS OF FORESTER

Larry L. Ismert

Business Position:

Forester, CASCADE APPRAISAL SERVICES, INC.

Education:

Bachelor of Science Degree in Mathematics, Oregon State University, 1964.
Variable Probability Sampling, Variable Plot & Three-P Cruising - Oregon State University, 1971.
American Institute of Real Estate Appraisers - Course 1A, 1973.
Helicopter Timber Harvesting - Oregon State University, 1990.
Modern Analytical Photogrammetry - Oregon State University - 1994.

Licenses:

Registered Professional Forester, State of California.

Associated Experience:

Forester - Cascade Appraisal Services, Inc. 1987 - present.

Recent Assignments for:

Alaska - State Department of Natural Resources
Bohemia, Inc.
Burlington Resources
Cape Fox Corporation
Cascade Timber Consulting, Inc.
Chugach Alaska Corporation
Georgia-Pacific Corporation
Goldbelt, Inc.
Gregory Forest Products, Inc.
Hampton Tree Farms, Inc.
Huna Totem Corporation
John Hancock Mutual Life Insurance Company
Klawock Heenya Corporation
Koncor Forest Products Company
Kootznoowoo Inc.
Louisiana-Pacific Corp.
Plum Creek Timber Co.
Pope and Talbot, Inc.
Seal Bay Timber Company
Sealaska Corporation
Seward Forest Products
Shaan-Seet Incorporated
Shee Atika Corp.
Sierra Pacific Industries
Spalding and Son, Inc.
State of Washington - DNR
Stimson Lumber Company
The Agnew Company
Timber Trading Company
Travelers Insurance Company
University of Alaska
USDA Forest Service - Alaska Region
Westwood Timber Corporation
Willamette Industries
Woolley Enterprises, Inc.

17.2.16

APPRAISAL REPORT

Shuyak Island
Parcel No. KIB 01
Kodiak Island Borough, Alaska
Contract #53-0109-3-00377
Task Order No. 377-03-A

FOR
U. S. D. A. Forest Service
P. O. Box 21628
Juneau, Alaska 99802

Attn: Mr. Rich Goosens
Contracting Officer's Representative

Report Date
November 21, 1994

Date of Inspection
June 30, 1994

Date of Valuation
September 1, 1994

FILE #11-94-0183

BY
Diane Black-Smith, MAI
Steven E. Carlson, Appraiser

BLACK-SMITH & RICHARDS, INC.
2602 Fairbanks Street
Anchorage, Alaska 99503

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES

State of Alaska

DIVISION OF LAND

762-2680

FROM: Dennis L. Lattery
Review Appraiser

TO: Marty Rutherford
Deputy Commissioner

DATE: November 23, 1994

SUBJECT: Appraisal Review - Shuyak Island - Parcel KIB 01 - Kodiak Island Borough, owner - Black-Smith & Richards, Appraisers

GENERAL PROJECT DATA

On today's date this office was provided with a one hundred twenty-nine page appraisal report, plus attachments, completed by the firm of Black-Smith & Richards of Anchorage, Alaska. In the attachments is an additional thirty page timber appraisal completed by Pacific Forest Consultants, Inc., a sub-contractor of Black-Smith & Richards.

The purpose of the appraisal is to determine the current market value of 27,900 acres (26,665.62 acres via a draft title report included in the appraisal) of land located totally on Shuyak Island within the Kodiak Island Borough. Legal descriptions of the subject property are too voluminous to include here. Legal descriptions appearing in Appendix A of the appraisal report are assumed to accurately represent the 26,665.62 acres valued in this appraisal.

The owner of record is the Kodiak Island Borough. The interest in this property being valued is the "surface estate".

The function of the report is to determine market value for use in negotiations for purchase of the property by the Exxon Valdez Oil Spill (EVOS) Council.

This appraisal effectively represents two valuation efforts. One determines the value of commercial timber located on approximately 9,680 acres of the property and the other the value of the "surface estate" of the total 26,665.62 acres, considering the 9,680 acres of timberland as being "logged off". Black-Smith & Richards has valued the surface estate and incorporated the timber appraisal information, completed by a timber appraisal subcontractor, Pacific Forest Consultants, into the appraisal. (See comments regarding my competency to review timber appraisals in the following "Review Competency" section.)

The following is the FINAL VALUE ESTIMATE appearing at page 80 of the subject appraisal report:

Value Estimate Calculations

Estimated Value of Merchantable Timber	$24,000,000	
Estimated Value of Cut-over Timberland		
9,680 Ac. @ $100.00	$ 968,000	
Estimated Value of Timberlands		$24,968,000
Strategic Waterfront Acreage		
0 Ac. @ $1,120 Ac.	$0	
Non-Strategic Wtf w/Favorable Topo		
640 Ac. @ $585	$ 374,400	
Non-Strategic Wtf w/Unfavorable Topo & Backlands		
16,345.62 Ac. @ $100.00	$ 1,634,562	
Estimated Value of Land w/o Merchantable Timber		$ 2,008,962
Estimated Value		$26,976,962
	(rd)	**$27,000,000**

REVIEW COMPETENCY

In completing appraisals or appraisal reviews professional appraisers are obliged to disclose that they are competent, or not competent, to complete any given appraisal or appraisal review assignment. If I am competent I am to state reasons why I feel that is the case. If I do not possess a degree of knowledge sufficient to complete an assignment I am to disclose that fact and either decline the assignment, obtain sufficient appraisal training to complete the work or associate with a person possessing the necessary degree of knowledge to complete the project.

I do not possess the expertise to competently review a timber appraisal. As a consequence I have associated with Mr. Sheal Anderson, of Anderson & Associates, Inc., Port Ludlow, Washington, to review the timber valuation portion of this report. Mr. Anderson is currently under contract with the State of Alaska, Office of the Attorney General (AGO), hired in the capacity of a timber expert for purposes of reviewing timber appraisals on behalf of the AGO and DNR. I am relying entirely on Mr. Anderson's expertise in approving the timber value portion of this report. A copy of his

review comments are attached to this report. He finds the report technically and professionally supported and he recommends approval of the $24,000,000.00 timber value.

This reviewer has appraised in the Alaska land market for a period in excess of twenty-five years. I have completed numerous appraisals of both tidelands and uplands in the Kodiak area, most noteworthy being the valuation of large acreage tracts for the proposed ANWAR exchange during the late 1980's. I consider myself qualified to complete this review assignment both in terms of experience and professional appraisal education.

SCOPE OF REVIEW

Per agreed EVOS procedures the agency ultimately to receive management authority over land offered by potential sellers will provide the services of a lead review appraiser. In this instant the Department of Natural Resources is providing the lead reviewer. I acknowledge receipt of review comments from Mr. Richard M. Goossens, USFS, and Mr. Carl Rasmussen, RPRA, of the USF&WS. Comments from both have been discussed and incorporated into this review. Both these reviewers have signed this document indicating concurrence.

This is desk review. This reviewer has not had the opportunity to **specifically** inspect the subject property or the comparable sales included in the valuation. He has, however, been on Shuyak Island on numerous occasions in both a recreational and professional (appraisal) capacity, having spent approximately thirty days on the island; most of that time in the Big Bay vicinity along the subjects west boundary. He is familiar with the recreational opportunities, terrain, general land quality, access and the vagaries of the weather at this location.

In addition, he has at his disposal the complete computerized appraisal and comparable sales files of the Department of Natural resources; this is the undisputed, largest collection of historical appraisal and sales data available in Alaska today.

The following describes specifics considered in the review of this report:

Appraisal No. Shuyak Island Parcel No. KIB 01 (File N. 11-94-0183)

Date of Review November 23, 1994

Legal Description Various-see title report, Appendix A of appraisal report

Interest Being Appraised Surface estate - 26,665.62 Acres

Effective Date of Appraisal September 1, 1994

ADL No. N/A

Narrative or Form Appraisal? Narrative

Fair Market Value Or Fair annual rental? FMV (Surface Estate)

The above indicated appraisal has been reviewed. This review has been conducted considering correct mathematics, use of currently acceptable appraisal practices and techniques, adequate market support and sound appraisal logic leading to a convincing conclusion.

Value is predicated on a "market value" basis as defined in the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) (1992) and as expanded upon in The Uniform Standards of Professional Appraisal Practice (USPAP).

It is required that this report be made in conformity with general requirements of UASFLA and USPAP.

The report under review is subject to adequately addressing and discussing each of the following items:

A)	Certification Page?	X
B)	Letter of Transmittal?	X
C)	Date of Appraisal/Date of Inspection?	X
D)	Purpose of Appraisal?	X
E)	Rights Appraised? Fee? Leased Fee? Fee less mineral rights? Unless otherwise instructed, all appraisals involving state land will consider valuation on a fee simple less mineral rights basis.	X
F)	Highest and Best Use? Provide a discussion of Highest and best use of the subject or subject subdivision, forming the basis for selection of comparable sales data.	
G)	Zoning Restrictions and Easements?	X
H)	Legal Description(s)?	X
I)	Subject Location Map?	X
J)	Adequate on-site photographs?	X
K)	Subject Plats or Survey?	X
L)	Region or Area Data?	X
M)	Neighborhood Description? To be included if a specific neighborhood character is evident.	X

N)	Subject Description? Discuss individual subject particulars such as size, quality of access, soils, availability of utilities, topography, water frontage, view, etc. This may be in narrative for individual lots or graphic form (charts) for subdivision appraisals. Regardless of what form is used or where the information is placed in the report, individual descriptions of each property must be included.	X
O)	Property Valuation Narrative? Sufficient explanation and market support of value conclusion? Adjustments fully discussed?	Yes
P)	Lease Rate adequately discussed and supported?	N/A
Q)	Comparable sales forms, map and photographs included?	X
R)	Assumptions and Limiting conditions (optional)?	X
S)	Appraisers Qualifications?	X

Comments: The report appears to be well organized and supported by appropriate data. The appraiser goes to great lengths to define the parameters of market value, and what the "market" is in this case.

The report furnished on November 23 contains no timber cutting map. The Appraisers have utilized a timber cutting map to determine which areas, after cutting, would be void of timber and, as a consequence, be valued as cut-over or "logged off" land in the appraisal. Also the timber cutting map is used to designate non-strategic waterfront areas for valuation purposes. It is important that this map be included in the report as a visual aid for determining non-strategic waterfront versus logged off (waterfront) land. The appraisers reportedly will provide such a map for the report.

The report furnished on November 23 contains no statement of a ten year sales history of the subject land. The appraisers will reportedly correct this oversight.

It is my opinion that this appraisal report, considering the above comments, and deferring to Mr. Sheal Anderson's expertise with regard to reviewing the timber appraisal, meets UASFLA criteria for an acceptable report. I am led to a reasonable conclusion of value by the appraisers. I recommend approval of the report and the $27,000,000.00 conclusion of value.

*****

Review Appraiser Certification

I certify that, to the best of my knowledge and belief,

___the facts and data reported by the review appraiser and used in the review process are true and correct.
___the analysis, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, unbiased professional analyses, opinions, and conclusions.
___I have no present or prospective interest in the property that is the subject of this report and I have no personal interest or bias with respect to the parties involved.
___my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or use of, this review report.
___my analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
___I did not personally inspect the subject property of the report under review.
___the assistance of Mr. Sheal Anderson, Mr. Richard M. Goossens and Mr. Carl W. Rasmussen in the preparation of this report is recognized.
___The value determination resulting from this review is_____
$27,000,000.00, as of(date): September 1, 1994

Dated the 23th day of November, 1994

Dennis L. Lattery
Lead Review Appraiser

Concur:
Richard M. Goossens
Carl W. Rasmussen

attachment: Timber Appraisal Review

Anderson & Associates, Inc.

6780 Oak Bay Road, Port Ludlow, WA 98365
Telephone & Fax: (206) 437-2574

November 25, 1994

Alex Swiderski
Office of the Attorney General
Alaska Department of Law
1031 West 4th Avenue, Suite 200
Anchorage, Alaska 99501

Dear Alex:

Enclosed is my review report for the Shuyak Island timber appraisal submitted by Pacific Forest Consultants, Inc. Gordon Anderson, USFS Review Appraiser, concurs with my findings.

Sincerely,

Anderson & Associates, Inc.

Sheal L. Anderson
President

Enclosure

cc: Dennis Lattery, DNR

Anderson & Associates, Inc.

6780 Oak Bay Road, Port Ludlow, WA 98365
Telephone & Fax: (206) 437-2574

A. Appraisal Review

This report reviews the timber appraisal for Kodiak Island Borough's Shuyak Island property. Pacific Forest Consultants, Inc. (PFC) appraised this timber property at an effective date of September 1, 1994, and submitted their findings on November 16, 1994. Review of this appraisal occurred during November 18 and 19, 1994.

B. Review Process

The extent of this review is limited by the following:

- information contained in the Shuyak Island Timber Appraisal submitted by PFC;
- discussions with PFC's appraiser, Timothy R. Manley;
- site inspection of the subject property;
- independent verification of export log values on or about the appraisal date;
- personal experience and knowledge of domestic and export log markets, as well as logging and related operating conditions in Alaska.

C. Report Completeness

The appraisal report appears complete. All variables relevant to an appraisal of this nature appear to have been considered by PFC in the development of their opinion of value.

D. Adequacy of Data

The primary determinants of timber value are log sales values, harvest costs, and economically harvestable timber volume:

1. Log Sales Values

Overall, the selling values assumed by PFC by individual log sort classification appear reasonable although the average log sales price developed by PFC, as weighted by sort volumes, may be skewed toward an upper range of value. The higher grade sort components reflected in PFC's Final Harvest Plan (FHP) appears high, based on sample cruise results and other information. However, given that the cruise is only an estimate, it is my opinion that the average log sales price determined by PFC is within reasonable limits.

2. Harvesting Costs

Logging, road construction and related costs appear generally reasonable. Although PFC employed a constructed cost approach to estimate these components, my general knowledge of actual contract rates (plus on-site observations related to logging and roading degrees of difficulty) confirmed the reasonableness of these estimates.

3. Harvestable Timber Volume

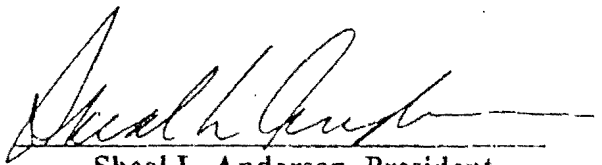
The cruise parameters employed by PFC were designed to estimate "total net volume" on the Shuyak Island tract. These specifications incorporated variable log length cruising to a minimum sample tree with a 12' bole length and a 6" inside bark diameter. This degree of cruise intensity, although maximizing the estimate of physical timber volume, tends to overestimate the actual, economically recoverable volume that would be realized under a typical export logging operation. In general, the value of short, small diameter logs (to the export or domestic markets) is typically not sufficient to warrant their cost of removal. However, PFC's assumption that a reasonable operator would minimize the removal of low value domestic and pulp log volumes does much to minimize the economic effect of this issue.

E. Methodology

In my opinion, PFC has employed an appropriate valuation methodology in appraising the Shuyak Island timber parcel.

F. Report Conclusions

Based on the foregoing, it is my opinion that PFC's appraisal reflects a reasonable estimate of value that would be placed on this timber by the marketplace, given the uncertainties of the export log market, and the limiting assumptions and conditions employed by PFC.



November 25, 1994

Sheal L. Anderson, President
Anderson & Associates, Inc.

Anderson & Associates, Inc.

6780 Oak Bay Road, Port Ludlow, WA 98365
Telephone & Fax: (206) 437-2574

SHUYAK ISLAND APPRAISAL REVIEW

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct;
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions;
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved;
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event;
- I have earlier made a personal inspection of the property that is the subject of this report;
- Gregory Keylock, President, Keylog, Ltd., provided significant professional assistance in developing my review. I also had conversations with Tim Manley, Pacific Forest Consultants, Inc., pertaining to questions on factual data in his original appraisal.

Respectfully submitted,

Anderson & Associates, Inc.

Sheal L. Anderson
President

PART I - INTRODUCTION

APPRAISAL REPORT
Shuyak Island
Parcel No. KIB 01
Kodiak Island Borough, Alaska
Contract #53-0109-3-00377
Task Order No. 377-03-A

FOR
U. S. D. A. Forest Service
P. O. Box 21628
Juneau, Alaska 99802

Attn: Mr. Rich Goosens
Contracting Officer's Representative

Report Date
November 21, 1994

Date of Inspection
June 30, 1994

Date of Valuation
September 1, 1994

FILE #11-94-0183

BY
Diane Black-Smith, MAI
Steven E. Carlson, Appraiser

BLACK-SMITH & RICHARDS, INC.
2602 Fairbanks Street
Anchorage, Alaska 99503

BLACK-SMITH & RICHARDS, INC.

Appraisers
2602 Fairbanks
Anchorage, Alaska 99503
907-274-4654
Fax 907-274-0889

November 21, 1994

U. S. D. A. Forest Service
P. O. Box 21628
Juneau, Alaska 99802

Attn: Mr. Rich Goosens
Contracting Officer's Representative

Re: Shuyak Island
Parcel No. KIB 01
Kodiak Island Borough, Alaska
Contract #53-0109-3-00377
Task Order No. 377-03-A

Dear Mr. Goosens,

In response to your authorization, we have conducted the required investigation, gathered the necessary data, and made certain analyses that has enabled us to form an opinion of the market value of the surface estate of the subject property.

Based on the inspection of the property and the investigation and analyses undertaken, the estimated market value of the surface estate of the subject property, subject to the assumptions and limiting conditions set forth in Addenda of this report, as of September 1, 1994, is:

TWENTY SEVEN MILLION DOLLARS
($27,000,000)

This narrative appraisal report conforms to the Uniform Standards of Professional Practice (USPAP), the Uniform Appraisal Standards for Federal Land Acquisitions, and the specifications of Contract #53-0109-3-00377 and the specific instructions of Task Order No. 377-03-A.

TABLE OF CONTENTS

COMPARABLE LAND SALES

ADDENDA

Sales Of Large Remote Tracts In Alaska
Mineral Potential Report
Supplemental Comparable Land Sales
Qualificaitons of Appraisers
Underlying Assumptions and Limiting Conditions

CERTIFICATION

We certify that, to the best of our knowledge and belief...

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the report assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.

Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

This appraisal assignment was not based on a requested minimum valuation or specific valuation or approval of a loan. Our employment was not conditioned upon the appraisal producing a specific value or a value within a given range.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report I, Diane Black-Smith, MAI, have completed the requirements under the continuing education program of the Appraisal Institute.

Diane Black-Smith, MAI is currently certified by the State of Alaska as a General Real Estate Appraiser (Certificate No. AA 31).

Steve Carlson and Diane Black-Smith have made a personal inspection of the property that is the subject of this report.

Devery L. Prince provided significant professional assistance to the persons signing this report.

Diane Black-Smith and Steven E. Carlson have the appropriate knowledge and experience necessary to complete this appraisal assignment competently.

Dated this 21st day of November, 1994.

Diane Black-Smith, MAI

Steven E. Carlson, Appraiser

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Appraised

A large tract of remote unimproved land on Shuyak Island. The Island is located within the boundaries of the Kodiak Island Borough in the Gulf of Alaska. The property to be appraised is one of the seventeen parcels selected by the Exxon Valdez Oil Spill Trustee Council as priority parcels to be purchased with the $900 million settlement.

Legal Description

The legal descriptions are lengthy and presented in the Addenda of the report. The property is identified as KIB01 and inventoried as 27,900 acres in the "Working Document" prepared by the Exxon Valdez Oil Spill Restoration Team Habitat Protection Work Group (November 30, 1993) *Comprehensive Habitat Protection Process: Large Parcel Evaluation & Ranking (Volumes 1. & 2.).* For the purposes of our analysis, we have relied on the area estimate contained in the legal descriptions summarized in a September 6, 1994 Memorandum (draft) from James McAllister, NRMI (see addenda). Per the descriptions, the subject's acreage is 26,665.62.

We have noted a discrepancy between those legal descriptions and the May 4, 1994 Land Status Map of the Shuyak Archipelago (see Property Identification).

Ostensible Owner

According to the legal descriptions provided, title passed from the Bureau of Land Management to the State of Alaska, and subsequently to the current owner:

KODIAK ISLAND BOROUGH
710 Mill Bay Road
Kodiak, Alaska 99615

Appraisal Purpose

The purpose of this appraisal is to estimate the market value of the surface estate* of the subject properties.

*The surface estate is defined as the fee simple estate less developable minerals. Developable minerals include sand and gravel (Chugach Natives Inc. v. Doyon Inc.) For the purposes of our analysis, we have assumed that the owner of the surface estate can penetrate the subsurface and utilize on-site sand and gravel for foundations and septic systems - incidental non-commercial extractions. THIS IS A SPECIAL ASSUMPTION OF THIS REPORT.

Report Date

November 21, 1994

Date of Inspection

June 30, 1994

Date of Valuation

September 1, 1994

Highest and Best Use

Mixed use including: timber harvest where operations are feasible; private or commercial recreation uses on waterfront acreage where timber harvest is not feasible; speculation for low-utility non-timbered backlands. Special purpose licensing/permitting is practical interim use for timberlands scheduled for later harvest and speculative backlands.

Market Value Estimate

$27,000,000

ASSUMPTIONS AND LIMITING CONDITIONS

Assumptions and limiting conditions are contained in the addenda of the report.

We have assumed title to be marketable and have relied on the area estimates and legal descriptions provided with the appraisal instructions.

The surface estate is defined as the fee simple estate less developable minerals. Developable minerals include sand and gravel (Chugach Natives Inc. v. Doyon Inc.) For the purposes of our analysis, we have assumed that the owner of the surface estate can penetrate the subsurface and utilize on-site sand and gravel for foundations and septic systems - incidental non-commercial extractions.

The subject properties are appraised as if "contaminant-free".

The timber appraisal prepared by Pacific Forest Consultants, Inc., has undergone an extensive review process prior to its inclusion in our report. We have assumed the appraisal fairly represents the market value of merchantible timber.

A restriction prohibits "heavy industrial uses incompatible with use and enjoyment of adjacent park or public recreation lands" on the west one-half of Section 10, T. 19 S., R. 20. W., S.M. The tract is located on the west side of Shuyak Island fronting on Big Bay, just south of USS 9228.[1] Merchantible timber is identified in this area and its value is included in the overall estimated value of merchantible timber on the subject. We have not been provided with a legal opinion or other interpretation as to the whether timber harvesting qualifies as a "heavy industrial use" that would be incompatible. For the purposes of our anlysis, we have assumed this timber can be included in a harvest plan.

1. Ibid.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of the surface estate* of the subject properties.

*The surface estate is defined as the fee simple estate less developable minerals. Developable minerals include sand and gravel (Chugach Natives Inc. v. Doyon Inc.) For the purposes of our analysis, we have assumed that the owner of the surface estate can penetrate the subsurface and utilize on-site sand and gravel for foundations and septic systems - incidental non-commercial extractions. THIS IS A SPECIAL ASSUMPTION OF THIS REPORT.

VALUE DEFINITION

The Uniform Appraisal Standards for Federal Land Acquisitions (1992) defines "fair market value" as;

"The amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desired but is not obligated to buy."

IDENTIFICATION OF THE PROPERTY

Property Appraised

A large tract of remote unimproved land on Shuyak Island. The Island is located within the boundaries of the Kodiak Island Borough in the Gulf of Alaska. The property to be appraised is one of the seventeen parcels selected by the Exxon Valdez Oil Spill Trustee Council as priority parcels to be purchased with the $900 million settlement.

Ostensible Owner

According to the legal descriptions provided, title passed from the Bureau of Land Management to the State of Alaska, and subsequently to the current owner:

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Legal Description

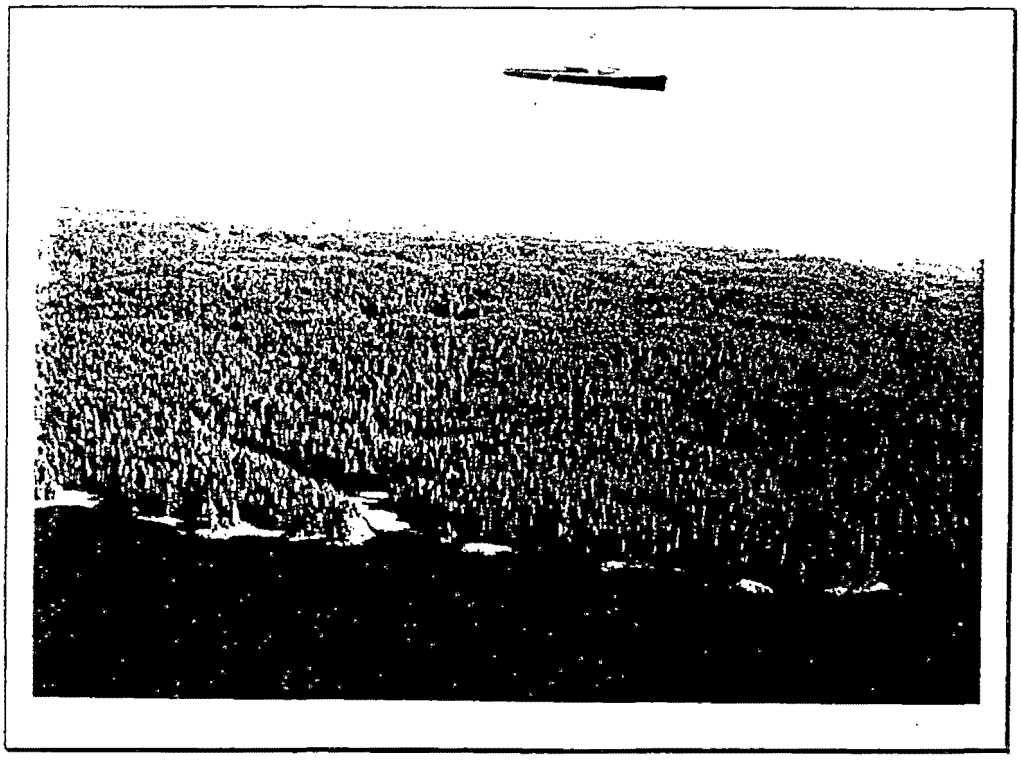
The legal descriptions are lengthy and presented in the Addenda of the report. The property is identified as KIB01 and inventoried as 27,900 acres in the "Working Document" prepared by the Exxon Valdez Oil Spill Restoration Team Habitat Protection Work Group (November 30, 1993) *Comprehensive Habitat Protection Process: Large Parcel Evaluation & Ranking (Volumes 1. & 2.).*

Note: In early June 1994, we noted a discrepancy between the legal descriptions provided and the May 4, 1994 Land Status Map of the Shuyak Archipelago (see Property Identification). The discepancy is noted in the following comparative tables:

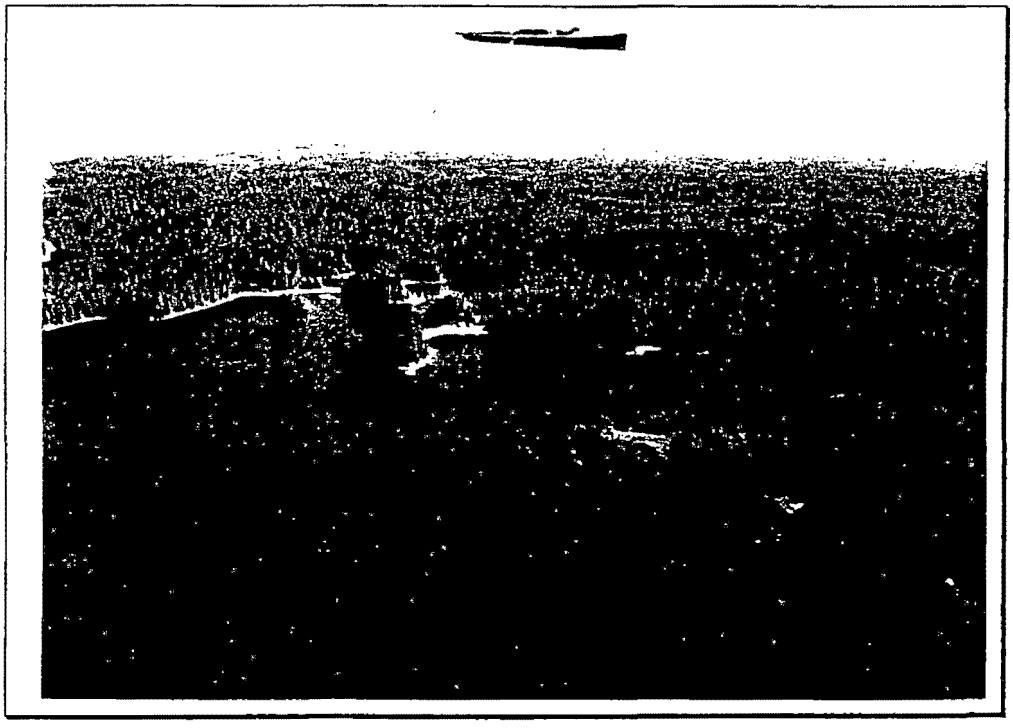
Acreage by printed legal description					**Acreage by 5/4/94 "Land Status" map**		
USS 1738		9.30	ac.				
USS 9221		31.96	ac.	AA-7069 # C			
USS 9226	L 1 & 2	39.92	ac.	AA-7069 # B			
USS 9228		20.00	ac.	AA-7069 # D			
		101.18	**ac.**		KIB & Native Allotment Selections	85	ac.
Lands within							
T18S R19W	)						
T18S R20W	)						
T19S R19W	)						
T19S R20W	)						
T20S R20W	)	26,564.44	ac.		Kodiak Island Borough (KIB)	26,492	ac.
Total Acreage		**26,665.62**	**ac.**			**26,577.00**	**ac.**

Attempting to reconcile the differences, we noted that USS 1738 may be the source of the discrepancy. This parcel is drawn in but not color-coded as a native allotment selection. In an October 17, 1994 memorandum, Mr. Bruce M. Bothelho, noted minor changes in an updated title report. However, the total acreage estimate is unchanged and the discrepancy appears to be unresolved. For the purposes of our analysis, we have relied on the area estimate contained in the legal descriptions summarized in a September 6, 1994 Memorandum (draft title report) from James McAllister, NRMI (see addenda). Per the descriptions, the subject's acreage is 26,665.62.

SUBJECT PHOTOGRAPHS

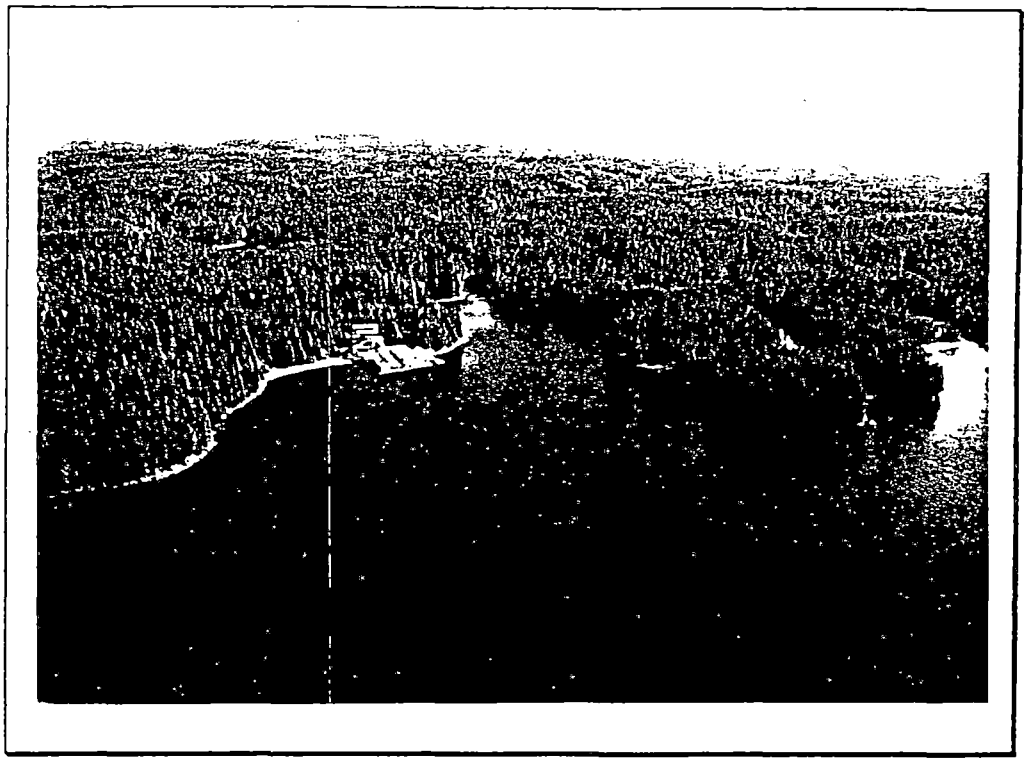


Looking northerly at southern tip of subject

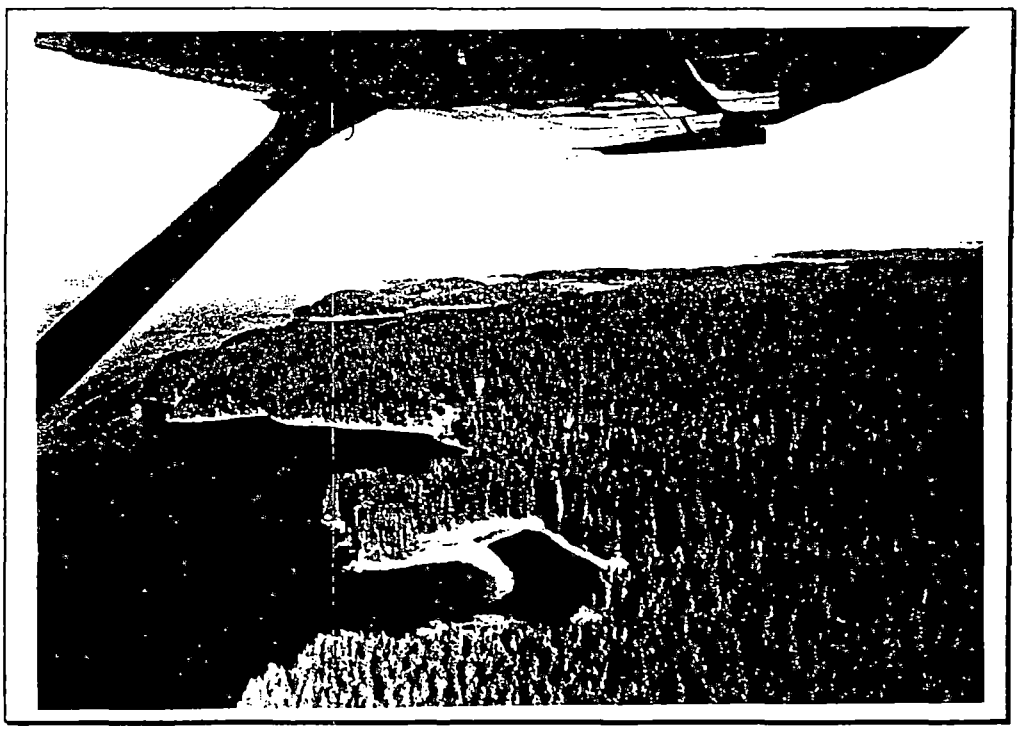


Looking northerly at Daylight Harbor on southern coast of subject

SUBJECT PHOTOGRAPHS

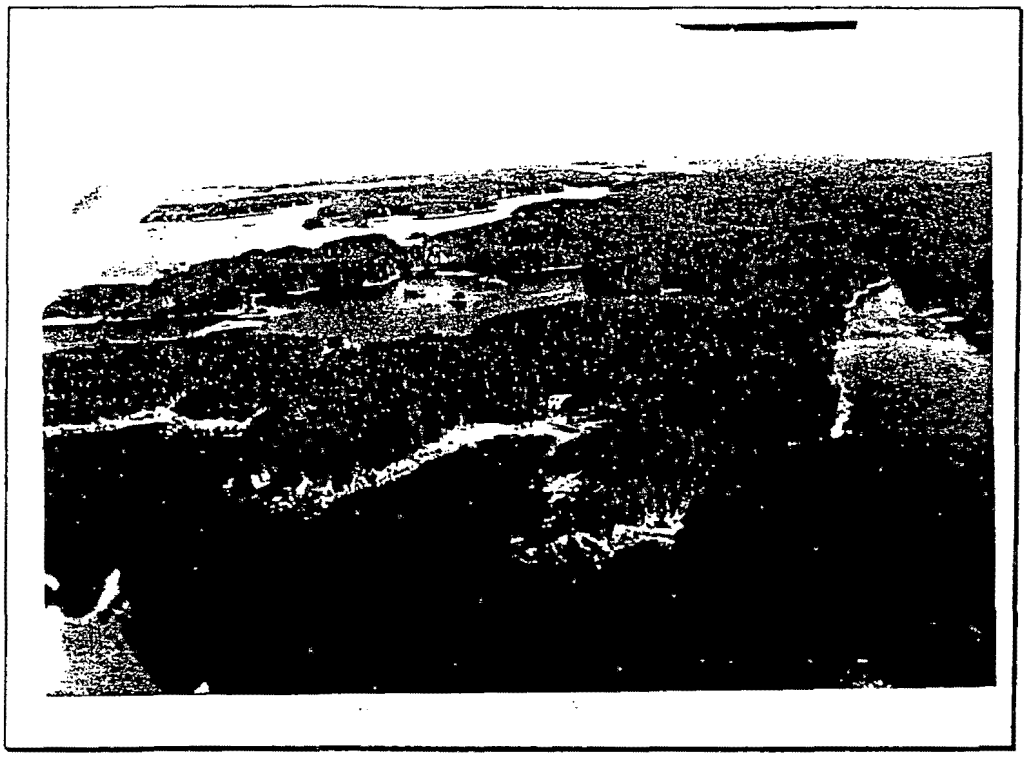


Looking northerly at Port Williams on southern coast of Shuyak Island

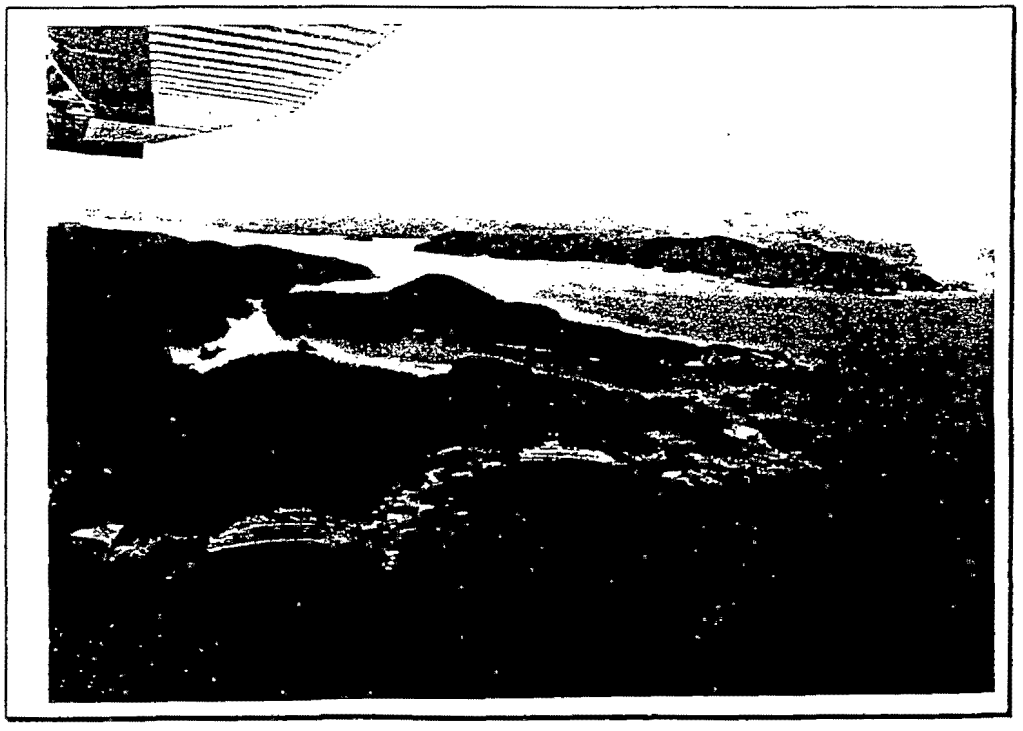


Looking westerly out Shuyak Strait to Shelikof Strait - Port Lawrence is on the right

