

ALASKA MENTAL HEALTH TRUST AUTHORITY
FINANCE COMMITTEE MEETING

April 19, 2018
2:20 p.m.

Taken at:
Alaska Mental Health Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508

OFFICIAL MINUTES

Trustees present:
Jerome Selby, Chair
Chris Cooke
Mary Jane Michael
Carlton Smith
Laraine Derr
Paula Easley
Verne' Boerner

Trust staff present:
Mike Abbott
Steve Williams
Miri Smith-Coolidge
Kelda Barstad
Andy Stemp
Carley Lawrence
Katie Baldwin-Johnson
Jimael Johnson
Valette Keller

Also participating:
Kathy Craft

PROCEEDINGS

CHAIR SELBY calls the Finance Committee to order and asks for any announcements. There being no announcements, he moves to the approval of the agenda.

TRUSTEE DERR makes a motion to approve the agenda for the Thursday, April 19, 2018, Finance Committee.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

CHAIR SELBY asks for any ethics disclosures. There being none, he moves to the minutes of January 4, 2018.

TRUSTEE COOKE makes a motion to approve the minutes of January 4, 2018.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

STAFF REPORTS

CASH MANAGEMENT REPORT

MR. STEMP states that the first item is in the Trust Land Office under the section Revenues. This was very positive for the Trust in that the Trust Land Office has been doing a good job of bringing in income and principal to the Trust.

TRUSTEE DERR asks, in regard to the real estate management plan being 12 percent down and the real estate at 55 percent, if there is a reason why it is 12 percent under target.

MR. STEMP replies that he will get to that, and continues explaining the Investment Earnings and Income. He moves to GeFONSI, General Fund and other Nonsegregated Investments. Historically, this is very liquid and a very conservative pool of investments. It was very unusual to see it flip negative in January. He interprets this as an illustration of the overall volatility in the financial markets as a whole. He adds that it is worthy at this level to make sure the magnitude of these fluctuations is understood. He explains in detail and moves to the third item, which is the Expense side of the report. He states that this is an area where there is both a numeric as well as a qualitative result. He continues that all of the operations are performing according to plan, adding that his interest is in getting information and getting expenses on the grant side posted in a timely manner, especially when dealing with other agency partners. He moves to the Transfers which reflect all of the various action items that the trustees have authorized.

CHAIR SELBY asks for any questions.

MR. STEMP states that he will hold off a bit longer on Trustee Derr's questions, and moves to the Budget Update.

CHAIR SELBY asks about the program funds that have no principal involved.

MR STEMP replies that from an accounting perspective, that is accumulated gains of losses, and is not principal. It is not program funds because it has not been authorized by the trustees.

CHAIR SELBY clarifies that it is money that, if the board choses to spend, can be done even if prohibited from spending principal.

MR. STEMPEL states that that is also his understanding. He moves to the FY2019 budget update.

MR. ABBOTT begins with a bit on FY18 spending to date by the administrative arms. Both the TLO and the Authority staffs are likely to significantly underspend their admin budgets in FY18, primarily as a result of vacancies in both teams. He continues that the nonlabor spending is likely to also be underspent, but the bulk of the savings will come from vacancies associated with all of the transitions. He looks forward to FY19 and states that the trustees approved approximately an 8 percent increase in the admin budgets, combining the TLO and Authority budgets. He continues that the Legislature is in the final stages of considering both of those. He adds that he is optimistic that the trustee request will be fully funded, as well as the Authority budget, in the Senate. He asks for any questions.

TRUSTEE EASLEY asks what caused the interest in the merit increase just for the TLO.

MR. ABBOTT replies that the subcommittee chairman that was working on the DNR Committee first in the House and then in the Senate, Representative Guttenberg in the House and Senator Bishop in the Senate, both agreed that they were not going to fund merit increases and did not. He adds that he does not think that the TLO was singled out for that.

TRUSTEE COOKE asks a question about the budget in the blue section, and then the transfers, and if there is migration up into the blue section.

MR. STEMPEL clarifies the best way to approach understanding the report.

TRUSTEE DERR explains that the transfer is like the amount that is figured out on page 3.

MR. STEMPEL states that he will find a better, more clear way to present this.

A brief discussion ensues on how and what needs clarification.

CHAIR SELBY moves to the financial planning discussion.