SUBJECT PHOTOGRAPHS

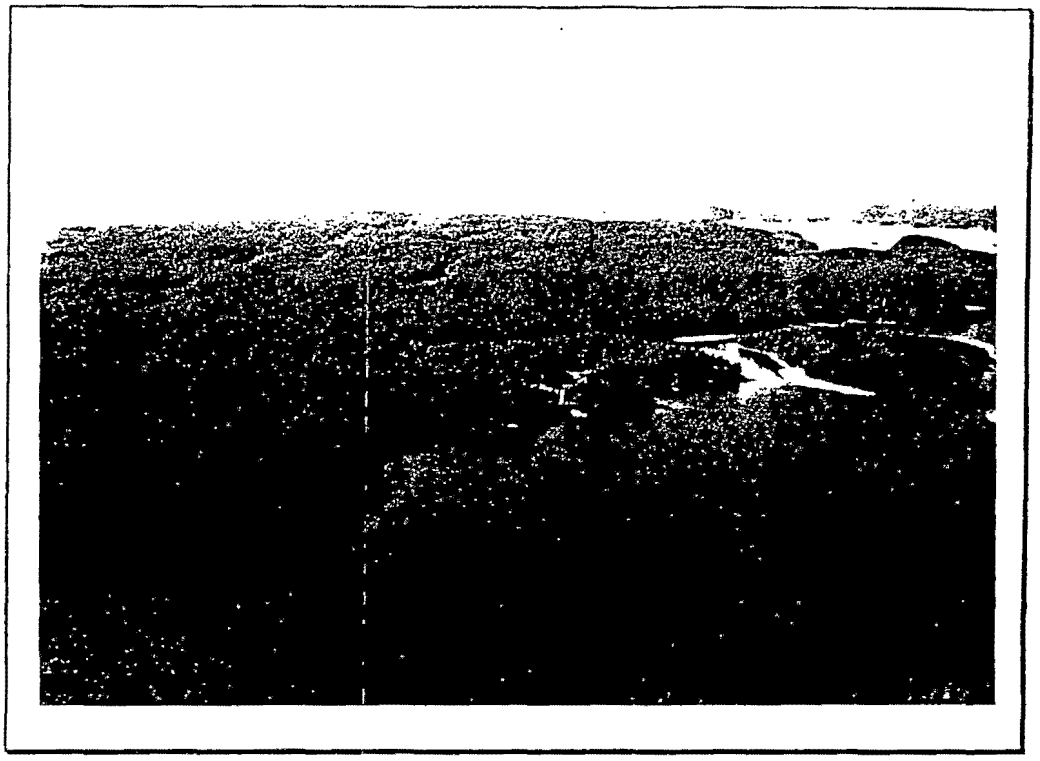


Looking northerly along west side of Shuyak Island. Cape Newland on left

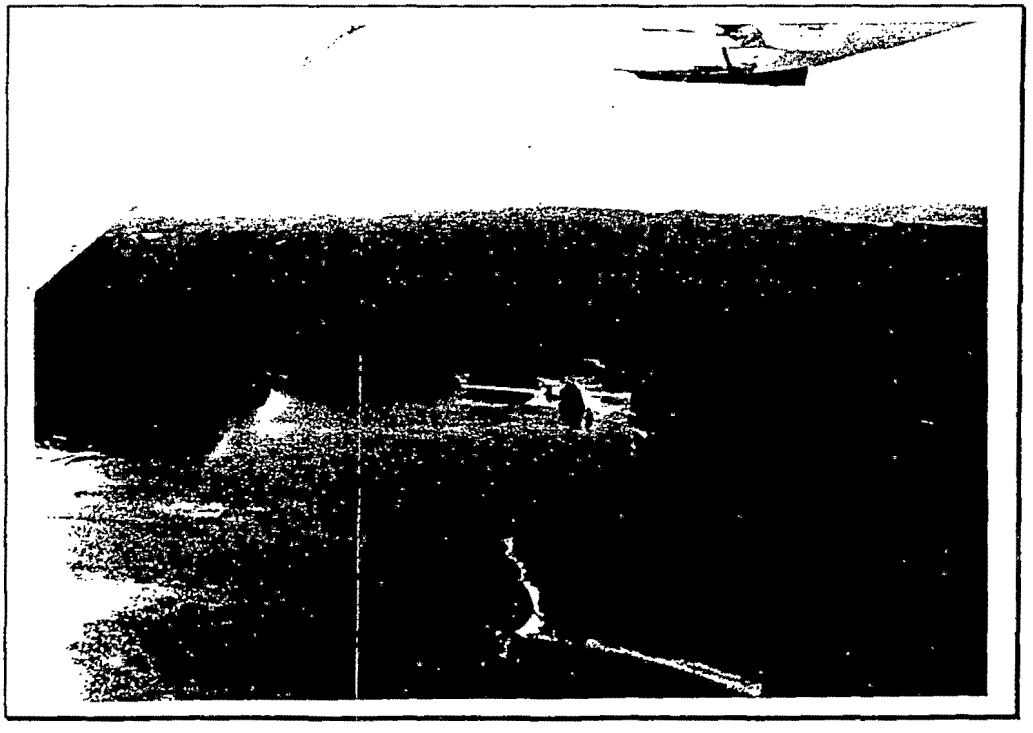


Looking south @ southwest corner of subject and Cape Newland

6-30-94 (SEC) **SUBJECT PHOTOGRAPHS**

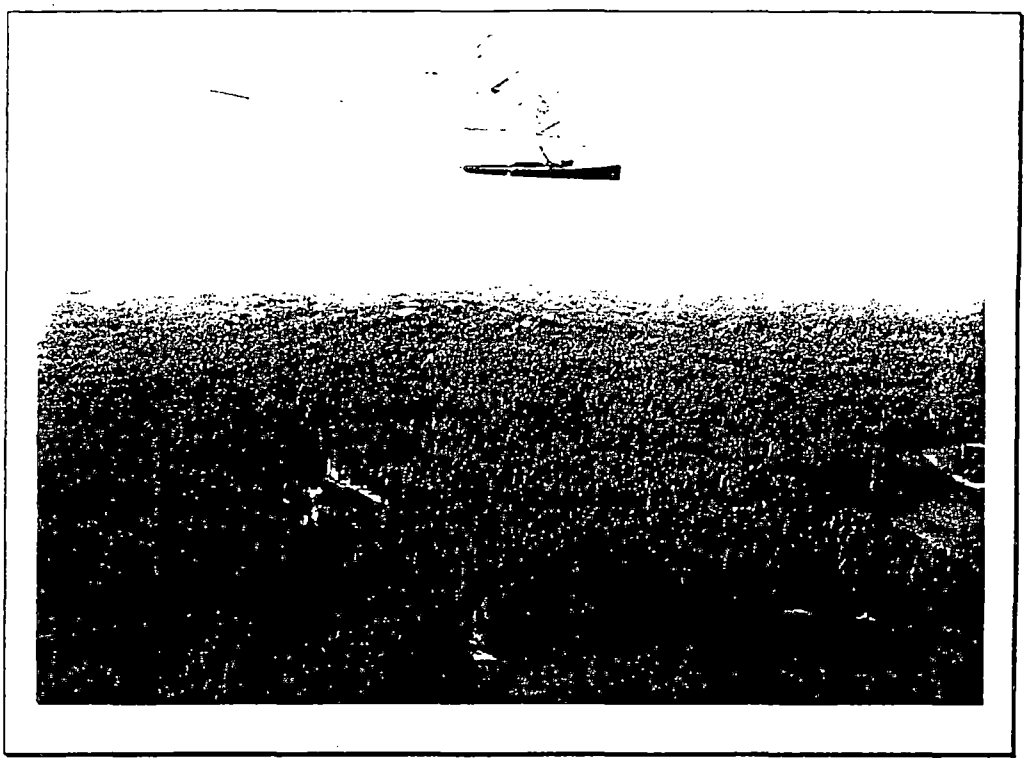


Looking south @ southwest corner of subject over Neketa Bay

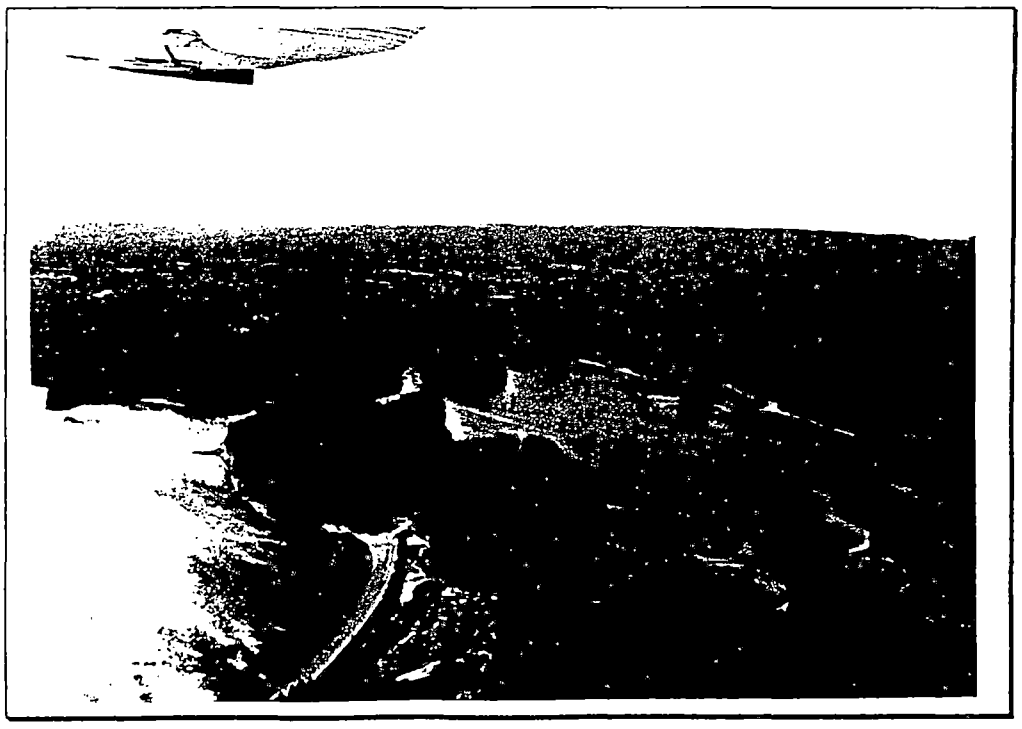


Looking southeasterly inland from Big Bay

SUBJECT PHOTOGRAPHS

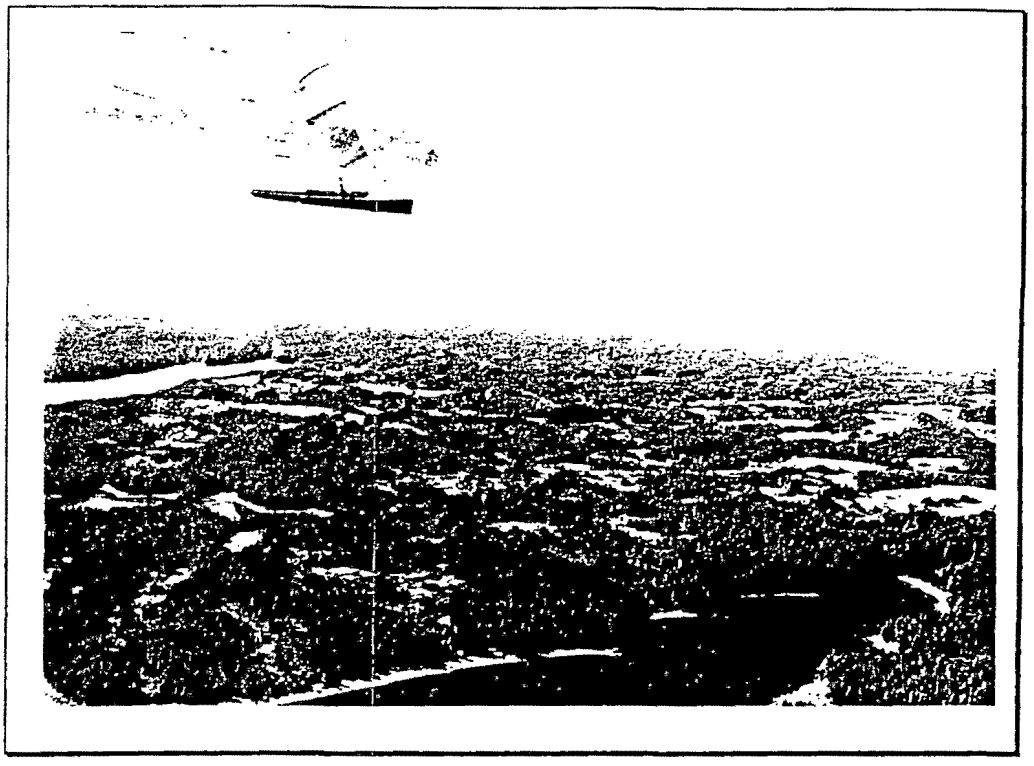


Looking southeasterly inland from Big Bay

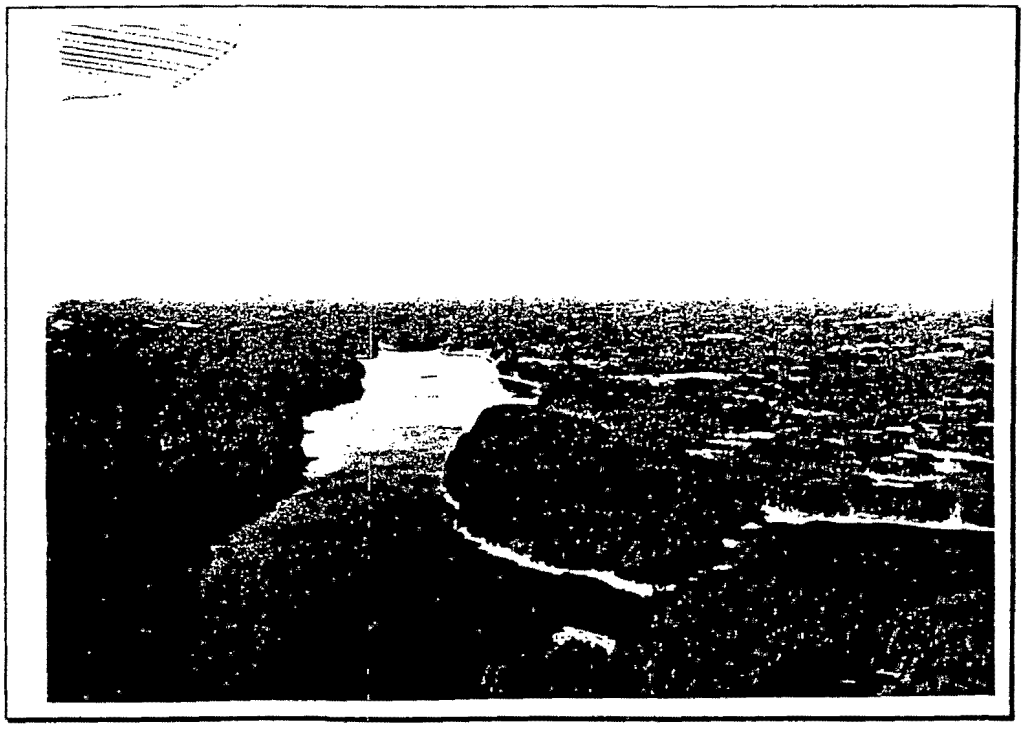


Looking east across northern portion of subject. Carry Inlet appears in left center.

SUBJECT PHOTOGRAPHS

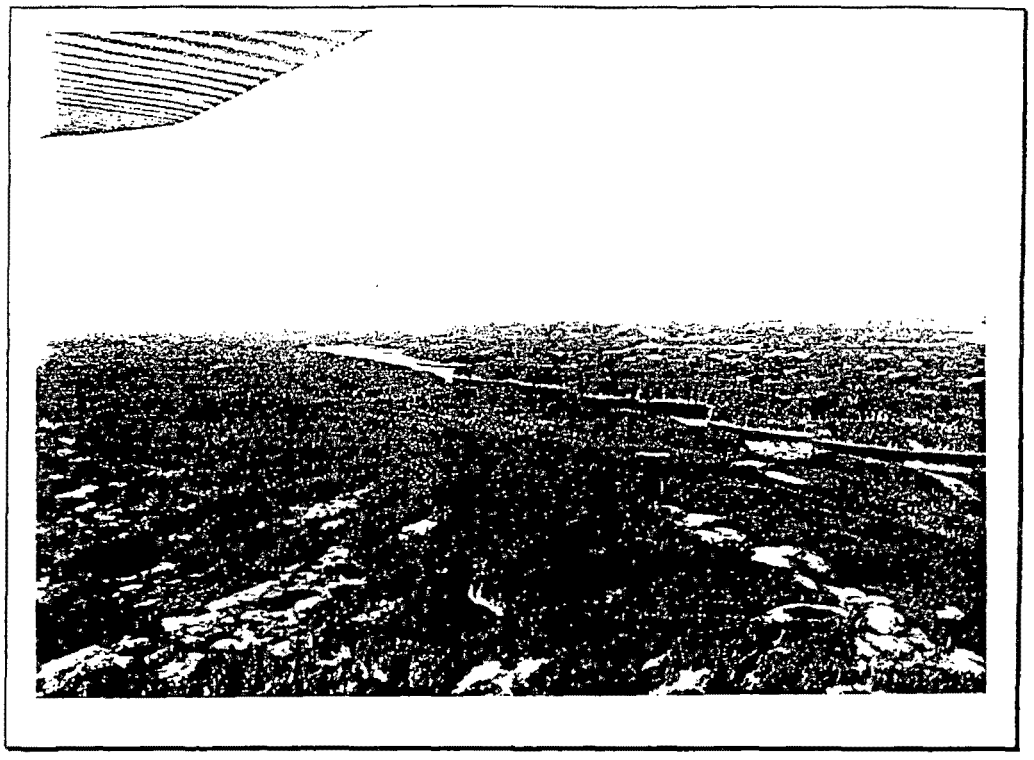


Looking south from northwest corner of subject. Shangin Bay appears in left center.

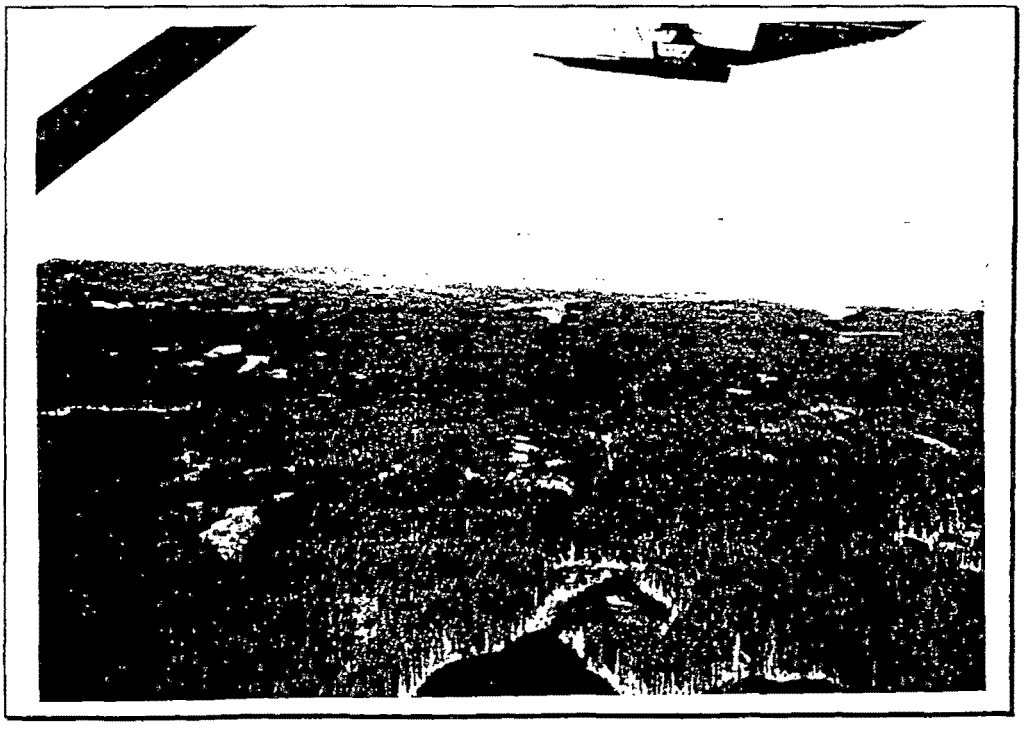


Looking southerly toward head of Shangin Bay from north boundary of subject

SUBJECT PHOTOGRAPHS

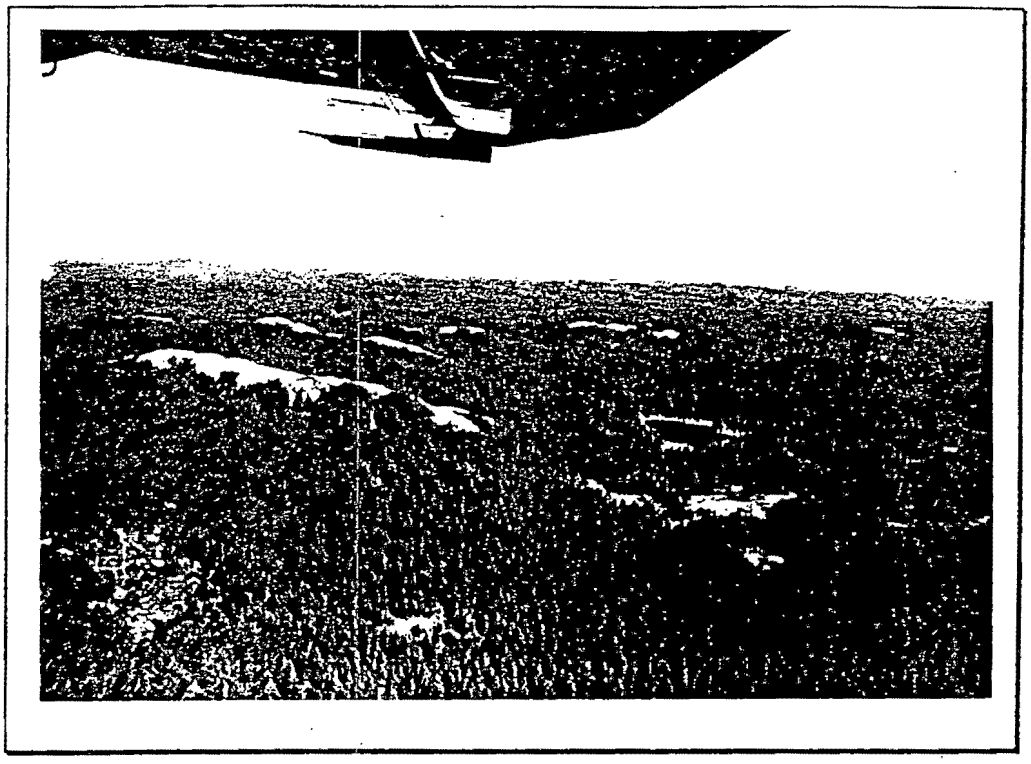


Looking southwest across Shangin Bay from northeast corner of subject.

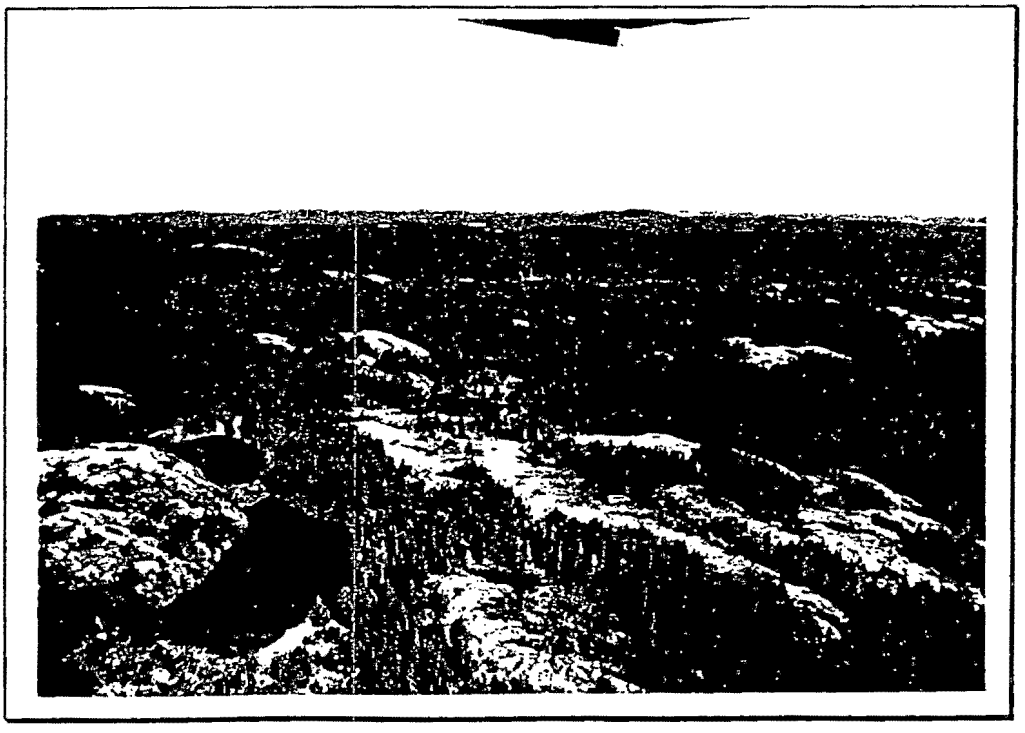


Looking west across northern portion of subject from the northeast corner.

SUBJECT PHOTOGRAPHS

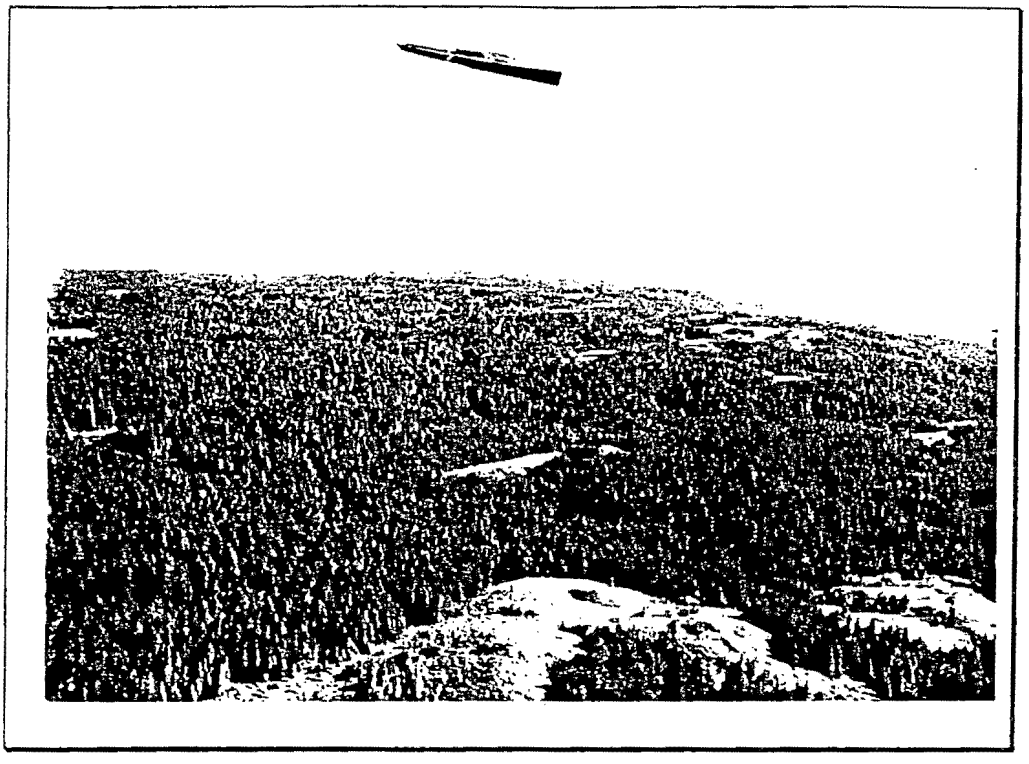


Looking west from approximate mid-point of subject's eastern boundary.

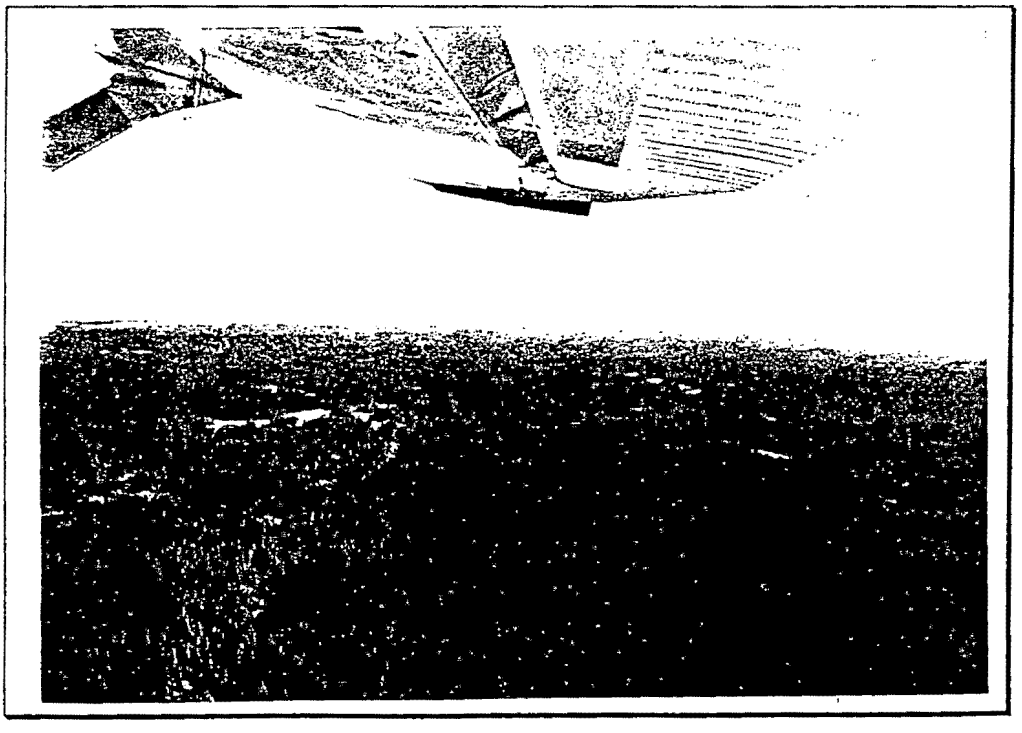


Looking west from eastern boundary at Big Fort Channel.

SUBJECT PHOTOGRAPHS

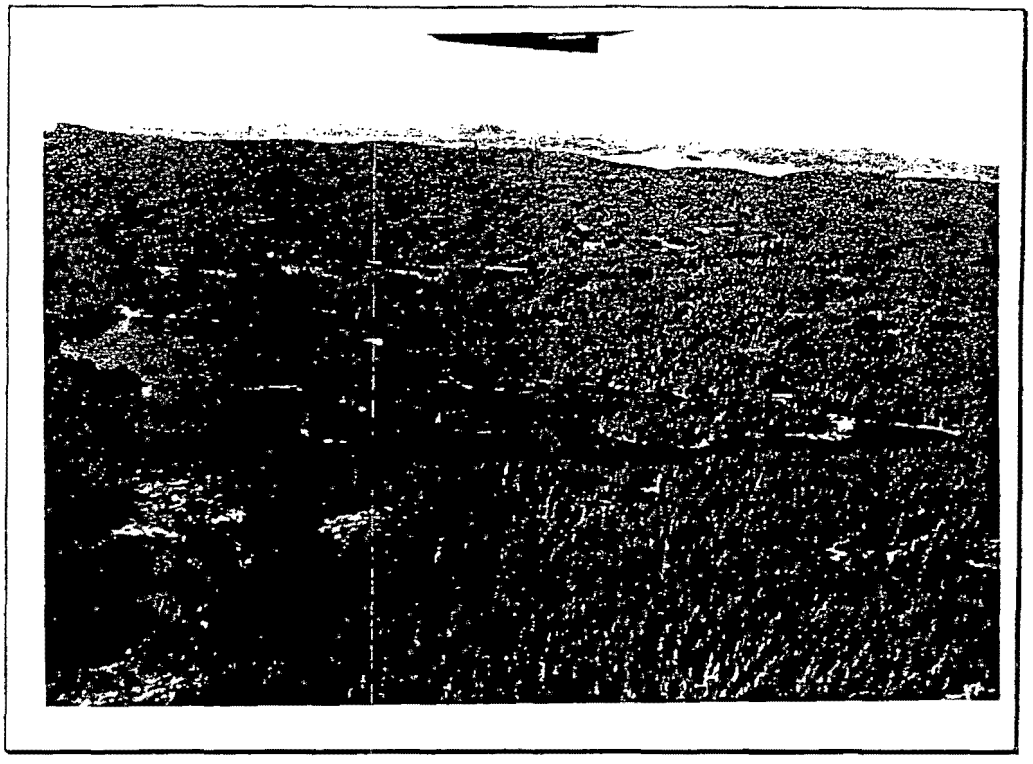


Looking northeast across subject from southeast corner

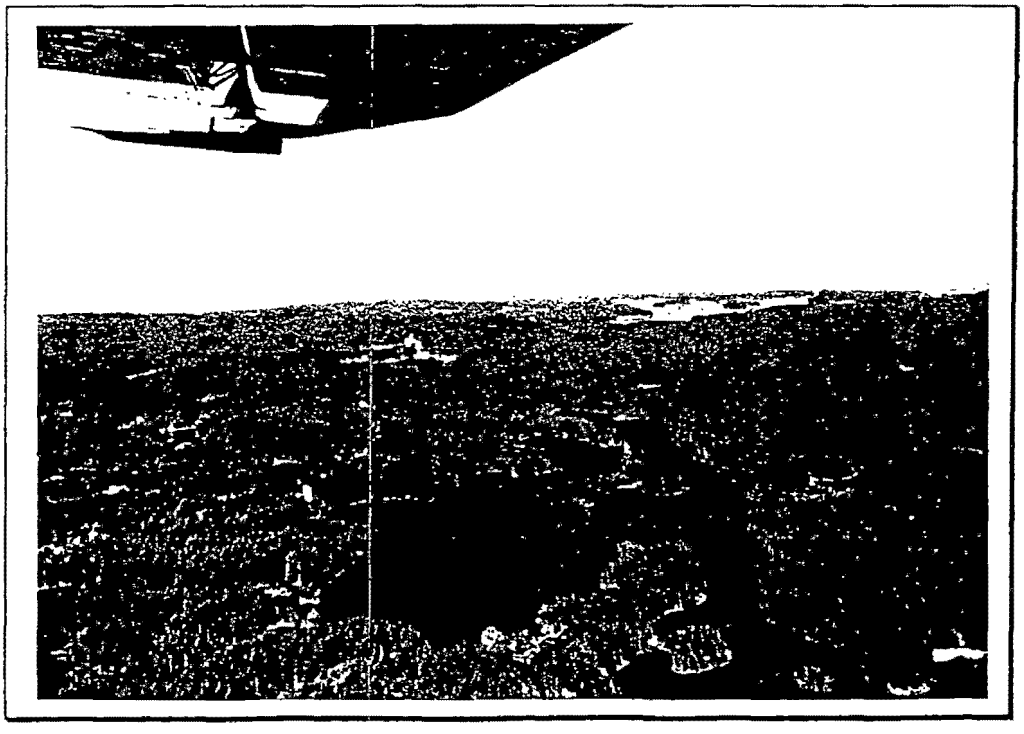


Looking northeast from southern boundary of subject. Shangin Bay appears in distance.

SUBJECT PHOTOGRAPHS



Looking south across Shuyak Lake. Afognak Island appears in background



Looking northwest over Shuyak Lake. toward Big Bay

AREA AND LOCAL DATA

Alaska

State spending of the oil revenues has been the driving force behind economic growth in Alaska. It has been said that oil revenues fund 80% to 85% of the state's annual operating budget. Between 1980 and 1986, the state distributed $26 billion for operations, capital projects, and permanent fund appropriations.

A subsequent dramatic decline in oil prices brought about a severe economic recession that impacted nearly every community in Alaska. The recession was characterized by substantial losses of population and construction activity virtually came to a halt. Personal and business bankruptcies were commonplace and several banks failed. Real estate markets for nearly every type of property were depressed.

The overall economy is generally considered to have stabilized by 1990 but remains dependent on the petroleum industry and vulnerable to unexpected changes in wellhead prices and the projected decline in Prudhoe Bay production.

General Neighborhood - Kodiak Island Borough

The general neighborhood is entirely contained within the boundaries of the Kodiak Island Borough. The city of Kodiak is located approximately 250 miles southwest of Anchorage - Alaska's largest city and the hub of the state's economic activity. Anchorage is the business, government, transportation, education and cultural core of Alaska.

The Kodiak Island Borough includes several islands in an archipelago that parallells the southeast cost of the Alaska Peninsula - separated from the Katmai National Park and Preserve by the Shelikof Strait. The northeast end of the archipelago is referenced by the Barren Islands and the southwest end by the Trinity Islands. Kodiak Island is the largest island and its largest city (Kodiak) is the seat of the Borough government.

The Borough boundaries encompass approximately 17,800 miles and the population as of July 1, 1993 was estimated at 15,245.[2] The city of Kodiak is home to nearly one-half of the Borough's population. The populations of recognized as second class cities are reported in the following table. All are located on Kodiak Island.

Akhiok	78
Larsen Bay	144
Old Harbor	307
Ouzinkie	210
Port Lions	259

The area is further profiled by the State of Alaska Department of Community & Regional Affairs as follows:

> "The Island culture is grounded in commercial and subsistence fishing activities and is primarily non-Native. 16% of the population are Natives. A russian Orthodox Church seminary is based in Kodiak, one of the two existing seminaries of this kind in the U. S. The Coast Guard comprises a significcant portion of the Borough."
>
> "The Coast Guard, local, state, and other federal agencies provide employment opportunities. Fishing, fish processing and support services are the key employers; Kodiak is (the) second highest port in the nation for seafood volume. Subsistence activities are prevalent."
>
> "Kodiak is accessible by air and sea. A paved state-run airport, gravel municipal airport, and float plane facility at Lily Lake serve air traffic. The Alaska marine Highway System operates a ferry service from Seward and Homer. Two boat harbors serve commercial and transient vessels. Approximately 140 miles of state roads connect island communities on the east side of the island."
>
> "January temperatures range from 14 to 46; July temperatures vary from 39 to 76. Average annual precipitation is 54.5 inches."

Most of the region is remote and undeveloped. The topography is diverse ranging from coastal wetlands to mountainous terrain. Much of uplands in the northern end of the archipelago are heavilly forested with merchantible timber. Uplands in the southern end consist of grasslands punctuated by alder thickets.

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2. "1994 Community/Borough Map", State of Alaska Department of Community and Regional Affairs.

Major land owners include the Federal and State governments and native corporations including Koniag Inc., the regional corporation. The Kodiak National Wildlife Refuge encompasses 1,865,000 acres[3] - approximately two-thirds of Kodiak Island's 3,620 square-miles.[4] More recently, an increasing supply in the face of limited demand suggests that no upward pressure on values should be anticipated for an extended term.

Historically, the area has been primarily used for subsistence related activities and commercial fishing. "Fishing drives the economy: The salmon harvest brings fishermen more than 40 million dollars a year, the deepwater trawlers' catch of pollock and cod nearly and equal amount in recent years."[5] "The City of Kodiak is home to the nation's second largest commercial fishing port, as measured by quantity of fish caught."[6]

Both private and commercial recreational use has been on the upswing. The area offers spectacular scenery and represents prime habitat for many species of land and sea mammals, birds, and both fresh and saltwater fishes. The islands boast world class salmon fishing, a large deer population, and world record class brown bear. In addition to being a frequent destination of sportfishermen and hunters, the archipelago has become increasing popular with ocean-kayakers, hikers, and photographers. "Its a land of stark and spellbinding contrasts, ranging from coastal wetlands and meadows to glacial valleys, alpine lakes, and ice-sculpted 4,000-foot mountains. Fingers of the sea reach in, so that nowhere on Kodiak can you stand and be more than 15 miles from salt water".[7]

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3. Department of Interior, U. S. Fish and Wildlife Service
4. John L. Eliot, "KODIAK: Alaska's Island Refuge", *National Geographic* Vol. 184, No. 5 (Nov. 1993) 38.
5. Ibid. 46
6. Ibid. 45
7. Ibid. 38

Immediate Neighborhood - Shuyak Island

Shuyak Island is located near the northwest end of the Kodiak archipelago just off the northern tip of Afognak Island. The separation of Shuyak and Afognak Islands by the Shuyak Strait is only one third of a mile at its narrowest point. Total acreage of Shuyak Island, including smaller outer islands, is approximately 50,000 - nearly all of which is in some form of public ownership. Private non-native land totals only 33 acres and the total of native allotment selections is approximately 111 acres. The subject property, owned by the Kodiak Island Borough, accounts for 26,666 acres - slightly more than half of the total. Nearly 23,000 acres are designated as State parkland or wildlife habitat.

The area is characterized as a rugged coastal environment with a jagged shoreline punctuated by numerous bays, coves, and lagoons. Select areas, particulary on the western inland waterway, offer protected moorage and gravel/sand beaches. Elevations range from coastal lowlands to approximately 660 feet. Much of Shuyak island, including most of the subject property is heavily forested with merchantible Sitka Spruce.

There are no significant lakes or rivers identified by name on the U. S. G. S topographical maps. Small freshwater lakes and streams provide rearing habitat for anadromous species and the island supports a healthy population of transplanted Sitka Black-Tail deer. Brown Bear, the big game species for which the Kodiak Archipelago is world famous, also inhabit the island but populations on Shuyak are less dense than elsewhere in the Archipelago. Fur animals include river otters and fox. Marine mammals include seals, seal lions, sea otters, porpoises and whales. Other saltwater species include shrimp, crab, herring, cod, halibut, and rockfish. Bald eagles and several species of seabirds inhabit the area.

As a destination, the area is generally perceived as "exotic" in terms of its remoteness and the relative quality of outdoor experiences. Increasing awareness of the area's recreational opportunities will likely result in increasing commercial opportunities. At the same time, the subject is well-suited for public use. However, the remote characteristic and often-harsh weather conditions, contribute to costly and potentially unreliable transportation. Too many, these are limiting factors that tend to dilute the practicality of this destination.

PROPERTY DATA

Location

The subject property is located on Shuyak Island, a remote island near the northwest end of the Kodiak archipelago just off the northern tip of Afognak Island. The Island is located within the boundaries of the Kodiak Island Borough in the Gulf of Alaska, approximately 200 miles southwest of Anchorage. The subject property is located adjacent to the Kodiak and Alaska Maritime National Wildlife Refuges.

Area

The property is one of the seventeen parcels selected by the Exxon Valdez Oil Spill Trustee Council as priority parcels to be purchased with the $900 million settlement. The property is identified as KIB01 and inventoried as 27,900 acres in the "Working Document" prepared by the Exxon Valdez Oil Spill Restoration Team Habitat Protection Work Group (November 30, 1993) *Comprehensive Habitat Protection Process: Large Parcel Evaluation & Ranking (Volumes 1. & 2.)*.

For the purposes of our analysis, the area estimate is based on the legal descriptions provided. Per those descriptions, the subject's acreage is 26,665.62. A general description of the acreage is summarized in the following table.

USS 1738		9.30	acres	
USS 9221		31.96	acres	BLM # AA-7069 Parcel C
USS 9226	Lots 1 & 2	39.92	acres	BLM # AA-7069 Parcel B
USS 9228		20.00	acres	BLM # AA-7069 Parcel D
Lands within				
T18S R19W	}			
T18S R20W	}			
T19S R19W	}			
T19S R20W	}			
T20S R20W	}	26,564.44	acres	(lengthy legal in Addenda)
Total Acreage		26,665.62	acres	

The area estimates are assumed to reflect BLM determination standards - net of navigable rivers/streams over "3 chains" in width and submerged lands in excess of 50 acres. Ownership extends to the mean high-water line.

Given the size of the subject, variations in physical features and characteristics can be expected. A general decription of the subject property is summarized in the following paragraphs.

Geography, Soils, Topography

Shuyak Island represents a rugged coastal environment with several protected bays and inlets that offer safe anchorages and floatplane landing sites. The subject property features an extensive shoreline. Shorelines range from sand/gravel beaches to abrupt rock-walls. However, along most of the subject's waterfrontage, the 100 foot contour (elevation) is set back a sufficient distance that moderately sloping topography is indicated (U. S. G. S topographical maps).

Soils generally consist of a thin layer of organics over a base of bedrock. The uplands are inundated with numerous pothole lakes and heavily forested with merchantible timber. The largest lake, situated in a central location, is approximately 3/4 of a mile long. "Little is known about the island's interior as it is thickly forested and because most activity occurs along the coasts."[8] Backland elevations rise to approximately 660 feet.

Natural Resources

The subject features a substantial timber resource (Sitka Spruce) that is quantified and valued in a report prepared by Pacific Forest Consultants Inc.

According to a "Mineral Potential Report" prepared by Mr. Donald L. Stevens, Ph. D. of Stevens Exploration Management Corporation (Anchorage); "The mineral potential and previously claimed mineral coccurrences do not appear to have any significant market value." "The probability of discovery of any significant mineral occurrence is so low that there is no negative impact on the value of the surface estate." There is no market value for any undiscovered mineral resource.

8. "Acquisition of Kodiak Island Borough Lands on Shuyak Island & Raspberry Island", an informational summary prepared by the Resource Management Office, Office of the Borough Mayor, Kodiak Island Borough, October 1993.

Wildlife Resources

The subject property and the surrounding lands and waters are home to significant species of wildlife (see:*"Habitat Protection Parcel Analysis"* in the Addenda). Big game animals include brown bear and deer. Fur animals include river otters and fox. Marine mammals include seals, seal lions, sea otters, porpoises and whales. Bald eagles and several species of seabirds inhabit the area. Six Pink Salmon spawing streams are document on the subject property. Healthy populations of Dolly Varden Trout documented in eight streams. Anadromous streams are also reported to support runs of Coho and Chum Salmon. Saltwater species include shrimp, crab, herring, cod, halibut, and rockfish.

Cultural Resouces

The*"Habitat Protection Parcel Analysis"* (see Addenda) reports 15 documented sites as "cultural resources". Specific sites have not been identified to the appraisers. The significance of these sites with regard to market value is discussed in the Highest and Best Use Analysis.

Access

There is no road access to the subject parcels. Primary access is by marine transport and floatplane. Three public easements assure legal overland access across State land from the Gulf of Alaska. However, the easements are unimproved. The easements are described as; "... public use easements for the benefit of KIB and the public, each of which shall be 200 feet in width, to provided public access from the line of mean high tide westeraly to lands on Shuyak Island ...".[9]

Utilities

There are no public utilities in the area.

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9. Kodiak Island Borough (Appellant) vs. State of Alaska, Department of Natural Resources (Appellee), *AGREEMENT OF SETTLEMENT and CONSENT DECREE.* 5.

Zoning

The subject is zoned "C-Conservation District". The "...District is established for the purpose of maintaining open space areas while providing for single-family residential, and limited commercial land uses." Regulations permit most of the probable uses of the subject. In addition several possible uses "... may be allowed by obtaining a conditional use permit...". A listing of Permitted Uses and Restrictions is presented in the Addenda. The "C-Conservation District" classification is not considered to adversely impact the utilization of the subject parcel, nor select areas/sites within its boundaries, to its/their Highest and Best Use(s).

Coastal Management Plan

In 1984, the State of Alaska approved the Kodiak Island Borough's coastal management program (plan). According to Linda Freed, the Borough's Planning Director, the "plan" is somewhat vague and currently in the process of a rewrite. The function of the plan is regulatory and the revision will be more specific with regard to performance standards and guidelines. However, the plan's purpose is "guidance" that is more likely to place conditions on a proposed project rather than result in denial.

The revised plan may or may not provide additional regulatory constraints for specific development projects - particularly those that require more than a local land use permit. Uses requiring the filling-in of wetlands, large-scale sanitary land fills, logging transfer stations, are examples of projects that would typically require a higher level of review. Logging operations have been established in the northern part of the Kodiak Archipelago for several years. In summary, the Coastal Management Plan is not considered to adversely impact the utilization of the subject properties, nor select sites within their boundaries, to their Highest and Best Uses.

Restrictions

A restriction prohibits "heavy industrial uses incompatible with use and enjoyment of adjacent park or public recreation lands" on the west one-half of Section 10, T. 19 S., R. 20. W., S.M. The tract is located on the west side of Shuyak Island fronting on Big Bay, just south of USS 9228.[10]

Easements

According to the title report provided; "Section line easements would have been automatically established for all surveyed sections under AS 19.10.010." A private easement described as a 100 foot wide right-of-way for a water pipeline and storage reservior reported affects 6.4 acres in Sections 28 & 33, T. 19 S., R. 20 W., Seward Meridian.

Leases, Permits, Licenses

According to Mr. Pat Carlson, Kodiak Island Borough Assessor, the property is not subject to any significant leases, permits, or licenses. Per Mr. Carlson, the Department of Fish and Game pays a nominal $1 per year for use of a site within the boundaries of USS 1738. The agreement is reported to be cancelable and of no significance.

Other Rights, Title, Interest

A Certificate for "water rights & access" have been issued to a private party for four small lakes at Port Williams in Section 33, T. 19 S., R. 20 W., Seward Meridian.

Real Estate Taxes

The subject parcel lies within the boundaries of the Kodiak Island Borough. If privately owned, the parcel would be subject to annual real estate taxes. State law requires that properties be assessed at 100% of market value. The 1994 mill rate applicable to the subject is 6.75. According to Mr. Pat Carlson, the Borough assessor, natural resources are not subject to taxation.

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10. Ibid.

Environmental Issues

Drifting slicks, resulting from the March 24, 1989 event known as the Exxon Valdez Oil Spill (EVOS), contacted some of Kodiak Island's shoreline. According to maps obtained from the State of Alaska Department of Natural Resources, "oiling" occured only in an isolated area - Shuyak Harbor at the southwest end of the island. Along approximately 1/4 mile of shoreline on the west side of the harbor, "light" oiling (1% to 10% coverage) was documented. A small area at the north end of this section of shoreline received "moderate" oiling (10% to 50% coverage). On the opposite side of the harbor, "very light" coverage (<1%) and "light" coverage (1% to 10%) was documented in a couple in a couple of random locations.[11]

Although no evidence of the spill was noted during our aerial inspection, varying degrees of "persistence" may affect some of this shoreline. The impact of the spill on non-oiled areas, more than five years after the spill, is the subject of on-going debate. The appraisers are not qualified to evaluate the arguments and arrive at a conclusion. The subject properties are appraised as if "contaminant-free".

Suitability of the Subject

The subject is a large tract consisting of varied terrain, features and characteristics. Select areas within the boundaries of the subject may be well suited for private or commercial recreation. And, areas within the subject's boundaries feature a substantial timber resource.

The subject is also well-suited for public use. The subject is rated in a "Working Document" prepared by the Exxon Valdez Oil Spill Restoration Team Habitat Protection Work Group (November 30, 1993) *Comprehensive Habitat Protection Process: Large Parcel Evaluation & Ranking (Volumes 1. & 2.).* The "document" evaluates parcels identified within the oil spill area in terms of "CRITERIA FOR RATING BENEFIT OF PARCEL TO INJURED RESOURCES/SERVICES". Ratings of "high", "moderate", or "low" are assigned to the following injured resource/service:

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11. Alaska Department of Natural Resources, Land Records Information Section, Map Production: UTM Zone 5.

Pink Salmon	Bald Eagle	Harlequin Duck	Recreation/Tourism
Sockeye Salmon	Black Oystercatcher	Inter/subtidal Biota	Wilderness
Cutthroat Trout	Common Murre	Harbor Seal	Cultural Resources
Dolly Varden	Marbled Murrelet	River Otter	Subsistence
Pacific Herring	Pigeon Guillemot	Sea Otter	

The resource and service ratings were weighed with other evaluation criteria to derive a "score" (see:*"Habitat Protection Parcel Analysis"* in the Addenda). Observed breaks in the distribution of scores translated into three "ranks" - "high"; "moderate"; "low". "This ranking represents the degree to which protection of a parcel will benefit the recovery of linked resources and services that occur on that parcel." The subject is ranked "high".

It should be noted that these rankings reflect only the relationships of the identified parcels to each other - based on a specific evaluation process in which non-economic "criteria" is given most weight. The rankings are not meaningful to other parcels outside the oil spill area, some of which may deserve even higher rankings in relation to the parcels identified. Furthermore, the rankings should not be construed as a reflection of the overall market position of the identified parcels in relation to each other.

PART III - ANALYSES AND CONCLUSIONS

DATA/TREND ANALYSIS - (MARKET OVERVIEW)

The purpose of the Market Overview is to identify the market(s) within which the subject would be traded and determine its/their adequacy. An "adequate" market for purposes of estimating market value is one characterized by numerous sellers exposing alternative choices to the market and numerous buyers driving values. The findings of the Market Overview become the basis for the Highest and Best Use Analysis, the cornerstone of the economic concept of market value.

The ownership of Alaska lands has changed dramatically in recent years. Historically, Alaska has had the smallest percentage of privately owned land of any state. Land trickled into private ownership in the form of mining claims (brought to patent), federal homestead programs and early Native allotments. In addition, some random squatters, lessees, and permit holders were given the opportunity to acquire fee title. After statehood (1959), several land disposal programs accounted for the transfer of additional acreage from state to private ownership. The largest transition from public to private ownership was effected by the 1971 Alaska Native Claims Settlement Act (ANCSA). The Act established regional and village corporations as the basis for land selections totaling approximately 44 million acres.

Recently, the flow of land from public to private ownership from two major sources has stopped. The federal homestead act was repealed in 1976. Other federal land disposal programs were terminated by 1986 and are not expected to be resumed. State land disposal programs were interrupted in 1991 by a moratorium resulting from on-going litigation in the complex matter of the Mental Health Trust. Nevertheless, as a result of these programs, settlements, etc., the amount of remote and rural land in private ownership has increased dramatically so that the supply of land in most areas exceeds demand. Routine turnover of existing patented parcels sufficiently re-supplies the inventory so that there are usually numerous alternatives available at any given time for the majority of prospective purchasers. This contention is supported by the market exposure periods reported for confirmed sales and a survey of available listings and their reported market exposure periods to date.

The supply of competing inventory can be expected to further increase in the foreseeable future. According to Mr. Dick Larson, an appraiser with the Bureau of Indian Affairs, native allotment selections yet to be patented potentially amount to several thousand acres in various Alaskan locales. Also, while many Native corporations have preferred to retain ownership of their land assets, they are potential sources of large inventories of privately-owned land. Not all are on equal financial footing and some may realize the need to generate cash through land sales. Others may choose to distribute some of their land to shareholders. For example, in 1984, the Ninilchik Native Association conveyed approximately 8,000 acres in the form of 15 to 40 acre (approximately) parcels to 206 individual members. The lands are located approximately 13 miles east of Ninilchik in the uplands at the base of the Kenai Mountains. Oilwell Road accesses the general area. Kenai Peninsula Borough records indicate there have been a handful of resales in recent years.

The land trust established for the University of Alaska in 1915 and 1929, was formerly managed by the State. The Trust is now managed by the University of Alaska State Office of Land Management with the intent of maximizing the economic benefits of its assets in order to contribute to the cost of the university system. According to administrator Mr. Martin Epstein, the Trust holds fee simple title to 136,659 acres in random locations across the state. The trust also owns the surface rights on an additional 17,655 acres. In the region generally described as the Gulf of Alaska, the Trust owns the timber rights on 37,777 acres. Legislation is currently pending that would allow the Trust to select an additional 500,000 acres. Timberlands are reportedly preferred.

The issue of land claims by the Mental Health Lands Trust is expected to be resolved in the foreseeable future. The settlement will result in additional competing inventory in excess of one million acres. The State is expected to reinstate their land disposal programs once the issue of the Mental Health Lands Trust is resolved. Although not marketed, lands conveyed to borough and municipal governments represent yet another source. Borough governments have had several land auctions in recent years.

As a footnote, it is interesting to note that while the supply of land in private ownership increased, the amount of land designated for public use, preservation,

and conservation has also increased. "Alaska has 55 million acres of national parks. That is 70 percent of the entire national park system. We have 75 million acres of national wildlife refuges. That is 85 percent of the national wildlife refuge system. We have 58 million acres of wilderness lands in Alaska. That is 91 percent of all the wilderness in parks and 97 percent of all the wilderness in refuges."[12]

In summary, based on this general overview, it is not unreasonable to conclude, that:

- the perception of Alaska as having an inadequate supply of land in private ownership is outdated;
- Alaska has a disproportionate amount of land in protected/preserved status.

The remainder of the Market Overview is devoted to identifying, defining, and qualifying appropriate markets.

Kodiak Island Archipelago is a limited access region of south-central Alaska. The Archipelago is prime habitat for many species of land and sea mammals, birds, and both fresh and saltwater fishes. Historically, the area has been primarily used for subsistence related activities. Other uses include both private and commercial recreation, and commercial-industrial uses such as fishing, cannery operation, livestock ranching, and timber harvesting. Given the diversification of these activities and the variety of topographical/physical features and characteristics typical of large scale tracts, it is likely that the different Highest and Best Uses will be appropriate for select areas within the boundaries of the subject tract(s). However, a single Highest and Best Use for the entire acreage may be a supportable conclusion.

For the purposes of our analysis, the overview of Alaskan markets for remote land is divided into two discussions. In the first, the market(s) for small parcels is analyzed. The second evaluates the market for large parcels.

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12. Senator Ted Stevens R-Alaska, speaking on the floor of the Senate on June 30, 1993 preceding the vote confirming George Frampton as assistant secretary of Interior for Fish, Wildlife and Parks. Excerpts from Stevens remarks were printed in an *Anchorage Daily News* article entitled "Frank words for newest Interior official" (7/6/93) B5.

An "adequate" market for purposes of estimating market value is one characterized by numerous sellers exposing alternative choices to the market and numerous buyers driving values. "The premise that the parties have a choice of alternative sites underlies the principle of substitution - a cornerstone of appraisal methods."[13] As part of the process of qualifying the adequacy of these markets, we will survey the market exposure periods of reported sales and listings (to date) where data is available. The market exposure period is defined as: "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market."[14]

The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. A marketing period of one year is not an unreasonable expectation for properties that are professionally marketed (reasonably consistent efforts) and priced to reflect current market conditions.

The marketing period that may be necessary to sell a property is an important consideration. For example, if a marketing period of more than one year is reasonably probable and no upward pressure on values is anticipated due to a large inventory of competing properties, the value conclusion would represent a future value that would have to be discounted to reflect a present value. Obviously, the reliability of the value estimates decreases with longer projections of marketing periods.

A characteristic of a free and open market (competing buyers and sellers), is that optimistic asking prices eventually must adjust to the market if a sale is to occur within a reasonable marketing period. The most common listing changes reported in the weekly bulletins of the Anchorage Multiple Listing Service are price reductions.

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13. Micheal Robbins, PhD, "The Valuation of Large Scale Natural Landscapes Using Contemporary Appraisal Theory," *The Appraisal Journal* (April 1987) 225-244.
14. Appraisal Standards Board Statement 6 and Advisory Opinion G-7.

THE MARKET FOR SMALL PARCELS (≤640 acres - 1 section)

The market for small parcels includes several submarkets referenced by common land uses. Submarkets are identified and analyzed in the following subsections.

Private Recreation

General

The market is most active for sites featuring water frontage. The most common denominations of acreage range from one to ten acres. Per acre prices generally range from a few hundred to several thousand dollars. Subdividing is usually not a near-term disposition of small recreation sites and the sales are perhaps best evaluated by some other unit of comparison such as the price per site or the price-per-front foot (water frontage).

Not all properties are sold through real estate brokers and not all brokers in south-central Alaska belong to shared-listing services. However, the Anchorage Multiple Listing Service (MLS) is considered to provide a representative sample of the market exposure periods that precede the sale of remote waterfront properties. Anchorage residents probably represent the largest pool of prospective purchasers for remote recreational properties. The market exposure periods preceding several recent sales are indicated in the following table.

Waterfront	Acres	List $	Sales $	%	$/Acre	Date	Mkt Exp.
Chandalar Lake	5.02	$49,500	$45,000	91%	$8,964	4/10/91	148 days
Holitna River	40	$50,000	$50,000	100%	$1,250	8/5/93	12 days
Holitna River	60	$80,000	$57,938	72%	$966	9/7/93	131 days
Shungnak River	40	$80,000	$50,000	63%	$1,250	4/21/93	525 days
Lake Iliamna	1	$35,000	$24,000	69%	$24,000	8/26/91	71 days
Lake Iliamna	80	$75,000	$70,000	93%	$875	7/23/91	241 days
Lake Iliamna	12.22	$200,000	$192,000	96%	$15,712	7/24/91	8 days
Ugashik Lake,	40	$220,000	$60,000	27%	$1,500	9/19/91	354 days
Naknek River	5	$150,000	$105,000	70%	$21,000	2/6/92	647 days
Uyak Bay, Kodiak	8	$45,000	$41,000	91%	$5,125	7/9/91	121 days

The average indicated market period for these 10 sales is 226 days. However, it should be noted that the data reflects sales over a period of nearly three years. Based on this observation and the current inventory of properties in the same locales (approximately 40), there is an excess supply of available inventory.

This contention is supported by the high ratio of listings that did not sell during this same time period. MLS Statistics compiled for the remote district 106 for 1991, 1992 and 1993 are summarized in the following table (includes both waterfront and non-waterfront properties).

	1991		1992		1993	
Total Listings	203	100%	100	100%	87	100%
Sold	9	4%	3	3%	5	6%
Pending at Year's End	0	0%	2	2%	2	2%
Not Sold or Pending	194	96%	95	95%	80	92%
% of Listed Price	76%		71%		90%	

The data suggests that demand for remote recreational properties appears to be extremely limited and lengthy market times should be expected. Upward pressure on land values is unlikely in the foreseeable future. For the ten sales summarized, the selling prices averaged only 77% of the listed prices.

Specific "micro-markets" indicate that previously sold waterfront recreation sites routinely re-supply the inventory to the extent that supply continues to exceed demand. In late 1993, seven waterfront sites were available in the Keyes Point development on Lake Clark. Lake Clark is located on the west side of the Alaska Range and accessed only by airplane. Keyes Point was the most elaborate remote recreational subdivision ever undertaken in Alaska. The project is surrounded by the Lake Clark National Park and Preserve and features a good quality gravel airstrip and gravel roads. Approximately 260 2-to-2.5 acre lots were created in the mid 80's and initial sales activity was brisk. Approximately 72% of the lots were reportedly sold in less than four years. No re-sales of Keyes Point lots have been reported in the Anchorage MLS in 1991, 1992, or 1993. Individual listings of the seven lots all had expired by the end of March (1994) after market exposure periods ranging from approximately 200 to 1,300 days.

In Prince William Sound, a similar phenomenon is evidenced. A mining claim on Latouche Island in Prince William Sound was perceived by a developer as a rare subdivision opportunity. Privately owned land in the region was almost non-existent and the perception of scarcity piqued initial demand. When the Latouche Island lots were first offered in the late 1970s, sales were brisk. According to Laurie Shafer, one of the developers of Addition #1, approximately 100 of 187 lots were sold in the first 72 hours of an offering in April of 1979. At the time the Latouche Island project was undertaken, it represented the only source of private recreation lots in the Sound. However, purchases were speculative for the most part. Ms. Shafer reported that although some purchasers were generally familiar with the area, nearly every lot was selected from a plat and purchased site unseen. Only two year-round residences and four cabins are reported to have been constructed since the first phase of the project in 1976 - eighteen years ago. In a 1980 offering, sales were not nearly so rapid and substantial inventories remain. Forty-four unsold lots belonging to Ms. Shafer (mostly non-waterfront) have been marketed by Marston Real Estate (Anchorage/Wasilla) for over two years without a sale. During this time, previously sold lots have been offered by various other brokers, none of which reported any sales activity.

General characteristics of the private recreational site sub-market are summarized as follows:

- The most significant characteristic of remote recreational properties is "water frontage". Market prospects for lots removed from the waterfront are poor. The reasonableness of this observation is supported by historic/traditional land uses of Alaskan Natives. With rare exception, natives have selected their individual entitlements (allotments) on the ocean, a lake, or a river/stream.

- Market prospects become progressively more limited as distance from major population centers increases - particularly when formidable geographic obstacles and adverse weather conditions combine to complicate access by air and water.

- Typically, the best lots are the first to sell and when offered for resale, they tend to compete with the unsold inventory. The current supply/inventory of remote recreational sites throughout Alaska, generally exceeds demand to the point that little, if any, appreciation in values is anticipated. Such market conditions tend to negatively impact values of bulk acreage and deter developers.

- For many remote recreation subdivisions, little to no down payment installment sales are necessary to attract buyers and high default/foreclosure rates are the norm.

Kodiak

The subject property is located in the Kodiak Island Archipelago southwest of Anchorage. The Archipelago is a limited access coastal environment. Access to the City of Kodiak is by air or marine transport Roads extend only a short distance from the city so that the majority of the Archipelago is remote.

The overwhelming majority of the Archipelago's acreage is owned by government entities and native corporations. Government land owners include the United States, the State of Alaska, and the Kodiak Island Borough. Corporate owners include the Koniag (Native) Regional Corporation and several village corporations including Akhiok-Kaguyak, and Old Harbor. For the most part, these corporations have retained ownership.

A limited supply of privately owned land has been available in the form of patented mining claims, cannery sites, homesteads, and Native Allotments. However, according to Mr. Pat Carlson, KIB Assessor, subdividing activity has been minimal in recent years. Only three remote parcels have been subdivided since 1987 - creating less than 25 lots generally ranging in size from 5 to 10 acres in size. The "Reed" homestead near the Village Islands on Uganik Bay was subdivided in two phases in 1987 and 1988. Twelve 10-acre parcels and one 40-acre parcel were created. A 20-acre "sailor" allotment at Port O'Brien on the Northeast Arm of Uganik Bay was subdivided into four 5-acre lots (approximately) in 1988. The KIB subdivided a parcel on Onion Bay in 1990. Five 5-acre lots (reported average) were sold in a sealed bid process to 4

individual purchasers. Per Mr. Carlson, three of the five lots were purchased by commercial "set-netters" and two were purchased for recreational use.

The apparent lack of activity may be partially attributed to a lack of available tracts in suitable locations. However, numerous Native Allotments (typically 160 acres +/-) have been in private ownership in random locations throughout the Archipelago - many in locations well suited for subdividing. Sales logged by the KIB Assessor suggest that demand for remote recreational sites is soft. Annual absorption of small parcels ranging in size from 5 to 20 acres is summarized as follows:

Year	# of Sales
1987	2
1988	13
1989	5
1990	4
1991	5
1992	7
1993	5
average annual absorption over the past seven years (small parcels ranging in size from approximately 5 to 20 acres)	6 (rd)
average annual absorption over the past five years (small parcels ranging in size from approximately 5 to 20 acres)	5 (rd)

We spoke with the area's two largest brokerage firms - Chelsea Realty & Development, Inc. and Associated Island Brokers Inc. As of May 1994, over 35 small parcels, ranging in size from approximately 5 to 20 acres, were offered for sale by two brokerages. Agents from both companies confirmed that the market for remote private recreational sites in the archipelago is characterized by limited demand and a more-than-adequate supply. In the mid-80s, the Larsen Bay Tribal Council distributed a large number of small parcels (10 acres +/-) in the general vicinity of Uyak Bay to individual shareholders. At any given time several are available and the general trend in recent years has been toward declining values. It should be noted that many of these parcels are unsurveyed and there is a question as to the clarity of their titles.

Both brokerages concurred that the Highest and Best Use for most remote sites is "recreation" but logistics are a limiting factor. As a result, it is somewhat isolated from a large pool of prospective purchasers - approximately 350,000 Southcentral Alaska residents served by the State highway system. For owners of light planes, over-the-water air routes and weather conditions that are often adverse, combine to discourage frequent visits. Remote private recreation sites in the Archipelago are likely to be perceived as "practical" to a relatively small pool of prospective buyers comprised mainly of island residents.

In conclusion, the market for small parcel recreational sites (5 to 20 acres) in the Archipelago is perceived to be limited but adequate for purposes of estimating market value. As parcel size increases, market activity decreases to the extent that the amount of data is insufficient and an expanded data search is necessary.

Commercial Recreation Sites

Commercial recreation uses include lodges, campgrounds and camper parks. There are no roads in the area surrounding the subject and as such no commercial opportunities that rely on vehicle access. In remote areas, lodge operations are the most probable commercial recreation use.

Lodge operations require a substantial investment in start-up costs and F F & E in addition to the site and improvements. Business failures are common and several lodges are usually for sale at any given time. However, the tourism industry in Alaska has experienced growth in recent years and the potential for further growth and increased opportunities is generally perceived as "good". In spite of the high failure rate of remote lodges, a few sites have recently been acquired for commercial recreation development.

Some lodge operations can be accommodated on sites containing five to ten acres. Larger parcels acquired for lodge operations range from 80 to 160 acres. The data suggests that an entrepreneur would likely budget for an adequate site on a cost per site basis rather than a cost per acre. Upper-end values generally range from $100,000 to $200,000.

On one hand, the supply of suitable lodge sites throughout Alaska may be perceived as more than adequate. Obviously, sites made strategic by

location/access and the abundance of wildlife resources were the most likely to be previously claimed, settled, or otherwise utilized and already in private ownership. Arguably, most of the best commercially viable sites have long been taken/occupied. On the other hand, trends in the visitor/recreation industry signal an emerging marketplace for non-consumptive formats such as sightseeing/photography, hiking, kayaking, etc., - and possible gambling operations.

However, based on a review of recent sales data and input from knowledgeable real estate professionals, demand for strategic commercial recreation sites appears to be limited and only those sites that are truly unique are likely to attract an entrepreneur within a reasonable marketing period. As with the Kodiak Archipelago market for small parcel recreational sites (5 to 20 acres), the local market for small sites suitable for commercial recreation is considered to be adequate for purposes of estimating market value. Again, as parcel size increases, market activity decreases to the extent that the amount of data is insufficient and an expanded data search is necessary.

Public Recreation Sites

Sites that are well-suited for a commercial operation or a recreational subdivision are often also well-suited for public recreation (i.e. campgrounds, waysides, boatlandings, etc.) use. Numerous waysides, campgrounds, RV parks and boat launching facilities, are located throughout Alaska.

The Federal government normally develops and maintains public recreation facilities on land it already owns - usually with a National Park, Refuge or Wilderness. Although the State of Alaska owns millions of acres, it is the most likely purchaser of strategic public recreation sites. We spoke with Mr. Wyn Menefee with the State Division of Parks regarding the process by which potential acquisitions are identified and funded. Per Mr. Menefee, a strategic parcel may be targeted by extreme public pressure. Also, land management plans may authorize acquisitions such as inholdings within State parks. During the oil boom years when the State coffers were flush with cash, acquisitions were routine. However, in recent years funding has not been available. Per Mr. Menefee, budgets are simply too tight to even prioritize a wish list. Mr. Dave Stevens, Chief of Policy and Planning for the Division of Parks, indicated that

returning strategic private lands to public ownership is no longer a priority due largely to the lack of funding but also due to the vast amounts of acreage in Alaska that are already reserved or under some form of protection.

An occasional funding source for a super-strategic site is the exception. For example, the State Department of Fish and Game, operating independently of the Division of Parks, acquired the site of the old Sportsman's Lodge on the Kenai River at its confluence with the Russian River. The site was purchased to create parking and a public boat launch facility. Nearly all of the funds were provided by a Federal program and the State's participatory contribution was minor. In summary, demand by public agencies is extremely limited and as a sub-market, it is inadequate for purposes of estimating market value.

Rural Residential

There is a limited market for relatively small parcels that have been created as the result of dividing a section into homestead size parcels of 160 acres and subsequently halving or quartering them. Forty acres is one of the most commonly observed sizes of semi-remote rural properties in the Matanuska-Susitna Valley and on the Kenai Peninsula. Although there have been several recent market transactions in these locales, there is a dramatic oversupply that is expected to continue to deter subdividers for an extended term.

Where lots are truly remote, demand for homesites is not measurable. Numerous remote recreational lots, both waterfront and non-waterfront, are available and would be suitable for rural residents. Ms. Laurie Shafer, a developer of 227 on Latouche Island in Prince William Sound (currently owns 44 unsold lots), reported that only two year-round residences have been constructed on the 227 lots since the mid-70s. One of those is vacant. In summary, the market for remote residential sites is extremely limited and values are most likely to be reflected by an analysis of remote private recreation sites.

Marine-Commercial

Only a handful of on-shore processing operations can be supported by the area's resources. In most locales, an adequate number has been secured for several years. Likewise, the number of small set-net sites is perceived to be adequate because there is a fixed number of permit holders. Pioneering efforts in oyster

farming in other regions suggest a mariculture industry is evolving. Although initial indicators are promising, the potential is speculative and the economic feasibility has not yet been determined. However, even if mariculture proves successful, on-shore sites are generally not required and increased demand is not anticipated at this time. In summary, demand for marine-commercial uses is extremely limited.

Summary

There is an active but limited market for small parcels in most Alaskan locales. Supply typically exceeds demand so that no upward pressures on values should be anticipated in the foreseeable future. The majority of the data reflects purchases of waterfront sites for recreation use. For small denominations of 5 to 20 acres, local markets like the Kodiak Archipelago may be adequate for purposes of estimating market value. However, the data indicates that market activity decreases as site/parcel size increases. According to KIB records, only four parcels in the Archipelago exceeding 100 acres in size have been sold in recent years (excluding the Seal Bay/Tonki Cape acquisition by the Trustee Council). One was acquired for a commercial-recreation operation, another was acquired by the U. S. Fish and Wildlife, and the other two were assembled for the establishment of a religious colony/community. For larger denominations, the local market is inadequate and an expanded data search is necessary.

THE MARKET FOR LARGE PARCELS (>640 acres - section)

The overwhelming majority of the State of Alaska is comprised of remote land to which access is limited. For the purposes of our report, wildlands, preservation and conservation lands, and wilderness will be collectively referred to as "natural lands". Generally speaking, the terms imply large scale tracts of acreage and we have focused on these in our discussion. Acquisitions of relatively small parcels for related uses will be considered in our analysis where appropriate.

"Government on all levels and even private individual donors are heavily involved in the purchase (often repurchase) of lands to add to the public domain, reclaiming the wilderness wherever it can be found."[15] There have been several such acquisitions in Alaska in recent years. However, because there are not numerous buyers for large tracts of natural lands and typically there are few, if any, alternative choices for the specific properties selected for acquisition, the adequacy of the "market" is suspect. "Adequacy" must be qualified in terms of supply, demand, and the adequacy of the existing data.

The wild and scenic aspects of the subject property and its surroundings are truly spectacular. The appraisers recognize the compelling impulse to prefer that it remain in its natural state. However, there are already vast expanses of classified lands in Alaska reserved in the public's interest. For much of the rest of Alaska, remoteness, volatile markets for natural resources, combine to effectively preserve unclassified natural lands. Mining and timber harvesting threaten to alter landscapes and disturb the sensitive environments of only a minute percentage of Alaska's natural lands. The riparian habitat along rivers and streams is protected by legislation that prohibits logging within buffer zones. Discharges by industry are regulated in an effort to maintain water quality. Some operations including select timber companies and the Usibelli coal mine at Healy voluntarily re-seed or otherwise restore the landscape.

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15. Kenneth L. Golub, MAI, "Appraising the Wilderness", *The Appraisal Journal* (July 1980) 361-365.

Acquisitions intended to protect/preserve/conserve may represent unnecessary measures that only duplicate the effect of regulations already in effect. The maintenance of satisfactory populations of virtually every significant fish and game species in Alaska is addressed by regulations of public agencies such as the U. S. Fish and Wildlife Service, the Alaska Department of Fish and Game, etc.,

In summary, there is a large and disproportionate supply of Alaska's land already reserved in the public's interest. If legitimate demand for additional non-specific large tracts were to emerge, holdings of various native corporations, state and local governments, the University of Alaska and Mental Health Land Trusts, would comprise a substantial inventory of competing property. The contention of excess supply of natural lands in Alaska is supported by an investigation of demand. The likely prospects for large tracts containing tens of thousands of acres include the state and federal governments, private preservation/conservation groups, and private individual donors. However, this already limited pool of purchasers is significantly reduced when the willingness and ability of each buyer is considered.

Private Conservation Groups

There are numerous private conservation groups and organizations that seek to protect and preserve natural environments. The Nature Conservancy and the Trust for Public Lands are two of the more well-known agencies and have been involved in Alaskan acquisitions in years past.

We spoke with the Seattle office of the Trust For Public Lands. The Trust is a 20 year-old non-profit organization that assists government agencies or citizen advocacy groups in locating money for the acquisition of land for outdoor recreation. Market value is the basis for their acquisitions. Mr. Peter Scholes, a director of the Trust's northwest region, indicated the Trust typically pursues "politically popular inholding acquisitions" and has been involved in three projects in Alaska. However, the Trust does not have the capability to hold and manage property over the long term. Rather, the Trust serves as more of a facilitator or broker. Currently, the Trust holds title to the oil and gas rights under 68,000 acres on the Alaska Peninsula. The oil and gas rights were previously owned by Koniag Inc. and are reported to have only a nominal speculative value. Ownership is expected to ultimately flow through to the U. S.

Fish and Wildlife Service. Per Mr. Scholes, the Trust is not involved in any projects related to the Exxon Valdez Oil Spill.

The Nature Conservancy is a national non-profit organization that is dedicated to preserving habitat, particularly for endangered and threatened species. The Nature Conservancy has, at times, sought to acquire, hold, and manage habitat as an option to management by a government agency. However, according to Steve Planchon, the Conservancy's local director, with the exception of an occasional donation, there are no targeted acquisitions in Alaska at this time - for several reasons including an acknowledgement of the quantity of wildlife habitat already under some form of protection. In Alaska the Conservancy is active in several projects in which it serves primarily as a consultant providing technical expertise, or as a broker/facilitator. For example, the Conservancy took title and held for an interim period of approximately one year, the Seal Bay acquisition by the State of Alaska that was to be funded by Exxon Valdez Oil Spill settlement funds.

In late 1993, the Conservation Fund attempted to acquire a 575-acre site that straddles the mouth of the Ayakulik River on the west coast of Kodiak Island. To our knowledge, the site represents crucial habitat for only sockeye salmon and feeding brown bears - both closely monitored and regulated. The acquisition of the site is probably not necessary to maintain satisfactory populations. However, the site is unusually strategic in that it assures a degree of control over entry and use of contiguous backlands. Only similar "big-bang-for-the-buck" acquisitions are likely.

That Alaska already has substantial amounts of land in reserved or protected status is a recurring acknowledgment. This recognition undoubtedly prompts these organizations to direct their efforts where they are needed most - in select areas of the continental U. S. For example, although, Ducks Unlimited had previously undertaken projects in Alaska, all their efforts are now focused on areas outside of Alaska where wetland habitat is rapidly disappearing. Alaska has literally millions of acres of waterfowl breeding habitat. Of Alaska's 174 million acres of wetlands, approximately 115 million are owned by the Federal Government, 40 million by the State, and 19 million by Native corporations. Less than 200,000 (approximately 1/10th of one percent) are in private non-

native ownership.[16] Obviously, the vast majority of these wetlands are not expected to be threatened for an extended term.

In summary, private conservation groups are not considered to be prospective purchasers of large tracts of Alaska's natural lands. In Alaska, they typically act as brokers or facilitators that serve as a conduit for stepped transfers of title that may be required by unique circumstances.

Individual Buyers/Donors

Individuals may be willing and able to commit personal resources to conservation. However, often the motive is more than good will and the purchase/donation is personally advantageous. For example, a party with the means could secure a large parcel to create a private retreat and subsequently receive favorable tax treatment for the donation of surplus land surrounding a core parcel retained for personal use.

Nevertheless, for whatever motive, "market" value must be the basis of the donation. Most of these transactions have occurred in the continental United States where market value is determined by a variety of economically supportable uses including timber, grazing, or approaching commercial and residential development. Again, Alaska is truly unique. With the exception of commercial stands of timber in select areas, most of Alaska's remote natural lands are not well-suited for uses that commonly represent the basis (Highest and Best Use) for land valuation in other regional markets. If such donations continue to receive favorable treatment, an increasing pool of prospective buyers/donators may result. However, at this time any increase in demand for Alaska's natural lands from individuals is not evidenced by the data.

Timber Industry

There is an active timber industry in southeast, southcentral, and the Gulf Coast regions of Alaska. It is a volitile industry characterized by fluctuating markets and challenges by environmental groups. Nevertheless, the industry is established and there is a demonstrable demand for product. For properties with merchantible timber, eventual harvest is the most probable use.

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16. "Navigable Waters And Wetlands", Spring Seminar sponsored by the Anchorage Sourdough Chapter 49 of the International Right of Way Association, Anch., Ak (4/21/94).

State of Alaska

The State of Alaska already owns vast amounts of natural lands but various agencies may be authorized to acquire certain types of properties. However, except for an occasional source of funding, the State does not have the ability to purchase small inholdings within state parks, let alone entire parks themselves.

In response to a bill that would create a 45,000 acre state park on Afognak Island, Sen. Robin Taylor, R-Wrangell added amendments that would remove approximately 60,000 acres from state parklands in the form of 15 small coastal parks in southeast Alaska and Prince William Sound. "The problem is we can't even afford to empty the garbage cans in the parks we've got,". Earlier this year, the State announced plans to close 18 roadside park units because of a budget crunch.[17] By increasing the staff of seasonal volunteers, adopting a user fee system and a partial restoration of proposed budget reductions, these parks will be open for 1994. Nevertheless, at the State level, economic reality has become a primary factor in the forging of public lands policy. A trend toward higher degrees of self-support through user fees, etc., is gaining momentum - suggesting that there will be increasing pressure to economically justify not only public land acquisitions but potentially the retainer of existing public lands.

In summary, the State is not considered to be a buyer for large tracts of remote natural lands. The Exxon Valdez Oil Spill Trustee Council, as a buyer, is considered in a subsequent discussion.

U. S. Government

At the Federal level, the acquisition of additional public lands in Alaska is probably not practical given the extent of the existing inventory and the shallow depth of the public's pocket. The U. S. Fish and Wildlife Service has been "Faced with continued expansion of the sprawling system of wildlife refuges it manages and an operating budget that has not kept pace...". Potentially, "... many long-standing public activities on wildlife refuges, such as boating, off-road vehicle use and rock climbing, may be stopped." "Refuges also may be closed during slow periods when there are few visitors, such as in the winter months, and some recently established refuges may not be managed at all."[18] "National Park

17. "GOP lawmakers want to cut out coastal parks" *Anchorage Daily News,* (4/2/94) D2.
18. "Refuges go back to basics" *Anchorage Daily News,* (4/2/94).

Service Director Roger Kennedy told a House Natural Resources subcommittee there is a $5 billion backlog of physical needs in the parks, and no way to pay for the projects in this era of deficit reduction. "The National Park Service must explore new means of enhancing revenues on its own".[19]

Increasing the cost of using public lands is probably the preferred solution over increasing taxes. The current administration recognizes that grazing fees for federal lands are artificially low so that the taxpayer effectively subsidizes the cattle industry. Concerned that current mining laws effectively "give away taxpayers' assets...", Secretary of the Interior Bruce Babbitt indicates: "We're looking at moving toward business practices that are accepted in the private sector."[20]

The public, as represented by one or another Federal agency, has acquired a handful of large tracts in Alaska in recent years. However, each of these represents a settlement, exchange or the need for a specific property for a specific purpose. None occurred in a market in which there was more than one identifiable purchaser. In most cases there were no other sellers offering suitable alternatives.

On some occasions public agencies of both the State and Federal Governments are known to have paid prices in excess of appraised values. Although no other buyers were on the horizon and a position of bargaining strength is presumed, the graciousness of public agencies is understandable. Public agencies have an implied responsibility to placate an owner that a private sector buyer normally does not.

To date, demand by the U. S. Government for large tracts of natural lands is <u>not</u> evidenced by the data. In our investigation, we could confirm only 11 transactions (excluding exchanges) reflecting the purchase of tracts exceeding 1 section (640 acres) in size since 1982. Of those 11, three reflect private sector purchases based on an economic use. Two of those three reflect the same property - sold once in 1985 and subsequently foreclosed and re-sold in 1990.

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19. "Congress balks at park service fee proposal" *Anchorage Daily News,* (6/11/94) D6
20. Babbitt sees mining reform law in place by fall" *Anchorage Daily News,* (6/2/94) D4.

However, the most recent data, including this "pair of sales" suggests that values were dramatically affected by the onset of the oil related recession in 1986 and that only subsequent data is relevant. This contention is supported by a sub-market that likely represents as free and balanced a market as exists in Alaska - recreational/residential waterfront lots on the Kenai River. The Kenai River is arguably the most popular outdoor recreation attraction in all of Alaska. Nearly every accessible privately-owned river-front parcel (excepting Native Corporation lands) has been subdivided to create the maximum number of lots permitted. Supply is adequate as evidenced by several available listings at any given time. Market exposure periods that typically average six months or less indicate that demand is strong. This submarket is sufficiently adequate (numerous buyers and sellers) to identify trends.

The buyer of a lot on Upper Island reported that he paid top dollar ($38,550) for a lot adjacent to a friend's lot but that he was aware they had sold in the early 1980s for $5,000 to $15,000 more. The seller of a lot on Dow Island reported a November 1992 sale at $20,000 - $5,000 less than the 1983 purchase price of $25,000. Based on the data, sales occurring prior to 1986 have little relevance except to establish a decline in "market" values. "Market" values of remote and semi-remote recreational and rural residential properties crashed just as did virtually all property types located in and around the major communities.

Based on these observations, only 9 of the 11 large acreage sales are relevant in terms of market conditions. Only one reflects a private sector purchase based on an economic use (recreation subdivision). Another represents a targeted acquisition by a borough government of land for public use. Of the remaining 7 transactions, two represent recent acquisitions by the EVOS Trustee Council (Kachemak & Seal Bay) - only made possible by a onetime windfall of funds. The arithmetic leaves five large tracts that have been targeted and acquired by agencies of the federal government since 1986 (excluding exchanges). Of these five, three were acquired for a backscatter radar installation near Tok. Two of the three, secured by an option for an easement, were not utilized and the properties are slated for reversion back to the sellers.

In summary, agencies of the U. S. Government have purchased only two large tracts in recent years - a sea bird sanctuary on the Pribilof Islands and a conservation easement on a tract surrounding Tazimina Lake in the Lake Clark National Park and Preserve. A review of the data suggests that the abilities of the U. S. Government are limited and that acquisitions are more likely to be pursued using "land exchange" as the means. Clearly, demand for large tracts by various agencies of the U. S. Government is not measurable. The occasional pursuit of strategic acquisitions should not be construed as evidence of a viable market.

Exxon Valdez Oil Spill Trustee Council

The settlements of civil and criminal suits stemming from the 1989 Exxon Valdez Oil Spill have created super funds of cash. The most notable is the $900 million fund that is overseen by the Exxon Valdez Oil Spill Trustee Council. Approximately 19 parcels have been targeted for acquisition to preserve habitat. To date, acquisitions in Kachemak Bay on the Kenai Peninsula and Seal Bay on Afognak Island have been completed. However, although the transactions should reflect arm's length negotiations based on appraisals, they do not reflect the workings of a free and open market.

First, there are not numerous sellers. The Council is not free to shop throughout the state for alternatives for which there may be a greater urgency. Rather, the Council is directed to a limited number of specific properties that meet certain criteria - most notably those affected by the oil spill.

Second, there are not numerous buyers. With the exception of limited demand for stands of timber, demand for large tracts of natural lands in Alaska is virtually non-existent. The funds represent a one-time windfall, afterwhich, a reasonable probability of subsequent buyers for these targeted tracts is little to none - particularly for properties purchased at prices unsupported by any economic use. In otherwords, there is no sense of continuance. It would be difficult to support a contention that a transaction was representative of "market" if, immediately after closing, the realistic prospects for reselling or otherwise recovering the investment in the foreseeable future were zero.

In summary, this source of funds has created a "buyer" so to speak but does not establish an adequate market from which reliable indicators of "market" value can be derived. Of the data to date and the transactions that are likely to be successfully completed in the near future, the appraiser/analyst must consider:

- Were there suitable alternatives from which the purchaser could make a selection?
- Was there more than one prospective purchaser?
- Had the property been exposed to the market for a reasonable marketing period?

- Was there a reasonable probability of a sale to any other party within a market exposure period of one year? five years? ten years?
- If an appraisal influenced negotiations, was the value estimate supported by an economic use?

It is important to recognize that the "sellers" in the two acquisitions to date, are Native Corporations. As previously noted, undeveloped lands belonging to Native Corporations enjoy exemption from taxes, if any, and special protection from creditors. Furthermore, cultural resources (archaeological sites) have been documented on most of the EVOS parcels.

Understandably, the Use and/or Investment Value to a Native Corporation may be higher than "market" value. It is not unreasonable to conclude that the price at which a Native Corporation would be willing to sell - would likely be higher than the price at which a typical owner would sell. Therefore, sales prices reflected by transactions in which undeveloped Native Corporation property was conveyed may reflect only indicators of "personal value" - as opposed to the economic concept of market value.

Summary

To this point we have established that there is no measurable demand for large tracts of Alaska's remote lands with the possible exception of timberlands. Market exposure periods necessary to sell large tracts are too indefinite to project with any confidence. Acquisitions by various government agencies and the Exxon Valdez Oil Spill Trustee Council, do not establish a market in Alaska that is sufficiently adequate to draw reliable indicators of market value for the subject tract(s) as a whole. "A market in which nothing is happening is no market at all. There must be enough representative transactions to display a clear pattern."[21]

21. Ibid.

CONCLUSION - MARKET OVERVIEW

The observations and findings of the Market Overview distinguish the Alaskan market from other regional markets. The complexity of the appraisal problem is compounded by the characteristics of this unique "market" as well a property-specific features.

The handful of large-scale transactions to date do not establish an adequate market from which reliable indicators of value can be derived. The analyses of these transactions and the reasoning leading to their disqualification are presented in the Addenda of the report. "Transactions that occur in inadequate or insufficiently congruent markets, or between incompetent or ill-informed parties, are not by themselves indicative of market value, which must be estimated on some other basis if it can be said to exist at all."[22]

In developing a methodolgy that meets a test of reasonableness, it is important to recognize that while much of the subject is heavily timbered with merchantible Sitka Spruce, select areas may be better suited for other uses.

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22. Jared Shlaes, MAI, "The Market in Market Value," *The Appraisal Journal* (10/84) 494-518.

HIGHEST AND BEST USE

Highest and Best Use is defined in the Tenth Edition of the Appraisal of Real Estate, Appraisal Institute, as:

> "That reasonable and probable use that supports the highest present value, as defined, as of the date of the appraisal. Alternatively, highest and best use is the use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and that results in the highest present land value.

PERMISSIBLE USES

The subject parcels are zoned "C-Conservation District". The "...District is established for the purpose of maintaining open space areas while providing for single-family residential, and limited commercial land uses." Regulations permit most of the probable uses of the subject including the harvest of merchantible timber.

Easements are considered to be typical. A restriction prohibits "heavy industrial uses incompatible with use and enjoyment of adjacent park or public recreation lands" on the west one-half of Section 10, T. 19 S., R. 20. W., S.M. The tract is located on the west side of Shuyak Island fronting on Big Bay, just south of USS 9228.[23] Merchantible timber is identified in this area. We have not been provided with a legal opinion or other interpretation as to the whether timber harvesting qualifies as a "heavy industrial use" that would be incompatible. For the purposes of our anlysis, we have assumed this timber can be included in a harvest plan. THIS IS A SPECIAL ASSUMPTION OF THIS REPORT.