MR. STEMPEL states pleasure in having the TLO executive director here. There have been a number of internal conversations about the future of our facilities and the future needs of these facilities. He states that the catalyst for this conversation is a lease renewal that is coming up. He continues that he would like to spend a few minutes talking through one possible approach.

MR. ABBOTT adds that the past practice has been to reserve funds for each property that is owned and managed by the Trust. That goes for the commercial real estate, as well as some of the other properties, some of the PRI properties, and this building. He states that the net revenue is sent to the TLO's checking account. He explains that if there is a mortgage or other expenses associated with that property, it is paid and then distributed to the Trust, which is the net revenue from that individual facility. He asks the trustees to consider a mechanism that might pool all or some different elements of these properties' funds so, as a group, they will still have a set of expenses and a set of revenues. That would prevent having to come back and get authorization for expenses associated with each properties' different expenses. Right now, all that is taken in is net revenue. Each property typically generates a positive net revenue stream, and some are

larger than others. He continues that there is a least one situation where that may not be possible in the near term because of a large up-front TI requirement. He states that he would like to talk about ways to manage this. He adds that they would like to explore this in the context of the Finance Committee to think of some different models that could be used to manage these properties going forward, and to manage their finances. He states that no decisions need to be made today.

MR. MENEFEЕ states that this was discussed a bit in the RMC, and that the asset managers are managing, through contract, a property manager for these buildings and their cash flows. When rents are received, each LLC has its own account. He continues that a decision has to be made of when that gets transferred over to the Trust Authority. The idea is that it is managed in a way to not have to ask for money back for any building maintenance, insurance, or other different expenses. He talks about managing the predictability of expected expenses, and then the unpredictable expenses.

TRUSTEE MICHAEL asks for an explanation of how the money will work.

MR. MENEFEЕ replies that one concept is what is there, there is already an account for the different buildings and all of this in accounting could be tracked to exactly all the money that is coming and going. Right now it is being done on a building basis. If it is done on a portfolio basis, the maintenance items would be done on a regular basis. There is debt repayment, maintaining the building facilities, tenant improvement, or whatever, which is expected. He adds that there are times where there can be situations where the cash flow of that building is exceeded. In that case, he states that it can be done as a pool; one building may have excess in the cash flow, and the obligations are taken care of before there is a net distribution to the Trust. This scenario provides more flexibility.

TRUSTEE MICHAEL asks if this is within the existing budget of those properties now, or if there will be a need to add 10 percent more onto each properties' budget for reserves for replacement costs.

MR. STEMР states that is an excellent question. That is part of this discussion and is one of the key pieces. He continues that this is all very conceptual at this level. He adds that this is a free-flowing discussion, and whether it is controlled on the revenue side or is budgeted and planned for on the expense side, his objective is to avoid surprises for the trustees.

TRUSTEE COOKE states that it sounds as if this is about establishing a reserve account for these buildings to provide for nonroutine expenses: roofing, replacing heating, the sprinkler system, or some extraordinary expenses. He asks if this is currently being done for commercial properties, and is it an expense category where every month a certain amounts goes into those reserves or contingencies.

MR. MENEFEЕ replies that there is a certain amount that is planned for certain types of things, yes. He states that there is no current fund at this time. There used to be a building reserve fund within the accounting structure, deferred maintenance fund, which does not exist anymore.

TRUSTEE COOKE asks if this would perhaps be a second reserve fund that would be available for use across the board and be built with a percentage of the revenues from the properties.

MR. MENELEE replies that that is one scenario.

TRUSTEE COOKE asks if each property would still have its own reserve fund for those maintenance things that do not occur monthly, but might occur every five years or so.

MR. MENELEE replies that he was not thinking of a separate building reserve fund. He states that the real question is how to incrementally deal with that so it does not become a request all on its own coming out of the blue.

TRUSTEE DERR states that she would like information in May that would be a model, if it was done in the industry standard, price per square foot or something like that. In addition, she would like to know the staff costs, staffing versus property management, which would be property management managing a reserve fund versus staff managing it; and what the staff costs would be one way versus the other.

MR. ABBOTT states that one of the opportunities this will provide, if there is a budget for the entire sort of managed real estate portfolio, is the ability to pool some of these reserve funds. Every building needs to have access to money in case it is needed, but every building is not going to need it. He continues that by pooling these there may be a smaller total reserve. He states that he can show a budget that reflects that in May. It could lead to a better net revenue back to the Trust.