A Certificate for "water rights & access" have been issued to a private party for four small lakes at Port Williams in Section 33, T. 19 S., R. 20 W., Seward Meridian. This interest would not have a negative impact on probable uses of the subject.

In summary, zoning and other restrictions does not adversely impact the utilization of the subject parcels to their Highest and Best Use.

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[23]. Ibid.

POSSIBLE USES

The subject properties exhibit a variety of topographical features and physical characteristics. It is likely that several land uses could be physically accommodated at some location within its boundaries. Possible uses include:

rural residential homesites	private community/colony
private retreat	recreational cabin sites
commercial recreation	preservation/public use
military -scientific	agriculture-livestock
timber extraction	petro-chemical/mining
marine commercial	special-use permits/licensing

The probability of the possible uses listed are discussed in the following paragraphs.

Rural Residential Homesites

There is a limited market for rural home sites in Alaska. Given the limitations of access, the subject is not well-suited for rural residential uses. Although possible, rural residential uses are not probable.

Private Community/Colony

In November of 1989, a remote oceanfront property on Afognak Island in the Gulf of Alaska, was purchased by a Russian religious group formerly known as the Old Believers. The site was comprised of two tracts totaling only 274 acres and valuable timber was reported to be a major component of the purchase price. Recently, a nearby 60 acre parcel was purchased by a related group. However, such purchases are rare and the probability of acquisitions for similar uses in the subject's locale is perceived to be low.

Private Retreat - Large Tracts

We are not aware of any purchases, for this purpose, of large tracts of several thousand acres. A 4,500 acre parcel on the northern tip of the Kenai Peninsula has been offered for sale for over two years at approximately $1,000 per acre. The parcel, situated within the Kenai National Wildlife Refuge features 4.5 miles of bluff on Cook Inlet and 36 lakes with a total of over 20 miles of shoreline. The offering is promoted as "perfect for major tourist wilderness resort, private hunting club, executive retreat, or private park". Although the

broker reports that there have been two offers, both were over a year ago and neither came close to closing. Alaska already has vast amounts of land in national parks and reserves, and national forests and designated wilderness areas. Much of this land is accessible by the public and permitted uses often include hunting and fishing. The pool of prospective private-use purchasers for large tracts of remote property in Alaska is perceived to be extremely small and the probability of such a use for the subject properties is low.

Recreational Cabin Sites

We spoke with the area's two largest brokerage firms - Chelsea Realty & Development, Inc. and Associated Island Brokers Inc. Both brokerages concurred that while the market is "soft" select locations would afford an opportunity. There are undoubtedly spectacular attractions in Kodiak Island Archipelago that would anchor a project. For example, an anadromous stream at the head of a scenic protected bay, or the confluence of two rivers/streams would likely attract a developer and ultimately purchasers of recreation sites.

Given the limitations of access and generally harsh climatic conditions, it is likely that subdivided private recreation sites would prove to be the Highest and Best Use for only a handful of select locations within the boundaries of the subject properties. General market data suggests that the initial sales of the best waterfront lots should be brisk. Subsequently, lengthy marketing periods for unsold lots or resales should be anticipated. The marketing periods necessary to sell non-waterfront lots would likely be too lengthy to justify their creation.

Commercial Recreation

In remote areas, lodge operations are the most probable commercial recreation use. Inspite of complicated access, it is likely that select locations offer a suitable combination of unique features and characteristics that would attract an entrepreneur within a reasonable market exposure period.

Bernie Vockner of OMB Realty is generally recognized as the most active broker of remote properties. Among his specialties are remote lodges and lodge sites. Mr. Vockner reported that there is typically, several existing commercial lodge operations for sale at any given time and a high failure rate is characteristic of

this type of small business enterprise. Nevertheless, a few sites have recently been acquired for commercial lodges. However, for the most part, new facilities have not been constructed.

A lodge was reportedly proposed for a portion of a 75 acre tract in Chinitna Bay on the west side of Cook Inlet in Southcentral Alaska. Since its purchase in August of 1990, no lodge facilities have been constructed.

In July of 1991, a 12 acre site in the Kakonak Bay area of Lake Iliamna in western Alaska was purchased for a lodge site. The site was considered to be prime for a commercial lodge operation and commanded a premium. Per Mr. Vockner, two full years later, lodges facilities have not been developed.

In September of 1991, a lodge operator purchased five acres on the Naknek River in Western Alaska. The site was intended for a commercial guiding and lodge operation. The sale closed in January of 1992 and to date no buildings have been constructed.

In July of 1992, a 160 acre site on the Sturgeon River on the southwest side of Kodiak Island, was purchased for a commercial fishing lodge. To date, only a 12' x 16' cabin is reported to have been constructed. In October of 1992, the same buyer negotiated the purchase of a 180 acre oceanfront site in Olga Bay on Kodiak Island. The transaction failed to close.

The sale of 110 acres on the Big Susitna River was negotiated in July of 1992. A Japanese-Hawaiian firm, planned to develop a destination resort/lodge exclusively for Japanese employees and clients. Activities would include fishing, boating, hiking, and horseback riding. Per Mr. Vockner, the purchasers could not obtain financing and the transaction failed to close.

In July of 1993, an 80 acre parcel at the confluence of the Nushagak and Iowithla Rivers (western Alaska) was purchased for a commercial fishing lodge. In the same month, a 120 acre parcel on the Nonvianuk River near Lake Iliamna was acquired for a commercial recreation operation. During the past year, no lodge facilities have been constructed on either site.

Although many sites may be perceived as suitable for a commercial lodge operation, few have actually been constructed during the past two to three years. The economic feasibility of most commercial lodge operations is marginal and many of those planned may never be developed. However, the data suggests there is a reasonable probability a handful of entrepreneurs would successfully complete a purchase regardless of speculative prospects. Trends in the visitor/recreation industry signal an emerging marketplace for non-consumptive formats such as sightseeing/photography, hiking, kayaking, etc., - and possible gambling operations. Eco-tourism is the new "buzz-word".

The Afognak Native Corporation plans to launch an archaeological tourism business during the 1994 summer season. The economic feasibility of such a use is unproven in Alaska. The cost of a 9-day session is reported to be $1,950 - approximately $217 per day.[24] In contrast, the Afognak Wilderness Lodge at Seal Bay charges $350 to $400 per day.[25] The comparison suggests that while an archaeological tourism business may be feasible and productive - speculative projections do not indicate that archaeological sites can command a market premium over sites well-suited for more conventional commercial-recreation uses (hunting/fishing lodges), etc.).

Preservation/Public Use

Various groups or government agencies may identify and target a specific tract of property for preservation/conservation. Land uses resulting from public pressure include the reservation of natural lands for public use, the preservation of historical and/or archeological sites, or the preservation of fish and/or wildlife habitat.

The subject property and surrounding waters offer spectacular scenery and diverse species of wildlife. The subject as a whole, or select areas within its boundaries, is/are well-suited for public use. However, as a practical matter, public funds are generally not available. The efforts of preservation/conservation groups are, for most part, directed in higher priority areas outside of Alaska.

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24. Georgene Sink, Kodiak Daily Mirror, "For A Fee, You Can Explore Island's Past" - reprinted in Dispatch Alaska, a weekly feature in the *Anchorage Daily News*, (2/1/94) B3.
25. Fly-In Lodges, *Alaska Business Monthly*, (May 1993) 39-62.

The probability of a preservation/conservation use would be relatively high for any select areas of the subject that may be identified as strategic or crucial habitat for threatened or endangered species, not sufficiently protected by existing fish and wildlife regulations, various restrictions such as streamside buffer zones in which logging is prohibited, or special legislation (i.e. Marine Mammals Protection Act, etc.).

The presence of endangered species can have a negative impact on value. "An endangered species' presence on a parcel of vacant land reduces the area available for sale or development, and can impose a financial cost upon the land's owner. In the final analysis, the value of the land will be less with the endangered species than without, even though the animals may provide aesthetic, economic, and ecological benefits."[26] Most of the subject is fairly typical of the coastal regions of Southcentral Alaska and we are not aware of any threatened or endangered species, not sufficiently protected, for which the subject represents strategic or crucial habitat.

However, as a result of the Exxon Valdez Oil Spill, 19 "key" parcels (including Kachemak Bay and Seal Bay) within the general locales of Prince William Sound, Kodiak Island, and the Kenai Peninsula, have been identified as high-priority acquisitions by state and federal officials. The prioritization process included input from biologists, ecologists, archeologists and recreation specialists. "The parcels, which total more than 240,000 acres, could help species injured by the 1989 spill recover by providing them with habitat."[27]

The key phrase in the previous quote is "could help". Many of the acquisitions are probably not truly necessary as a function of recovery of species affected by the spill. The properties are remote and except to timberlands, the prospect of economic development poses little genuine threat to fish and game populations - particulary when various public agencies already have the regulatory power to assure the protection of virtually every significant species. Backlands, particulary those contiguous with uncontaminated waterfrontage, have little, if any, relevance to the recovery of species affected by the spill.

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26. Krisandra A. Guidry, PhD, and A. Quang Do, Phd, "Appraisal Assignments Involving Endangered Species", *The Appraisal Journal* (January 1994) 98-102.
27. Natalie Phillips, "Trustees Write Shopping List", *Anchorage Daily News*, (12/1/93).

Furthermore, according to maps obtained from the State of Alaska Department of Natural Resources, "oiling" occured only in an isolated area within the boundaries of the subject - Shuyak Harbor at the southwest end of the island. Along approximately 1/4 mile of shoreline on the west side of the harbor, "light" oiling (1% to 10% coverage) was documented. A small area at the north end of this section of shoreline received "moderate" oiling (10% to 50% coverage). On the opposite side of the harbor, "very light" coverage (<1%) and "light" coverage (1% to 10%) was documented in a couple in a couple of random locations.[28]

It should be noted that a preservation/conservation or public use for some of the subject properties is only made reasonably probable by the existence of the oil-spill settlement funds, assuming that negotiations can reach a successful conclusion. "The Trustee Council cannot afford to buy all the parcels, cautioned John Sandor, a trustee and head of the State Department of Environmental Conservation."[29] For the remaining acreage, preservation/conservation or public use are not probable.

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28. Alaska Department of Natural Resources, Land Records Information Section, Map Production: UTM Zone 5.
29. Ibid.

Military/Scientific

In late 1988 and early 1990, the U. S. Air Force purchased three tracts totaling approximately 11,245 acres of remote property in Alaska's interior for an "over-the-horizon backscatter" radar facility. These transactions represent a rare occurrence and in fact, the project was never completed. Two of the three tracts are slated for reversion back to the seller.

"Downsizing" better describes the overall trend. In late 1981, the U. S. Government filed a notice of its intention to relinquish the Naval Arctic Research Laboratory near Barrow, Alaska. The facility was subsequently acquired by a Native corporation in an exchange. More recently, cutbacks in military installations are in evidence. Fort Richardson near Anchorage, has reduced it's force 2,000 personnel which began in 1994. In summary, the subject is not believed to represent a strategic site for military purposes or scientific research. The probability that any of the subject properties would be acquired for such purposes is perceived as extremely low.

Agriculture-Livestock

Due to a short growing season and harsh environmental conditions, much of Alaska is not well-suited for farms, dairies, or livestock production. Recent state sponsored efforts including the Point MacKenzie dairy project and the Delta barley project have been failures for the most part. Cattle ranching on Kodiak Island has been on the decline for several years. The probability that farming and/or livestock production on the subject properties will be financially feasible in the near term is considered to be very low.

Timber

The subject features a substantial timber resource and commercial operations are probable. The value of this resource has been estimated by Pacific Forest Consultants, Inc. The report has undergone an extensive review process prior to incorporation into our report and we have relied on the value estimate in our analyses.

Petro-Chemical/Mining

According to a "Mineral Potential Report" prepared by Mr. Donald L. Stevens, Ph. D. of Stevens Exploration Management Corporation (Anchorage); "The mineral potential and previously claimed mineral coccurrences do not appear to have any significant market value." "The probability of discovery of any significant mineral occurrence is so low that there is no negative impact on the value of the surface estate." "There is no market value for any undiscovered mineral resource."

According to Suzanne Gaguzis of the Division of Oil & Gas (AK DNR), offshore leasing activity scheduled for the Shelikof Strait (Sale #85) has been delayed until November 1997. Demand for on-shore support sites is not currently evidenced.

Marine Commercial

The potential for an emerging mariculture industry, and possible demand for shore-based sites and facilities is speculative at this time. The feasibility of operations in this limited access region has yet to be established. Commercial set-netting for salmon is limited to a fixed number of permit holders. Demand for onshore sites by the commercial fishing industry is minimal.

Use Permits - Licensing

A single economically supportable use for large-scale tracts in Alaska would be extremely unusual. For remote parcels offering little commercial/industrial opportunity, special use permits and licensing to sportsmen, outdoor enthusiasts, or commercial guides, represents a possible use from which a fairly reliable income stream could be derived. If other opportunities are sufficiently limited, licensing represents a probable use, at least for an interim period until higher and better uses are supportable.

Conclusion (Possible Uses)

In the previous paragraphs, we have considered several possible uses and evaluated their probability based on the findings summarized in the Market Overview. There is a reasonable probability that the subject will be acquired for habitat preservation purposes by the Exxon Valdez Oil Spill Trustee Council. However, non-economic conclusions of Highest and Best Use are inappropriate in an appraisal seeking "Market Value".

Based on our observations and analyses, select sites may support commercial lodge operations and attract subdividers/developers/of waterfront recreation subdivisions, however, timber harvesting is the most probable use of the majority of the subject's acreage.

FEASIBLE USES

Fish, wildlife and scenic resources are the primary attractions of the Kodiak Archipelago. However, private and commercial recreational uses of the subject are the most probable for only a limited number of locations within the foreseeable future. And, recreation is not able to support even nominal values for large tracts. The majority of the subject's acreage is heavily forested with merchantible timber and related uses are the most probable. The topography is favorable and operations are feasible according to the Pacific Forest Consultants Inc., report.

MAXIMALLY PRODUCTIVE USE

In order to determine the Highest and Best Use of the subject, it is necessary to estimate the value of the timber resource and the value of the land based on the sales of properties intended for alternative uses. There is an active market for remote recreational waterfront property.

According to the timber appraisal prepared by Pacific Forest Consultants, merchantible timber has been identified and quantified on approximately 36% of the subject's acreage (9,680 of 26,665.62 acres). The estimated present value of the timber resource equates to the following per acre values:

Estimated Timber Value	$24,000,000	
Total Acreage of Subject	÷ 26,665.62 acres	
Indicated Overall Value per Acre		**$900.04/acre**
Estimated Timber Value	$24,000,000	
Acreage w/Merthantible Timber	÷ 9,680 acres	
Indicated Value per Acre of Timbered Lands		**$2,479.34/acre**

A single Highest and Best Use for the entire parcel may be a supportable conclusion. However, select areas/sites within the boundaries of a large tract may be suitable for higher and better uses than that for the whole. Typically, remote non-timbered backlands are of low utility. Market prospects are extremely poor and only nominal per acre values may be supportable.

On the other hand, ocean, river, or lake front acreage is suitable for a greater number of uses. This market segment is limited but active nonetheless and higher values (than backlands) are supportable.

Supportable bulk values of various land types based on our analyses of sales of properties not intended for timber harvest are summarized in the following table.

Strategic Waterfront Sites (to an average depth of 1/4 mile)	**$1,120/acre**
Non-Strategic Waterfront Acreage Featuring Favorable Topography (to an average depth of 1/4 mile)	**$585/acre**
Non-Strategic Waterfront Acreage w/Unfavorable Topography & Contiguous Backlands	**$100/acre**

Based on our analyses, a range of $585 to $1,120 per acre is supportable for the subject's waterfront acreage to an average depth of 1/4 mile. Again, the indicated values have been adjusted for size to reflect the inclusion of these components into the whole.

According to the Pacific Forest Consultants appraisal, the merchantible timber resource is generally concentrated in the western portion of the subject with high densities along the coast. By matching the timber "type" numbers of the "Final Harvest Plan" with the grid map, we are able to confirm that the timber resource supports the highest present value of nearly all of the oceanfront acreage. Oceanfront acreage in only four locations lack merchantible timber. That acreage is suitable for private or commercial recreation.

CONCLUSION OF HIGHEST AND BEST USE

Although there is a reasonable probability that the subject parcel will be acquired for preservation/conservation, the intended use does not represent the Highest and Best Use. The acquisition of this acreage is only reasonably probable due to a one-time windfall of funds - without which the probability of such an acquisition would be little to none.

Based on our analyses and observations, the Highest and Best Use as of September 1, 1994, the date of valuation, is a mixed use summarized as follows:

- timber harvest on acreage with merchantible timber
- private or commercial recreation on waterfront acreage without merchantible timber
- speculation for low-utility backlands without merchantible timber

Special purpose licensing/permitting is practical interim use for timberlands scheduled for later harvest and speculative backlands.

ESTIMATE OF VALUE

Methodology

Lengthy land value analyses and a timber appraisal were necessary to determine Highest and Best Use of the subject. In order to simplify the narrative, the findings are summarized in the following table and the value estimate is developed in this section. The land value analyses and the timber appraisal are presented in subsequent tabbed sections.

Strategic Waterfront Sites (to an average depth of 1/4 mile)	**$1,120/acre**
Non-Strategic Waterfront Acreage Featuring Favorable Topography (to an average depth of 1/4 mile)	**$585/acre**
Non-Strategic Waterfront Acreage w/Unfavorable Topography & Contiguous Backlands	**$100/acre**
Estimated Timber Value	**$24,000,000**

The value estimate of the subject requires an application of the findings in a manner that recognizes the Highest and Best Use of the subject is a mixed use in which various components contribute to an overall value. Based on the Highest and Best Use analysis, our inspection of the property and a review of the data, the subject is considered to consist of the following components:

Estimated Value of Timberlands

- the value of merchantible timber
- the value of cut-over timberland

Estimated Value of Land Without Merchantible Timber

- strategic waterfront sites, if any
- non-strategic waterfront acreage featuring favorable topography
- non-strategic waterfront acreage with unfavorable topography & contiguous backlands

It is important to recognize that while we have identified separate components that each contribute to an overall value, our methodology has been developed and applied so as to avoid a summation of stand-alone values. Rather, the contribution of each component reflects an acknowledgement of its inclusion into the whole. The estimated value of the timber represents a discounted present value based on a consideration of market prospects over time. And, the non-timberland values reflect their "bulk" value aspect - in this case incidental to the estimated value of the timber resource. The estimated value of each component is developed in the following sections.

Estimated Value of Timberlands

Merchantible Timber

The timber appraisal prepared by Pacific Forest Consultants, Inc., estimated the present value of the subject's merchantible timber, as of September 1, 1994, at $24,000,000 based on the "final harvest plan" for 9,680 acres. The present value was derived from a "total net value" (gross value less costs) of $42,870,778 discounted @ 9% over a 12-year harvest plan (see pages 31 through 35 of the timber appraisal).

The timber appraisal has undergone an extensive review process prior to its inclusion in our report. We have assumed the appraisal fairly represents the market value of merchantible timber. THIS IS A SPECIAL ASSUMPTION OF OUR REPORT.

Cut-over Timberland

It should be noted that only the timber resource is the subject of the timber appraisal so that the estimated value would fairly represent either the acquisition of timber rights or the contributory value to an underlying land value. Arguably, cut-over timberland has a value as evidenced by sales of timber only (ownership of the underlying land is not conveyed). As non-productive land for which long-term speculation is the Highest and Best Use, the residual value of 9,680 acres of timberland is considered to be fairly represented at a nominal $100 per acre (see Non-Strategic Water Frontage Featuring Unfavorable Topography & Contiguous Backlands)

Estimated Value of Land Without Merchantible Timber

Strategic Waterfront Sites

We previously concluded that a supportable "bulk" value for strategic waterfront sites is $1,120 per acre. Each strategic waterfront site identified within the boundaries of the subject would be allocated 160 acres - the unit of comparison used in the analysis. In the event that one side of the strategic river/stream confluence or mouth is not owned by the owner of the subject, 80 acres would be allocated. However, based on a review of the timber grid map, strategic sites at the mouths of anadromous streams all lie within areas where merchantible timber is identified. For these sites, the timber resource supports the highest present value. Therefore, none of the subject acreage is allocated to this component.

Non-Strategic Waterfront Acreage Featuring Favorable Topography

We previously concluded that a supportable "bulk" value for this component is $585 per acre. Due to a shoreline punctuated by numerous coves and peninsulas, it is difficult to quantify the exact amount of this component. For the purposes of our analyses, we have estimated the acreage of this component as the distance of shoreline featuring favorable topography - times an average "depth" considered to be adequate for most probable uses of remote waterfront acreage. Topography is considered to be "favorable" when the initial 100 foot contour illustrated on the United States Geological Survey (U. S. G. S) quadrangle maps, is set-back a notable distance from the waterfront so moderately sloping usable terrain is evident.

Distance of Shoreline

The distance of shoreline featuring favorable topography is estimated based on our aerial inspection and a review of the U. S. G. S quadrangle maps (topographical maps). One inch on the topo maps equals one mile - 5,280 feet.

Appropriate Depth

The sales used in our analysis reflect a general range of parcel sizes from 60 to 180 acres with a central tendency of 160 acres. This common denomination, a quarter of a section, had been a standard for BIA allotments and federal homestead programs. Variations are often the result of irregular topographical features (shoreline) or reflect U. S. Surveys, mining claims etc.

Commonly traded parcels in denominations of 40 and 80 acres often reflect typical and logical dispositions of 160-acre tracts. A 160-acre parcel with extensive frontage would be well-suited for subdividing into more marketable parcels. It is not unreasonable to conclude that values would be maximized if the water frontage-to-depth ratio allowed for further subdividing opportunities of smaller parcels. Where backlands are undesirable, steep or otherwise unusable - 1 mile of water frontage (5,280') at a depth of 1/4 mile (1,320') would represent an optimum configuration for 160 acres. In reality, shorelines are irregular and waterfront parcels would often reflect lesser or greater depths. In our analysis, 1,320 feet is considered to be an <u>average</u> depth - adequate for the most probable uses of remote waterfront acreage. Based on these dimensions, one mile (5,280') of non-strategic water frontage featuring favorable topography, at an <u>average</u> depth of 1,320 feet, represents 160 acres. On the U. S. G. S quadrangle maps (topographical maps), one inch equals one mile. The subject's non-strategic water frontage featuring favorable topography is measured in 1/4, 1/2 and 1 inch increments. Where the shoreline is extremely irregular, we have made a rough allocation acreage based on scaled measurements.

Our allocation of this component is based on an aerial inspection, a review of the topographical maps and the "Final Harvest Plan" of the timber appraisal report. By matching the timber "type" numbers of the "Final Harvest Plan" of the timber appraisal with the grid map, we are able to identify four locations of non-strategic waterfrontage that features favorable topography but not merchantible timber (see worksheet map on the following page). Waterfront acreage in these areas is suitable for private or commercial recreation. The four locations are identified in the following table with the acreage allocated.

LOCATION	ALLOCATION	AC.
southeast end of Carry Inlet	1 mile of frontage x 160 acres	160 ac.
east shore of Shangin Bay	1.5 miles of frontage x 160 acres	240 ac.
Sec. 39 & 32 west of Shanging Bay	rough allocation based on scaled measurements	80 ac.
SWC of subject at Cape Newland	rough allocation based on scaled measurements	160 ac.
TOTAL		**640 ac.**

Non-Strategic Waterfront Acreage w/Unfavorable Topography & Backlands

Based on our analyses, $100 per acre is considered to be an appropriate estimate of the nominal value of the subject's "non-strategic waterfront acreage featuring unfavorable topography and contiguous backlands". We have made no adjustment for size as the indicated nominal value was derived from Comparables reflecting a range of parcel sizes that included bulk acreage. This component includes all of the acreage not included in the harvest plan and the waterfront acreage considered to be suitable for private or commercial recreation. The calculations are summarized as follows:

Total Acreage	26,665.62	ac.
Less: Acreage with Merchantible Timber	(9,680)	ac.
Less: Strategic Waterfront Acreage	(0)	ac.
Less: Non-Strategic Wtf w/Favorable Topography	(640)	ac.
Non-Strategic Wtf w/Unfavorable Topo & Backlands	**16,345.62**	**ac.**

FINAL VALUE ESTIMATE

Based on our analyses, the final value estimate of the subject is calculated as follows:

Allocation of Components						
Acreage with Merchantible Timber	9,680	ac.				
Strategic Waterfront Acreage	0	ac.				
Non-Strategic Wtf w/Favorable Topography	640	ac.				
Non-Strategic Wtf w/Unfavorable Topo & Backlands	16,345.62	ac.				
Total Acreage	26,665.62	ac.				
Value Estimate Calculations						
Estimated Value of Merchantible Timber					$24,000,000	
Estimated Value of Cut-over TimberLand	9,680	ac.	@	$100	$968,000	
Estimated Value of TimberLands						$24,968,000
Strategic Waterfront Acreage	0	ac.	@	$1,120	$0	
Non-Strategic Wtf w/Favorable Topography	640	ac.	@	$585	$374,400	
Non-Strategic Wtf w/Unfavorable Topo & Backlands	16,345.62	ac.	@	$100	$1,634,562	
Estimated Value of Land w/o Merchantible Timber						$2,008,962
Estimated Value						$26,976,962
					(rd)	**$27,000,000**

ESTIMATE OF VALUE

(land not intended for timber harvest)

Valuation Premise

Several high-profile transactions involving large Alaska tracts do not meet the test of a market value transaction. The analyses of these transactions and the reasoning leading to their disqualification are presented in the Addenda of the report. Based on these analyses and the investigation summarized in the Market Overview, the "market" for large tracts of Alaska lands is considered to be inadequate for purposes of estimating the value of the subject. A sufficient quantity of data, qualifiable as adequate, is simply non-existent.

There is a relatively large body of data for parcels containing less than 640 acres (the equivalent of one section). The appraiser's task is to build a credible bridge from this data to the subject properties - each consisting of several thousand acres. Two acknowledgments are central to the correlation of this data.

First, select areas within the boundaries of the subject are suitable for higher and better uses than other areas. In order to recognize the positive contribution of higher-value acreage to the value of the whole, an allocation of the subject parcel(s) into meaningful components is necessary.

Second, an economic unit of acreage should be recognized - beyond which size adjustments are not supportable. Our valuation premise with regard to these acknowledgments is developed in the subsequent subsections.

Allocation

Various land uses tend to gravitate toward desirable physical features (geographic/topographic) and/or concentrations of fish and wildlife resources. However, most often, all of the water frontage on any given remote Alaskan waterbody is not in private ownership (excepting native corporations) or otherwise utilized. This characteristic is due to a combination of factors. First, the majority of Alaska's remote lands are owned by government agencies and native corporations. Second, rugged topographical features render much of the waterfront acreage unsuitable for any use. Finally, and perhaps most significant, distance and often harsh weather conditions combine to deny practical access to the majority of would-be users.

Understandably, individuals would select the sites that provided the greatest utility. For many locales, only an extremely limited amount of remote waterfront land can be expected to be utilized within the foreseeable future. Native village sites, individual Native Allotments, and private non-Native parcels in the southwest Kodiak Island region represent only a fraction of the total waterfront.

On a larger scale, Native Corporations selecting their entitlements pursuant to ANCSA, typically avoided unusable acreage as much as possible. Coastal lowlands, river valleys, and sloping uplands were obviously preferred to glacier-capped peaks.

Based on the typical land use patterns of most remote Alaska locales; our review of available data; our aerial inspection; the subject acreage is considered to consist of three components:

- "strategic" waterfront sites
- non-strategic waterfront acreage featuring favorable topography.
- non-strategic waterfront with unfavorable topography and contiguous backlands.

Note: The overall values will not be summations of stand-alone components. Where appropriate, the component values have been adjusted for size to reflect their inclusion into the whole.

Size

Most real estate markets recognize that per acre values decrease as parcel sizes increase. This is particularly true in counties, boroughs, and municipalities where the process of subdividing larger parcels into marketable denominations has become both time consuming and expensive.

Where adequate data is plentiful, reliable size adjustments can be extracted. As previously noted, sales of large tracts of remote Alaska lands that can be qualified as "market" sales, are almost non-existent. With the exception of timberlands in Southeast Alaska, we are aware of only two private-sector purchases of large tracts (> 1,000 acres) in Alaska within the past twelve years (2,053 acres in 1982 and 2,220 acres in 1990). The data suggests that market prospects are extremely limited for 1,000 acre parcels let alone tracts containing 10,000 to 100,000 acres.

In depressed or oversupplied markets, values typically free-fall to a point at which speculators, anticipating future benefits, will buy. There is surely a price at which large tracts of apparently limited utility remote acreage would sell. However, the price that would prove to be a sufficient incentive to attract a speculator or developer/entrepreneur to the subject as a whole, within a reasonable marketing period, is impossible to predict. Available market data indicates that the most marketable denominations of acreage are 160 or less. However, a sell-out of tens of thousands of acres in a subdivision approach is too speculative to be considered reasonably probable within <u>any</u> foreseeable time period.

In appraisals of large tracts of remote Alaska land, a consideration for size is likely to be the most significant source of disparity. As a practical matter, again, with the possible exception of timberlands, prospective private sector buyers cannot be identified for either 1,000 or 10,000 acre tracts. There is clearly no market-driven demand for large tracts in Alaska. As a result, a sufficient quantity of adequate data is not available to support size adjustments beyond what is reflected by the sales of relatively small parcels (< 1 section or 640 acres).

To reflect considerations for progressively larger tracts, an appraiser may develop adjustments based on a mathematical model. However, analyses of size-to-price relationships typically confirm that downward size adjustments do not increase in uniform increments corresponding to increases in parcel size. Rather, their magnitude tends to diminish toward a point (size) from which further adjustments are not supportable.

This is a significant acknowledgment. Identifying that "point" as a recognized unit in terms of acreage, would serve two primary purposes. First, the potential for unsupportable theoretical adjustments to skew the analysis would be avoided. Second and most important, the potential for serious inequities would be minimized. This "potential" is illustrated in the following example.

> Two physically identical, adjacent tracts are owned by the same owner and differ only in size. One contains 3,200 acres (5 Sections) and the other is twice its size - 6,400 acres (10 Sections). Market prospects for both tracts (in bulk) are perceived to be little to none. By the application of non-market supported mechanical adjustments, a single Section (640 acres) contained within the boundaries of the 3,200 acre tract (5 Sections) would be valued higher than an identical adjacent section contained within the boundaries of the 6,400 acre tract (10 Sections).

The inequity results from a misinterpretation of the significance of the parcelization. Where contiguously owned tracts are identified separately, they may have been conveyed at different dates and/or from different grantors. It is our opinion that parcelizations based on previous conveyances or arbitrary allocations - do not create legal descriptions. Rather, the parcels represent informal assemblages of several sections and/or portions of sections that can presumably stand alone as legal descriptions. We are not aware of any entity in Alaska that would require a formal platting or subdivision procedure in order to recognize the conveyance of a single section (640 acres) from an arbitrary or informal assemblage. Based on our observations, one section (640 acres) appears to be an appropriate benchmark for our analysis. One section (640 acres) is a recognizable, conveyable unit and its relationship to smaller parcels, in the form of size adjustments, can be established from available data. Furthermore, the disposition of 640 acres, either in bulk, or in more marketable denominations, is a reasonably foreseeable event. For the purpose of the assignment, we recognize one Section (640 acres) - as the point above which marketing probabilities, and ultimately further size adjustments, become philosophical.

VALUE ESTIMATE

(land not intended for timber harvest)

There are a number of acceptable procedures that can be used when valuing land. "Sales comparison is the most common technique for valuing land and it is the preferred method when comparable sales are available".[30] The Direct Sales Comparison Approach involves the comparison of the subject to similar properties that have been recently sold. Sales of similar properties are correlated to the subject by adjusting for various inequalities on an item by item basis. Elements of comparison considered to be the most relevant to the valuation of the subject are summarized as follows:

- financing terms
- market conditions (sale date)
- real property rights conveyed
- conditions of sale (motivation)
- physical features and characteristic
  - location
  - access
  - soils and topography
  - size
  - shape

As previously noted, the subject acreage is considered to consist of three components:

- "strategic" waterfront sites
- non-strategic waterfront acreage featuring favorable topography.
- non-strategic waterfront with unfavorable topography and contiguous backlands.

Each component requires an individual analysis.

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30. Appraisal Institue, *The Appraisal of Real Estate*, Tenth Addition (1992) 302.

Methodology

All three of the EVOS Restoration Team Habitat Protection Work Group's recreation/toursim ratings ("low", "moderate", "high") are represented within the Kodiak Archipelago. Available market data reflects sporadic activity in several locales but it establishes a range of values within which all three ratings are fairly represented.

A master valuation of representative acreage and a correlation to the subject is considered to be an appropriate approach. For the first two components, we have estimated the value of hypothetical premium "key parcels". Correlation to the subjects will be based on the recreation/tourism ratings of the Work Group ("low", "moderate", and "high"). It is not unreasonable to conclude that properties rated "high" would have a market advantage over a similar property rated "low". Available market data confirms this relationship. The following table summarizes sales of properties within areas rated by the Work Group.

Comparable	Locale	Date	Area	$/Ac.	EVOS Rec./Tour Rating
Comparable No. 19	EVOS # KON06	7-92	160	$676	"Low"
Comparable No. 12	EVOS # ENB08	10-86	69	$1,158	"Moderate"
Comparable No. 20	EVOS # AKI06	10-92	180	$1,722	"High"

In summary, actual market activity lends validity to the relevance of the Work Group ratings and our methodology.

The utility of the third component is so limited that value is not likely to be sensitive to the Work Group ratings. In our analysis, one representative value estimate for this component will be universally applied.

VALUATION - STRATEGIC WATERFRONT SITES

Select locations within the boundaries of the subject parcels may be considered geographically and physically strategic to a developer or entrepreneur. A general description of the hypothetical strategic "key parcel" is summarized in the following paragraphs.

Location

The "key parcel" is remote with primary access by float plane. The locale is generally described "world class" with regard to the relative quality of recreational opportunities offered. For the purposes of our analysis, "world class" is synonymous with the Work Group's recreation/tourism rating of "high.

Size

We recognize that some commercial recreation and marine commercial uses can be accommodated by sites as small as five acres. However, the sales of small sites for which further subdividing is not probable, usually do not reflect meaningful per acre indicators as they tend to be evaluated by prospective purchasers on a "per site" basis. Larger units of comparison are more appropriate for our analysis because they are more similar to the subject with regard to possible uses - including further subdividing into more marketable parcels. There is a sufficient quantity of data for parcel sizes approximating 160 acres and we have used this unit of comparison in our analysis.

Shape

An optimum shape is generally described as featuring a water frontage-to-depth ratio that allows for further subdividing opportunities.

Strategic Feature

The geographic/physical feature most likely to attract a developer entrepreneur would be the confluence of two anadromous rivers/streams, the outlet of a lake, or the mouth of a river/stream. In the optimum configuration, the site would straddle the river/stream so that control of entry is maximized.

Topography/Soils

Favorable topography/soils is described as moderately sloping with a high percentage of usable uplands.

We have identified several comparables that can be considered "strategic waterfront sites". The data is summarized in the following table. Details of the properties summarized are presented in the addenda of the report.

SUMMARY OF COMPARABLE SALES

STRATEGIC WATERFRONT SITES

#	Region	Neighborhood	Date	Adj. CEV	Acres	$/AC
1	Southeast	William Henry Bay	9-87	$149,500	159.99	$934
2	Southeast	Windham Bay	12-88	$85,000	98.50	$863
3	Western	Nushagak River	7-93	$200,000	80.00	$2,500
4	Western	Nonvianuk River/Lk	7-93	$229,000	119.99	$1,908
5	Kodiak	Horse Marine Bay	4-88	$100,000	19.30	$5,181
6	Kodiak	NW Olga Bay	6-88	$105,000	32.35	$3,246
7	Kodiak	Moser Bay	1-89	$100,000	29.10	$3,436
8	Kodiak	SW Olga Bay	3-89	$100,000	19.61	$5,099
9	Kodiak	Terror Bay	6-91	$470,000	151.21	$2,500
10	Kodiak	Ayakulik River	8-93	$1,000,000	574.88	$1,739

DESCRIPTION OF COMPARABLES

Comparable No. 1 - William Henry Bay, Southeastern Alaska (9/87)

This parcel was an old homestead (1917) located approximately equi-distant (35 miles) from Haines and Juneau at the head of a small bay off the Lynn Canal. The area is located within the boundaries of the Tongass National Forest. The parcel features only 1,799 feet of ocean frontage. However, the Beardslee River flows through the parcel so that water frontage is considered to be extensive. The river supports runs of Coho, Pink, and Chum salmon and Dolly Varden Trout. Merchantible timber, if any, was apparently not a factor and the oil and gas rights were not conveyed. A tidal flat restricts boat access at low tide. Approximately 60% to 70% of the site is fairly flat bottom land with the remainder fairly steep. The parcel was purchased for subdivision into 61 sites. Information regarding market exposure was not available.

Comparable No. 2 - Windham Bay, Southeastern Alaska (12/88)

Windham Bay is situated off Stephens Passage approximately 65 miles southeast of Juneau. The area is located within the boundaries of the Tongass National Forest. Located at the head of Windham Bay, this parcel consists of five contiguous mining claims dating to 1890. Several anadromous streams flow into the Bay. The parcel features only 1,330 feet of ocean frontage. However, Spruce Creek meanders through the parcel so that water frontage is considered to be extensive. A tidal flat restricts boat access to the creek's channel at low tide. The topo maps indicate a generally level site with moderate to steep slopes on either side of the creek. Although partially wooded, merchantible timber was apparently not a factor and the oil and gas rights were not conveyed. The acreage was reportedly purchased for recreational gold panning and as a possible future lodge site. The offering sold within a six month exposure period with a real estate broker.

Comparable No. 3 - Nushagak River, Southwestern Alaska (7-93)

Enroute to Bristol Bay, the Nushagak River collects several drainages including the upper Tikchik Lakes. The area is considered to be a "world class" trophy fishing and hunting area. The site is located approximately 26 miles east of Dillingham at the confluence of the Nushagak and Iowithla Rivers. The 80-acre site occupies only one corner of the intersection but features extensive river frontage and world class fishing opportunities. Access is by float plane or river boat. The topography is fairly level to rolling. There is no merchantible timber on the site and the oil and gas rights were not conveyed. The purchaser's intended use is for commercial recreation. The property was exposed to the market via the BIA process in which sealed bids are invited during an advertisement period of four weeks. If no bids are received, the property is listed for sale with BIA's realty department. The purchase price for this site represents the highest bid received during the initial offering.

Comparable No. 4- Nonvianuk River, Southwestern Alaska (7-93)

The Nonvianuk River flows from Nonvianuk Lake to its confluence with the Alagnak River, a tributary of the Kvichak River - the outlet of Lake Iliamna. The Alagnak is designated a "wild and scenic river" and the region is considered world class in terms of trophy fishing and hunting opportunities. The site is located approximately 100 miles east of Dillingham. It is strategic in that it

features approximately 2,500 feet of frontage on the Nonvianuk River and approximately 350 feet on Larson Lake, a small floatplane lake. The topography is fairly level to rolling. There is no merchantible timber on the site and the oil and gas rights were not conveyed. The purchasers intended use is for commercial recreation. The property was exposed to the market via the BIA process. No bids were received during the initial offering and the property was purchased during the subsequent listing period.

Comparable No. 5 - Horse Marine Bay/Lagoon, Kodiak, Alaska (4-88)
Horse Marine Bay is at the head of Moser Bay in the Olga Bay area of southwest Kodiak Island, approximately 75 miles from the City of Kodiak. Primary access is by float plane. A marine route from Kodiak would be in excess of 150 miles. This small site straddles a small creek at the entrance to Horse Marine Lagoon. An anadromous steam flows from Horse Marine Lake into the Lagoon. The "recreation/tourism" rating by the Work Group is "high" for the area. The topography is fairly level and the site features extensive frontage in relation to depth. There is no merchantible timber on the site but the subsurface rights were reportedly conveyed. The intended uses included a rural residence and commercial fishing and recreation operations. The property had been exposed to the market with a Kodiak real estate company.

Comparable No. 6 - Northwest Olga Bay, Kodiak, Alaska (6-88)
Olga Bay is located in the southwest region of Kodiak Island approximately 75 miles from the city of Kodiak. Primary access is by float plane. A marine route from Kodiak would be in excess of 150 miles. This small site straddles the mouth of an anadromous stream that drains from a small unnamed lake in the northwest part of the bay. The site is located westerly of a parcel rated as "high" (AKI06) by the Work Group. However, it is most similar yet inferior to a parcel located on the opposite shore (AKI08) rated as "moderate". Moorage is exposed to the Bay. The topography is fairly level and the site features extensive frontage in relation to depth. There is no merchantible timber on the site but the subsurface rights were reportedly conveyed. The purchaser's intended use is for commercial recreation. The property had been exposed to the market with a Kodiak real estate company.

Comparable No. 7 - Snug Cove, Moser Bay, Kodiak, Alaska (1-89)

Snug Cove is located on the west side of Moser Bay, the entrance to the Olga Bay region of southwest Kodiak Island approximately 75 miles from the city of Kodiak. Primary access is by float plane. A marine route from Kodiak would be in excess of 150 miles. The cove offers protected moorage and the site was formerly utilized by a cannery operation. A small stream flows across the site into the cove but sportfishing opportunities are minor. The Work Group's "recreation/tourism" rating for this area is "low". The topography ranges from lowlands to steep uplands and access can be complicated at low tide. Frontage in relation to depth is considered to be average (less than optimum). There is no merchantible timber on the site but the subsurface rights were reportedly conveyed. The intended use is for commercial fishing support. The property had been exposed to the market with a Kodiak real estate company.

Comparable No. 8 - Southwest Olga Bay, Kodiak, Alaska (3-89)

Olga Bay is located in the southwest region of Kodiak Island approximately 75 miles from the city of Kodiak. Primary access is by float plane. A marine route from Kodiak would be in excess of 150 miles. This small site is situated at the outlet of Olga Creek, an anadromous stream that drains the South Olga Lake system (upper and lower) into the southwest part of the bay. The "recreation/tourism" rating by the Work Group is "moderate" for the area. Moorage is exposed to the Bay. The topography is fairly level tundra and the site features extensive frontage in relation to depth. There is no merchantible timber on the site but the subsurface rights were reportedly conveyed. The purchaser's intended use was for a commercial fishing operation. The property had been exposed to the market with a Kodiak real estate company.

Comparable No. 9 - Uganik Passage, Kodiak Island, Alaska (6-91)

This former homestead is situated on Terror Bay in the Uganik Passage approximately 30 air miles southwest of the City of Kodiak. Primary access is by floatplane. A marine route from Kodiak would be approximately 95 miles. The site offers protected waters and features extensive ocean frontage at the outlet of a small anadromous stream. The locale is outside the areas rated by the Work Group but located between areas with recreation/tourism ratings of "high" (KON01) and "moderate" (AJV06). Topography ranges from moderate to steep slopes. The site features extensive frontage in relation to depth. No

merchantible timber is located on the site and only the surface estate was conveyed. The homestead was improved with an older house and miscellaneous outbuildings. The adjusted cash equivalent value reflects an allocation for the site (as vacant). The site lies within the boundaries of the Kodiak National Wildlife Refuge and was purchased by the U. S. Fish and Wildlife Service. The property had been exposed to the market for over one year.

Comparable No. 10 - Ayakulik River, Kodiak, Alaska (8-93)

The Ayakulik River is the collector for numerous drainages of western Kodiak Island including Red Lake. The river empties into the Pacific Ocean along a stretch of exposed coastline. The site is located approximately 90 air miles from the city of Kodiak. Primary access is by float plane. A marine route from Kodiak would be in excess of 150 miles. The locale is outside the areas rated by the Work Group but would be considered "world class" by most measures. The Ayakulik is perhaps second only to the Karluk River as a sportfishing destination on the Island. Topography is fairly level tundra above the river's bank. The configuration of the site is optimum in that it straddles the mouth so that control of entry is maximized. There is no merchantible timber on the site but the subsurface rights were to be conveyed. The intended use was preservation/conservation. The buyer (Conservation Fund) sought to limit access and prevent development. This site assures some degree of control over entry to and use of contiguous backlands. The data represents an offer only as opposed to a closed sale and the property had not been exposed to the market.

EXPLANATION OF ADJUSTMENT PROCESS

Financing Terms

The Adjusted Cash Equivalent Value reported in the table reflects previous considerations for terms of sale and allocations for improvements or non-realty components if any (see detailed "Comp Sheets" in addenda).

Market Conditions (sale date)

Sales occurring prior to 1986 have little relevance except to establish a decline in "market" values (see Market Overview). All of the transactions summarized and analyzed occurred from late 1987. The data reflects only spotty activity over a lengthy period of approximately 7 years. An adjustment for market conditions (time) during this period is not supported by the data and we have made no adjustment.

Conditions of Sale (motivation)

Undue stimulus and/or atypical influences, if any, are considered in the Reconciliation of Adjustments.

Real Property Rights Conveyed

The purpose of this appraisal is to estimate the market value of the fee simple interest - less oil, gas, and minerals, (surface estate). Most of the comparables reflect the conveyances of only the surface estate. If an allocation for the inclusion of subsurface rights can be determined by interviews with the buyers and sellers, downward adjustments will be made.

Zoning

The subject properties and those comparables located on Kodiak Island are subject to Borough zoning regulations. The regulations limit the capacities of commercial recreation uses that are probable for strategic sites. However, the minimum lot size in the Conservation District is 5 acres whereas the unit of comparison for our analysis is 160 acres. Furthermore, increased capacities are possible with a conditional use permit. And, the Borough has been in the process of rezoning several parcels to more permissive classifications. In summary, zoning is not likely to influence the value of these strategic sites and we have made no adjustment.

Physical Features and Characteristics

Physical features and characteristics include; location, access; soils and topography; size and shape. Although ten transactions have been analyzed, they reflect only spotty activity over a period of approximately seven years. Due to the limited amount of data, it is extremely difficult to identify and apply reliable adjustments for various physical features and characteristics. Therefore, we have correlated the comparables to the subject in a qualitative analysis described by the Appraisal of Real Estate Tenth Edition as a "Relative Comparison Analysis". In this analysis, various physical features and characteristics are perceived as comparable/equal, superior or inferior. This technique illustrates the relative market position of the subject. A Market Data Grid and Relative Comparison Analysis is presented on the following page.

5	6	7	8	9	10
$5,181	$3,246	$3,436	$5,099	$2,500	$1,739
4-88 *(no adjust.)*	6-88 *(no adjust.)*	1-89 *(no adjust.)*	3-89 *(no adjust.)*	6-91 *(no adjust.)*	8-93 *(no adjust.)*
no known undue stimulus or duress *(no adjust.)*	no known undue stimulus or duress *(no adjust.)*	no known undue stimulus or duress *(no adjust.)*	no known undue stimulus or duress *(no adjust.)*	see reconciliation	see reconciliation
Fee Simple incl. Subsurface *not allocated*	Fee Simple incl. Subsurface *not allocated*	Fee Simple incl. Subsurface *not allocated*	Fee Simple incl. Subsurface *not allocated*	Fee Simple Surface Estate *(no adjust.)*	Fee Simple incl. Subsurface *not allocated*
$5,181	**$3,246**	**$3,436**	**$5,099**	**$2,500**	**$1,739**
Horse Marine Bay, SW Kodiak Island	NW Olga Bay, SW Kodiak Isl.	Snug Cove, Moser Bay, SW Kodiak	SW Olga Bay, SW Kodiak Isl.	Uganik Passage Kodiak Isl.	Ayakulik River, SW Kodiak Isl.
<20,000	<20,000	<20,000	<20,000	< 20,000	<20,000
150 miles +/-	150 miles +/-	150 miles +/-	150 miles +/-	95 miles +/-	150 miles +/-
most of route	most of route	most of route	most of route	most of route	most of route
"high" (Work Group) *(approx. =)*	"moderate" (appraiser) *(inferior)*	"low" (Work Group) *(inferior)*	"high" (Work Group) *(approx. =)*	"moderate" (appraiser) *(inferior)*	"high" (appraiser) *(approx. =)*
19.30 acres *(superior)*	32.35 acres *(superior)*	29.10 acres *(superior)*	19.61 acres *(superior)*	151.21 acres *(approx. =)*	574.88 acres *(inferior)*
extensive waterfront suitable for subdividing *(approx. =)*	extensive waterfront suitable for subdividing *(approx. =)*	less than optimum for subdividing *(inferior)*	extensive waterfront suitable for subdividing *(approx. =)*	extensive waterfront suitable for subdividing *(approx. =)*	extensive waterfront suitable for subdividing *(approx. =)*
straddles creek @ mouth at entrance to lagoon *(approx. =)*	straddles creek @ mouth *(approx. =)*	straddles creek @ mouth *(approx. =)*	one side of mouth of Olga Creek *(inferior)*	ocean frontage @ mouth of creek *(inferior)*	straddles river @ mouth *(approx. =)*
fairly level low % of usable uplands adequate semi-protected *(inferior)*	fairly level low % of usable uplands adeq. semi-protected *(inferior)*	level to steep low % of usable uplands protected cove *(inferior)*	fairly level high% of usable lowlands adeq. semi-protected *(inferior)*	moderate & steep slopes moderate % of usable uplands adeq. semi-protected *(inferior)*	moderate slope high % of usable uplands unprotected *(inferior)*
multi-use incl. comm rec.	commercial recreation	commercial fishing	commercial fishing	habitat preservation	habitat preservation
Negative	**Negative**	**Negative**	**Negative**	**Positive**	**Positive**

Reconciliation of Adjustments

The sales price indicators and the indicated overall adjustments are summarized as follows:

No.	Location	Date	Acres	$/AC	Net Adjust.
5	Horse Marine Bay, SW Kodiak Isl.	4-88	19.30	$5,181	Negative
8	SW Olga Bay, SW Kodiak Isl.	3-89	19.61	$5,099	Negative
7	Moser Bay, SW Kodiak Isl.	1-89	29.10	$3,436	Negative
6	NW Olga Bay, SW Kodiak Isl.	6-88	32.35	$3,246	Negative
key parcel	Southwest Kodiak Island	n/a	160.00	--------	----------
3	Nushagak River, Western Alaska	7-93	80.00	$2,500	Approx. =
9	Uganik Passage, NW Kodiak Island	6-91	151.21	$2,500	Positive
4	Nonvianuk River, Western Alaska	7-93	119.99	$1,908	Positive
10	Ayakulik River, West Kodiak Island	8-93	574.88	$1,739	Positive
1	Henry Bay, Southeast Alaska	9-87	159.99	$934	Positive
2	Windham Bay, Southeast Alaska	12-88	98.5	$863	Positive

The comparables analyzed reflect a wide range of per acre indicators within which the subject is fairly represented. The considerations given the most weight in the adjustment process are discussed in the following paragraphs.

Comparable Nos. 5, 6, 7, & 8 were included in our analysis because of their close proximity to the subject and the limited amount of data in the Kodiak area. And, three of the four feature extensive water frontage so that further subdividing to the Borough minimum of 5 acres is a possibility. The per acre indicators reflect a price-to-size relationship. However, the consistency of the sales prices (3 @ $100,000 and 1 @ $105,000) suggest the parcels were evaluated on a per site basis and that further subdivision opportunities were not a factor. Based on this observation, the relevance of per acre indicators to the valuation of larger parcels is seriously diluted - particularly recognizing that available listings of similar sized parcels in the same area have been marketed for approximately two years without favorable results (Comparable No. 20).

Furthermore, an expanded data search reveals relevant sales of similar sized-parcels outside the subject neighborhood. In summary, Comparable Nos. 5, 6, 7, & 8 can be given little if any weight in our analysis due to their small size in relation to the unit of comparison used our analysis (160 acres).

Comparable No. 9 was an inholding acquired by the United States Fish and Wildlife Service. Although purchased by a government agency, the transaction has some elements of a free, open-market transaction. The property had been exposed to the market for an extended period. While the property was listed for $1.8 million, the Service offered $468,000. The offer was rejected and the asking price was later reduced to $1 million. After a listing period of one year, the price was further reduced to $550,000 - toward a price considered to be reasonable by the Service. The negotiated price was reportedly supported by an appraisal.

The property is considered to be inferior to the subject "key parcel" and ordinarily an upward, or positive, adjustment would be appropriate. However, the transaction must be weighed with a reality check. Available data suggests that private sector purchasers cannot justify nearly a half million dollars in cash for a remote 160 acre tract (+/-) without merchantible timber. Such transactions are simply not occurring.

The market history of this property represents a classic example of an overly optimistic price free-falling to a point that it becomes a feasible undertaking for someone. In this case, that point is established by the acquisition of an in-holding by a government agency. While the procedures followed by the Service appear to have been by-the-book - the price free-fall, to a point that may have been established by a private sector buyer, was effectively interrupted. Although the sale reflects some elements of a market transaction (market exposure, arm's length negotiations), it can be given little weight in our analysis due to the "conditions of sale". The transaction is a project-related acquisition by a government agency subject to undue stimulus - consolidation of Refuge lands and the prevention of incompatible development.

Comparable 10 is the recent offer to purchase a large strategic site at the mouth of the Ayakulik River, one of Kodiak's premier destinations for sport fishermen. The site would be considered "world class" by most measures and

virtually directly comparable to the hypothetical "key parcel" with the exception of size. Based on other recent sales of strategic sites in nearby "world class" areas (Comparable Nos. 3 and 4), the reported purchase price may have been supportable and an upward adjustment for size would be appropriate.

However, it would not be appropriate to give this reported transaction too much weight even if the transaction had been consummated. First, land use economics do not support acquisitions of remote tracts at a half million dollars let alone a million. Second, to our knowledge, the property was not offered for sale nor otherwise exposed to the market. If the probability of a sale within a foreseeable marketing period is little to none, the relevance of the data is suspect. The fact that the ownership entity did not agree to the sale should not be misconstrued as an indication that an even higher value may be supportable. The decision to sell reportedly required unanimity and there was one holdout.

The site was targeted for acquisition by a conservation group seeking to restrict access and development. The group intends to pursue the acquisition and has reportedly set aside the funds for that purpose rather than using it to further other goals and objectives. This direction suggests that the eventually negotiated price will not be optimized by the influence of suitable alternatives (Principal of Substitution) and other characteristics of a free and open market. The analyst cannot know if the acquisition price reflects an extreme value or fairly represents the market norm. While the value may be supportable, the appraiser must look to the supporting data rather than this transaction itself.

Comparable Nos. 1, 2, 3 and 4 indicate a range of values for strategic sites from $863 to $2,500 per acre. Giving most weight to the recreation/tourism ratings, Comparable Nos. 1 and 2 are inferior and upward adjustments are appropriate. Comparable Nos. 3 and 4 effectively narrow the value range to $1,908 to $2,500 per acre. Both are recent sales of strategic sites in areas offering "world class" outdoor recreation opportunities. Both were purchased for commercial recreation operations and considered to be the most comparable to sites within areas rated "high" for recreation/tourism by the Work Group.

Comparable No. 4 is strategic in that it has both river and lake frontage. However, the quality of this feature is considered to be inferior to the subject

"key parcel" and an upward adjustment is appropriate. Most weight is given to Comparable No. 3. The purchaser was a knowledgeable lodge operator and outdoor guide. He reportedly searched for three years before finding a site he considered to be optimum for his operation. Although the site is superior to the subject "key parcel" with regard to size, any downward adjustment is considered to be sufficiently offset by its occupation of only one corner at the confluence of two rivers. In contrast, the subject hypothetical "key parcel" represents an optimum configuration that straddles an intersecting creek/river so that control of entry is maximized.

In conclusion, it is our opinion that the value of the subject "key parcel" is fairly represented at $2,500 per acre. Again, the subject "key parcel" is described as "world class" with regard to the relative quality of recreational opportunities offered. For the purposes of our analysis, "world class" is synonymous with the Work Group's recreation/tourism rating of "high".

Correlation of the Key Parcel

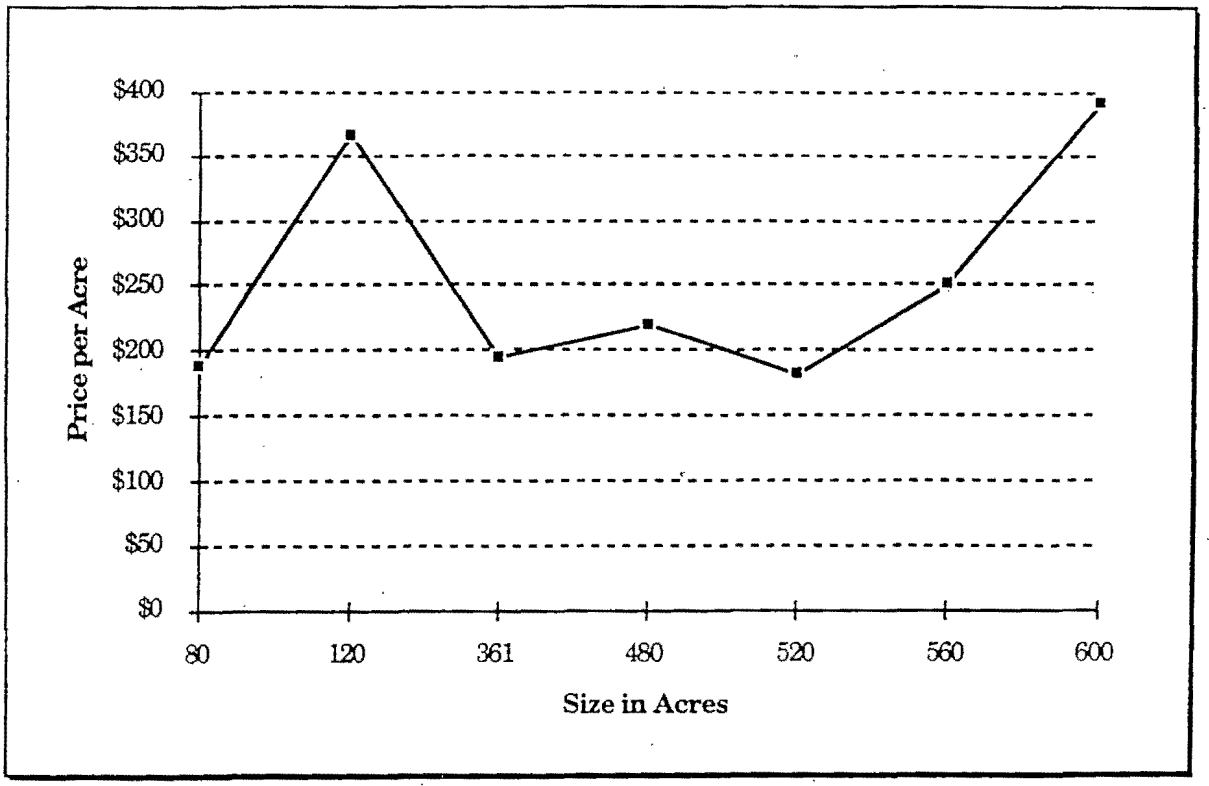
Recognizing the topography of Comparable Nos. 1 and 2 is inferior to that of the subject "key parcel", their per acre indicators ($863 & $934) are considered to be below and outside an appropriate range for the subjects. Based on this observation, strategic waterfront sites in remote locales are considered to be fairly represented within a range of per acre values from $1,000 to $2,500. Correlating the Work Group's recreation/tourism ratings with this range, the following per acre values are indicated.

Work Group Recreation/Tourism Rating	Indicated $/Acre
"High" (hypothetical "key parcel")	$2,500 per acre
"Moderate"	$1,750 per acre
"Low"	$1,000 per acre

The Work Group's recreation/tourism) rating for the subject is "moderate" and $1,750 per acre is considered to be an appropriate value indicator of Strategic Waterfront Sites contained within the boundaries of the subject. However, recognizing that identifiable strategic sites are not subdivided stand-alone properties, it is necessary to adjust the indicated values for size to acknowledge their inclusion into the whole.

Most real estate markets recognize that per acre values decrease as parcel sizes increase. Market derived indicators of adjustments are preferred. However, indicated price-to-size relationships are often erratic - even after considering the relative quality of the properties. Likewise, indicators derived from a relatively large sample of recent data are also inconclusive. Seven sales on the lower Kenai Peninsula have occurred since December of 1991. All are set-back from the highway with no improved access. The transactions are briefly summarized in the following table. Price-to-size relationships are illustrated in a subsequent graph.

#	Area	$/Acre	Date	Intended Use	Mkt. Exp.
25	80	$188	Feb-92	n/a	listed 10 mos.
24	120	$367	Dec-91	subdivision	not marketed
28	361	$194	May-93	timber	listed 2 mos.
26	480	$219	Oct-92	subdivision	not marketed
27	520	$183	Apr-93	timber	listed
29	560	$250	Aug-93	timber	not marketed
30	600	$392	Aug-93	homestead	n/a



The indicators are erratic, however, three of the properties (Nos. 27, 28, & 29) were purchased for their timber resources. These transactions reflect a narrow range of indicators from $183 to $250 per acre for tracts ranging in size from 361 to 560 acres.

In contrast, a wider range of indicators is reflected by Comparable Nos. 24 and 26. Both were purchased for subdividing - an economic use for which absorption, holding costs, and development costs are primary considerations in the estimation of present value. These transactions provide a more reliable

indicator of the price-to-size relationships likely to be reflected by non-timberlands.

Although neither were exposed to the market, a knowledgeable broker/developer was involved in both purchases. The two properties are generally similar with regard to soils/topography and proximity to roads/electricity. The downward adjustment indicated by a comparison of these two properties is illustrated in the following analysis.

No.	Area	$/Acre	Adj.
	120 acres	$367	
	480 acres	$219	
Indicated Difference		$148	
Indicated Downward Adjustment			-40%

We are not aware of any other "pairs" of recent transactions that are sufficiently similar to yield reliable indicators. The "pair" analyzed reflects a 4 : 1 relationship (480 to 120 acres) - identical to the relationship of 640 acres (1 section) to 160 acres. We have tested the reasonableness of the indicated adjustment (-40%) with a mathematic model that simulates the subdivision and disposition of one section (640 acres). Assumptions are developed in the following paragraphs.

It is difficult for an appraiser to project absorption for a remote coastal area that has generally not been "open" for decades. The data analyzed reflects ten transactions (9 closed) over a seven year period. Their random locations define an unusually large region in relation to the subject's locale. Eliminating aged data, the six transactions that have occurred since 1989 reflect a total absorption of approximately 975 acres - approximately 195 acres per year. Four of those are located in the Kodiak Archipelago. Assuming Comparable No. 10 would have closed, the indicated absorption of 775 acres since 1989 reflects an average of approximately 155 acres per year. The two indicators bracket the unit of comparison used in our analysis (160 acres) and suggest such an average annual absorption is not an unreasonable projection. The subject lands, nor surrounding lands, have not been available in the market and a 160 acre

absorption is not an unreasonable assumption, considering the small percentage of land typically on the market in the Kodiak Archipelago. The absorption of 160 acres per year represents a disposition of 640 acres over a period of four years. As previously noted, 640 acres (1 section) is considered to be the point beyond which further size adjustments will not be applied.

At $1,750 per acre (mean/median for strategic waterfront sites), annual gross sales are projected at $280,000 ($1,750 x 160 acres). No upward pressure on values is anticipated. Costs of sale are estimated at 10%. Survey and administrative costs can be expected to be fairly low and we have allocated $25 per acre as a miscellaneous cost. Taxes are estimated based on the current mill rate (6.75) times the projected assessed valuation. The assessed valuation is estimated at 50% of the indicated average per acre value ($1,750 per acre) in order to reflect a consideration for the large-parcel characteristic of the subjects. Net annual sales are discounted by a range of rates considered to be appropriate for low-cost remote recreational subdivisions.

Yr.	Ac.	Gross Sales	Taxes	Devel. Costs	Costs of Sale	Net Sales	PV Disc. @ 14%	PV Disc. @ 16%	PV Disc. @18%
1	160	$280,000	($3,780)	($4,000)	($28,000)	$244,220	$214,228	$210,534	$206,966
2	160	$280,000	($2,835)	($4,000)	($28,000)	$245,165	$188,647	$182,198	$176,074
3	160	$280,000	($1,890)	($4,000)	($28,000)	$246,110	$166,117	$157,672	$149,790
4	160	$280,000	($945)	($4,000)	($28,000)	$247,055	$146,276	$136,446	$127,428
		$1,120,000					$715,268	$686,851	$660,258
					Ind. Adj.		36.14%	38.67%	41.05%

The indicated adjustments range from approximately 36% to 41% and suggest that the adjustment indicated by the "pair" of sales (40%) analyzed is not unreasonable. However, recognizing that the extraction and disposition of strategic waterfront sites would require minimal additional upfront capital (no roads or utilities), the low-end adjustment based on the discount rate of 14% is considered to be more appropriate.

Using this model as a foundation (14% discount rate), size adjustments can be calculated to correspond with the amount of strategic waterfront acreage identified within the boundaries of each parcel. If a particular subject parcel has only one identifiable site (160 acres), a marketing period of one year would be reasonably probable and a relatively low size adjustment would be justified. Obviously, longer holding periods would be necessary to dispose of larger quantities of strategic acreage and higher size adjustments would be appropriate.

Size adjustments corresponding to holding periods determined by the amount of acreage are calculated in the following table:

Yr.	Ac.	Gross Sales	Taxes	Devel. Costs	Costs of Sale	Net Sales	PV Disc. @ 14%	Indicated Adjustment
1	160	$280,000	($945)	($4,000)	($28,000)	$247,055	$216,715	
160	Ac.	$280,000					$216,715	-23% (rd)
1	160	$280,000	($1,890)	($4,000)	($28,000)	$246,110	$215,886	
2	160	$280,000	($945)	($4,000)	($28,000)	$247,055	$190,101	
320	Ac.	$560,000					$405,987	-27% (rd)
1	160	$280,000	($2,835)	($4,000)	($28,000)	$245,165	$215,057	
2	160	$280,000	($1,890)	($4,000)	($28,000)	$246,110	$189,374	
3	160	$280,000	($945)	($4,000)	($28,000)	$247,055	$166,755	
480	Ac.	$840,000					$571,186	-32% (rd)
1	160	$280,000	($3,780)	($4,000)	($28,000)	$244,220	$214,228	
2	160	$280,000	($2,835)	($4,000)	($28,000)	$245,165	$188,647	
3	160	$280,000	($1,890)	($4,000)	($28,000)	$246,110	$166,117	
4	160	$280,000	($945)	($4,000)	($28,000)	$247,055	$146,276	
640	Ac.	$1,120,000					$715,268	-36% (rd)

Summary

We previously concluded a per acre value of $1,750 was supportable for a 160 acre strategic site within the boundaries of the subject. Recognizing such sites are not stand-alone parcels, it is necessary to reflect their inclusion into the whole by adjusting the indicated per acre value downward for size. Based on the analysis of size-to-price, downward size adjustments will be applied according to the following schedule:

Quantity of Strategic Waterfront Acreage Identified	Indicated Adjustment
≤ 160 acres	-23%
> 160 but ≤ 320 acres	-27%
> 320 but ≤ 480 acres	-32%
> 480 acres	-36%

According to the Work Group's "Habitat Protection Parcel Analysis", six anadromous streams have been documented while the title report provided reports there are ten. It is likely that more than four strategic sites, and therefore more than 480 acres, could be identified within the boundaries of the subject so that the upper end size adjustment would be appropriate.

Based on these analyses, the per acre value of strategic sites within the boundaries of the subject, adjusted for size to reflect their inclusion into the whole, is calculated as follows:

Indicated Per Acre Value of Strategic Sites rated "Moderate"	$1,750
Less: Size Adjustment (36%)	($630)
Indicate "Bulk" Value of Strategic Waterfront Acreage (per acre)	$1,120

VALUATION - NON-STRATEGIC WATERFRONT ACREAGE

This component is described as featuring favorable topography but without the strategic quality of a significant geographic/physical feature. This "second tier" acreage may be suitable for a variety of uses but would be at a disadvantage if "strategic" sites are available. A general description of the hypothetical "key parcel" is summarized in the following paragraphs.

Location

The "key parcel" is remote with primary access by float plane. The Work Group's recreation/tourism rating for the locale "high".

Size

Sales of small sites for which further subdividing is not probable, usually do not reflect meaningful per acre indicators as they tend to be evaluated by prospective purchasers on a "per site" basis. Larger units of comparison are more appropriate for our analysis because they are more similar to the subject with regard to possible uses - including further subdividing into more marketable parcels. There is a sufficient quantity of data for parcel sizes approximating 160 acres and we have used this unit of comparison in our analysis.

Shape

An optimum shape is generally described as having extensive water frontage in relation to depth so that further subdividing opportunities are a possibility.

Topography/Soils

Favorable topography/soils is described as moderately sloping with a high percentage of usable uplands. For the purposes of our analyses, topography is considered as favorable when the initial 100 foot contour illustrated on the United States Geological Survey (U. S. G. S) quadrangle maps, is set-back a notable distance from the waterfront so moderately sloping usable terrain is evident.

The data is summarized in the following table. Details of the properties summarized are presented in the addenda of the report.

SUMMARY OF COMPARABLE SALES

NON - STRATEGIC WATERFRONT ACREAGE

#	Region	Neighborhood	Date	Adj. CEV	Acres	$/AC
11	Southeast	Haines	11-92	$100,000	153.67	$651
12	Kenai - lower	Chrome Bay	10-86	$80,000	69.09	$1,158
13	Cook Inlet - west	Chinitna Bay	8-90	$85,101	74.96	$1,135
14	SW AK.	Eagle Bay, Iliamna	6-91	$70,000	80.00	$875
15	SW AK.	Lake Clark	2-94	$105,000	159.97	$656
16	SW AK.	Lake Aleknagik	7-93	$90,000	79.95	$1,126
17	Kodiak	Uganik Bay	6-86	$85,500	78.42	$1,090
18	Kodiak	Afognak Island	11-89	$1,064,269	273.63	$3,889
19	Kodiak	Sturgeon River	7-92	$108,167	159.97	$676
20	Kodiak	Olga Bay	10-92	$310,000	180.00	$1,722
21	Kodiak	Afognak Island	4-94	$180,000	59.98	$3,001
22	Kodiak	Uyak Bay USS 9434	listing	$352,000	159.99	$2,200

DESCRIPTION OF COMPARABLES

Comparable No. 11 - Chilkat Inlet, Southeastern Alaska (11-92)

This site is located approximately 10 miles south of Haines on the opposite side of the inlet. The site lies within the Haines State Forest and Resource Management Area approximately 1 mile east of the base of Davidson Glacier. Access by small boat is practical but the site lacks protected moorage. The site features a beachfront and fairly level, wooded topography. Merchantible timber, if any, was apparently not a factor and oil/gas rights were not conveyed. The property was purchased for speculation but the most probable use is recreation. However, water frontage in relation to depth is not favorable for extensive subdividing. The property had been listed with a Haines brokerage but the buyers reportedly negotiated directly with the seller.

Comparable No. 12 - Chrome Bay, Lower Kenai Peninsula, Alaska (10/86)

The parcel is located in the Port Chatham area of the Lower Kenai Peninsula. The "recreation/tourism" rating by the EVOS Restoration Team Habitat Protection Work Group for the general locale (ENB08) is "moderate". Access by boat is from Homer (Kachemak Bay) but the route is exposed to open-ocean.

The parcel features extensive water frontage and was purchased for subdivision into marketable recreation sites. The purchaser has reportedly sold eight lots since 1987. Merchantible timber, if any, was apparently not a factor. The topography is moderately sloping and a high percentage of the acreage is usable. The site had been previously utilized in a mining operation and the mineral rights were conveyed along with the surface estate. The buyer indicated that the acquisition of the subsurface estate effectively eliminated a potential nuisance but no portion of the purchase price was allocated (to the subsurface estate). The purchaser reportedly felt the price was below market and paid the seller's asking price. However, the offering was exposed to the market with an Anchorage brokerage for approximately six months.

Comparable No. 13 - Chinitna Bay, West Cook Inlet, Alaska (8-90)

Chinitna Bay is located on the west side of Cook Inlet, approximately 45 miles west of Anchor Point. Access by small boat is impractical much of the time due to the expanse of open water that must be crossed. The area (Iniskin Peninsula) is situated within the boundaries of the Kenai Peninsula Borough. The parcel features extensive water frontage and gently sloping wooded terrain. The site was reportedly purchased for a lodge site. Merchantible timber, if any, was apparently not a factor and only the surface rights were conveyed. The offering was advertised for four to six weeks.

Comparable No. 14 - Eagle Bay, Lake Iliamna, Western Alaska (6-91)

Lake Iliamna is a popular fly-in recreation area west of the Alaska Range. At approximately 75 miles in length, Lake Iliamna is the largest fresh-water lake in Alaska and represents the centerpiece of the premier outdoor region generally referred to as "southwestern" Alaska. The area is considered to be a "world class" trophy fishing and hunting area. The site is located at Eagle Bay, six miles east of the community of Iliamna and approximately eight miles east of the airport. The area is characterized by rolling tundra, some of which is semi-wet. However, the site features a good gravel beach and extensive water frontage. As such, it is well-suited for subdividing. There is no merchantible timber in the area and the oil and gas rights were not conveyed. The property had been exposed to the market with an Anchorage broker for approximately nine months.

Comparable No. 15 - North Side of Lake Clark, Western Alaska (2-94)

Lake Clark is located to the north of Lake Iliamna in the fly-recreation area west of the Alaska Range. The area is considered to be a "world class" trophy fishing and hunting area. The site is an inholding within the boundaries of the Lake Clark National Park and Preserve. The site features moderately sloping topography and a gravel beach. Frontage in relation to depth is considered to be average (less than optimum). There is no merchantible timber in the area and the oil and gas rights were not conveyed. The site was acquired for a personal use cabin/home site. The property had been exposed to the market with an Anchorage broker for 38 days.

Comparable No. 16 - Lake Aleknagik, Western Alaska (7-93)

Lake Aleknagik is the lower lake in the Wood River - Tikchik Lakes chain that drains into Bristol Bay at Dillingham in southwest Alaska. The area is considered to be a "world class" trophy fishing and hunting area. The site is situated on the north shore of the lake approximately six miles west of the community of Aleknagik. Access is by float-plane or riverboat. The site features undulating topography and a gravel beach along an extensive shoreline well-suited for subdividing. There is no merchantible timber in the area and the oil and gas rights were not conveyed. The site was acquired for a personal use cabin/home site. The property was exposed to the market via the BIA process. No bids were received during the initial offering and the property was purchased during the subsequent listing period.

Comparable No. 17 - Uganik Bay, Kodiak, Island Alaska (6-86)

Uganik Bay is located on the northwest side of Kodiak Island approximately 30 air miles southwest of the City of Kodiak. Primary access is by floatplane. A marine route from Kodiak would be approximately 95 miles. The locale is outside the areas rated by the Work Group but located between areas with recreation/tourism ratings of "high" (KON01) and "moderate" (AJV06). Topography is reported to be poor but the anchorage good. Water frontage in relation to depth is considered to be average (less than optimum). There is no merchantible timber on the site but the subsurface rights were reportedly conveyed. The purchasers intended use was for a personal residence and commercial fishing support base. The property was not exposed to the market. The transaction was negotiated between friends.

Comparable No. 18 - Raspberry Straights, Afognak Island, Alaska (11-89)

This sale represents an assemblage of two contiguous parcels (127 & 147 acres) fronting on Raspberry Straights approximately 25 air miles northwest of the City of Kodiak. The topography is moderately sloping and the assembled site features extensive water frontage. A small creek runs through the property but the site is not considered strategic. The waters are protected but access is poor at low tide. The estimated value of merchantible timber was reported to be the major component of the purchase price. Only the surface estate was conveyed.

The site was purchased by a Russian religious group formerly known as the Old Believers. The group intended to establish an isolated colony/community and had searched extensively for a site that offered a combination of physical and locational characteristics considered to be optimum. The purchase price was reportedly negotiated prior to any appraisals and the site had not been marketed.

Comparable No. 19 - Sturgeon River, Kodiak Island, Alaska (7-92)

This parcel is situated at the head of a tidal lagoon where the Sturgeon River empties into the Shelikof Strait. The area lies within the boundaries of the Kodiak National Wildlife Refuge on the west side of the Island approximately 90 air miles southwest of the City of Kodiak. The "recreation/tourism" rating by the EVOS Restoration Team Habitat Protection Work Group for the general locale (KON06) is "low". Access by small boat is not practical and float plane access is limited to high tides. The site occupies a bench above the lagoon/river and is suitable for an airstrip. The water frontage in relation to depth is not favorable for extensive subdividing. There is no merchantible timber in the area and only the surface estate was conveyed. The site was purchased for a guided fly-in sportfishing operation. The property had been actively marketed for nearly five years and the eventual purchase price reflected extremely favorable terms.

Comparable No. 20 - Olga Bay, Kodiak Island, Alaska (10-92)

This tract is located on Olga Bay within the boundaries of the Kodiak National Wildlife Refuge approximately 85 miles southwest of the City of Kodiak. The "recreation/tourism" rating by the EVOS Restoration Team Habitat Protection Work Group for the general locale (AKI06) is "high". The site offers extensive beachfront in a small semi-protected bay but access is complicated at low tide. Approximately 30% to 40% of the backlands are reported to be poorly drained. There is no merchantible timber in the area and only the surface estate was to be conveyed. The site was intended for a fishing lodge operation. The property had been exposed to the market with a Kodiak brokerage for approximately 5 weeks. The purchase terms required approximately one-third down ($100,000). The buyer was not able to close and the transaction fell through.

Comparable No. 21 - Afognak Island, Alaska (4-94)

The site is located on the southeasterly shore of Afognak Island fronting on Kupreanof Straight approximately 25 air miles northwest of the city of Kodiak. The topography is fairly level and the site has no water frontage. The availability of legal access from the waterfront is in question as of the date of this report. The estimated value of merchantible timber was reported to be the major component of the purchase price. Only the surface estate was conveyed.

The site was purchased by a Russian family with ties to the Old Believer colony nearby (Comparable No. 18). In spite of the site's shortcomings, it was the most proximal of available alternatives at the time. The property had not been exposed to the market. The availability of the site was communicated by word of mouth.

Comparable No. 22 - Uyak Bay, Kodiak Island, Alaska (listing)

Uyak Bay is located on the northwest side of Kodiak Island. Primary access is by floatplane. A marine route from Kodiak would be in excess of 100 miles. The site is located within the boundaries of KON02, a parcel with a Work Group recreation/tourism rating of "high". Topography is moderately steep and the shoreline features a gravel beach and extensive frontage suitable for subdividing. A small cove offers protected moorage for floatplanes and/or small boats. The ratio of water frontage to depth is less than optimum but suitable for subdividing. There is no merchantible timber in the area and only the surface estate is offered. The property was exposed to the market via the BIA process. No bids were received during the initial offering and the property is currently listed for sale.

EXPLANATION OF ADJUSTMENT PROCESS

Financing Terms

The Adjusted Cash Equivalent Value reported in the table reflects previous considerations for terms of sale and allocations for improvements or non-realty components if any (see detailed "Comp Sheets" in addenda).

Market Conditions (sale date)

Sales occurring prior to 1986 have little relevance except to establish a decline in "market" values (see Market Overview). All of the transactions summarized and analyzed occurred since mid-1986. The data reflects only spotty activity over a lengthy period of approximately 8 years. An adjustment for market conditions (time) during this period is not supported by the data and we have made no adjustment.

Conditions of Sale (motivation)

Undue stimulus and/or atypical influences, if any, are considered in the Reconciliation of Adjustments.

Real Property Rights Conveyed

The purpose of this appraisal is to estimate the market value of the fee simple interest - less oil, gas, and minerals, (surface estate). Most of the comparables reflect the conveyances of only the surface estate. If an allocation for the inclusion of subsurface rights can be determined by interviews with the buyers and sellers, downward adjustments will be made.

Zoning

The subject properties and those comparables located on Kodiak Island are subject to Borough zoning regulations. However, the zoning regulations to not adversely impact probable utilizations and we have made no adjustment.

Physical Features and Characteristics

Physical features and characteristics include; location, access; soils and topography; size and shape. Although ten transactions have been analyzed, they reflect only spotty activity over a period of approximately seven years. Due to the limited amount of data, it is extremely difficult to identify and apply reliable adjustments for various physical features and characteristics. Therefore, we

have correlated the comparables to the subject in a qualitative analysis described by the Appraisal of Real Estate Tenth Edition as a "Relative Comparison Analysis". In this analysis, various physical features and characteristics are perceived as comparable/equal, superior or inferior. This technique illustrates the relative market position of the subject. A Market Data Grid and Relative Comparison Analysis is presented on the following page.

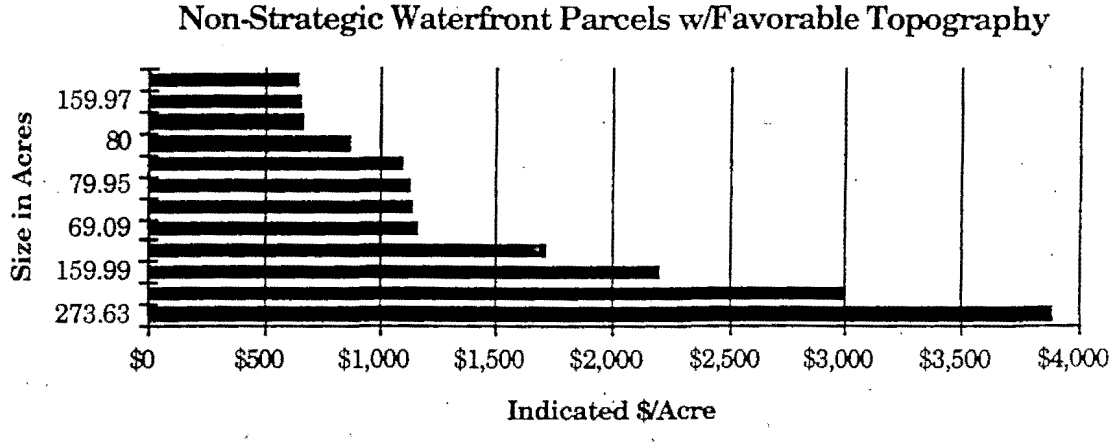
16	17	18	19	20	21	22
$1,126	$1,090	$3,889	$676	$1,722	$3,001	$2,200
7-93 *(no adjust.)*	6-86 *(no adjust.)*	11-89 *(no adjust.)*	7-92 *(no adjust.)*	10-92 offer *(no adjust.)*	4-94 *(no adjust.)*	avail. listing *(no adjust.)*
no known undue stimulus or duress *(no adjust.)*	no known undue stimulus or duress *(no adjust.)*	see reconciliation	no known undue stimulus or duress *(no adjust.)*	no known undue stimulus or duress *(no adjust.)*	see reconciliation	no known undue stimulus or duress *(no adjust.)*
Fee Simple Surface Estate *(no adjust.)*	Fee Simple including subsurface *(not allocated)*	Fee Simple Surface Estate *(no adjust.)*	Fee Simple Surface Estate *(no adjust.)*	Fee Simple Surface Estate *(no adjust.)*	Fee Simple Surface Estate *(no adjust.)*	Fee Simple Surface Estate *(no adjust.)*
$1,126	**$1,090**	**$3,889**	**$676**	**$1,722**	**$3,001**	**$2,200**
Lake Aleknagik, SW Alaska < 10,000 25 miles +/- none "high" (appraiser) *(approx. =)*	Uganik Bay, Kodiak Isl. < 20,000 95 miles +/- much of route "mod.-high" (appraiser) *(inferior)*	Raspberry Straights, Afognak Isl. < 20,000 50 miles +/- much of route "moderate" (appraiser) *(inferior)*	Sturgeon River, Kodiak Isl. Alaska < 20,000 120 miles +/- most of route "low" (Work Group) *(inferior)*	Olga Bay, SW Kodiak Isl. Alaska < 20,000 150 miles +/- most of route "high" (Work Group) *(approx. =)*	Kupreanof Straights, Afognak Isl. < 20,000 50 miles +/- much of route "mod-high" (appraiser) *(inferior)*	Uyak Bay, Kodiak Isl. Alaska < 20,000 100 miles +/- much of route "high" (Work Group) *(approx. =)*
79.95 acres *(superior)*	78.42 acres *superior)*	273.63 acres assemblage *(equal)*	159.97 acres *(equal)*	180.00 acres *(approx. =)*	59.98 acres *(superior)*	159.99 acres *(equal)*
optimum for subdividing *(approx. =)*	not favorable for subdividing *(inferior -)*	favorable for subdividing *(inferior)*	not favorable for subdividing *(inferior) -*	favorable for subdividing *(inferior)*	not favorable for subdividing *(inferior -)*	favorable for subdividing *(inferior)*
moderate slope high% of usable uplands protected lake shore *(approx. =)*	steep slope low to moderate % of usable uplands protected *(inferior)*	moderate slope high% of usable uplands & timber protected *(superior)*	fairly level bench high % of usable uplands protected *approx. =)*	fairly level moderate % of usable uplands semi-protected *(inferior)*	fairly level moderate % of usable uplands & timber unprotected *(superior)*	steep slope low to moderate % of usable uplands protected *(inferior)*
personal recreation	personal multi-use	colony	commercial recreation	commercial recreation	colony	n/a
Approx. =	**Positive**	**Negative**	**Positive**	**Negative**	**Negative**	**Negative**

Reconciliation of Adjustments

The sales price indicators and the indicated overall adjustments are summarized as follows:

No.	Location	Date	Acres	$/AC	Net Adjust.
18	Raspberry Strait Narrows, Afognak	11-89	273.63	$3,889	Negative
21	Kupreanof Strait, Afognak Island	4-94	59.98	$3,001	Negative
22	Uyak Bay, Kodiak Island	avail.	159.99	$2,200	Negative
20	Olga Bay, SW Kodiak Island	10-92	180.00	$1,722	Negative
12	Chrome Bay, Lower Kenai Peninsula	10-86	69.09	$1,158	Approx. =
13	Chinitna Bay, West Cook Inlet	8-90	74.96	$1,135	Approx. =
16	Lake Aleknagik, SW Ak.	7-93	79.95	$1,126	Approx. =
key parcel	Southwest Kodiak Island	n/a	160.00	--------	----------
17	Uganik Bay, NW Kodiak Island	6-86	78.42	$1,090	Positive
14	Eagle Bay, Lake Iliamna, SW AK.	6-91	80.00	$875	Positive
19	Sturgeon River, SW Kodiak Isl. Ak.	7-92	159.97	$676	Positive
15	Lake Clark, SW AK.	2-94	159.97	$656	Positive
11	Haines, SE AK.	9-92	153.67	$651	Positive

The comparables analyzed reflect a wide range of per acre indicators - from $649 to $3,889. The spread is illustrated in the following graph.



Eight of the twelve comparables are fairly consistent, falling within a range from $649 to $1,158 per acre. Four of the comparables are sufficiently outside the range that the reliability of their indicators ($1,722 to $3,889) is suspect.

Comparable Nos. 18 and 21 represent the extreme deviations from any market "norms" indicated by the remainder of the data. Comparable No. 18 represents the upper-end indicator for a non-strategic waterfront site. While the site may have been well-suited for the intended use, the price is not supported by other data that qualifies as adequate for purposes of estimating market value. The negotiated price appears to have resulted from a combination of influencing factors.

First, there were reportedly few alternatives that were equally suitable for their intended use. However, the buyers' criteria was atypical. The presumption that "scarcity" justifies a premium cannot be applied to the valuation of thousands of acres.

Second, merchantible timber was reported to be the major component of price. While the buyers did not intend to log the site, the presence of this resource would clearly have an impact on negotiations. Even if the buyer did not intend a commercial harvest, the timber represented an on-site source of building materials, firewood, etc. Also, a knowledgeable seller would expect a premium above the market norms reflected by the sales of non-timbered lands.

Third, the buyer's knowledge of the market is suspect. The property was not exposed to the market. And, available market data indicates that only a nominal value, if any, can be justified for cutover timberland. While the BIA was not in a position to confirm the estimated timber value, reports by other appraisers have pegged the timber component at approximately $717,000. Such an allocation would leave the cutover land component to justify a value of more than $1,000 per acre - an indicator wholly unsupported in the marketplace.