TRUSTEE EASLEY points out that, several years ago, a new roof had to be put on this building. She states that that acknowledges that such big expenditures can happen without knowing that they are going to happen.

TRUSTEE SMITH states that it is his understanding that one of the differences in the direct real estate investments versus other portfolios out there is that our properties are not heavily mortgaged. There is a lot of equity in these properties. He would hate to see a lot of management time spent reinventing some kind of management model. He continues that he would like to see some consultation with the lead bank, asking them to share how to do it.

CHAIR SELBY encourages staff to bring a policy that considers some of the ideas that were heard here today. He states that he does not expect to have this by May, but would like to see the organization develop a cost recovery policy. He would also like some cost recovery which has a bigger implication for the development of other things and will serve well over time. He adds that there is a need to recover operating money first before the principal gets transferred away, and we would like to have a policy on the books which staff needs to help develop. He asks for anything further on this. There being nothing, he asks for any other comments.

TRUSTEE MICHAEL comments on the Cordova building. Commercial property in Anchorage is taking a hit now and Cordova is not performing as well as the building on the south side, which she relates to the economy. She states that she would not like to be thinking about letting go of something because this is not the time to let go of something. She continues, if we hold on,

it will take a while, but there will be a full building. She states that it is important that the Trust own properties in Alaska. It says something about our business model, and also comments on our investment in the state.

CHAIR SELBY moves to the alternative funding sources discussion.

MR. ABBOTT states that the audit is addressing the past practice of the way the Trust has used principal for a variety of things, whether it is commercial real estate investment or improvements in Trust lands, or for program-related investments. He continues that as a result of the audit or other activity, that revenue stream or that type of funding is not available to the Trust. He moves to other ways that could accomplish some or all of the work. He states that it is the Trust's fiduciary responsibility to spend the funds necessary to maximize the value of the Trust's assets. He moves on to some of the other options available to do that. He continues that this is not a decision point for today, but this is the Finance Committee and it will ultimately be this committee that would do the legwork associated with the recommendation to the Full Board on the other options. The two basic options are using income, which is one potential stream, which also has consequences; and debt, borrowing from another source, or from Trust existing funds. He asks for some feedback today.

MR. STEMPEL states that one of the areas that some work has been done on is looking at the original language around the use of the income. He continues that the language points to the management agreement between the Trust and the DNR, defining the boundaries and laying out the authorities for where that is to be considered authorized. He thinks that it would be worthwhile to have the pros and cons of the different approaches laid out, as well as what the authorities are that exist versus what might be a new area that the Trust moves into. He adds that the comment and the idea of recovering the investments first and replenishing or restoring the Trust resources before anything else comes out is a very prudent stewardship move. He continues that it is the core to any of the dialogue, but ultimately the comment and suggestions from the CEO to have some alternatives lined up that allow continuing to fulfill the responsibilities is very prudent.

TRUSTEE DERR states that she is very excited to see this topic, talking about funding with income which is the way it was done to begin with. Before spending principal to improve anything, income was spent. She thinks that one of the alternative funding sources should be pursuing the ability to do revenue-anticipation bonds.

TRUSTEE COOKE states that this is an interesting topic to look at, but it is not something that can be done right away. He continues that the much more immediate and short-term problem is some of the issues that are being identified with this audit. He adds that the real emphasis has to be on pointing out what the Trust is doing, why it is being done, and if there are wording changes that are needed in our governing regulations and statutes.

TRUSTEE SMITH agrees that this is timely, and the first strategy should be risk-averse. The timing is right to have a third-party analysis of where we are with all the different asset bundles.

CHAIR SELBY asks for other comments or questions. There being none, he asks Mr. Stempel to continue.

MR. STEMPEL states that is all he has for the committee's consideration.

CHAIR SELBY states that, in going forward, the options could continue to be looked at.

MR. ABBOTT asks if the Chair is available over the course of the next month or two to bounce ideas off of as consideration of some of these options are developed.

CHAIR SELBY replies that he is available. He asks for any other items to come before the committee.

TRUSTEE DERR makes a motion to adjourn the meeting.

TRUSTEE EASLEY seconds.

There being no objection, the motion is approved.

(Finance Committee meeting adjourned at 3:30 p.m.)