Comparable No. 21 reflects the second highest per acre indicator yet it is not a waterfront site. Like Comparable No. 18, a stand of merchantible timber was a substantial component of the negotiated price and it would be meaningless to attempt to correlate the sale to the subject properties. Nevertheless, the property had not been exposed to the market and the purchase price appears to be above-market - particularly given the per acre prices indicated by the sales of waterfront parcels. Aside from the significance of the timber component, the site is dramatically inferior in terms of physical features and characteristics to

virtually all of the other comparables analyzed. The site did not have access to/from the waterfront and the legality of the negotiated access is currently in question. A location proximal to Comparable No. 18 was a primary motivator and the purchaser reportedly had few, if any, suitable alternatives from which to choose.

Although both of these transactions represent closed sales resulting from arm's length negotiations, neither are relevant to the valuation of the subject. First, as land with merchantible timber, they are not similar to the subjects. Second, further colonization by this group, if any, is likely to occur in the same area. In other words, the subject neighborhood is not likely to benefit from the emergence of this small market segment. Finally, without market exposure, there is no assurance of an optimization process toward the free and open market norms suggested by the other data. In summary, no weight can be given to these transactions in the final analysis of the subject "key parcel".

Comparable No. 22 represents an available listing. While the parcel has many desirable attributes, data from the previous analysis suggests that only geographically/physically strategic parcels can be expected to realize such a price after a reasonable exposure period. Negotiated prices are most often for less than the asking price and no weight can be given this comparable. The upper end of an appropriate range for the subject is suggested by the remaining data.

Comparable No. 20 was reported as an agreement to purchase that failed to close because the buyer could not perform. A price of $310,000 ($1,722/acre) was to be paid with a large down ($100,000) and an amortized balance over 21 years (approx.) at 10%. Negotiations were arm's length and the offer followed a market exposure period. The buyer was knowledgeable and the site was to be acquired for an economic use. However, any consideration of the offer must be tempered by an acknowledgment the transaction failed to close and all of the other data reflects lower per acre indicators. Based on these observations, Comparable No. 20 can only represent the extreme upper-end of an appropriate range for the subject.

The remaining eight comparables reflect a range of per acre indicators from $651 to $1,158 and suggest two distinct stratas of value related to size. Five parcels

ranging in size from approximately 70 to 80 acres reflect a value range from $875 to $1,158 per acre. Three parcels ranging in size from approximately 154 to 160 acres reflect a value range from $651 to $676 per acre. The average per acre indicator of the three larger tracts is nearly 40% less than the average of the five smaller tracts. Based on these observations, it is not unreasonable to conclude that significant concessions are necessary to dispose of acreage in denominations of 160 acres. Non-strategic acreage, even with favorable topography, is less likely to attract large commitments of capital in relation to strategic sites that are suitable for the greatest number of alternative uses.

However, the significance of the indicated size-to-price relationship is diluted by further review of the data. The low-end of the range is represented by Comparable No. 11. The parcel is not well-suited for subdividing and the water frontage is exposed to open ocean - inferior characteristics. Comparable No. 15 reflects a similar low-end indicator. The water frontage to depth ratio is less than optimum for subdividing. Furthermore, the seller accepted an offer after only 38 days on the market. The broker confirmed the seller was somewhat motivated and a higher sales price would probably have been achievable with a longer marketing period. Although both of these parcels contained approximately 160 acres, their per acre indicators are below an appropriate range for the subject.

Comparable No. 19 is another 160 (+/-) parcel but located in the same general locale as the subject. It represents a recent acquisition by a developer/entrepreneur after the offering had been exposed to the market. The site is similar in size to the subject but inferior with regard to shape (not favorable for subdividing) and location (rated "low" by the Work Group). Based on these features and characteristics, the indicated per acre value of $676 is considered to be below an appropriate range for the subject. A nominal upward adjustment of 10% to 20% for these deficiencies would indicate a per acre value range from $744 to $811 for a 160 parcel. Based on these observations, $800 per acre is considered to be the low-end of an appropriate range within which the subject is fairly represented.

An appropriate upper-end indicator is represented within a narrow range established by Comparable Nos. 12, 13, and 16 - $1,126 to $1,158 per acre. Although all are smaller than the 160 acre unit of comparison (key parcel), various inequalities tend to offset size considerations so that an upper-end value of $1,150 per acre is supportable for a 160 acre parcel exhibiting a favorable combination of positive attributes (key parcel).

Correlation of the Key Parcel

Comparable Nos. 12, 13, 16, and 19 establish a tight range of value from $800 to $1,150 per acre for non-strategic 160 acre parcels featuring favorable topography. The indicated per acre values reflect the influence of numerous variables. As such, the isolation of reliable considerations for location, size, and other physical features and characteristics would be extremely difficult. In order to recognize the relationship of the various locales of the subjects to each other, we have correlated the Work Group's recreation/tourism ratings with the indicated range of values. The indicated values are summarized as follows:

Work Group Recreation/Tourism Rating	Indicated $/Acre
"High" (hypothetical "key parcel")	$1,150 per acre
"Moderate"	$975 per acre
"Low"	$800 per acre

The Work Group's recreation/tourism) rating for the subject is "moderate" and $975 per acre is considered to be an appropriate value indicator for this component. Recognizing this acreage does not represent a stand-alone component, it is necessary to reflect its inclusion into the whole by adjusting the indicated per acre value downward for size.

In the previous analysis, progressive size adjustments were developed depending on the quantities of component. Based on the extent of the subject's shoreline that could be so categorized, the upper end size adjustment would be appropriate (36%). The size adjustments were based on an analysis in which absorption is projected at 160 acres per year. However, three of the non-strategic comparables located in the Kodiak Archipelago (Nos. 18, 19, & 21) reflect an average annual absorption of only 100 acres (+/-) over the past five years. On the other hand,

eight closed sales (Nos. 11, 13, 14, 15, 16, 18, 19, & 21) that have occurred during the past five years (including Kodiak transactions) indicate an average annual absorption of approximately 210 acres.

The indicators are inconclusive and we recognize that the data used in our analysis does not represent all of the acreage absorbed. Furthermore, absorption is sensitive to numerous variables including the availability of acreage in areas that have been essentially "closed" for decades. Nevertheless, it is not unreasonable to conclude that the absorption of non-strategic waterfront acreage would be slower than the absorption of strategic sites and downward adjustments of greater magnitude would be appropriate. For the purposes of our analysis, we have made a downward adjustment of 40%.

Based on these analyses, the per acre value of this component, adjusted for size to reflect its inclusion into the whole, is calculated as follows:

Indicated Per Acre Value of Non-Strategic Waterfront featuring favorable topography rated "Moderate"	$975
Less: Size Adjustment (40%)	($390)
Indicate "Bulk" Value of Strategic Waterfront Acreage (per acre)	$585

VALUE ESTIMATE -*NON-STRATEGIC WATER FRONTAGE FEATURING UNFAVORABLE TOPOGRAPHY & CONTIGUOUS BACKLANDS*

Traditional land use patterns in coastal environments reflect concentrations along the waterfront. Individual Native allotments in coastal areas have been selected along the waterfront with rare exception - most often in protected waters near reliable food resources. The sales histories of remote waterfront subdivisions in most Alaskan locales confirm that demand for non-waterfront sites/parcels is little to none. Based on these observations, it is not unreasonable to conclude that remote backlands have only a nominal value in relation to waterfront land. However, rugged topographical features render much of the waterfront acreage of no more utility than that of non-timbered backlands. This third component is described as "non-strategic water frontage featuring unfavorable topography and contiguous backlands".

Adequate market data for truly similar remote Alaska properties is nearly non-existent. As a result, a direct comparison of "comparables" is not practical and a narrative evaluation is necessary. In this narrative, we have used data from various submarkets to identify, and then narrow, ranges considered to be appropriate for the value of the subject.

The Lower Kenai Peninsula offers Alaska's best example of a free open market for sizable tracts of acreage. The sales summarized in the following table reflect an active market with numerous buyers and sellers. All are generally similar in that they have no improved access nor electricity. The properties were acquired for a variety of uses.

#	Location	Date	Adj. CEV	Acres	$/AC	Intended Use
23	Anchor Point	8-90	$450,000	2,220	$203	recreation subdivision
24	Anchor Point	12-91	$44,000	120	$367	rural residential subdivision
25	Happy Valley	2-92	$15,000	80	$188	rural homesite
26	Anchor Point	10-92	$105,000	480	$219	recreation subdivision
27	Anchor Point	4-93	$95,000	520	$183	selective logging & subdivision
28	Anchor Point	5-93	$70,000	361	$194	selective logging & subdivision
29	Anchor Point	8-93	$140,000	560	$250	selective logging & subdivision
30	Homer	8-93	$235,000	600	$392	farm/ranch homestead

The properties are sufficiently different from the subject that a direct comparison of numerous physical features and characteristics is not practical nor necessary. However, the data is meaningful because it establishes a range of per acre indicators - for sizable tracts of land that are suitable for uses that assure a degree of marketability. The comparables reflect a range of per acre values from $183 to $392 per acre. Indicators reflected by these eight recent transactions are summarized in the following table:

Range	$183 to $392 per acre
Mid-Point of the Range	$288 per acre
Mean	$250 per acre
Median	$211 per acre
6 of the 8 reflect indicators of	$250 per acre or less
5 of the 8 fall within a narrow range from	$183 to $219 per acre

Comparable Nos. 23 through 30 are located in close proximity to the State highway system that serves nearly 300,000 residents of Southcentral Alaska. Electricity lines and community services are nearby. Given the unusable nature of the majority of the subject's acreage (steep terrain, remote), a general range of $200 to $400 must be considered to be above an appropriate range for the subject.

The overwhelming majority of the subject's non-strategic waterfront and contiguous backlands consists of terrain - generally unsuitable for any economic use. "Speculation" fairly describes the current Highest and Best Use of property types unsuitable for any other economic use - most wetlands, featureless tundra, mountains, and cut-over timberland. For such property types, economics dictate that only casual gambles of surplus capital can be justified for potential not likely to be realized in our lifetimes. The present value (investment) that can be justified for distant potential benefits is simply not measurable and only a nominal value may be supportable.

Cut-over timberland, not in the path of encroaching residential or commercial development, may not be productive until trees near maturity - more than 50 years from re-seeding. Yet cut-over timberland may offer the most promising speculative prospects. At least the resource should regenerate given time.

The data in the following table reflects the perceptions of buyers of Alaska timberlands. Interviews with the purchasers reflect a range of indicators typically allocated to cut-over land.

SUMMARY OF COMPARABLE SALES
CUTOVER TIMBERLAND ALLOCATIONS

#	Location	Date	Adj. CEV	Perceived Value of Timber	Acres	Residual Allocated to Cut-over Land
31	Prince of Wales Isl. in SE AK	1-89	$650,000	$650,000	138.60	$0
32	Wadleigh Isl. near Klawock in SE AK	7-89	$1,000,000	$1,000,000	623.43	$0
33	Edna Bay near Wrangell in SE AK	7-89	$400,000	$400,000	512.00	$0
34	Johnson Creek near Juneau in SE AK	5-91	$125,000	$125,000	229.10	$0
35	Copper Harbor in SE AK	12-91	$800,000	$800,000	340.70	$0
36	Fidalgo Bay near Valdez in PWS	4-92	$92,000	$52,000	264.18	$50 to $100
37	Gravina Island in SE AK	2-93	$347,000	$347,000	190.40	$0 to $100

The data reflects a range of indicators from $0 to $100 per acre for cut-over timber land - a range of nominal values for land not likely to be productive or otherwise provide utility for an extended term.

We recognize that low allocations of value to cut-over land serve to minimize holding costs (taxes) for cut-over land. However, the available data indicates that market prospects for cut-over land are extremely poor and it is not unreasonable for buyers of Alaska timberlands to expect a satisfactory return of, and on, their investment - from the stumpage alone. The fact that the sellers did not retain ownership of the cut-over land supports the allocation.

Nevertheless, a zero value allocated to cut-over land is unrealistic. Remote speculative land in Alaska would have at least a novelty value. If nothing else, the future potential for cut-over land, however limited, represents a bonus or incentive that may cushion or minimize the risk of a volatile timber industry. It is not uncommon for timber volumes to prove less than original estimates.

Mr. Larry Blydenstein of MRGC Timberland (Comparable No. 37) indicated that $100 per acre would represent the upper-end of a range of speculative values that could be attributed to remote cut-over land in Alaska. Mr. Rice, of Citigreen Inc. (Comparable No. 36) reported that his company usually assumes a residual value of between $50 and $100 per acres. Mr. Claire Doig, of Forest and Land Management Inc., (Seattle) is familiar with Comparable No. 36 and indicated that $100 would represent the extreme high-end value that could be attributed to the cut-over land. The lengthy regeneration cycle typical of Alaska's timber and the lack of a market for cutover land (in Alaska) were cited as limiting factors.

The indicated range of $50 to $100 per acre is bracketed by the analysis of the recent acquisition of timberlands by the EVOS Trustee Council at Seal Bay and Tonki Cape on Afognak Island. The analysis reflects a range of values allocated to the cut-over timberland from $0 to $128 per acre depending on perspective. However, acknowledging the net result of the transaction, the upper-end of this range is not supportable.

In summary, it is not unreasonable to conclude that $50 to $100 per acre is an appropriate range of nominal values within which this third component is fairly represented. This range is supported by a recent lease of a large tract in the Matanuska-Susitna Borough (Southcentral Alaska) for a major ski resort. Comparable No. 38 is summarized in the following table.

#	Region	Neighborhood	Date	Adj. CEV	Acres	$/AC
38	Southcentral	Hatcher Pass	1993	$1,330,000	10,634	$125

The transaction provides a meaningful indicator because the lessee is a private sector entrepreneur/developer. Furthermore, although not conventionally marketed, land in Hatcher Pass has generally been available for several years. Over the past twenty years, several projects have been proposed by various entrepreneur/developers. The lease provides a relevant indicator of a "base" value of land generally unsuitable for most economic uses. There is no merchantible timber on the property and much of the terrain consists of mountain slopes. The per acre indicator of $125 per acre is illustrative of large-scale land-use economics in Alaska.

However, in a direct comparison with the subject, a downward adjustment would be appropriate. First, the location of the tract is dramatically superior to the subject. The area is already established as a popular outdoor recreation area that can be accessed by vehicle. The population base within a 50 mile radius exceeds 260,000. Secondary and peripheral opportunities will be plentiful if the resort is developed as proposed.

Second, the value indicator for the overall tract (10,634 acre) reflects the impact of strategic sites suitable for commercial and residential development. In this analysis, we are seeking only the value of the non-strategic acreage. Higher value components have been valued in previous sections.

Finally, although an agreement has been reached, the entrepreneur/developer has not been able to raise the capital necessary to undertake the proposed project. In summary, the indicator derived from the negotiated lease supports the lower range previously indicated - $50 to $100 per acre.

Summary

Based on our analyses and observations, it is our opinion that the value of this component is fairly represented within a range from $50 to $100 per acre.

We acknowledge that there is a nominal price that someone would pay, even for non-productive land not likely to be suitable for any economic use for an extended term (other than speculation). However, it is difficult to further narrow this range.

On one hand we recognize the limitations imposed by remoteness, rugged topography, and harsh climatic conditions. Based on these observations, the low-end of the range may be more realistic. On the other hand, the price level that might attract speculative, if not novelty, investments in large tracts of remote Alaska acreage (say, ≥ 640 acres - 1 section), generally unsuitable for most economic uses, has not been suggested by any market "test" that we are aware of. Marketed offerings of remote Alaska land in large denominations are extremely rare - let alone revealing cases where the property is allowed to remain on the market, at periodically reduced prices, until its purchase can be justified by a private sector buyer.

In conclusion, it is our opinion that $100 per acre is an appropriate estimate of the nominal value of the subject's "non-strategic waterfront acreage featuring unfavorable topography and contiguous backlands". We have made no adjustment for size as the indicated nominal value was derived from Comparables reflecting a range of parcel sizes that included bulk acreage.

SUMMARY OF PER ACRE VALUE INDICATORS

Representative component values are summarized in the following table.

	Supportable "bulk" value of non-timberland
Strategic Waterfront Sites (to an average depth of 1/4 mile)	$1,120 per acre
Non-Strategic Waterfront Acreage Featuring Favorable Topography (to an average depth of 1/4 mile)	$585 per acre
Non-Strategic Waterfront Acreage w/Unfavorable Topography & Backlands	$100 per acre

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TIMBER APPRAISAL
SHUYAK ISLAND

26,624 Acres
Kodiak Island Borough, Alaska

Effective Date: September 1, 1994

Total Appraised Value: $24,000,000.00
($901.44/acre, $110.96/MBF)

Submitted: November 16, 1994

Prepared by: Timothy R. Manley
Property inspections, data collection and analysis performed by: Timothy R. Manley, Todd Hansen, Dennis Callegari, Brad Bailey, and Eric Haller.

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I. SUMMARY OF SALIENT FACTS

Timber Ownership:	Kodiak Island Borough	
Property Name:	Shuyak Island.	
Location of Property:	Shuyak Island, South Central Alaska, 50 miles North of Kodiak, Alaska.	
Property Acreage:	26,624 acres.	
Property Description:	Marine to subalpine environments. Approximately 80 percent of which is timberland, comprised of old growth Sitka spruce.	
Interest Being Appraised:	Fee simple timber rights, including rights to harvest and construct harvest related improvements.	
Improvements:	None.	
Effective Date of the Appraisal:	September 1, 1994.	
Estimates of Value:	Cost Approach	Not Applicable.
	Income Approach	$24,000,000.00
	Sales Comp. Approach	Not Applicable.
Final Estimate of Value:	$24,000,000	

II. ASSUMPTIONS AND LIMITING CONDITIONS

The following limiting conditions are material to this analysis:

A. Limit Of Liability: The liability of the appraiser and employees is limited to the client and to the fee collected. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of limiting conditions and assumptions of the appraisal. The Appraiser assumes no responsibility for any costs incurred to discover or correct any deficiencies of any type present in the property; physically, financially and legally.

B. Copies, Publications, Distribution, Use of Report: Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report remains the property of the appraiser for the use of the client; the fee being for the **analytical services only.**

The Bylaws and Regulations of the American Society of Farm Managers and Rural Appraisers requires that each Member or Candidate control the use and distribution of each appraisal report signed by such Member or Candidate. Except as hereinafter provided, the client may distribute copies of this appraisal report in its entirety to such third parties as he may select, however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatory of this appraisal report. Neither all nor any part of this appraisal report shall be disseminated to the general public by use of advertising media, public relations, news, sales or other media for public communication without the prior written consent of appraiser.

C. Confidentiality: This appraisal is to be used only in its entirety and no part is to be used without the entire report. All conclusions and opinions concerning the analysis set forth in the report were prepared by the Appraiser whose signature appears on the report, unless indicated as "Review Appraiser". No change of any item in the report shall be made by anyone other than the Appraiser. The Appraiser shall have no responsibility if any such unauthorized change is made.

The Appraiser may not divulge the material (evaluation) contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designee as specified in writing except as may be required by the American Society of Farm Managers and Rural Appraisers as they may request in confidence of ethics enforcement, or by court of law or body with the power of subpoena.

D. Trade Secrets: This appraisal was obtained from Timothy R. Manley, of Pacific

Forest Consultants, Inc., Oregon Certified Appraiser and Forester and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempted from disclosure under 5 U.S C. 552 (b) (4). Notify the appraiser signing the report of any request to reproduce this appraisal in whole or part.

E. Information Used: No responsibility is assumed for accuracy of the information furnished by the work of others, the client, his designee, or public records. The appraiser is not liable for such information. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other sources thought reasonable; all are considered appropriate for inclusion to the best of the appraiser's factual judgement and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to timber inventory and market related information. It is suggested that the client consider independent verification as prerequisite to any transaction involving sale, lease, or other significant commitment of funds for the Subject Property.

F. Testimony and Completion of Contract Appraisal Services: The contract for appraisal, consultation or analytical services are fulfilled and the total fee payable upon completion of the report. The appraiser, or those assisting in preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or part, nor engage in post appraisal consultation with client or third parties except under sperate and special arrangement and at additional fee. If testimony or deposition is required because of subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

G. Exhibits: The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if included, are included for the same purpose as of the date of the photos. Site plans are not surveys unless shown from a separate surveyor.

H. Legal, Engineering, Financial, Structural, Mechanical, Hidden Components, Soil: No responsibility is assumed for matters legal in character or nature, nor matters of survey, architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report.

The legal description is assumed to be correct as used in this report as furnished by the State of Alaska.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement and drainage (seek assistance from qualified architect and/or engineer); nor matters concerning liens, title status, legal marketability (seek legal assistance). If this appraisal is performed for financing purposes, the lender and owner should inspect the property before disbursement of any funds; further it is likely the lender or owner may wish to require mechanical or structural inspections by a qualified licensed contractor, civil or structural engineer, architect, or other expert.

The appraiser has inspected as far as possible by observation, the land and timber; however, it is not practical or possible to personally observe the whole of the Subject Property or conditions beneath the soil. The value estimate considers there being no such unobservable conditions that would cause loss in value. The timber subject to this appraisal appears healthy and sound, however outbreaks of forest pests and disease in the area could occur. The appraiser does not warrant against condition or occurrence of problems arising from environmental conditions.

The appraisal is based on there being no hidden, unapparent, or apparent conditions of the property site, subsoil, or structures or toxic materials which would render it more or less valuable. No responsibility is assumed for any such conditions or for any expertise or engineering to discover them.

I. Legality of Use: The appraisal is based on the premise that there is full compliance with all applicable federal, state and local environment regulations and laws unless otherwise stated in the report; that all applicable zoning, building, and use regulations and restrictions of all types have been compiled with unless otherwise stated in the report. Further, it is assumed that all required licenses, consents, permits or other legislative or administrative authority by local, state, federal and/or private entity or organizations have been or can be obtained or renewed for any use considered in the value estimate.

J. Inclusions: Equipment or personal property or business operations except as specifically indicated and typically considered as a part of real estate, have been disregarded with only the real estate (i.e. the standing timber) being considered in the value estimate unless otherwise stated.

K. Proposed Improvements, Conditioned Values: Improvements proposed, if any, on or off-site, as well as any repairs required are considered, for purposes of this appraisal, to be completed in good and workmanlike manner according to information submitted and/or considered by the appraisers. This estimate of market value is as the date shown, as proposed, as if a transaction were completed and a timber harvest program was operating at levels shown and projected.

L. Value Change & Alteration of Estimate by Appraiser: The estimated market value, which is defined in the report, is subject to change with market movement over time; value is highly related to exposure, time, promotional effort, log markets, motivation, and conditions surrounding the offering. The value estimate considered the productivity and related attractiveness of the property physically and economically in the market place as it contributes to an economic or social need.

In cases of appraisals involving capitalization of income benefits, the estimate of market value is a reflection of such benefits and the appraisers interpretation of income, yields, and other factors derived from general or specific client and market information. Such estimates are reported as of a specific date; they are thus subject to change since the market and value are naturally dynamic.

M. Management of the Property: It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management; neither inefficient nor superefficient.

N. Changes and Modifications: This appraisal report and value estimates are subject to change if physical, legal entity, market conditions, or financing different than envisioned at the time of writing this report becomes apparent at a later date. The appraiser reserves the right to alter statements, analysis, conclusion or any value of estimate in the appraisal if there becomes known to the undersigned facts pertinent to the appraisal process which were unknown to the appraiser at the time of report preparation.

O. Timber Inventory. The timber type acreage and timber inventory information presented in this appraisal is assumed to be accurate. Although there may be instances of inaccurate volume and species composition estimates portrayed in individual timber types of the inventory, the whole of the timber inventory is deemed to be reliable, however, *THE TIMBER INVENTORY IS AN ESTIMATE* and the appraiser assumes no liability for the true accuracy of the timber inventory.

P. Threatened, Endangered and Sensitive Species. The effects of measures taken to protect the bald eagle and anadromous or high-value resident fish has been estimated to be the withdrawal from timber production of approximately 240 acres. Nevertheless, the appraiser assumes no responsibility for differences in this estimate and actual management requirements enforced by any state or federal agency.

Q. Export Restrictions. All timber values are appraised as being fully private without export restrictions. It is the judgement of the appraiser that export restrictions affecting the Subject Timber will not be implemented by any state or federal agency. The potential for the application of export restrictions to the Subject Timber was not considered in this appraisal.

R. Acceptance of and/or use of this appraisal report by the client or any third party constitutes acceptance of the above conditions.

II. OBJECTIVE OF THE APPRAISAL

A. Purpose. The purpose of this appraisal is to estimate the market value of the timber resources of the Kodiak Island Borough's ownership on Shuyak Island as of September 1, 1994.

B. Function. This report has been requested by Mr. Richard M. Goossens, Regional Appraiser, Alaska Region, USDA Forest Service, (through Mr. David Lau, Lau and Associates, Inc.) in order to provide a third party estimate of timber value to be reported to the Exxon Valdez Oil Spill Trustee Council.

C. Definition of Market Value. The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to buyer under conditions whereby:

1. The buyer and seller are typically motivated;

2. Buyer and seller are well informed or well advised, and acting in what they consider their own best interests;

3. A reasonable time is allowed for exposure in the open market;

4. Payment is made in terms of cash in U.S. dollars, or in terms of financial arrangement comparable thereto; and

5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.[1]

In addition to this definition, market value for the sale of timber only, includes all rights necessary to harvest the timber such as the rights to work on the property during a normal operating season, rights to construct roads, landings, log transfer facilities, camps, moorage, and other improvements, the right of ingress and egress for harvest purposes, and other related rights.

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[1] *Federal Register,* vol. 55, no. 163, August 22, 1990, pages 34228 and 34229. This is the definition generally used in conjunction with transactions subject to the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

D. Property Rights Appraised. The property rights appraised in this report are those timber harvest rights and interests held by the property owner in fee simple title.

E. Present Ownership of the Subject Property. The property on which the Subject Timber is located is currently owned by the Kodiak Island Borough (KIB). Previously the property was owned by the U.S. Government. The State of Alaska's Municipal Entitlement program was the vehicle for the transfer of ownership to KIB. A selection process and legal agreement between the State and KIB culminated on June 19, 1981 with most of the Property identified in this process. The last pieces of the current KIB ownership on Shuyak Island was put in place in 1985 with a land exchange between KIB and the State of Alaska.

F. Date of Value Estimate. The date of value estimate is September 1, 1994. Property inspections were performed during the months of July, August & September , 1994.

G. Legal Description. See Appendix A, Draft Title Report - Shuyak Island Acquisition. This list contains lands located in the State of Alaska, referenced from the Seward Meridian, containing approximately 26,624 acres, dated September 6, 1994, prepared by the State of Alaska.

IV. MARKET AND AREA ANALYSIS

The information presented in this section is designed to provide a framework for comparing the Subject Timber with properties of comparable characteristics, and for the analysis of the unit attributes of the Subject Timber with the market values of those units. With these facts in hand, assumptions necessary to the determination of market value can be made in light of overall expectations about the current and future timber market.

A. The Timber Market. The term "timber market" suggests a homogeneous group of buyers and sellers involved in the sale of a homogeneous product (i.e. land and timber or only standing timber). Depending on the subject timber, its location, and the individuals or firms involved, however, the specific "timber market" may vary greatly between regional norms and averages.

The market area that we are concerned with here is that of the Subject Timber. This area extends from Southeast Alaska, to the North generally no further than the northern reaches of Prince William Sound, and to the Southwest to Afognak and Kodiak Islands. From time to time there may be minor exceptions to this area delineation.

There are no sales of record that are comparable to the Subject Timber. All data reflects sales of considerably less volume, less acreage, sales containing export restrictions, and sales far removed geographically from the Subject.

By means of examples however, Table 1, below presents the results of two timber sales within the overall market area, that contain some elements similar to the Subject. For the general location of these sales see Exhibit 3.

TABLE 1
Market Area Timber Sales

Sale #	Sale Name	Sale Date	Volume in 1,000 board feet (MBF)		Volume (MBF)	Price/ MBF	Total Price
			Spruce	Hemlock			
1	Port Graham	12 - 1993	6,015	0	6,015	$101	$607,515
2	Kelsall Relay	5 - 1994	5,293	1,947	7,240	$201	$1,455,200

Most of the timber harvest activity on private lands has been conducted under management agreements, rather than timber sales. Management agreements are typically negotiated between the land/timber owner and the timber manager/purchaser. Various arrangements are made for profit and risk assignments between the owners and managers.

1. The Land & Timber Owners. There are several different types of timber sellers, all of which can have an effect on the market value of timber.

a. Alaska Native Corporations. In the market of the Subject this group of sellers makes up the vast majority of privately held timber resources. Sealaska, Klukwan and many others have been active in selling timber in Southeast Alaska for many years. In the Prince William Sound Eyak, Chugach Alaska, Chenega and Tatitlek all have significant timber resources but have generally been active only recently. On Afognak Island native corporations have been harvesting timber since the late 1970's. The Afognak Native Corporation, Ouzinkie Native Corporation, and the Natives of Kodiak have harvested considerable volume of timber. When timber is sold by Native Corporations it is generally on a freight at ship (FAS) basis. Traditional timber sales represents a very small percentage of the total harvest. (Timber sales are transactions of real property involving standing timber. The buyer of the timber sale is generally responsible for removing all designated timber and the costs associated with it. The value paid for timber sales is referred to as stumpage.)

All of the timber harvest activity conducted by Native Corporations in the Prince William Sound has been marketed on a FAS basis.

b. Other Private Landowners. Generally small woodland owners market directly to timber buyers. Native allotments and other privately held land that fit into this classification, comprise an insignificant amount of the regional timber resources.

Because of the high costs of operations and transportation, most small woodland operations are not commercially feasible. The major exceptions are when a small ownership is in the immediate area of an ongoing operation or where a small ownership is in close proximity to a processing or shipping facility.

c. Federal, State and Local Government. The timber supply of the U.S. Forest Service, makes up the largest single source of timber. The Chugach National Forest, which encompasses the Prince William Sound, has no plans to harvest timber other than extremely small volumes of predominately salvage material. The current land base of this Forest does include lands comparable to the Subject, but current management direction generally precludes intensive timber harvest.

The Alaska Department of Natural Resources, Division of Forestry controls

significant acreage of timber resources, as does the University of Alaska, but these agencies are not a major factor in the supply of forest products. Several boroughs own and manage significant areas of commercial timberlands, but are generally not a significant factor in influencing the timber market. Most government timber, other than borough, is sold through a process of timber sales or long term contracts..

2. Timber Buyers. There are two types of buyers, direct and indirect. Direct buyers are those firms involved in the manufacture of lumber and fiber products, and/or those that sell directly to foreign timber purchasers. In Alaska and the Pacific Northwest direct buyers are the primary purchasers of timber and timber sales. As of the effective date of this analysis, the largest direct timber purchasers include Alaska Pulp, Ketchikan Pulp, Klukwan, Metlakatla, Rayonier International, Sealaska, Wasser & Winters, and others. Direct buyers are often referred to as users.

The vast majority of timber harvested from private lands in Alaska is intended to be sold in the export market. Nearly all of the direct purchasers in Alaska market logs to primarily Pacific Rim Countries, such as Japan, China, Korea, and Taiwan. Generally this marketing is done on a purchase order basis, with short time frames for delivery. This market is volatile and in its mechanisms similar to most commodity markets.

Indirect buyers are those that purchase timber with the intention of reselling the timber to one or more of the direct users of timber. These buyers include loggers, timber brokers, and other individuals that may purchase standing timber for speculative investment or immediate harvest. These indirect buyers are generally not able to compete in the open market with direct buyers, and would not be considered as potential purchasers of the Subject Timber.

3. Characteristics that Influence Value. The price paid for timber is ultimately determined by the intended use of the final product and the total effort required to obtain, manufacture, and deliver that product. The most important elements in this equation are the supply of timber, the demand for timber and the ultimate product, the physical characteristics of the subject timber, the political constraints to harvesting and processing timber, and the location of the subject timber relative to the users of timber.

a. Supply of Timber. Given a particular level of demand for timber, for domestic processing and export, fluctuations in the availability in supply will affect the price that an informed buyer is willing to pay. In addition to the

physical presence of timber in any area, there may also be seasonal fluctuations in availability of timber for harvest. In the winter, snow and heavy rain may bring harvesting to a halt, or may require additional expenditures for road construction and maintenance.

The relative proportion of mature timber in the general area has been steadily decreasing, although the standing volume on private lands in the market area of the Subject is roughly 4 billion board feet.

Since 1989, when timber harvest operations in the Prince William Sound began on a large scale, the volume of logs supplied from the Market Area of the Subject has varied from 75 million board feet to 150 million board feet per year. In the immediate area of the Subject, (i.e. Afognak Island) average annual production of logs has been in the order of 80 million board feet per year. These production figures make up a small percentage of the total production of western hemlock and Sitka spruce in the Pacific Northwest.

The total volume of logs exported from the Anchorage Customs District Since 1989 through 1993 has varied from 643 to 528 million board feet per year. The total volume of western hemlock and Sitka Spruce exported from the United States during this period ranged from a low of 1,144 million board feet in 1989 to a high of 1,817 million board feet in 1993.

Increasingly, log supply is a world wide issue. Logs from New Zealand, Chile, Australia, and others have made some advances in the market areas of pulp wood and low grade logs. These countries do not, however, supply a significant volume of high quality logs.

In other areas of the world where higher quality logs are found, the supply of harvestable material is generally highly constricted. The political decisions in the United States have nearly eliminated public wood supplies from the export market. British Columbia has recently changed management emphasis affecting enormous areas of commercial forestland that have resulted in reduced harvest projections for the immediate period, and appears to be entering a trend of implementing further harvest restrictions.

The Russian Far East contains a vast supply of old growth timber, however, it generally yields very small logs. Furthermore, there are significant problems to be overcome before production in the Russian Far East can be a major factor in the world market. The two most important factors are the lack of infrastructure, and the dubious political and business environment. In 1993 Russian Far East timber supplied approximately four percent of Japan's wood consumption. While it is expected that there will be nominal growth in the

volume shipped from the Russian Far East, many experts believe that it will be ten to fifteen years before log exports from this area can have a serious effect on market structure.

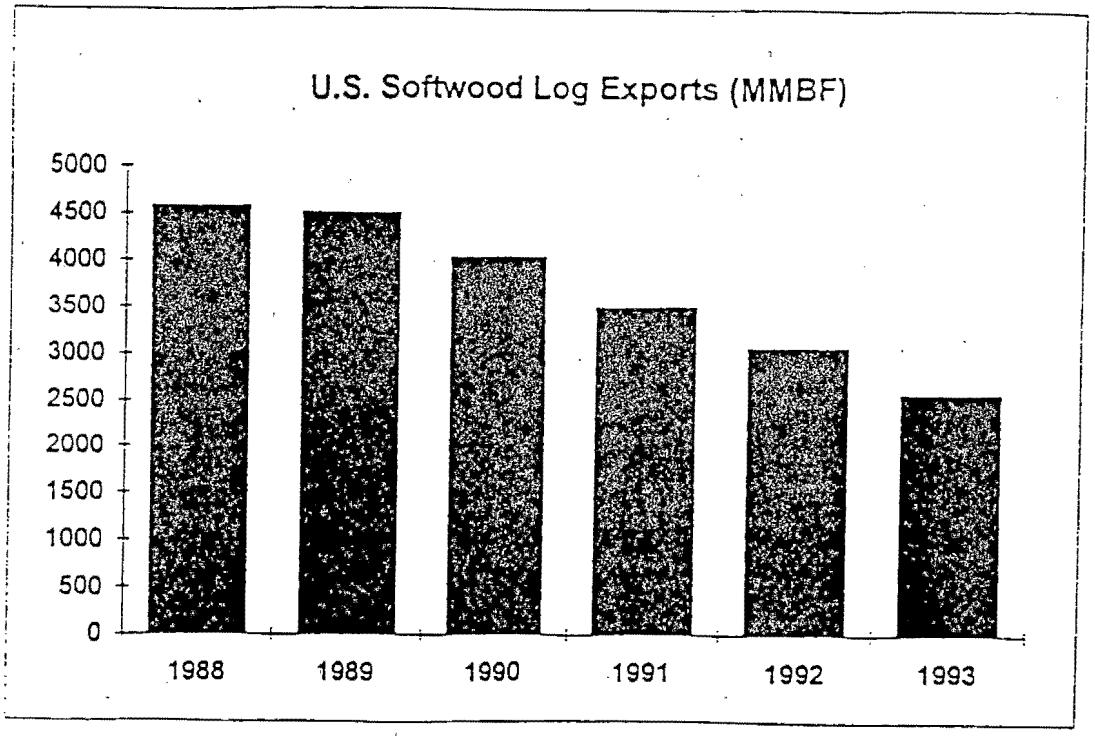
b. Demand for Timber and Wood Products. The regional demand for timber, and the number of timber users actively purchasing timber will also affect the price an informed buyer is willing to pay. Because of the large distance from the Subject to timber processors and export operations, this region generally has a soft demand for low quality timber, which is more readily available from closer sources.

The primary advantage that the Subject timber market has over other markets is its predominance in old growth timber. High quality logs are still very much in demand on the export market, and it is expected that a premium will be paid for these logs for many years to come.

Currently, the overall demand for timber products during the short run is expected to remain fairly stable. Earlier in this year demand projections foresaw a moderate increase for the remainder of 1994. A five year high in US Housing starts and an expectation of revitalized European and Japanese economies were the major factors driving these projections. So far this moderate increase has not been seen. In fact, current log prices and projections for the fourth quarter of 1994 are expected to be lower than those at the beginning of 1994. Nevertheless, the demand during the next five years is expected to be moderately increasing, with greater gain in the high quality log sector.

Exhibit 4, below, demonstrates the major factor for this optimistic view. Through 1993 the general trend in the price level of export logs was up; nevertheless, the supply of logs was unable to adjust to take full advantage. In fact, as seen in the graph below, the total volume of log exports decreased.

EXHIBIT 4 - Log exports from California, Oregon, Washington & Alaska



Source: Random Lengths 1993 Yearbook, Volume XXXIX. Random Lengths Publications, Inc., Eugene, Oregon 1993.

c. Physical Characteristics of Subject Timber. Timber quality is one of the most important factors that influence value since it is an indication of the types of wood products that can be processed from timber. There are two general categories of timber quality measures, "Bureau" and U.S. Forest Service grades, and special use grades. Bureau grades are those standardized by an independent log grading and scaling organization, which in Alaska and the Western portion of the Pacific Northwest is the Northwest Log Rules Advisory Group that has six independent grading bureaus as members. U.S. Forest Service grades are very similar in specifications to Bureau grades.

Special use grades are those that refer to a special product, such as export sorts, posts and pilings, and other differentiation within standardized grades. These special use grades may be implemented by special arrangements with a log scaling bureau or they may be limited to use by a specific buyer or seller. In the market pertinent to the Subject, log sorts are the primary measure of log value. In the highest export sorts, the measure of log value is a

combination of log sort and log grade. For example, in a high line Japanese sort of Sitka Spruce the price for a #1 Sawlog would be in the order of $3,300 per thousand board feet (MBF), while the same sort could contain a special mill Sitka spruce log that may sell for $2,100/MBF.

In addition to timber quality grades, physical characteristics such as the ratio of net volume to gross volume, average log diameter and piece size, the straightness of the timber, and many others will affect the price that an informed buyer is willing to pay.

Another important consideration is the distribution of timber on the ground, and the accessibility of the timber. Both of these factors relate directly to harvest costs. A dense stand with a high timber volume per acre will have a substantially lower logging cost per unit of volume than a stand of scattered timber, even of the same timber quality. Likewise, stands of the same quality and volume per acre may differ in value depending upon the difficulty of road construction, logging requirements, permitting processes, etc.

d. Political and Legal Constraints to Harvesting Timber. In general the formal political constraints enforced by government focus on the protection of the physical environment for the good of the public in the long term. In areas where there is potential for mass soil movement, near protected plant or animal species, areas of significant scenic value, and near significant bodies of water, harvest may be limited or even prohibited altogether.

Of particular concern to this analysis is the federal Threatened and Endangered Species Act (TES), and the Forest Resources and Practices Act of the State of Alaska. While the Forest Resources and Practices Act generally provides specific regulations for forest management activities, the TES only provides policy and programmatic direction. The protection of the bald eagles, and to a lesser extent other Potential, Endangered, Threatened, or Sensitive (PETS) species involves several federal and state agencies that have produced a series of various regulations that directly address forest management issues. Because the practical application of TES is still being developed, the affected agencies' regulations are various and often contradictory.

The effects of protecting bald eagle nesting sites result in the reduction of harvestable area and the potential relocation of roads and other harvest related improvements. In this analysis it is assumed that a 5.2 acre no harvest area for each eagle nest will adequately address the concerns of the U.S. Fish and Wildlife Service. This figure is reached by using the 330 foot radius around each eagle nest, and assuming that most of these nests are near bodies of water

or other open areas, allocating two-thirds of this total area to the timber type in which it is located.

One of the greatest effects of the Forest Resources and Practices Act is the requirement for essentially no harvest buffer zones along anadromous and other high value fish water bodies. Each such water body must be protected by a 66 foot buffer. Although there are provisions in the Forest Resources and Practices Act for the removal of trees within the buffers, in practice such variations are getting more and more difficult to obtain. The net effect then is that in this analysis all timber within the buffers is removed from the operable timber base.

Generally, civil suits attempting to prohibit timber harvest operations on private lands have been ineffectual. The Subject timber is, however, located in an area that has not been subject to timber harvest. Because of the lands' "wilderness nature" it is reasonable to assume that a significant public outcry could involve legal challenges during the permitting process.

Informal political constraints include pressure from "environmental" organizations and the general public that may influence the harvest operations of a particular landowner based upon his goals of landownership. A public corporation, for instance, may find it expedient to leave visual buffers of standing timber, or to create recreation sites on commercial forestland in order to bolster its public image.

e. Relative Location of Subject Timber to Users. Regardless of any of the above factors, if the subject timber is isolated from users, the timber may have greatly diminished value because of the high costs of development of log transfer facilities, logging camps, and transportation systems. In contrast, if the subject timber is located in the center of a highly competitive timber market, the purchase price may be well above regional norms.

4. Log Market. The log market refers to buying and selling of logs delivered on a freight at ship (FAS) basis, to users or exporters. The prices reflect not only the value of the wood product (i.e. lumber, export logs, paper, poles, etc.) but also the cost of all items involved in timber management, harvest, and transportation of logs, including taxes and profit and risk.

At the end of the Spring of 1993 the timber market applicable to the Subject Property had reached an all-time nominal peak in price level, and the highest real price level peak since 1981. This produced a short term (approximately 6 months)

oversupply of timber. This imbalance in turn led to purchasers being able to slide into a downward price adjusting trend.

Since that time the timber and log markets fell twenty to thirty percent in value (depending on the specific product). During the fourth quarter of 1993, prices began to increase and continued through the first quarter of 1994. Since that time prices have fallen and have subsequently stabilized, with price fluctuations more directly related to seasonal fluctuations in inventory and production. The overall, long term trend is expected to show moderate price increases, especially in Japanese quality logs and pulp wood.

Table 2, below, presents a composite of current FAS delivered log prices as quoted by mills and exporters for the Afognak Island area, as of the effective date of September 1, 1994. The purchasers surveyed in the development of this price table include Emachu USA, Rayonier International, Sumitomo Forestry Inc., Citifor, Ketchikan Pulp Company, CanFor, and Nichimen America Inc.

TABLE 2
FAS Log Prices
(Per thousand board feet, Scribner Rule)

Sort	Sitka Spruce
1	$150
2	$800
4	$700
5	$600
6	$650
7	$500

For an explanation of the sort codes and their specifications, see the accompanying *SHUYAK ISLAND TIMBER INVENTORY* report.

V. DESCRIPTION OF THE SUBJECT TIMBER

The Subject Timber is spread over 26,624 acres of Shuyak Island.

A. Forest Resource. Approximately 21,600 acres of this tract is occupied with 290 timber types. In general terms the timberland consists of medium to well stocked old growth conifer types. The overall composition of these timber types is one hundred percent Sitka spruce.

The Subject Timber was inventoried by Pacific Forest Consultants, Inc. during the months of July and August, 1994. The purpose of this inventory was to estimate the merchantable timber volume and to determine site specific information regarding logging systems on the Subject Property. During the inventory every timber type was treated as if it was economically feasible to harvest, in full or in part. This complete inventory provided the starting point for the evaluation of the forest resources of the Subject Property.

In performance of the timber inventory, Pacific Forest Consultants, Inc. conducted quality control measures to ensure that the estimate timber volumes (in total and by export sort) were reasonably accurate.

The initial timber type acreage was reduced, after the field work was completed, to reflect the need to protect bald eagle nests, and the riparian areas of anadromous fish habitat, resulting in a net 21,360 acres of merchantable timber types. Table 3, below presents a summary of the timber inventory.

TABLE 3
Timber Inventory Summary

Acres	21,360	Total Gross Volume	431,967 MBF
Number of Plots	1,211	Total Adj. Net Volume	397,605 MBF
Average DBH	16.8 inches	1 Sort Volume	106,458 MBF
Ave. Merchantable Height	48 feet	2 Sort Volume	25,540 MBF
Basal Area/Acre	232 square feet	4 Sort Volume	57,205 MBF
Stems/Acre	202	5 Sort Volume	63,309 MBF
Gross Volume/Acre	20.2 MBF	6 Sort Volume	20,565 MBF
Adjusted Net Volume/Acre	18.6 MBF	7 Sort Volume	124,528 MBF

DBH = diameter at breast height (4.5 feet above high ground); MBF = thousand board feet, Scribner scale; Adjusted Net Volume refers to net volume plus sound utility volume.

See the accompanying timber inventory report for the location of the timber types of the Subject Property, and detailed timber inventory information. The *TIMBER INVENTORY - SHUYAK ISLAND* report presents the inventory specifications, description of the export sorts, timber type map, type summary by sort, statistical results of the net volume per acre estimates, log piece size summary by sort, and the inventory reports of the individual timber types.

B. Topography and Logging Systems. The lands of the KIB ownership on Shuyak Island are composed of a mixture of flats and moderate slopes. There are literally hundreds of lakes and ponds, and several hundred rocky hillocks. This varied, although essentially flat terrain, is among the most suitable ground for cost effective logging systems in the region. It is assumed that all of the timber types are suitable for ground based yarding such as tractor and shovel yarding. This assumption is based upon the experiences of logging contractors on Afognak Island

The designation of timber types as helicopter logging units is dependent upon road locations. There are no physical constraints to providing road access to all areas of the Subject Property. There are, however, economic considerations that would have to be addressed before a transportation plan designed to provide full access could be developed. In other words there are some timber types that are physically removed from probable road locations. This situation could warrant the use of helicopter logging in order to maximize the net return to the timber owner.

The total inventoried area of 21,600 acres was reduced by 240 acres, or 1.1 percent, in order to comply with the Forest Practices Act and U.S. Fish & Wildlife Service recommendations for the protection of anadromous fish habitat and bald eagle nest. The resulting 21,360 acre timbered area (which is approximately 80 percent of the total ownership area of 26,624 acres) forms the starting point for logging system analysis.

C. Transportation Systems. All of the Subject Property is currently unroaded. There are no log transfer facilities (LTFs) or other improvements that would be required to harvest the Subject Timber located on the property.

Road construction costs are very high for remote areas such as the location of the Subject Timber ($100,000 to $180,000 per mile) yet typical for the region. The primary reason for this is the cost of transportation for equipment, materials and supplies. The type of road construction required to harvest the Subject Timber would be somewhat easier to accomplish than the typical roading situation in Southcentral Alaska because of the relatively easy slopes and the existing rock sources on the Subject Property. The cost to accomplish construction would probably be slightly greater than the mean because of the lack of infrastructure on the

Subject Property and its isolated location.

A complete transportation system that could access nearly all timbered types of the Subject Property would consist of approximately 170 miles of new road construction. This road system is of fairly high density (4 miles per square mile) because of the excessive number of lakes and ponds that would have to be skirted, and because of the nature of shovel logging where long yarding distances are inefficient.

VII. THE PRICE - VALUATION PROCESS

In order to reach an opinion of fair market value, this appraisal process considers the objectives of the typical buyers and sellers that would be involved in the disposition of the type of property represented by the Subject. These players will generally use one or more of the following accepted methods of estimating value; the cost approach, the income approach, or the sales approach. Each approach may address a special concern for a particular buyer or seller and may indicate a wide range of values.

In this section of the appraisal, the Subject Timber is assessed using all applicable approaches. The appropriateness of the application of the three approaches to valuation is considered in the Reconciliation of Approaches. The final estimate of value is arrived at by balancing the strong and weak points of the specific application of each of the three approaches.

A. Sales Comparison Approach. This approach relies upon open market sales of timber as the basis for appraising the Subject Timber. Each sale of forestland is compared to the Subject Property. The particular components of the timberland property and their associated values form the basis of its comparison to the Subject Property.

The focus then is on sales of timberland properties of similar characteristics to the Subject Property. Such sales are referred to as comparable sales, noting that there will always be differences in acreage, location, timber characteristics, and improvements. Adjustments to the comparable sales are limited to those differences that would be seen as significant to the types of buyers in the specific timberland market. The purpose of the adjustment procedure is to render the comparable sales interchangeable with the Subject Property in the market place.

The land sales listed in Table 1, on page 11, above, form the pool of best available information. These sales, however, are not comparable and could not be meaningfully adjusted to be comparable to the Subject Timber. The primary reason for this is in the size of the timber sales. The Subject Timber volume is in the order of forty times greater than that of the two sales listed. Furthermore there is no regional market evidence that could provide a basis for a size - price adjustment.

The sales comparison approach is not used in this analysis.

B. Income Approach. Nearly all buyers and sellers use some form of the income approach when deciding on the price for investment or income property. This approach predicts the net returns from operating the property under one or more management scenarios. The flow of revenue and costs may vary greatly from one property to another

depending upon the property's characteristics and the characteristics of the market for the property's products.

The market for the Subject Timber is generally limited to industrial timber operators and timber exporters. An estimate of value can be derived by assuming that the potential purchaser will manage the Subject Timber as a short to mid term (five to ten years) investment for timber production. The basic management scenario used in this analysis is to liquidate the merchantable timber as soon as practical, in order to gain the return to and return of capital as soon as possible.

1. Merchantable Timber Type Analysis. The *TIMBER INVENTORY - SHUYAK ISLAND* presents the total volumes for **ALL** timber types of the Subject Property, regardless of the economic potential of these timber types. The purpose of this analysis is to determine which types would contribute to the economic value of the Subject Timber, and which types would detract from the economic value.

The results of this analysis will provide a cost effective timber harvest plan where each individual timber type contributes to the total net value of the Subject.

For the purposes of this analysis economic value is defined as a positive cash flow when comparing the total gross value (FAS price multiplied by total adjusted net harvest volume) of each timber type with the total cost that would be incurred to bring the timber to a ship, including profit and risk.

a. First Screening. All timber types that contain 50 percent or more of the total adjusted net volume in domestic and pulp material (1 Sort) are eliminated from the timber harvest inventory. This first screening is intended to remove those types that have a preponderance of small trees, low volume per acre and ultimately low value, from the timber harvest plan.

Appendix B - Type Feasibility Analysis; Results of First Screening presents two sets of spreadsheets. The first set shows the types that were eliminated from the harvest plan, and the second set shows the types that are remaining.

Upon completion of this first screening, projected harvest adjusted net volume is estimated at 297,602 MBF, or 25.2 percent less than the total adjusted net inventory volume. The harvest area remaining after this screening is 17,878 acres, down 16.3 percent from the total net inventory area.

Justification: On average these types would have a gross revenue of $277/MBF. Selective logging from these types would not be economically feasible because of excessive logging costs associated with

extremely small log volume and a relatively high log yarding time. Even if it would be appropriate to use an overall average logging cost (which would be in the neighborhood of $350/MBF) to harvest these types, the timber owner would lose money.

Conclusion: For planning purposes it is reasonable to assume that a prudent buyer would exclude these types from a timber harvest plan. These types could, however, be selectively harvested if transportation systems had to be located in or adjacent to these types in order to access economically feasible types. Any harvesting would be limited to the removal of export quality material within a short yarding distance of 300 to 400 feet. The contributory value of this "roadside" timber would be recognized in the harvest plan and cash flow analysis that follows.

b. Second Screening. The results of the first screening form the basis of analysis for this second screening. Here all types that have a per acre gross value less than the overall per acre costs of production, including profit and risk, are analyzed as to their marginal cost to bring their projected harvest volume to FAS.

Individual type per acre gross value is calculated by dividing the gross value per acre of the projected harvest by the projected harvest volume per acre.

Projected harvest volume is defined as all export sort material plus an incidental amount of the pulp and domestic material. (This incidental amount is assumed to be twenty percent of the total domestic and pulp volume, figured on a individual timber type basis, which at this point is approximately 6 percent of the total harvest volume.) The domestic and pulp volume will be harvested and brought to the sort yard as incidental to road construction, logging system implementation and the extraction of the export material.

Total harvest area production cost (which at this point is calculated at the harvest and road construction levels necessary to harvest the volume resulting from the first screening), is divided by the total harvest area to yield an average harvest cost per acre.

Every type with a gross value per acre less than the average harvest cost is subjected to the following marginal analysis, wherein these assumptions are made:

i. All types can be efficiently harvested by tractor/shovel logging systems at a production rate of 5 acres per day. This production

figure is derived from actual production on neighboring Afognak Island.

ii. Marginal logging costs are determined by extrapolation (when necessary) from the elements of Table 4, below. The costing assumptions used to derive this table are the same as those indicated for Shovel Logging in Appendix E - Production Cost Appraisal Worksheets. Some of the general assumptions include; two full logging sides; shovel, grapple cat, and loader equipment configuration per side; and production times of nine hours per day, six days per week, and 170 days per year. Note that extrapolation was only performed when total marginal costs per acre were within ten percent of total gross value per acre.

TABLE 4
Shuyak Shovel Logging Matrix

Production	Piece Size (board feet)								
Pieces/Day	50	75	100	125	150	175	200	250	300
400	$1,155	$783	$596	$485	$410	$357	$317	$261	$224
450	$1,031	$700	$534	$435	$369	$321	$286	$236	$203
500	$932	$634	$485	$395	$335	$293	$261	$216	$186
550	$850	$579	$444	$363	$308	$270	$241	$200	$173
600	$783	$534	$410	$335	$286	$250	$224	$186	$162
650	$725	$496	$381	$313	$267	$234	$209	$175	$152
700	$676	$463	$357	$293	$250	$220	$197	$165	$144
750	$634	$435	$335	$276	$236	$208	$186	$157	$137
800	$596	$410	$317	$261	$224	$197	$177	$149	$130
850	$563	$388	$300	$248	$213	$188	$169	$143	$125
900	$534	$369	$286	$236	$203	$179	$162	$137	$120
950	$508	$351	$273	$226	$194	$172	$155	$131	$116
1000	$485	$335	$261	$216	$186	$165	$149	$127	$112
1050	$463	$321	$250	$208	$179	$159	$144	$122	$108
1100	$444	$308	$241	$200	$173	$153	$139	$119	$105
1150	$426	$297	$232	$193	$167	$148	$135	$115	$102
1200	$410	$286	$224	$186	$162	$144	$130	$112	$99

iii. The average harvest cost per acre is $6,619. This cost was developed by using the timber volume and acreage at the end of the first screening. (See *Shuyak Production Costs - Average Costs for Second Screening* in Appendix C.)

iv. Fixed costs associated with LTF and road construction for the timber types remaining after the first screening are not included in this marginal analysis. Total marginal costs, therefore, include the individual logging cost plus the following:

TABLE 5
Additional Marginal Production Costs

Cost Item	Cost/MBF
Reman., Sort, Dump & Tow	$50
Camp/Personnel	$25
Marketing	$6
Administration	$5
Profit & Risk	$45
Total Additional Costs	**$131**

v. Pieces/day equals pieces/acre of projected harvest volume multiplied by the shovel logging system daily acreage (i.e. 5 acres).

vi. Individual type production costs per acre equals total type projected harvest volume multiplied by total marginal production costs per MBF, and then divided by type acreage.

The results of this analysis are detailed in Appendix C - Type Feasibility Analysis, Second Screening Spreadsheets. Overall, this screening reduces projected harvest adjusted net volume to 241,047 MBF, or 19.0 percent less than the projected harvest volume remaining after the first screening. The change in acreage is, as would be expected, far greater than the volume change. The harvest area remaining after this screening is 10,948 acres, down 38.8 percent from the harvest area remaining after the first screening.

Justification: Types that require the expenditure of costs in excess of revenue will reduce the total value of the timber resources. While this scenario does affect the fixed costs of road construction, log transfer facility construction, mobilization, administration and marketing, there is more than sufficient harvest volume remaining after this screening to efficiently distribute these costs.

Conclusions: As in the first screening the portions of the types that were eliminated by this procedure would be selectively harvested when roads are in favorable locations to allow short yarding distances. This adaptation of the harvest plan thereby reduces the marginal cost of recovering volume from these types so that a net value can be obtained from each type.

c. Final Screening. This last look at type feasibility addresses the costs of development of marginal transportation systems in terms of the geographic dispersion of the remaining timber types, and the site specific characteristics of each type.

The vast majority of timber types that make up the pool of apparent economically viable timber types are clustered in the western half of the Subject Property. For this screening it is assumed that the transportation costs for all of these types is cost effective. This area of certain economic viability is referred to as the core area.

The rest of the types, those located in the eastern portion of the Subject Property, are assessed by a marginal cost analysis that includes the cost of road construction from the core area to the types in question. Since most of the transportation routes that access one of these marginal types accesses other marginal types further up the road, this marginal analysis is performed individually and cumulatively. In other words, type A, which comes first on the road may fail individually when the full road construction cost is charged against it. But when type B, beyond type A, adequately covers the road construction costs from the last road location through type A, type A becomes economically feasible since it must now only cover the cost of roads and spurs that leave the road that accesses type B..

In determining these marginal costs, logging costs were determined on a type basis utilizing the same information that is presented in the Second Screening, above. Every stand outside the core area was evaluated by comparing the total of the marginal logging costs and the marginal road construction costs, with the type's total gross value. The marginal road construction cost, at this point in the analysis is $120,000 per mile.

The first type up the road system was analyzed first. If it paid for the road construction from the core area, and the road construction within the type required to log it, then it was included in the final harvest plan. If the total marginal costs exceded the type's gross revenue the type was temporarily eliminated. When a type further up the road system was found to be economically feasible (by covering the road costs from the core area, or last economically feasible type), the temporarily eliminated type was re-examined to see if it would be economically feasible. The total marginal cost for re-examined types equals the marginal production costs plus the cost of roads and spurs that leave the paid road system. Those re-examined types with a positive net value are then included in the final harvest plan.

All of the types that failed this screening to this point were then

considered for helicopter logging. Because of small piece size and the fact that these types would be selectively harvested, an economically efficient helicopter yarding limit was estimated to be two thousand feet. Every type remaining that had some portion within two thousand feet of a planned road or navigable water was selected for helicopter logging. The logging system designation for these stands is shown as either heli-road or heli-water as the case may be.

Another step in developing the harvest plan was to add back to the list of stands selected for harvesting, the area along planned road construction of types that were previously designated as economically infeasible to harvest. It is assumed that a ten chain swath (five chains on each side of the road) would be selectively shovel harvested. It was further assumed that the cost to harvest these areas would be comparable to the overall logging cost. These types have a "Selective" logging system designation.

The final step in completing the harvest plan was to review every type individually for site specific characterisitics that may have caused an economically feasible type to be erroneously excluded, or an economically infeasible type to be erroneously included. The intent of this step was to emulate the procedures that would occur when the harvest plan would be implemented by identifying whole stands and portions of stands that would detract from the total value of the Subject Property. The key factors that were considered in this analysis were piece size, stems per acre, volume per acre, and type structure.

Utilizing the inventory data and aerial photography, stands that passed previous screenings, or were added back into the harvest list because a road ran through it, were examined one by one. The stands that had a large number of stems per acre (greater than 250) generally had a vast majority of the volume in domestic and Korean sorts. The assumption used in the second screening was that a logger would be able to harvest stands efficiently by leaving up to 80 percent of the domestic volume in the woods, either as standing trees or tops. The stands that were eliminated in this final step were those where the majority of the trees were composed of domestic logs, clearly indicating that the assumption addressing the handling of domestic material was invalid in this situation.

Recognizing the limits of inventory data that averages timber type values, many types were partially retained in the harvest plan that, on average, appeared to be economically infeasible. In this case the aerial photography was scrutinized to isolate portions of types that included the best attributes of these types. If these types were added back into the harvest plan because of road locations, care was used to make sure that the portions included were within ten

chains of the road.

The results of this final step show a final harvest plan with an estimated harvest adjusted net volume of 216,309 MBF over 9,680 acres. Table 6, below, compares the final harvest parameters to the inventory and the results of the first two screenings. See Appendix D - Type Feasibility Analysis; Final Harvest Plan for the marginal analysis worksheet and the listing of types included in the final harvest plan.

TABLE 6
Final Harvest Plan compared to Inventory and Screening Results

Parameters	Inventory	First Screen	Second Screen	Final Harvest Plan
Adj. Net Volume	397,605 MBF	297,602 MBF	241,047 MBF	216,309 MBF
Area Covered	21,360 Acres	17,878 Acres	10,948 Acres	9,680 Acres
Road Construction	None	171 Miles	132 Miles	106 Miles

2. Harvest Plan & Cash Flow Analysis. This analysis essentially clearcuts timber types that fall within the conventional logging system area, and selectively harvests those types that are located adjacent to roads or that can be efficiently harvested using helicopters.

The following assumptions are used in this analysis:

a. The annual discount rate used for this investment period is 9 percent. This rate is a real rate (independent of inflation), based upon a survey of financial institution that lend large sums for timberland investments of the magnitude indicated by the Subject Property.

b. The costs of production as included in the tables below will remain constant during the investment period (i.e. these items will not increase in nominal value faster than the rate of inflation).

c. The level of profit and risk assigned to this investment is 20%.

d. Harvest restrictions will remain constant during the investment period.

e. Log export regulations will remain constant during the investment period.

f. The discounting of revenues and expenses is calculated from the end of the month.

g.. The construction of a log transfer facility (LTF) would occur on the East shore of Shuyak Harbor. The logging camp would also be constructed at this site. The LTF/logging camp is appraised at fifteen acres. It is assumed that this area would be sufficient for land storage of up to 6 MMBF.

h The logging contractor will carry the costs of road construction and support services as a portion of its overall logging cost. Most of the costs of LTF development will be paid by the land owner to the logging contractor in the year of completion. Since the cost of the LTF development are included in the LTF, Sort, Dump & Tow cost item, the logging costs for the first two years of harvest operation would be reduced to reflect these advance payments.

i. Shuyak Type Feasibility - Final Harvest Plan, located in Appendix D, shows the sum of the total adjusted net volume that would be harvested by timber type. Note that the reason that the volume harvested in every type is less than the total cruised volume (as in the inventory report) is that approximately eighty percent of the domestic and pulp material would be left in the woods. In most circumstances there would be considerable numbers of standing trees left after logging. These trees are not assigned a value in this analysis because of the excessive period of time that would pass before any subsequent harvesting would be undertaken.

Since trees are most often not made up of only one type of log sort, some of the low value material would be inadvertently yarded to the landings. It is estimated that less than five percent of the total harvest volume would be of low value material, i.e. domestic and pulp logs.

j. FAS log payments are considered received at the time of loading.

k. The following total costs and cost per unit of production as shown in Table 7, below, are used in this analysis. All of these costs are presented in Appendix E in detail. (Note that the costs immediately following are not intended to be the same as those used in the Second Screening. The Second Screening costs, summarized in Appendix C, were used solely to develop a baseline for the marginal analysis exercise and were based upon the harvest volume remaining after the first screening. The costs summarized in Table 7, are based upon the final harvest volume subject to this appraisal.)

TABLE 7
Costs of Production

Cost Item	Harvest Volume (MBF)	Cost/MBF	Total Cost
Right of Way Logging	6,900	$117	$807,300
Helicopter Logging	2,832	$309	$874,437
Shovel Logging	206,577	$182	$37,597,014
Total Logging	216,309	$182	$39,278,751
Road Construction	216,309	$63	$13,637,931
LTF, Sort, Dump & Tow	216,309	$59	$12,762,231
Camp Operations	216,309	$25	$5,407,725
Marketing	216,309	$8	$1,700,000
Administration	216,309	$7	$1,460,000
Total FAS Cost	216,309	$343	$74,246,638

The initial weighted average FAS price of $601/MBF and the weighted average logging costs of $343/MBF are used throughout the following analysis. It is assumed that whatever price and cost appreciation that occur will be at levels comparable to the rate of inflation. Taking the FAS value and reducing it by the logging costs, the Kodiak Island Borough Severance Tax, and by the profit and risk margin of 20 percent yields the weighted net value. This net value is then multiplied by the projected harvest volume to yield total net value. Present net value is calculated by discounting the total net value to the effective date of this appraisal (i.e. September 1, 1994) at an annual rate of 9%.

The Table 8, below, summarizes the annual projected costs and revenues beginning in 1994 with the initiation of the permitting process through final timber harvests in the year 2006, utilizing the procedure outlined in the proceeding paragraph to determine total net value and present net value for the timber harvest and permitting activities for each year.

The basic rates of production for logging operations comparable to the Subject Property are 2,000 MBF per month for helicopter logging, and 4,000 MBF per month for conventional logging. In order to allow for equipment failure, unseasonable bad weather, and other factors that could delay production, the conventional logging production is reduced to a seasonal volume of 21,500 MBF.

Conventional production would begin during the summer of 1996, and Helicopter production would begin after road construction had reached the northeastern most portion of the conventional logging area. It is assumed that shipments would begin in August, 1996 and that each year's production would be shipped by the end of the operating season.

TABLE 8
Cash Flow and Present Net Value Discounted to September 1, 1994

1994 = Beginning year			FAS Price Appreciation = 0.0%					Discount Rate = 9%	
		Volume	Dollars per Thousand Board Feet					Total	Present
Year	Activity	(MBF)	FAS Price	Cost to FAS	Sever. Tax	Profit & Risk	Net	Net Value	Net Value
1994	Permitting	-	-	-	-	-	-	($100,000)	($100,000)
1995	Permitting	-	-	-	-	-	-	($100,000)	($91,743)
1996	Const. Costs	-	-	-	-	-	-	($338,400)	($284,825)
1996	Conv. Harvest	11,000	$601	$330	$1	$54	$217	$2,384,800	$2,007,238
1996	Consumed Logs		400	MBF wasted in operations			($750)	($300,000)	($252,504)
1997	Conv. Harvest	21,500	$601	$330	$1	$54	$217	$4,661,200	$3,599,302
1998	Conv. Harvest	21,500	$601	$343	$1	$52	$206	$4,437,600	$3,143,708
1998	Consumed Logs		400	MBF wasted in operations			($750)	($300,000)	($212,528)
1999	Conv. Harvest	21,500	$601	$343	$1	$52	$206	$4,437,600	$2,884,136
2000	Conv. Harvest	21,500	$601	$343	$1	$52	$206	$4,437,600	$2,645,996
2000	Consumed Logs		400	MBF wasted in operations			($750)	($300,000)	($178,880)
2001	Conv. Harvest	21,500	$601	$343	$1	$52	$206	$4,437,600	$2,427,519
2002	Conv. Harvest	21,500	$601	$343	$1	$52	$206	$4,437,600	$2,227,082
2002	Consumed Logs		400	MBF wasted in operations			($750)	($300,000)	($150,560)
2003	Conv. Harvest	21,500	$601	$343		$52	$206	$4,437,600	$2,043,194
2004	Conv. Harvest	21,500	$601	$343		$52	$206	$4,437,600	$1,874,490
2004	Consumed Logs		400	MBF wasted in operations			($750)	($300,000)	($126,723)
2005	Conv. Harvest	21,500	$601	$343	$1	$52	$206	$4,437,600	$1,719,716
2006	Conv. Harvest	8,977	$601	$343	$1	$52	$206	$1,852,853	$658,754
2006	Heli. Harvest	2,832	$601	$343	$1	$52	$206	$584,525	$207,819
2006	Consumed Logs		100	MBF wasted in operations			($750)	($75,000)	($26,665)
TOTALS		216,309					$216	$42,870,778	$24,014,525
							TOTAL INDICATED VALUE =		$24,000,000
							PRESENT NET STUMPAGE VALUE =		$111

ROUNDED ESTIMATE OF VALUE = $24,000,000

C. The Cost Approach. The cost approach is used to determine the expenditure to construct or modify an existing property so as to render it interchangeable with the Subject. This approach will not be used in this analysis because it does not directly apply to timberland properties with large acreages of merchantable or near merchantable timber.

D. Reconciliation of Approaches. The Subject Timber was appraised by using only one approach to value. It is the purpose of this section to examine the results of this analysis, assess the level of comfort which the informed theoretical buyer and seller would have with the approach used, and to form a basis for the final estimate of value.

Two major factors have an overwhelming influence on the valuation results, both of which are critical to reach an accurate reading of current market conditions. The first factor is the reliability and appropriateness of the data used to determine value. The second factor involves the assumptions used in the analysis.

The income approach used here estimated the value of the property from the discounted net revenues produced from the management of the Subject Timber.

The data used in the initial stages of this analysis are very reliable, representing the current log market, actual costs incurred in the management of properties comparable to the Subject, industry norms, and the local area. The extent of sampling and the statistics associated with the timber inventory would also give a potential purchaser a high level of comfort with the results of this analysis. Furthermore, the data relates directly to specific products, eliminating any need for extrapolation or adjustment. The inherent uncertainty of this approach lies in the fact that log markets are constantly changing and that the most recent trend has shown record highs for many products, immediately followed by a significant downward adjustment.

Two of the more important factors affecting this analysis are the log price appreciation rate and the discount rate used to estimate present values of future revenues and costs. Because of the uncertainties associated with predicting log prices, projecting these flows of income is somewhat limited, especially over the twelve year period considered in this analysis.

Most purchasers deal with these elements of uncertainty by using appreciation rates that are conservative, discount rates that are generous, and sizeable profit and risk factors. All of these rates and factors will assure potential purchasers that the likelihood of making a poor investment would be minimal.

E. Final Estimate of Value. Because the methods used in this analysis are the same as those used by nearly all active purchasers in the timber market, and because the data regarding the current timber inventory, costs, and revenues are highly reliable, the results of the income approach indicate a reasonable estimate of value.

FINAL ESTIMATE OF VALUE = $24,000,000

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VIII. CERTIFICATE OF TIMBER APPRAISER

I certify that I have personally visited the Subject Property contained in this report. To the best of my knowledge and belief the statements contained in this appraisal are true and the information upon which my conclusions are drawn are correct.

I visited one of the two timber sales discussed in the context of the timber market. Neither of these sales was used to value the Subject Timber.

My compensation and that of my company are in no way contingent upon the values reported in this appraisal.

I will not reveal the results of this appraisal, or other information specific to the Subject Property, to any other parties than the appropriate representatives of Lau & Associates, Inc., or the USDA Forest Service, without being duly authorized to do so.

The conclusions set forth in this appraisal are my own, independent of other influences, based upon the information and conditions stated above, as to the opinion of value on September 1, 1994.

The following staff members provided professional assistance to gathering of data and its analysis; Todd Hansen - Forester, Dennis Callegari - Forester, Bradford Bailey - Forestry Technician, and Eric Haller - Forest Engineer.

By _____
Timothy R. Manley
Forester
Oregon Certified General Appraiser

November 16, 1994

Kodiak Island Borough

710 MILL BAY ROAD
KODIAK, ALASKA 99615-6398

December 20, 1995

Terry Martin, Chairman
Legislative Budget and Audit Committee
716 West Fourth
Anchorage, AK 99501-2133

Dear Chairman Martin and Committee Members:

The Kodiak Island Borough is requesting your favorable and expeditious review of the purchase of Shuyak Island from the borough by the *Exxon Valdez* Oil Spill Trustee Council. This transaction culminates more than two years' work to accomplish this purchase for the State of Alaska, which will ensure the long-term protection of important habitat on Shuyak Island. This is a win-win-win purchase for the State of Alaska from the perspective of the Kodiak Island Borough.

First, the Shuyak Island habitat represents some of the most valuable habitat available in terms of restoration for the bird, marine mammal and fish species damaged during the *Exxon Valdez* oil spill in 1989. I don't believe I'm exaggerating when I say Shuyak Island represents the crown jewel of habitat in the State of Alaska, with more species of mammals, birds, marine mammals, and fish represented than almost anywhere else in the State. This prime habitat, which is vital to the overall health of the North Pacific ecosystem, should be preserved in perpetuity for all generations to benefit. Bird species were particularly hard hit by the spill, and marbled murrelets, harlequin ducks, eiders and other prime species will receive extra safeguards through this acquisition.

Second, the Shuyak Island purchase represents a win because it will guarantee that these lands continue to be a place where folks can go to hunt and fish, whether it be for subsistence use, personal use, or for sport fishing and hunting. This area is highly accessible from Anchorage and the Kenai Peninsula, as well as from the Kodiak Island Borough. For Kodiak, the purchase represents a long term opportunity to develop additional tourism, since most tourists to our island want to see prime habitat in its natural state. Economic studies have shown that tourism will generate the greatest revenues over a hundred year period.

The third win for the State of Alaska and for fisheries management in the Gulf of Alaska is the Kodiak Island Borough's commitment to use a significant portion of the funds derived from the sale to cash fund the construction of the Near Island Research Facility. This

Kodiak Island Borough

facility will provide a consolidated home for the Alaska Department of Fish and Game, the University of Alaska, the National Marine Fisheries Service, as well as the National Park Service, resulting in increased efficiencies and improved fisheries management. As the seafood industry becomes increasingly competitive, it is essential that Alaska be a world leader in new technology. When complete, this facility will serve as Alaska's center for food science, seafood processing, and harvest technology research and development. Work at the facility will cover the gamut of how to improve the shelflife of surimi products to developing new fishing techniques to minimize bycatch.

In addition to our commitment to the Near Island facility, the Borough has already passed an ordinance establishing a facilities fund, with interest earnings from the proceeds of the Shuyak sale earmarked for maintenance of borough facilities. As you well know, too often maintenance costs are the last to be funded. All over the state, we are paying the price for deferring this necessary cost of facility ownership. The Kodiak Island Borough has made a commitment to ensuring that our buildings stay in good repair in the future.

We are requesting your approval of this purchase at your January 8, 1996 meeting, which will allow us to complete construction plans and begin site preparation this summer. At this point, all work is on hold pending acquisition of the funds necessary to complete this facility.

If I can provide any additional information, please don't hesitate to contact me at (907)486-9300. I will be available in Juneau on January 8, 1996 to answer any questions.

Sincerely,

KODIAK ISLAND BOROUGH

Jerome M. Selby
Borough Mayor

Introduced by:	Mayor Selby
Requested by:	Mayor Selby
Drafted:	Mayor Selby
Introduced:	09/07/95
Adopted:	09/07/95

KODIAK ISLAND BOROUGH
RESOLUTION NO. 95-37

A RESOLUTION ACCEPTING THE TRANSFER OF RESPONSIBILITY FOR THE NEAR ISLAND RESEARCH FACILITY AND ESTABLISHING A PLAN FOR COMPLETION OF THE FACILITY

WHEREAS, the Near Island Research Facility, which would be a jointly occupied and utilized facility by the National Marine Fisheries Service, National Weather Service, Katmai National Park Office, Alaska Department of Fish and Game, and the University of Alaska, has been planned and under development for ten years; and

WHEREAS, the City of Kodiak has provided the land, which will provide an adequate area for all of the functions of the various agencies to be completed from one site; and

WHEREAS, Congress has authorized a lease payment of up to $2,000,000 annually through GSA for NOAA (NMFS and NWS) space in this facility; and

WHEREAS, the University of Alaska has worked with all five agencies to determine space requirements and develop plans for this facility and retained the services of ECI Hyer, Inc. for architectural services for construction drawings; and

WHEREAS, the University of Alaska is willing to transfer all planning efforts and the services of the architect to the Kodiak Island Borough; and

WHEREAS, the means of funding this estimated $16 - $18,000,000 facility are available, including the $3,000,000 appropriation from the Alaska Legislature for the University of Alaska portion of the building from the Exxon Valdez criminal settlement funds, plus the $500,000 appropriated by the U.S. Congress, plus the $6,000,000 committed to the facility by the Kodiak Island Borough Assembly from the sale of Shuyak Island, and the availability of a revenue bond for the remaining cost of the building to be debt serviced from the GSA lease for the NOAA portion of the building; and

WHEREAS, all of the parties involved in the use of the facility are strongly supportive of the Kodiak Island Borough constructing and managing the facility to the mutual benefit of all of the tenants; and

WHEREAS, the architects indicate that the schematic diagram of the building should be available in early October of 1995, and they will be prepared to move ahead with construction; and

WHEREAS, the University of Alaska Board of Regents will be meeting October 12 and 13, 1995 to approve the "Transfer of Responsibility" to the Kodiak Island Borough;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THAT the Kodiak Island Borough accepts the "Transfer of Responsibility" for the Near Island Research Facility from the University of Alaska and will become the owner and manager of the building.

NOW, THEREFORE, BE IT FURTHER RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THAT the Kodiak Island Borough accepts the transfer and construction responsibilities associated with the availability of the $3,000,000 grant for the University of Alaska from the State of Alaska for the construction of the University portion of the building and the $500,000 from the Congressional appropriation.

NOW, THEREFORE, BE IT FURTHER RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THAT the Kodiak Island Borough mayor is directed to complete the following tasks:

1. Develop, negotiate and establish leases for the tenants of the facility.

2. Contract with ECI Hyer, Inc. to complete the schematic design and construction documents in accordance with the established construction schedule for the facility.

3. Prepare the necessary documents to obtain an construction management firm that would oversee the construction of the facility similar to the process used for the Kodiak Island Borough Hospital.

4. Prepare all the necessary documents to allow the construction of the facility to proceed in an orderly and cost effective manner, bringing those documents that require assembly action forward when appropriate.

5. Prepare the necessary documents for presentation to the assembly to make provision for the sale of revenue bonds, which will complete the funding requirement for the construction of the building, at the appropriate time of design and for timely completion of the building.

6. Establish an enterprise fund to pay the debt service on the revenue bonds and the operation and maintenance costs from the tenant leases for the building for the life of the building.

ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THIS SEVENTH DAY OF SEPTEMBER, 1995

KODIAK ISLAND BOROUGH

Jerome M. Selby, Borough Mayor

Mary A. Monroe, Presiding Officer

ATTEST:

Donna F. Smith, CMC, Borough Clerk

Kodiak Daily Mirror

VOL. 55 NO. 244 WEDNESDAY, DECEMBER 13, 1995 KODIAK, ALASKA 28 PAGES 50 CENTS

Shuyak sale gives borough taxpayer big break

By SUE JEFFREY
Mirror Writer

The sale of Shuyak Island will keep the lid on property taxes for years to come, says Kodiak Island Borough Mayor Jerome Selby.

Proceeds of the sale will be held in a facilities fund, a permanent fund established to pay for maintenance on borough buildings around Kodiak Island.

The borough sold a 56,787-acre parcel on Shuyak Island, which will become a state park, for $42 million to the Exxon Valdez Oil Spill Trustee Council last month.

The trustee council had agreed to pay fair market value plus $6 million to be used for a marine research facility on Near Island.

Maintaining the borough's 15 schools, mental health center buildings, a hospital and the borough office building affects the mill rate more than any other borough expense, Selby said.

"The big money is in maintaining buildings, not in operating expenses," he said.

"One thing for sure—we should be able to maintain the $80 million in borough buildings for 50 years."

The fund will allow the borough to avoid deferred maintenance costs, which plague many Alaskan communities.

For example, the borough will paint its buildings every five to seven years.

"We won't have to issue a $1 million bond down the road to pay for painting several buildings at once because we had to put off the expense for other priorities," Selby said.

The facilities fund makes Kodiak one of the healthiest economic communities in Alaska, he said.

"Other communities typically have to choose between roofing a school or hiring another teacher.

"With the permanent fund paying for maintenance, we are free to focus our attention on other important programs like quality education."

This year, the borough completed the $5 million high school remodel and the $1.2 million Ouzinkie remodel and addition. It is also in the midst of an $18 million hospital addition and remodel.

In the future, the facilities fund will help pay for such projects, Selby said.

The borough will receive an $8 million down payment for the Shuyak Island sale with the balance to be paid over the next seven years.

Anticipating the sale, the borough adopted an ordinance in

See Shuyak, Page 3

Shuyak—

Continued from Page 1

1994 which established the facilities fund for education and health costs.

The ordinance says the excess income of the fund, or 85 percent of the annual investment from the fund, may be used for the following purposes:

- debt service on bonds issued for facilities construction.
- upgrade and reconstruction of existing facilities.
- maintenance and repair of existing facilities.

The remaining 15 percent of the interest earned each year will be returned to the corpus of the fund for reinvestment.

The $6 million earmarked for Near Island will remain in the enterprise fund and spent as needed, earning interest for the borough in the meantime.

Anticipating a modest 6 percent return on investments, Selby said, 85 percent will yield approximately $2 million a year for maintenance expenses.

The fund will not earn that amount until it receives the balance of the land sale payments. For fiscal year 1996-97, the permanent fund will earn about $200,000 for maintenance costs.

Introduced by:	Mayor Selby
Requested by:	Mayor Selby
Drafted:	Finance Director
Introduced:	12/07/95
Public Hearing:	12/21/95
Adopted:	12/21/95

KODIAK ISLAND BOROUGH
ORDINANCE NO. 95-09

AN ORDINANCE ESTABLISHING A NEAR ISLAND RESEARCH FACILITY ENTERPRISE FUND

WHEREAS, much of Kodiak's lifestyle and livelihood is linked to the sea; and

WHEREAS, this imposes continuous pressure on the oceans surrounding Kodiak to provide more and more resources; and

WHEREAS, a fisheries and oceanographic research facility located in Kodiak is desirous to preserve Kodiak's way of life; and

WHEREAS, several government agencies, including the National Marine Fisheries Service, Alaska Department of Fish and Game, University of Alaska, and National Park Service, are desirous of leasing space in a research facility located in Kodiak; and

WHEREAS, the Kodiak Island Borough has the ability to construct, maintain, and operate a research center in Kodiak; and

WHEREAS, grants from several government organizations and lease payments from said research facility would pay for the construction, maintenance, and operation of the research facility; and

WHEREAS, this research facility would not be a monetary burden on the Kodiak Island Borough due to these funding sources; and

WHEREAS, the Kodiak Island Borough Code section 3.04.050 subsection H states other enterprise funds, as needed, shall be established;

NOW, THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that:

Section 1: This ordinance is not of a general and permanent nature and shall not be a part of the Kodiak Island Borough Code of Ordinances.

Section 2: An enterprise fund entitled "Near Island Research Facility" will be established by the Kodiak Island Borough and will become a part of the Borough budget and general ledger.

Section 3: It is understood that the lease payments from this facility will pay for the expenses of this facility, including all operations and maintenance costs and debt service.

ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THIS TWENTY-FIRST DAY OF DECEMBER , 1995.

KODIAK ISLAND BOROUGH

Jerome M. Selby, Borough Mayor

Gary L. Stevens, Presiding Officer

ATTEST:

Donna F. Smith, CMC

Donna F. Smith, CMC, Borough Clerk

Introduced by:	Mayor Selby
Requested by:	Mayor Selby
Drafted by:	Community Development Department
Introduced:	10/06/94
Public Hearing:	10/20/94
Postponed:	10/20/94
Postponed:	11/03/94
Postponed:	12/01/94
Postponed:	12/15/94
Postponed:	01/19/95
Adopted:	12/21/95

KODIAK ISLAND BOROUGH
ORDINANCE NO. 94-23

AN ORDINANCE REZONING ALL BOROUGH AND STATE OWNED LAND ON SHUYAK ISLAND FROM C--CONSERVATION TO NU--NATURAL USE LANDS

WHEREAS, about 27,000 acres of Kodiak Island Borough land on Shuyak Island has been identified as high-value habitat that will benefit the recovery of resources and services injured by the Exxon Valdez oil spill; and

WHEREAS, the Borough administration has determined that all Borough land on Shuyak Island is surplus to the needs of Borough residents, so long as the land is maintained in public ownership; and

WHEREAS, the proposed use of the land acquired by the Trustee Council (as indicated in the Memorandum of Agreement and Consent Decree executed between the United States and the State of Alaska, and approved and entered by Judge Holland on August 28, 1991) is consistent with the goals and objectives of the 1986 Shuyak Island Comprehensive Plan; and

WHEREAS, the Kodiak Island Borough Planning and Zoning Commission held a public hearing on this rezoning, and

WHEREAS, the Kodiak Island Borough Planning and Zoning Commission has recommended that the Kodiak Island Borough Assembly approve this rezoning;

NOW, THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THAT:

Section 1: This ordinance is not of general application and shall not be codified.

Section 2: All Borough- and State-owned land (consisting of approximately 44,000 acres) on Shuyak Island is hereby rezoned from C--Conservation to NU--Natural Use Lands.

Section 3: The findings of the Kodiak Island Borough Planning and Zoning Commission in recommending the approval of this rezone are hereby confirmed as follows:

FINDINGS OF FACT

1. Findings as to the Need and Justification for a Change or Amendment.

A rezone from C--Conservation to NU--Natural Use Land is needed and justified because the NU--Natural Use Land zoning district:

A. Will better accomplish the specific intent of the Shuyak Island Comprehensive Plan to retain the natural diversity of the Island and to protect the Island's natural environment and habitat;

B. Is consistent with the acquisition objectives of the Exxon Valdez Trustee Council which helped guide the acquisition of 27,000 acres of Borough land on Shuyak Island by the Council;

C. Is consistent with the Kodiak Island Borough Coastal Management Plan; and

D. Will prohibit more intensive land uses permitted in the C--Conservation zoning district that are not compatible with the preservation of habitat and enhancement of recreational value.

2. Findings as to the Effect a Change or Amendment would have on the Objectives of the Comprehensive Plan.

Specific goals stated in the Shuyak Island Comprehensive Plan include preservation of habitat, retention of natural diversity, protection of the environment and preservation of recreational opportunities. This intent is more consistent with the description and intent of the NU--Natural Use Land zoning as stated in KIBC 17.12.010. A change of zoning from C--Conservation to the NU--Natural Use Land zoning district is therefore necessary to better achieve the goals of the Comprehensive Plan.

Section 4: The official zoning map shall be updated to reflect this rezoning.

ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THIS TWENTY-FIRST DAY OF DECEMBER, 1995

KODIAK ISLAND BOROUGH

Jerome M. Selby, Borough Mayor

Gary L. Stevens, Presiding Officer

ATTEST:

Donna F. Smith, CMC

Donna F. Smith, CMC, Borough Clerk

Introduced by: Mayor Selby
Requested by: Mayor Selby
Drafted: Borough Attorney
Introduced: 12/21/95
Adopted: 12/21/95

KODIAK ISLAND BOROUGH
RESOLUTION NO. 95-46

A RESOLUTION APPROVING A PURCHASE AGREEMENT FOR DISPOSAL OF ALL BOROUGH LAND ON SHUYAK ISLAND TO THE STATE OF ALASKA

WHEREAS, the Assembly previously adopted Resolution No. 94-41 approving disposal of all Kodiak Island Borough lands on Shuyak Island (hereinafter "Land") to the State of Alaska for the purchase price of $42 million; and

WHEREAS, the Exxon Valdez Oil Spill Trustee Council adopted a resolution on December 5, 1995 to provide the funds for the State of Alaska to offer to purchase the Land in accordance with the Agreement for Sale and Purchase of Interests in Lands on Shuyak Island (hereinafter "Purchase Agreement") for a price of $42 million payable in installments over a period of seven years; and

WHEREAS, the Kodiak Island Borough Assembly, having reviewed the pertinent facts relating to this land disposal, approves the disposal of the Land for the price of $42 million in accordance with the Purchase Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that the disposal of all Kodiak Island Borough lands on Shuyak Island to the State of Alaska for the purchase price of $42 million is hereby approved on the terms and conditions for the Purchase Agreement.

NOW, THEREFORE, BE IT FURTHER RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that the mayor, or his designee, is authorized to execute the Purchase Agreement and all other documents required for the completion of this transfer.

ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH THIS TWENTY-FIRST DAY OF DECEMBER, 1995.

KODIAK ISLAND BOROUGH

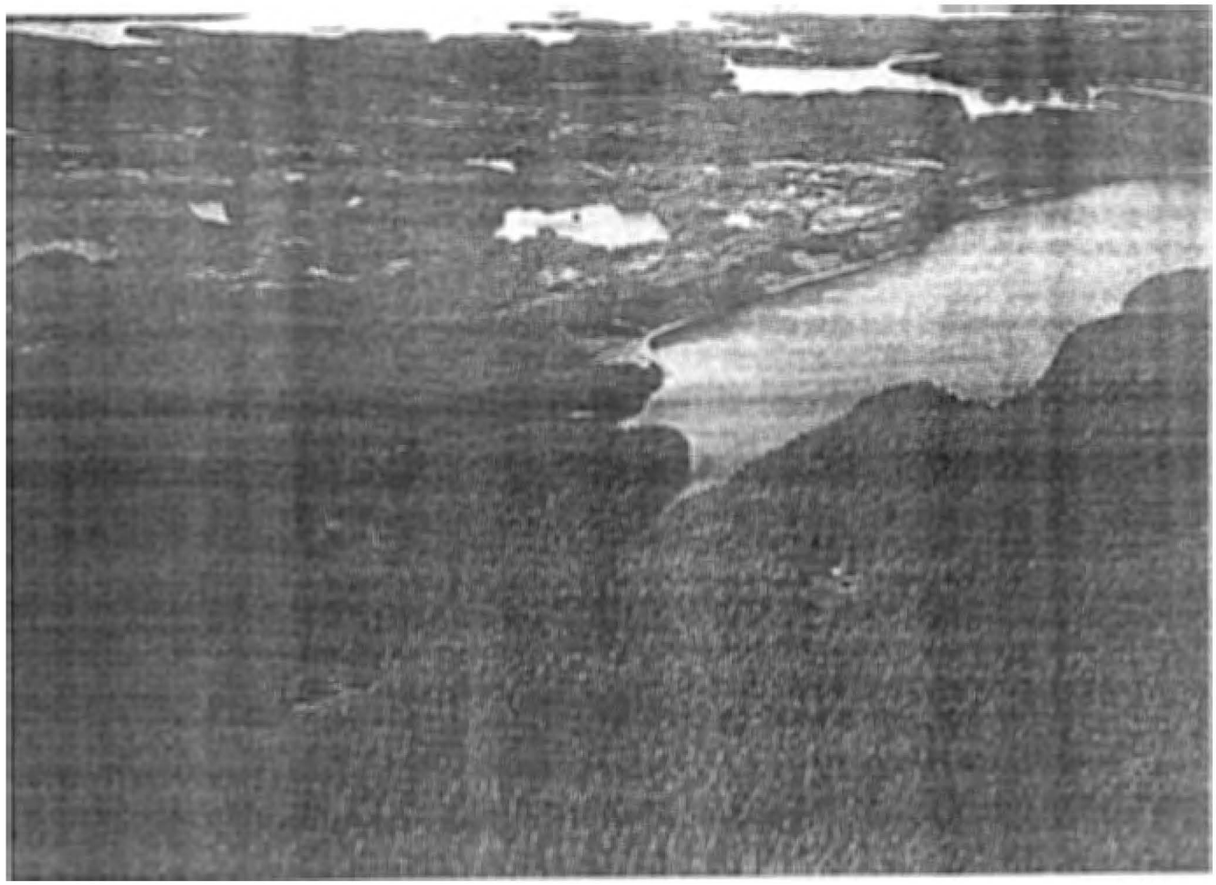
Jerome M. Selby, Borough Mayor

Gary L. Stevens, Presiding Officer

ATTEST:

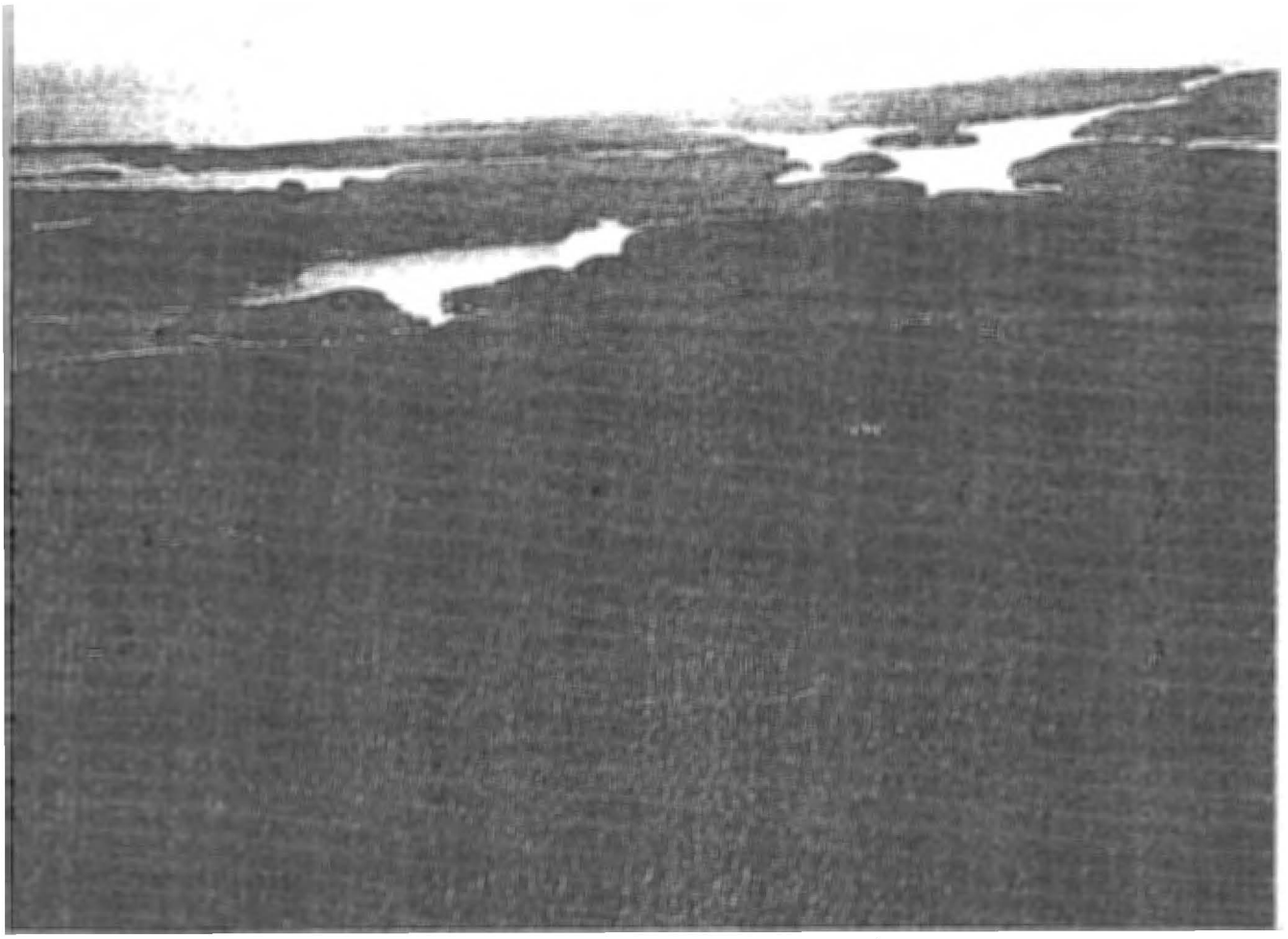
Donna F. Smith, CMC, Borough Clerk

Photos



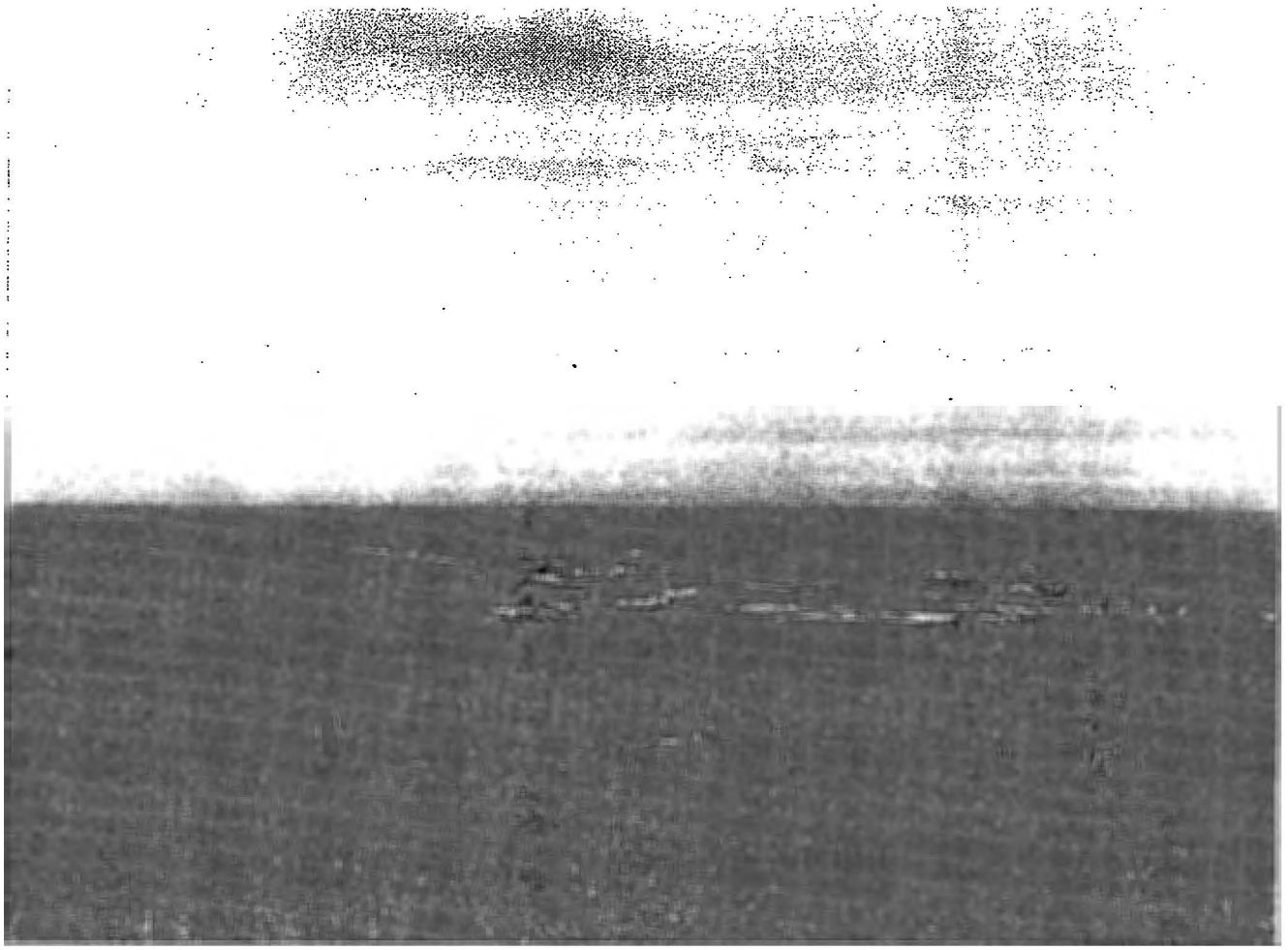
Shangin Bay - looking northwest *PHOTO 1*

Shangin Bay - looking northeast *PHOTO 2*



Looking northwest toward Neketa Bay and Big Bay shown in upper photo

PHOTO 3



Looking northeast at Andreon Bay area *PHOTO 4*

KODIAK REGIONAL AQUACULTURE ASSOCIATION

BOX 3407 KODIAK, ALASKA 99615 (907) 486-6555

December 19, 1995

Representative Terry Martin
Chairman
Legislative Budget and Audit Committee
State of Alaska
716 West 4th Avenue
Anchorage, AK 99501-2133

Dear Representative Martin:

Kodiak's Regional Aquaculture Association (KRAA) wishes to offer its strong support for the acquisition of Kodiak Island Borough property on Shuyak Island by the E.V.O.S. Trustee Council.

Our Association , comprised of approximately 611 commercial salmon fishermen, has consistently supported the habitat acquisition process pursued by the Trustee Council, and we believe that the Shuyak Island habitat acquisition continues to provide the legacy of habitat protection needed to help insure that Kodiak's fish populations retain their prolific production potential.

Shuyak Island is home to at least eighteen (18) ADF&G identified salmon production systems and it is known as a major producer of Coho salmon as well as Pinks, Sockeye and Chum salmon. This island's salmon resources have historical significance for Kodiak Area commercial. sport and subsistence users as well as an annually increasing number of charter vessel and aircraft sport users from the Cook Inlet and Bristol Bay areas. It is the focal point of multi-user group use in the Kodiak Area and its fish resources are a key ingredient of that use. In all respects, Shuyak Island is a critical piece of real estate which has been documented to have been significantly impacted by the E.V.O.S. event.

Because KRAA provides financial support for salmon rehabilitation and enhancement efforts in the Kodiak Area and because habitat protection is one of several strategies KRAA employs in helping to stabilize Kodiak Area salmon production, we recognize this acquisition as a very special and well justified opportunity towards that end. Additionally, KRAA recognizes that the revenue received by the Kodiak Island Borough from this Trustee acquisition will in part be used for the expansion of the Fishery Industrial Technology Center. This represents another opportunity for helping to insure that Kodiak's, as well as other Alaskan fish resources, impacted by the E.V.O.S. event are properly researched and managed.

KRAA urges your utmost consideration and attention for the completion of this acquisition.

Sincerely,

Lawrence M. Malloy

Lawrence M. Malloy.
Executive Director

KODIAK CHAMBER OF COMMERCE

P.O. Box 1485, Kodiak, Alaska 99615 (907) 486-5557 FAX: (907) 486-7605

December 18, 1995

Representative Terry Martin
Chairman
Legislative Budget and Audit Committee
State of Alaska
716 West 4th Ave.
Anchorage, Alaska 99501-2133

Dear Representative Martin,

The Board of Directors of the Kodiak Chamber of Commerce wish to convey to you their support of the Exxon Valdez Oil Spill Trustee Council decision to acquire the Kodiak Island Borough lands on Shuyak Island. The Kodiak Chamber of Commerce has supported the acquisition of other lands on Kodiak Island. We believe that these acquisitions present a unique opportunity to address the needs of the both the land owner and the various agencies concerned about the impact of development on these very pristine lands.

The Trustee Council identified Shuyak Island as high-value habitat that will benefit the recovery of resources and services injured by the Exxon Valdez oil spill. Shuyak Island is indeed a world-class package of scenic wilderness. The island is low in profile and entirely forested with old growth spruce. Views of snow-covered volcanos on the Alaska peninsula dominate the skyline. The inter-connecting system of bays, sloughs, and inlets create a web of corridors that allow easy travel from one side of the island to the other. Shuyak is a natural setting for recreational kayaking, sport fishing, sport hunting and photography. In addition, the island provides critical habitat for the commercial silver salmon fishery.

The opportunity to protect and preserve pristine wilderness habitat does not present itself often. Likewise, the opportunity to gather as much community support for a project of this magnitude is also rare. The addition of these lands to the existing lands contained in Shuyak State Park will encourage the continued development of the visitor industry in Kodiak. The visitor industry has the potential to bring benefits to this community long after the benefits derived from logging have expired.

The Kodiak Island Borough has adopted an ordinance to establish a facility fund in which the proceeds from the sale of this land are to be deposited. This facility fund will insure that the care and maintenance of Borough buildings will be funded in perpetuity. This will allow the Borough to avoid the nightmare of under funding long term maintenance for our community facilities.

As a part of the ordinance adopted by the Borough Assembly, the Borough authorized funding to assist in the expansion of the Fishery Industrial Technology Center(FITC). The expansion of the FITC will allow them to become the premier fisheries research facility not only in Alaska but in the Pacific Northwest. Additionally, research space will available in the Near Island Research Facility for the National Oceanic and Atmospheric Administration and the Alaska Department of Fish and Game. In these times of ever tightening budgets, the opportunity to create a long term funding mechanism must receive the support of all.

For these reasons, the Board of Directors of the Kodiak Chamber of Commerce urge you to complete this very important acquisition. Your thoughtful consideration and careful attention to this request is sincerely appreciated.

Yours in economic prosperity,

James L. Brenner
President

Representative Terry Martin
Chairman, Legislative Budget & Audit Committee
716 W. 4th Ave., Suite 650
Anchorage, Alaska 99501-2133

December 19,1995

We would like to voice our approval on the Exxon-Valdez Oil Spill Trustee Councils decision to buy the land on Shuyak Island. As a charter boat business on Kodiak Island, we understand the need to preserve these areas, and this area is utmost on our list of places that need to be protected.

I have lived in Kodiak since I was a child, and my wife was born and raised in Kodiak, so we are very much aware of the damage done by the oil spill. We were participants in the clean-up effort. Our vessel was dispatched to the Shuyak Island area during the oil spill, and we have first hand knowledge of the impact it had on the area.

Again we would like to reiterate our approval and can't think of a better use for this money, since this not only benefits the people of Kodiak, but also the Alaska Peninsula and Kenai area people who use this area extensively during the summer for recreational use.

Sincerely,

Larry & Joanne Shaker
Eagle Adventures
Kodiak, Alaska

P.O. Box 2898 ◇ Kodiak, Alaska 99615 ◇ (907) 486-3445

Exxon Valdez Oil Spill Trustee Council

Development of the FY 96 Restoration Work Plan

January 1995
Annual Restoration Workshop

Review of restoration program to date by independent scientists, researchers, resource managers, community representatives, PAG members, Chief Scientist, and Restoration Office staff.

Key issues discussed:

- What is the status of injured resources?
- Are restoration objectives still appropriate?
- What did we accomplish in 1994?
- What should be done in the future ?

Basis for *FY96 Invitation and Draft Restoration Program: FY 96 & Beyond*

March 1995
Invitation for FY 96 Project Proposals

Invitation tor FY 96 & Draft Restoration Program: FY 96 and Beyond

- Review and summary of key findings and accomplishments
- Continued focus on key restoration issues
- Projection of anticipated restoration work plan FY 1996 – 1998
- Increased use of competitive mechanisms (Broad Agency Announcement)
- Project proposals submitted by May 1, 1995

May - Sept 1995
FY 96 Project Evaluation and Council Action

- 128 proposals submitted totalling approximately $38.8 million
- Chief Scientist/peer review process
- PAG review
- *Draft FY 96 Work Plan* published in late June
- Public comment solicited
- Legal and budget review
- Executive Director recommendation developed
- Trustee Council authorizes majority of FY 1996 projects (August
- RPL 11-6-9990 submitted and approved by Legislative Budget and Audit (September)

Sept - Dec 1995
Review Sessions on Deferred Projects and Council Action

- Deferred projects subject to further technical review
- Technical peer reviews:
  - octopus
  - clams
  - harlequin duck
  - shoreline oiling
  - Pacific herring
  - sockeye salmon
  - seabird/forage fish
  - pink salmon/genetics
- PAG review and Executive Director recommendation developed
- Trustee Council authorizes remainder of 1996 projects
- RPL 11-6-9992 submitted to Legislative Budget and Audit (December)

DRAFT 12/21/95

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96027		
Project Title:	Kodiak Archipelago Shoreline Assessment: Monitoring Surface and Subsurface Oil		
Proposer:	ADEC		
RPL Request:	ADEC $15.2	Cluster:	Nearshore Ecosystem Projects
Total FY 96:	$39.8	Cooperating Federal Agencies:	NOAA

Project Summary:

Continued funding for ongoing project. This project completes work begun in FY 95 to determine the areal extent, toxicity and origin of oil on selected Kodiak Archipelago shorelines. Most of these shorelines were last surveyed in 1990. The information about the remaining oil is necessary to determine whether recovery is proceeding at an acceptable rate, and to help local people assess whether the presence of remaining oil is still affecting shoreline activities. It also provides funding to develop information about future shoreline treatment in Prince William Sound.

Chief Scientist's Recommendation:

Close-out funding will allow community meetings to be held and final report to be written.

Trustee Council Action:

Fund. Project is closeout of FY 95 shoreline assessment work in Kodiak. Project also will develop and assess information about future monitoring needs and alternative shoreline treatments.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96052		
Project Title:	Community Involvement & Use of Traditional Knowledge		
Proposer:	Chugach RRC		
RPL Request:	ADFG $10.0	Cluster:	Subsistence Projects
Total FY 96:	$271.0	Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. This project, submitted by the Chugach Regional Resources Commission (CRRC), will continue a program begun in FY 95. This project will encourage and facilitate communication among the Trustee Council, researchers working on oil spill restoration projects, regional organizations and residents of communities impacted by the oil spill. The project includes a pilot effort to integrate western science and Traditional Ecological Knowledge to further the restoration program.

Chief Scientist's Recommendation:

Addresses needed restoration work by furthering interactions between EVOS scientists and community members.

Trustee Council Action:

Fund. This project continues a program to facilitate communication and interaction among the Trustee Council, scientists, and residents of communities impacted by the oil spill.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96106		
Project Title:	Subtidal Monitoring: Eelgrass Communities		
Proposer:	Jewett/UAF		
RPL Request:	ADFG $(22.8)	Cluster:	Nearshore Ecosystem Projects
Total FY 96:	$253.1	Cooperating Federal Agencies:	NOAA

Project Summary: This project would provide funds to write the final report for Project 95106. The budget reflects projected costs of sample analysis, data analysis, and report preparation. The final report will incorporate and compare all data collected since 1991. This reduction in authorization reflects a transfer of funds from ADFG to NOAA based on new cost estimates of sample analysis.

Chief Scientist's Recommendation: This is a close-out project for work previously funded by the Trustees. The investigator is doing a very good job on subtidal studies.

Trustee Council Action: Fund. This project closes out work funded in previous years.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96126		
Project Title:	Habitat Protection and Acquisition Support		
Proposer:	ADFG, ADNR		
RPL Request:	ADNR $334.3	Cluster:	Habitat Protection Support
Total FY 96:	$2,160.9	Cooperating Federal Agencies:	USFS, DOI

Project Summary: Continued funding for ongoing project. This project supports activities necessary for the Trustee Council's habitat protection program, including negotiations with willing private landowners, parcel appraisals, hazardous materials surveys, title searches, and site visits as needed. Authority to receive and expend at this time is limited to acquisition support and management costs. Separate requests will be submitted for review once agreements involving the state are completed.

Chief Scientist's Recommendation: The Chief Scientist's recommendation in support of habitat protection was documented as part of the *Report of the Executive Director Concerning Habitat Acquisition* (November 28, 1994).

Trustee Council Action: Fund.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96131		
Project Title:	Chugach Native Region Clam Restoration		
Proposer:	Chugach RRC		
RPL Request:	ADFG $274.9	Cluster:	Subsistence Projects
Total FY 96:	$274.9	Cooperating Federal Agencies:	None

Project Summary:

Resident clam populations near the Native villages of Port Graham, Nanwalek, and Tatitlek will be re-established to restore diminished subsistence opportunities. The Qutekcak hatchery in Seward will annually provide about 800,000 juvenile littleneck clams, cockles and, if possible, butter clams for seeding. Historical information, local and agency expertise, and research will be used to identify areas to seed and methods used. Total seeded area will not exceed 5 hectares. In addition, beaches will be surveyed in Chenega and Ouzinkie for possible future seeding. Also, Eyak razor clams will be identified and work will be initiated to protect the existing clam populations from natural predators.

Chief Scientist's Recommendation:

This project was successful in spawning little-neck clams and raising their spat, and it has the potential of making an important contribution to restoration of subsistence use of clams. However, there is need for continued development of hatchery techniques, which will require consultation with experts who have appropriate experience. I recommend continued support of this project, emphasizing development of hatchery techniques that eventually may be applied on a larger scale.

Trustee Council Action:

Fund continuing pilot effort in Port Graham, Nanwalek, and Tatitlek. Fund initial beach surveys in Chenega and Ouzinkie, and analysis of clam predator problem in Cordova (Native Village of Eyak). Funding is contingent on approval of Detailed Project Description, which must address hatchery issues raised by peer reviewers. Project is intended to establish subsistence clam populations as replacement for subsistence resources injured by the oil spill.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96162		
Project Title:	Investigations of Disease Factors Affecting Declines of Pacific Herring Populations in Prince William Sound, AK		
Proposer:	UW/UCD/SFU		
RPL Request:	ADFG $430.9	Cluster:	Herring Projects
Total FY 96:	$635.0	Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. Field and laboratory studies will focus on Viral Hemorrhagic Septicemia (VHS) and *Ichthyophonus hoferi*, a pathogenic fungus, to determine their role in the disease and mortality observed in PWS herring since 1993. Herring in PWS will be monitored three times per year for signs of disease and immune status. Specific pathogen-free herring will be used to determine the degree of mortality, blood chemical changes and pathogenicity produced by these organisms alone and in combination with exposure to stressors such as petroleum hydrocarbons, temperature and crowding. (This project was formerly numbered 95320S.)

Chief Scientist's Recommendation:

Substantial progress has been made in understanding the role of VHS and *Icthyphonus* in the recent decline of Pacific herring stocks in Prince William Sound. The hypothesis that oil-induced stress is linked to the disease outbreak and population decline remains viable. The project is on track for achieving its objectives, and I recommend continued funding.

Trustee Council Action:

Fund. Project is designed to investigate potential link between oil exposure and disease, and between disease and the herring population decline in PWS. Understanding the causes of the decline and the lack of recovery is important for restoration and resumption of the herring fishery.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96163C			
Project Title:	Fish Diet Overlap Using Fish Stomach Content Analysis			
Proposer:	NOAA			
RPL Request:	ADFG	$34.2	Cluster:	Seabird/Forage Fish Ecosystem Project
Total FY 96:	$76.9		Cooperating Federal Agencies:	NOAA

Project Summary:

Continued funding for ongoing ecosystem Project 96163 (Seabird-Forage Fish/APEX). This study will use seabirds as "probes" of the trophic environment of PWS and compare their reproductive and foraging biologies with similar measurements from the Barren Islands, an area with more suitable or abundant food. Measurements will be compared with hydroacoustic and net samples of fish to calibrate seabird performance with fish distribution and abundance. The project will use fish samples to compare diet, energetics and reproductive parameters of different forage-fish species to determine whether competitive and predatory interactions or different responses to the environment may be favoring the abundance of one fish species over another.

Chief Scientist's Recommendation:

This project was undertaken as a pilot in FY95; remarkable progress was achieved in demonstrating the link between seabird productivity and forage fish populations in the spill area. The intercolony comparisons have provided qualitative evidence of food limitation of seabird colonies, which is essential to successful testing of the APEX hypotheses. However there are substantial challenges ahead in documenting these relationships on a quantitative basis. In the future, the emphasis of the work should shift from deep water to nearshore environments because most of the important interactions between seabirds and forage fish take place there. Preliminary analysis of historical trawl-catch data in the Gulf of Alaska has been extremely helpful showing how long-term and potentially large-scale changes in the composition of crustacean and fish populations might affect marine bird and mammal populations. This historical work, coupled with the current field investigations, may lead to significant improvement in the ability to understand, predict and manage the spill-area ecosystem on a sustained basis. Recommend funding this work on a full-scale basis in FY96.

Trustee Council Action:

Fund. Pilot effort in FY95 showed a link between forage fish and seabird productivity. The scientific reviewers are enthusiastic about the prospect that this work will yield results that are of benefit to the marine ecosystem in PWS and the northern Gulf of Alaska.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96163L		
Project Title:	Historical Review of Ecosystem Structure in the PWS/GOA Complex		
Proposer:	DOI		
RPL Request:	ADFG $27.5	Cluster:	Seabird/Forage Fish Ecosystem Project
Total FY 96:	$97.4	Cooperating Federal Agencies:	DOI, NOAA

Project Summary:

Continued funding for ongoing ecosystem Project 96163 (Seabird-Forage Fish/APEX). This study will use seabirds as "probes" of the trophic environment of PWS and compare their reproductive and foraging biologies with similar measurements from the Barren Islands, an area with more suitable or abundant food. Measurements will be compared with hydroacoustic and net samples of fish to calibrate seabird performance with fish distribution and abundance. The project will use fish samples to compare diet, energetics and reproductive parameters of different forage-fish species to determine whether competitive and predatory interactions or different responses to the environment may be favoring the abundance of one fish species over another.

Chief Scientist's Recommendation:

This project was undertaken as a pilot in FY95; remarkable progress was achieved in demonstrating the link between seabird productivity and forage fish populations in the spill area. The intercolony comparisons have provided qualitative evidence of food limitation of seabird colonies, which is essential to successful testing of the APEX hypotheses. However there are substantial challenges ahead in documenting these relationships on a quantitative basis. In the future, the emphasis of the work should shift from deep water to nearshore environments because most of the important interactions between seabirds and forage fish take place there. Preliminary analysis of historical trawl-catch data in the Gulf of Alaska has been extremely helpful showing how long-term and potentially large-scale changes in the composition of crustacean and fish populations might affect marine bird and mammal populations. This historical work, coupled with the current field investigations, may lead to significant improvement in the ability to understand, predict and manage the spill-area ecosystem on a sustained basis. Recommend funding this work on a full-scale basis in FY96.

Trustee Council Action:

Fund. Pilot effort in FY95 showed a link between forage fish and seabird productivity. The scientific reviewers are enthusiastic about the prospect that th work will yield results that are of benefit to the marine ecosystem in PWS and the northern Gulf of Alaska.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96164		
Project Title:	Pacific Herring Program Leadership		
Proposer:	ADFG		
RPL Request:	ADFG $(49.2)	Cluster:	Herring Projects
Total FY 96:	$0.0	Cooperating Federal Agencies:	None

Project Summary:

This project was intended to facilitate coordination, integration, and review of different aspects of Pacific herring in the PWS ecosystem. Upon further review, it was determined that the herring studies were progressing well and that these funds could be more effectively used in other aspects of the restoration program.

Chief Scientist's Recommendation:

Although I had previously recommended that ADFG needed additional leadership for its herring studies, it is evident from the recent review that ADFG's herring work is on track and that there is little prospect that the agency would be able to support increased personnel costs once Trustee support has concluded. Thus, I recommend that the funds allocated in August be withdrawn.

Trustee Council Action:

Terminate funding. With little prospect that ADFG will take over the future role expected of this project and with herring research on track under the guidance of the peer review policy, interim Trustee Council funding is not necessary.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96166		
Project Title:	Herring Natal Habitats		
Proposer:	ADFG		
RPL Request:	ADFG $214.2	Cluster:	Herring Projects
Total FY 96:	$444.1	Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. Past studies have documented damage from oil exposure in adult herring, hatching success of embryos, and levels of physical and genetic abnormalities in larvae. The PWS herring spawning population has drastically declined since 1993, and pathology studies implicated Viral Hemorrhagic Septicemia (VHS) and *Ichthyophonus* as potential sources of mortality as well as indicators of stress. The project will continue to provide estimates of spawning herring abundance and investigate the lethality of suspected pathogens and the role of environmental contaminants in disease transmission through laboratory and field studies.

Chief Scientist's Recommendation:

This work is vital to on-going management of Pacific herring in Prince William Sound. I recommend one more year of full support from the Trustees, provided that there is an explicit plan developed for transfer of this program back to ADFG as part of normal agency management.

Trustee Council Action:

Fund for FY 96 contingent upon expectation that project begins a transition to non-Trustee funding source in FY 97. Project's major objective is to improve estimate of spawning biomass of herring. This information is needed to establish harvest levels and guidelines that allow restoration to occur and to sustain a healthy fishery.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96190		
Project Title:	Construction of a Linkage Map for the Pink Salmon Genome		
Proposer:	Allendorf/UM		
RPL Request:	ADFG $167.7	Cluster:	Pink Salmon Projects
Total FY 96:	$167.7	Cooperating Federal Agencies:	None

Project Summary:

Proposal would construct a detailed genetic linkage map for pink salmon by analyzing the genetic transmission of several hundred DNA polymorphisms. The ability to genetically map the location of oil-induced lesions will allow the thorough identification, description, and understanding of oil induced genetic damage. This research will also aid other pink salmon studies including estimation of straying rates, description of stock structure, and testing whether marine survival has a genetic basis.

Chief Scientist's Recommendation:

This project will produce a linkage map for a large number of genes in pink salmon. This project would potentially provide significant benefits for pink salmon, because it would increase knowledge of the genetic implications of management and supplementation decisions for wild and hatchery stocks. For example, a genetic linkage map would facilitate development of disease-resistant strains of fish and provide new markers for genetic stock identification. This project will require several years of support, and I encourage the proposers to seek additional sources of funds in the future. In addition, the proposer should coordinate with current efforts at the University of Alaska.

Trustee Council Action:

Fund. This project provides fundamental information which will likely aid restoration of wild stocks of pink salmon and which are likely to benefit all pink salmon management in the future. It is a long-term project with national importance. Recommendation is to provide two years of funding at the requested level, but proposers should seek additional funding sources in future years.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96191A		
Project Title:	Oil-Related Embryo Mortalities in PWS Pink Salmon Populations		
Proposer:	ADFG		
RPL Request:	ADFG $85.1	Cluster:	Pink Salmon Projects
Total FY 96:	$474.6	Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. Elevated embryo motalities were detected in populations of pink salmon inhabiting oiled streams following the oil spill. The purpose of this project is to continue to monitor the recovery of pink salmon embryos in the field, provide laboratory verification of the field results, and verify and identify the occurrence of genetic damages. Results of these studies may provide the first evidence of heritable injury in fish exposed to chronic or acute sources of oil pollution.

Chief Scientist's Recommendation:

To evaluate the recovery of wild stocks of pink salmon in Prince William Sound, it is necessary to monitor embryo mortality in the field. This past season (1995) was the second year in which no statistically significant differences were found in embryo mortality between oiled and unoiled streams. However, two more years of study are required to confirm recovery in odd- and even-year stocks. The investigators have done excellent work to date. I recommend funding the field components of this project. In addition, the search for genetic evidence of heritable injury should continue on a limited basis, mainly through the andogenesis experiments. Current efforts to locate altered DNA sequences should be closed out in FY96, as they appear to have a low prospect of success.

Trustee Council Action:

Fund field monitoring and androgenesis experiments. Close out molecular genetics. Field monitoring should receive funding until there are no statistically significant differences between oiled and unoiled streams for two years for each of the odd- and even-year runs (closeout is FY 98). This is the major monitoring project for the on-going injury to and recovery of pink salmon.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96196		
Project Title:	Genetic Structure of Prince William Sound Pink Salmon		
Proposer:	ADFG		
RPL Request:	ADFG $107.2	Cluster:	Pink Salmon Projects
Total FY 96:	$178.5	Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. Previous work found that wild-stock pink salmon suffered both direct lethal and sublethal injuries as a result of the oil spill. An understanding of the population structure of pink salmon in PWS is essential to assess the impact of these injuries on a population basis and to devise and implement management strategies for restoration. This project is designed to delineate the genetic structure of populations of wild pink salmon inhabiting PWS. (This project was formerly numbered 95320D.)

Chief Scientist's Recommendation:

This project is yielding interesting and worthwhile insights into genetic diversity among wild pink salmon in Prince William Sound, most notably east-west differences within the Sound. This work could have significant benefit for pink salmon management, and I recommend continued funding.

Trustee Council Action:

Fund. This project is designed to determine geographic extent of genetic differences in PWS pink salmon. Knowledge of the location of pink salmon stocks and genetic differences among the stocks in PWS will help refine pink salmon management areas and goals.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96255			
Project Title:	Kenai River Sockeye Salmon Restoration			
Proposer:	ADFG			
RPL Request:	ADFG	$67.2	Cluster:	Sockeye Salmon Program
Total FY 96:	$307.0		Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. Greatly reduced fishing time in upper Cook Inlet in 1989 due to the presence of oil caused sockeye salmon spawning escapements in the Kenai River to exceed the desired amount by three times. The overescapement may have reduced survival of juvenile sockeye salmon. Careful monitoring and possible reduction of Kenai River sockeye salmon harvests may be necessary to ensure adequate escapements. The goal of this project is to restore Kenai River sockeye salmon through improved stock assessment capabilities and more accurate regulation of spawning levels.

Chief Scientist's Recommendation:

This has been an excellent program, the results of which have already proven enormously valuable in managing the upper Cook Inlet mixed-stock fishery to protect Kenai River stocks. I recommend limited additional funding in FY96, after which this program should be taken over by ADFG as part of its normal management responsibilities.

Trustee Council Action:

Fund at reduced amount which reflects the beginning of a transition to agency rather than Trustee Council support; the project will be closed out in FY97. The project has proven successful in providing in-season identification of actual runs that Cook Inlet fishermen are harvesting. The information is used by fisheries managers to modify fishing areas and openings to protect Kenai/Skilak stocks.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96256		
Project Title:	Columbia and Solf Lakes Sockeye Salmon Stocking		
Proposer:	USFS		
RPL Request:	ADFG $17.4	Cluster:	Subsistence Projects
Total FY 96:	$60.8	Cooperating Federal Agencies:	USFS

Project Summary:

This project would assess the feasibility of establishing self-sustaining runs of sockeye salmon in Solf Lake and Columbia Lake. Solf Lake is located in Herring Bay on Knight Island. Data suggest it could annually produce returns of 19,000 to 22,000 sockeye. Columbia Lake is located in Heather Bay near the Columbia Glacier. Data indicate that the lake could annually produce returns of 10,000 to 29,000 sockeye.

Chief Scientist's Recommendation:

There appear to be reasonable prospects for successful establishment of self-sufficient sockeye salmon runs at Solf and possibly Columbia lakes. This is of considerable interest to subsistence users in Prince William Sound, and this project would more fully explore its feasibility. I recommend funding of this feasibility study in FY 1996.

Trustee Council Action:

Fund feasibility study. If feasible, this project could provide sockeye salmon to aid PWS subsistence, sport, and commercial fisheries.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96258A			
Project Title:	Sockeye Salmon Overescapement Project			
Proposer:	ADFG			
RPL Request:	ADFG	$136.4	Cluster:	Sockeye Salmon Program
Total FY 96:	$596.6		Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. This project provides for completion of the Kenai lakes sockeye research program, and closeout of the sockeye monitoring program for Kodiak Island lakes. The Kenai research program investigates the mechanism and extent of injury for the continued depressed returns caused by the 1989 (and previous years) overescapement into the Kenai/Skilak system.

Chief Scientist's Recommendation:

Recent analysis of the extensive limnological and fry data gathered over the last several years indicates a link between fall zooplankton abundance and fry survival in the subsequent year. This may explain sockeye salmon population cycles in these lake systems. If substantiated by further analysis, this is a major breakthrough in understanding of the Kenai R. system and perhaps sockeye salmon rearing lakes in general. I recommend approval of the funds needed to complete the Kenai R. portion of this work in FY96. This project also includes funds for continued assessment of overescapement effects at Red and Akalura lakes on Kodiak Island. The investigators for the Kodiak portion of this project have done an excellent job, but the mixed-stock fishery in waters offshore of Red and Akalura lakes greatly complicates future restoration efforts for these lakes. I do not recommend funding Kodiak work beyond FY 96.

Trustee Council Action:

Fund completion of work on the Kenai River. Close-out work this year on Kodiak portion of project consistent with Chief Scientist's recommendation. Project investigates mechanism of injury to Kenai river sockeye and monitors recovery of Kodiak sockeye runs. Review of FY 95 results indicates significant scientific breakthrough,which may explain the extent and mechanism of overescapement injury on the Kenai River. If the discovery is confirmed, it may significantly advance the understanding of the Kenai River system.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96259			
Project Title:	Restoration of Coghill Lake Sockeye Salmon			
Proposer:	ADFG			
RPL Request:	ADFG	$83.9	Cluster:	Sockeye Salmon Program
Total FY 96:	$265.7		Cooperating Federal Agencies:	USFS

Project Summary:

Continued funding for ongoing project Coghill Lake has historically been a major sockeye producer for PWS. The current production is very low and could jeopardize the sustainability of this sockeye stock without restoration efforts. This project continues a program begun in 1993 to fertilize Coghill Lake to restore the run. A restored sockeye salmon run would provide an important replacement resource for sport and commercial fisheries in PWS.

Chief Scientist's Recommendation:

This project is increasing the productive capacity of Coghill Lake for sockeye salmon through fertilization. The Trustees should continue to support lake fertilization for two more years. I do recommend continued support of the limnological monitoring, but I am concerned that interpretation of the relationship between sockeye production and lake fertilization is confounded by introduction of hatchery-produced pre-smolt, which was done independently of the Trustee-sponsored project. There needs to be further discussion of the objectives and methods of the monitoring program.

Trustee Council Action:

Fund continued fertilization through FY 97, but not hydroacoustic monitoring which has not been very effective. Smolt outmigration and limnological work will continue, but ADFG and PWSAC should undertake an expanded effort to assess returns of wild adults. Project is designed to restore Coghill Lake to its former position as a mainstay of the commercial/sport sockeye fishery in PWS. Although the injury to this fishery was not caused by the oil spill, this project has been conducted on a replacement basis for losses of other fishery resources.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96427			
Project Title:	Harlequin Duck Recovery Monitoring			
Proposer:	ADFG			
RPL Request:	ADFG	$210.1	Cluster:	Nearshore Ecosystem Projects
Total FY 96:	$261.1		Cooperating Federal Agencies:	None

Project Summary:

Continued funding for ongoing project. This project will compare population parameters between oiled and unoiled areas based on population structure, behavior, production, and growth rates. Shoreline boat surveys will be conducted simultaneously. Changes in population size, structure, and production in oiled and unoiled areas and between years will be compared. Continued population monitoring and brood surveys will allow us to assess trends and suggest factors limiting recover

Chief Scientist's Recommendation:

Harlequin ducks were seriously impacted by the oil spill, and there continues to be concern about their status, especially in western Prince William Sound. Based on the review session this fall, the investigators have made excellent progress in developing an approach to comparing the health of populations in eastern and western parts of the Sound. This work needs to go forward, and I recommend funding this project in FY 96.

Trustee Council Action:

Fund. This project continues basic assessment of recovery status of harlequin ducks in Prince William Sound.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96507		
Project Title:	EVOS Symposium Publication		
Proposer:	NOAA		
RPL Request:	ADEC $35.0	Cluster:	Information Support
Total FY 96:	$42.0	Cooperating Federal Agencies:	NOAA

Project Summary: The *Exxon Valdez* Oil Spill Symposium was held in February 1993. The Trustee Council funded publication and distribution of the symposium proceedings in FY94 with a budget of $102,000. The length of the proceedings is now expected to be 51% longer than originally planned and the American Fisheries Society (AFS), the publisher, needs an additional $35,000 to complete the project.

Chief Scientist's Recommendation: Not applicable.

Trustee Council Action: Fund. This project completes the funding necessary to publish and distribute the proceedings of the 1993 Oil Spill Symposium. Publication furthers the Trustee Council's public information goals.

EXXON VALDEZ OIL SPILL -- FY 96 WORK PLAN
Revised Program 11 - 6 - 9992

Project Number:	96600		
Project Title:	Program Management		
Proposer:	NOAA		
RPL Request:	ADFG $51.9	Cluster:	Seabird/Forage Fish Ecosystem Project
Total FY 96:	$105.4	Cooperating Federal Agencies:	NOAA

Project Summary:

Continued funding for ongoing project. This project provides support for continued NOAA participation in *Exxon Valdez* damage assessment and management. The program manager of the Office of Oil Damage Assessment and Restoration is responsible for management and oversight of scientists and contractors as they relate to the *Exxon Valdez* Oil Spill Trustee Council. The program manager has responsibility for maintaining information and records on research schedules, work progress, and study products, and works closely with project leaders of studies to ensure that program goals, objectives, and timelines are met.

Chief Scientist's Recommendation:

Not applicable.

Trustee Council Action:

Fund.